



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)

2004

First Quarterly Report

Characteristics of the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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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 RMB83.21 million to approximately RMB100.59 million, representing a growth of approximately 20.89% when compared to the corresponding period in 2003.
- Net profit for the three months ended 31 March 2004 increased by approximately 123.53% when compared with the same period in 2003.
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2004.

UNAUDITED PROFIT AND LOSS ACCOUNT

For the three months ended 31 March 2004

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 2004, together with the comparative results for the corresponding periods in 2003 as follows:

	Notes	Three months ended 31 March	
		2004 RMB'000	2003 RMB'000
Turnover	2	100,593	83,211
Cost of sales		(85,437)	(75,308)
Gross profit		15,156	7,903
Other operating income		2,669	851
Selling expenses		(1,417)	(552)
Administrative expenses		(2,749)	(2,185)
PROFIT FROM OPERATIONS	3	13,659	6,017
Finance costs	4	(4,541)	(2,240)
PROFIT BEFORE TAXATION		9,118	3,777
Taxation	5	(3,009)	(1,044)
Net profit for the period		6,109	2,733
Dividend	6	—	—
Earnings per share — basic (RMB)	7	0.73 cent	0.33 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 ("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.

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 2003. 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 31 March	
	2004	2003
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	5,743	1,666

4. FINANCE COSTS

	Three months ended 31 March	
	2004	2003
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	4,100	2,047
Interest on other borrowings wholly repayable within five years	784	193
Less: Amounts capitalized in construction in progress	(343)	—
	4,541	2,240

Borrowing costs capitalised during the period arose on general borrowing pool and are calculated by applying a capitalised rate of 5.84% to expenditure on qualifying assets.

5. TAXATION

	Three months ended 31 March	
	2004	2003
	RMB'000	RMB'000
The charge comprises:		
PRC enterprise income tax for the period	(3,009)	(1,044)

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.

6. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2004 (2003: nil).

7. EARNINGS PER SHARE

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

	Three months ended	
	31 March	
	2004	2003
	RMB'000	RMB'000
Earnings for the purpose of calculating basic earnings per share	6,109	2,733
Number of shares:		
Number of shares for the purpose of basic earnings per share (Note)	838,000,000	838,000,000
Weighted average number of shares for the purpose of calculating earnings per share	838,000,000	838,000,000

Note:

The calculation of the basic earnings per share for the three months ended 31 March 2004 and 2003 were based on the unaudited net profit for the periods 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 2004 and 2003 as there were no dilutive potential ordinary shares during these periods.

8. MOVEMENTS IN RESERVES

	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							
2003	83,800	26,229	3,207	1,604	14,796	37,103	166,739
Profit for the period	—	—	—	—	—	2,733	2,733
Transfer	—	—	273	137	—	(410)	—
Final dividend declared	—	—	—	—	—	(2,500)	(2,500)
Balance at 31 March							
2003	83,800	26,229	3,480	1,741	14,796	36,926	166,972
Balance at 1 January							
2004	83,800	26,229	6,252	3,127	25,158	64,189	208,755
Profit for the period	—	—	—	—	—	6,109	6,109
Transfer	—	—	955	478	—	(1,433)	—
Balance at 31 March							
2004	83,800	26,229	7,207	3,605	25,158	68,865	214,864

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the three months ended 31 March 2004, the Company recorded a turnover of approximately RMB100.59 million, representing an increase of approximately 20.89% as compared with that of the same period in 2003. The increase in turnover for the three months ended 31 March 2004 was in line with the Company's expanding production capacity. In addition, the production line were resumed since the third quarter of 2003, hence the gross profit for the period achieved approximately RMB15.16 million, representing a gross profit margin of approximately 15%, which was 5.5% higher than the gross profit of approximately RMB7.9 million and a gross profit margin of approximately 9.5% for the corresponding period in 2003. Selling and administrative expenses increased in line with the expansion of business of the Company. Finance cost increased significantly for the period ended 31 March 2004 when compared with that of 2003. It was mainly due

to the increase in bank loans for the acquisition of property, plant and equipment. Net profit for the three months ended recorded approximately RMB6.11 million which represents an increase of approximately 123.53% as compared with that of the same period in 2003. Earnings per share for the period amounted to RMB0.73 cent as compared with earnings per share of RMB0.33 cent for the corresponding period in 2003.

About 32.5% and 15.3% of the Company's products were directly exported to the Company's overseas customers for the three months ended 2004 and 2003 which was the result of the effort from development of overseas markets. The overseas customers of the Company are mainly located in the Middle East, Europe and Asia other than PRC.

Business and operation review

During the period under review, the production and operation condition of Company are good since the unfavourable elements to the economy in 2003 gradually fade out. With the strong fundamentals of the Company, the Company recorded an encourage result.

Production facilities

In order to enhance product quality and save production cost, the Company is constructing an upstream texturing plant, which expects to commence production at the early third quarter of 2004.

Product research and development

The Company will continuously exploit opportunities with competitive edge. Besides the continuous co-operation with DuPont Fibers (China) Limited and Donghua University which enables the Company to innovate and provide more high quality products to customers, the Company is preparing for set up a research department and a design center in Hong Kong. The research department is responsible for searching for the latest information of the fabrics development and the fashion trend and then build up a database. The design center with recruited talent designers and the latest databases of

fabrics development and fashion trend, a variety of new products design can be provided to our customers. The Directors believe that through the set up of these new departments in Hong Kong and cooperation with our international partners which can therefore makes the Company an aspirational brand standing out among its peers in China.

Sales and marketing

In order to enhance the globalisation strategy, the Company has already employed some senior staffs who are experience in international trade to join the Company. In addition, the Company also has set up sales offices in New York. The Company will continuously to develop international sales and marketing.

Outlook

Following the globalisation strategy, the Company has commenced to realign the corporate organization structure. To yield the biggest benefits from international sales, the Company has already employed experienced sales personnel to further strengthen its marketing team. To enhance the Company's competitiveness and profitability through vertical integration strategy, the Company has commenced to set up an upstream texturizing plant. The Directions believe that follow the doctrine of globalisation, the Company is expected to generate sustained growth in the years ahead.

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

As at 31 March 2004, the interests and short positions of the Directors, chief executives, supervisors and their respective associates (as defined under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange (the "GEM Listing Rules") of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are require (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 Rules 5.46 to 5.66 of the GEM Listing Rules 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 the total registered capital
Mr. Sun Li Yong	Personal Family	Beneficial owner Held by spouse (Note 1)	382,200,000	65%	45.6%
			182,280,000	31%	21.8%
			564,480,000	96%	67.4%
Ms. Fang Xiao Jian	Personal Family	Beneficial owner Held by spouse (Note 2)	182,280,000	31%	21.8%
			382,200,000	65%	45.6%
			564,480,000	96%	67.4%
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%

Short positions in the shares of the Company

None

Notes:

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

Save as disclosed above, as at 31 March 2004, none of the Directors, chief executives or supervisors and their respective associates (as defined under the GEM Listing Rules) of the Company 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 Rules 5.46 to 5.66 of the GEM Listing Rules 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 31 March 2004, 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 section 336 of Part XV of the SFO, were as follows:

Long positions in the shares of the Company

Name of director	Type of interests	Capacity	Number of H-share held	Percentage of interests in H-share shares	Percentage of interests in total registered capital
Martin Currie China Hedge Fund Limited	Corporate	Investment manager	22,370,000 (Note 1)	8.94%	2.67%
J. P. Morgan Chase & Co.	Corporate	Held by controlled corporation	7,810,000 (Note 2)	3.12%	0.93%
Mr. Chan Kin Sun	Personal	Beneficial owner	19,000,000	7.60%	2.27%
Mr. Liu Yuen Sung, David	Personal	Beneficial owner	16,000,000	6.40%	1.91%

Notes:

1. 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 22,370,000 shares held by Martin Currie China Hedge Fund Limited.
2. 7,810,000 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 31 March 2004, 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 Part XV of the SFO.

COMPETING INTERESTS

None of the Directors or the management shareholders and their respective associates (as defined under the GEM Listing Rules) of the Company 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 31 March 2004, 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 5.29 to 5.30 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.

Up to the date of this announcement, the audit committee has conducted one meeting in this quarter. The meeting was held on 26 March 2004 for discussion of the operating results, statements of affairs and accounting policies with respect to the audited financial statements of the Company for the year ended 31 December 2003 and listed to the advice provided by auditors. The audit committee has reviewed the first quarterly report of 2004.

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

Neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2004.

By Order of the Board
Sun Li Yong
Chairman

Zhejiang, the PRC, 10 May 2004