



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)

2004

Interim 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.

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This report, 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 GEM 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 report 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 report misleading; and (iii) all opinions expressed in this report 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 Group increased from approximately RMB204.9 million to approximately RMB240.8 million, representing a growth of approximately 17.5% when compared to the corresponding period in 2003.
- Net profit for the period was approximately RMB13.9 million, representing an increase of approximately 43.8% when compared to the corresponding period in 2003.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 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 and its subsidiaries (hereafter collectively referred to as the “Group”) for the three months and six months ended 30 June 2004 as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	2	140,192	121,698	240,785	204,909
Cost of sales		(118,949)	(108,288)	(204,386)	(183,596)
Gross profit		21,243	13,410	36,399	21,313
Other operating income		1,680	2,099	4,349	2,950
Selling expenses		(1,856)	(689)	(3,273)	(1,241)
Administrative expenses		(2,784)	(3,328)	(5,533)	(5,512)
PROFIT FROM OPERATIONS	4	18,283	11,492	31,942	17,510
Finance costs	5	(6,582)	(4,273)	(11,123)	(6,513)
PROFIT BEFORE TAXATION		11,701	7,219	20,819	10,997
Taxation	6	(3,861)	181	(6,870)	(1,313)
Net profit before minority interest		7,840	7,400	13,949	9,684
Minority interests		(21)	—	(21)	—
Profit for the period		7,819	7,400	13,928	9,684
Dividend paid	7	—	—	2,500,000	2,500,000
Earnings per share					
— basic (RMB)	8	0.93 cents	0.88 cents	1.7 cents	1.2 cents

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2004 (Unaudited) RMB'000	As at 31 December 2003 (Unaudited) RMB'000
NON-CURRENT ASSETS			
Investment properties		23,320	23,320
Property, plant and equipment	9	284,818	259,887
		308,138	283,207
CURRENT ASSETS			
Inventories		46,336	30,510
Trade receivables	10	53,297	63,629
Other receivables, deposits and prepayments		59,889	89,256
Restricted cash		243,351	108,640
Bank balances and cash		210,903	279,513
		613,776	571,548
CURRENT LIABILITIES			
Trade payables	11	49,345	36,017
Other payables and accruals		33,805	25,638
Bills payable		30,100	—
Amounts due to related companies		—	24,881
Taxation		22,760	17,927
Borrowings — due within one year		456,108	386,715
		592,118	491,178
NET CURRENT ASSETS		21,658	80,370

Note	As at 30 June 2004 (Unaudited) RMB'000	As at 31 December 2003 (Unaudited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	329,796	363,577
MINORITY INTEREST	1,221	1,200
NON CURRENT LIABILITIES		
Borrowings — due after one year	96,000	141,230
Deferred tax liabilities	12,392	12,392
	108,392	153,622
NET ASSETS	220,183	208,755
Capital and Reserves		
Paid-up capital	83,800	83,800
Reserves	136,383	124,955
SHAREHOLDERS' FUNDS	220,183	208,755

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000
Net cash from (used in) operating activities	95,960	(94,277)
Net cash used in investing activities	(161,352)	(147,082)
Net cash from (used in) financing activities	(3,218)	300,294
Net increase (decrease) in cash and cash equivalents	(68,610)	58,935
Cash and cash equivalents at beginning of the period	279,513	75,699
Cash and cash equivalents at end of the period, representing bank balances and cash	210,903	134,634

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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
Dividend paid	—	—	—	—	—	(2,500)	(2,500)
Net 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	9,093	42,835	168,220
Balance at 1 January 2004	83,800	26,229	6,252	3,127	25,158	64,189	208,755
Dividend paid	—	—	—	—	—	(2,500)	(2,500)
Net profit for the period	—	—	—	—	—	13,928	13,928
Transfer	—	—	1,395	697	—	(2,092)	—
Balance at 30 June 2004	83,800	26,229	7,647	3,824	25,158	73,525	220,183

Notes:

1. Basis of preparation

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 16 April 2002 and upon the placing of its H shares, was listed on the GEM on 8 November 2002.

The Company has prepared the condensed consolidated financial statements in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by Hong Kong Society of Accountants.

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

The Group's 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. Segmental information

The Group is principally engaged in the research and development, manufacture, and sale of woven fabrics. No business segment analysis is presented as management considers this as one single business segment. Accordingly, the Group reports its primary segment information based on geographical market.

Geographical segments

The Group's business is located in the PRC and its segment information by geographical location of its customers who are principally located in the PRC, the Middle East, Europe and Asia other than PRC. Segment information about these geographical markets is presented below:

	Six months ended			
	30.6.2004	30.6.2004	30.6.2003	30.6.2003
	Revenue	Results	Revenue	Results
	RMB'000	RMB'000	RMB'000	RMB'000
PRC	164,178	4,843	160,803	3,588
The Middle East	45,480	14,097	20,751	3,904
Europe	19,832	7,042	4,262	1,328
Asia other than PRC	8,154	3,072	9,454	3,974
Others	3,141	490	9,639	3,466
	240,785	29,544	204,909	16,260
Unallocated corporate expenses		(1,952)		(1,701)
Other operating income		4,350		2,951
Profit from operations		31,942		17,510

4. Profit from operations

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Profit from operations has been arrived at after charging: Depreciation and amortisation	5,817	5,576	11,560	9,927

5. Finance costs

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	6,808	4,079	10,908	6,560
Interest on other borrowings wholly repayable within five years	292	194	1,076	389
Less: Amounts capitalised in construction in progress	(518)	—	(861)	(436)
	6,582	4,273	11,123	6,513

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.

6. Taxation

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
The charge comprises:				
PRC enterprise income tax for the period	(3,861)	(2,382)	(6,870)	(3,629)
PRC enterprise income tax overprovided in previous year	—	2,971	—	2,971
Deferred income tax	—	(408)	—	(655)
	(3,861)	181	(6,870)	(1,313)

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

There was no significant unprovided deferred taxation for the period.

7. Dividend paid

On 23 June 2004, a dividend of RMB1 cent per share (2003: RMB1 cent) was paid to H shareholders as final dividend for 2003.

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2004.

8. 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	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Earnings for the purpose of calculating basic earnings per share	7,819	7,400	13,928	9,684
Number of shares:				
Number of shares for the purpose of basic earnings per share (Note)	838,000,000	838,000,000	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	838,000,000	838,000,000

Note:

Diluted earnings per share has not been calculated for the three months and six months ended 30 June 2004 and the corresponding period as there were no dilutive potential ordinary shares during these periods.

9. Movements in property, plant and equipment

During the period for the six months ended 30 June 2004, the Group spent approximately RMB28.5 million (31/12/2003: approximately RMB42.7 million) on additions of property, plant and equipment.

10. Trade receivables

The Group 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:

	30/6/2004 RMB'000	31/12/2003 RMB'000
Within 30 days	28,495	46,854
31–60 days	8,131	5,411
61–90 days	2,513	2,139
91–120 days	5,929	5,685
121–180 days	2,433	51
181–365 days	5,796	2,132
Over 365 days	—	1,357
	53,297	63,629

11. Trade payables

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

	30/6/2004 RMB'000	31/12/2003 RMB'000
Within 30 days	37,679	17,578
31–60 days	840	6,239
61–90 days	1,666	4,238
91–120 days	5,910	3,588
121–180 days	298	599
181–365 days	1,047	1,279
1–2 years	1,905	2,496
	49,345	36,017

12. Connected and related party transactions

During the period for the six months ended 30 June 2004, the Company had the following significant transactions with the related parties:

Name of related party	Nature	RMB'000
Sabrina	Rental income (<i>Note 1</i>)	90
	Interest expenses (<i>Note 2</i>)	88
Zhejiang Gabriel	Interest expenses (<i>Note 2</i>)	358

Notes:

1. The transactions were carried out in accordance with the relevant agreements.
2. The interest is calculated with reference to prevailing market rate.

Details of the guarantee given by related parties to the financial institutions in respect of the loans granted to the Group as at 30 June 2004 are set out in "borrowings and banking facilities" below.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2004, the Group recorded a turnover of approximately RMB240.8 million, representing an increase of approximately 17.5% as compared with that of the same period in 2003. The increase in turnover mainly represents the increase in both local sales and direct export sales. The gross profit for the period under review was approximately RMB36.4 million, representing a gross profit margin of approximately 15.1% as compared with a gross profit of approximately 10.4% for the previous period. The increase in sales and gross profit margin represents the recovery of the operations of the Group as the unfavourable elements to the economy during the first half year of 2003 fade out. Selling expenses increased sharply as compared with that of the previous period that was mainly due to increase of direct export sales. Finance cost increased significantly for the period

ended 30 June 2004 when compared with that of 2003. The increase was mainly due to the increase in bank loans for the acquisition of the property, plant and equipment. Earnings per share for the six months ended 30 June 2004 amounted to approximately RMB1.7 cents as compared with earnings per share of approximately RMB1.2 cents for the corresponding period in 2003.

About 31.8% and 21.5% of the Group's products were directly exported to the Group's overseas customers for the six months ended 2004 and 2003 which was the result of the effort from the expansion of the direct international sales network.

Business and Operation Review

In 2004, many domestic enterprises still have to face the problems of shortage of power supply. As a result, many manufactures were adversely affected by the scarcity of electricity supply and were inevitable suffered an increase in production overheads. However, being a listed company in Hong Kong, the Group was well supported by the local government and the impacts to the Group were minimal. In additions, since the unfavour elements to the economy in 2003 gradually fade out, the production lines of the Group resumed. In additions, as a result of the effort of the Group in developing the overseas markets, the direct export sales increased from approximately RMB44.1 million to approximately RMB76.6 million when compared with the corresponding period in 2003 which represents approximately 73.7% of increase. Hence, the Group recorded an encourage result for the six months ended 30 June 2004.

Production facilities

In order to enhance product quality and save production cost, the Group is constructing an upstream texturing plan, which is expected to commence production at the early first half year of 2005. The system design of the texturing plan are according to the standard of DuPont Fibers (China) Limited ("DuPont") so as to strive for becoming Dupont's constant product producer.

In additions, the Group is still searching for the opportunities to enter the area of down stream dyeing and finishing. The Directors believe that dyeing and finishing is key to a textile value chain, which controls the final quality and also derives more profit than upstream. Moreover, it will also allow the Group to serve its customers better and differentiate it from the players in the region.

Product Research and Development

The Group continues to cooperate with Dupont for the research and development of new products and improvement of the existing techniques. In additions, the Group intends to further strengthen the research capability and product innovation by setting up a research department in Hong Kong and employing well-known designer to joint the designer center in Hong Kong. The Directors believe that through the new research department and design center in Hong Kong, the Group can seize and closely follow the latest fashion and development of fabrics. The Group also considers the feasibility of cooperation with international partner so as to share the various valuable technical knowledge and experiences in designing fabrics.

Sales and marketing

The Group's globalisation strategy is to develop strategic partnership with international industry leaders in the textile industry in order to cooperating in research and development, designing, manufacturing and directly sales of the Group's product to the international market. The Group has already established representative office at New York, Hong Kong, Shanghai and Hangzhou. The representative office in Europe is under construction. Both Mr. Dai Fu Qiang and Ms. Zhong, the manager of Shanghai office and New York office respectively are experience in the international sales of the textile industry. The Group currently is in progress to applying for OEKO TEX, which represents quality recognition of the European textiles industry. The Group also actively participates in exhibition held in various countries so as to increase the exposure of the Group's product.

OUTLOOK

The textile industry is characterised in labour intensive where in the PRC large number of low-priced labours are available that can satisfy the Group's requirement. In recent years, the textile industry is encouraged to export by the government in the PRC and the Renminbi is being under estimated. Hence, the low-priced labour supply, government strategies and currency policies are competitive advantages to the textile industry in the PRC compared with that of the international competitors. In additions, the experts expect that on 1 January 2005, various agreements on quota of fibers will be ended, the market share of the textile and garments industry in the PRC to the international market will then increase to 150%, which will result in the market sharing of the global trading upwards to 50%. Although the increase in products exported from the PRC will stimulate the protection reaction from the U.S. and European countries, in view of the past experience, the quotas reallocation due to protection reaction were unexpected more than the original. The Directors believe that based on the strong fundamentals and management team, the Group will be able to record growth in the coming quarters.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the business objectives as stated in the Company's prospectus dated 31 October 2002 (the "Prospectus") for the period from 1 January 2004 to 30 June 2004

Actual business progress

Expansion of production capacity

- | | |
|---|---|
| 1. Installation of an additional 100 sets of shuttle-less looms to increase the production capacity | In view of the production capacity of the existing looms that are sufficient to meet the sales orders, the Directors decide to defer installing an additional 100 sets of shuttle-less looms. |
|---|---|

Expansion of sales network

- | | |
|--|---|
| 1. Set up two sales offices in 盛澤東方絲綢市場 (Chengze Dong Feng Silk Market*) or 成都荷花池紡織市場 (Chengdu Hefa Chi Textile Market*) | As the Directors plan to concentrate the resources in developing the international sales market, the set up of two sales offices in Chengze Dong Feng Silk Market or Chengdu Hefa Textile Market is temporary deferred. |
| 2. Set up sales offices or appoint authorized marketing agents in Hong Kong and overseas to strengthen the distribution network and the sales of the Company | The Hong Kong office has already been established in 2003 and a new representative office in New York was set up at early 2004. |
| 3. Participate in major sales exhibitions and trade shows | The Company has participated in various exhibitions held in Hong Kong, the PRC and other countries. |
| 4. Place advertisement in the media to promote the Company's overall image | In progress. |

Research and development of new fabric products

- | | |
|--|--------------|
| 1. Continue to develop its own new product by the research and development staff | In progress. |
| 2. Continue to provide training to the existing research and development staff | In progress. |

USE OF NET PROCEEDS

The Company raised net proceeds of approximately HK\$48.3 million (after deduction of listing expenses) from its public offering on 8 November 2002. From 8 November 2002 to 30 June 2004, the Company utilized approximately HK\$48.3 million in accordance with the Company's business objectives as set out in the Prospectus. An analysis of the use of proceeds as at 30 June 2004 is as follows:

	Planned use of proceed as set out in the Prospectus up to 30 June 2004 HK\$'000	Actual use of proceeds HK\$'000
Payment of other payable for the purchase of 200 sets of looms	46,000	46,000
Expanding the sales network by setting up sales offices and participating in major sales exhibitions and trade shows	1,067	1,067
Placing advertisements in the media to promote the Company's overall image and to build up the Company's brand name and trademark	350	350
Development of new products, product research and product assessment	883	883
Total	48,300	48,300

Note:

According to the Prospectus, the estimated net proceeds to be raised was approximate HK\$50.5 million, however the actual raised net proceeds after deduction of listing expenses was approximately HK\$48.3 million. Therefore, the shortage from the planned use of proceeds was generated from the internal funds of the Company.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 June 2004, the Company had net current assets of approximately RMB21.7 million.

As at 30 June 2004, the current assets comprised inventories of approximately RMB46.3 million, trade receivables of approximately RMB53.3 million, other receivable, deposits and prepayments of approximately RMB59.9 million, restricted cash of approximately RMB243.4 million and bank balances and cash of approximately RMB210.9 million.

As at 30 June 2004, the current liabilities comprised trade payables of approximately RMB49.3 million, other payables and accruals of approximately RMB33.8 million, bills payable of approximately RMB30.1 million, taxation payable of approximately RMB22.8 million and borrowings due within one year of approximately RMB456.1 million.

Borrowings and banking facilities

The Group generally finances its operations and capital expenditures with cashflow generated internally and banking facilities provided by its bankers.

As at 30 June 2004, the Group has bank loans due within one year and bank loans due after one year of approximately RMB456.1 million and RMB96 million respectively. The loans bear interest at prevailing market rates range from approximately 5.04% per annum to 6.1% per annum and repayable in installments over a period of six months to two years. The unsecured loans were jointly guarantee by Mr. Sun Li Yong, Ms Fang Xiao Jian, 浙江加佰利紡織實業有限公司 (Zhejiang Gabriel Textile Industrial Co. Ltd.*) ("Zhejiang Gabriel"), 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, 浙江宏興莎美那服飾有限公司 (Zhejiang Hongxing Sabina Garments Co., Ltd.*) ("Sabrina") which is a subsidiary of Zhejiang Gabriel, 紹興市置業房地產開發有限公司 (Shaoxing Zhiye Real Estate Development

Co, Ltd.*) which Mr. Sun Li Yong has beneficial interest and is also a director of this company, and certain independent third parties. The secured loans were pledged by restricted cash of approximately RMB25.4 million, land use right, buildings, investment properties and plant and machinery situated in the PRC of net book value as at 30 June 2004 of approximately RMB3.9 million, approximately RMB29.9 million, approximately RMB7.3 million and approximately RMB104.3 million respectively.

CAPITAL COMMITMENTS

As at 30 June 2004, the Company had capital commitments of approximately RMB11.2 million (31/12/2003: approximately RMB22,274,000) in respect of acquisition of property, plant and equipment.

FORWARD CONTRACTS COMMITMENTS

As at 30 June 2004, the Company had forward contracts commitments expressed in Euro as follows:

	30/6/2004	31/12/2003
	EURO	EURO
Principal amounts of forward contracts held for hedging purposes against bank borrowings and other payables:		
— purchase of EURO	5,076,000	8,887,600
Principal amounts of forward contracts held for speculative purposes		
— purchase of EURO	3,571,600	3,571,600
	8,647,600	12,456,200

MATERIAL ACQUISITIONS/DISPOSALS

As announced in the Company's announcements dated 10 June 2004, on 10 February 2004, the Company entered into a joint venture agreement ("JV Agreement") with an independent third party to form 紹興永隆化纖有限公司 (Shaoxing Yonglong Chemical Fiber Co., Ltd*) (the "JV Company") for manufacturing, processing and sale of specialized fibres, aramid fibres, spandex and carbon fibres in the PRC. Pursuant to the JV Agreement, the JV Company is owned as to 75% by the Company and as to 25% by the independent third party. The registered capital of the JV Company shall be US\$3,500,000. The registered capital of the JV Company will be contributed by the Company and the independent third party in the following manners: (i) US\$2,625,000 shall be contributed by the Company in cash; and (ii) US\$875,000 shall be contributed by the independent third party in cash. In accordance with a resolution passed by the shareholders of the JV Company on 21 May 2004, it was resolved to amend the JV Agreement to the effect that 20% of the registered capital of the JV Company shall be contributed by the Company and the independent third party in proportion to their shareholding in the JV Company on or before 30 December 2004.

SEGMENTAL INFORMATION

Segmental information of the Group is set out in note 3 to this announcement.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2004, the Group had 1,818 employees (31/12/2003: 1,827), comprising 9 (31/12/2003: 9) in research and development, 38 (31/12/2003: 29) in sales and marketing, 1,644 (31/12/2003: 1,661) in production, 102 (21/12/2003: 100) in quality control, 9 (31/12/2003: 9) in management, and 16 (31/12/2003: 19) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses

on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

CHARGES ON GROUP ASSETS

As at 30 June 2004, the Group's fixed assets with an aggregate net book value of approximately RMB145.5 million (31/12/2003: approximately RMB263.6million), were pledged as securities for the banking facilities granted to the Group.

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 ration (total debts over total assets) of the Group as at 30 June 2004 was approximately 74.6% (31/12/2003: approximately 75.54%).

FOREIGN EXCHANGE EXPOSURE

Renminbi currently is not a freely convertible currency. At present, the Group receives all of its revenues from sales in PRC and export sales in Renminbi and US dollars respectively. A portion of the Group's Renminbi revenues must be converted into other currencies to meet the Group'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 Group 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 Group does not have any material foreign exchange exposure.

Under the existing foreign exchange regulation in the PRC, the Group may undertake current account foreign exchange transactions, including payment of dividends, without prior approval from 中華人民共和國外匯管理局 (the State Administration for Foreign Exchange*), 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 Group is not able to hedge effectively against currency risk, including future depreciation of the Renminbi. Any depreciation in value of Renminbi versus that US dollar could affect the ability of the Group to pay dividends in foreign currencies and the ability of the Group to import equipment and materials.

CONTINGENT LIABILITIES

As at 30 June 2004, the Group did not have any significant contingent liabilities.

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

As at 30 June 2004, 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 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 5.40 to 5.58 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares

Name of Directors	Capacity	Number of shares	Approximate	Approximate
			percentage of interests in domestic shares in issue as at 30 June 2004	percentage of interests in total issued share capital as at 30 June 2004
Mr. Sun Li Yong	Beneficial owner	382,200,000	65%	45.6%
	Interest of spouse (Note 1)	182,280,000	31%	21.8%
Ms. Fang Xiao Jian	Beneficial owner	182,280,000	31%	21.8%
	Interest of spouse (Note 2)	382,200,000	65%	45.6%
Mr. Sun Jian Feng	Beneficial owner	5,880,000	1%	0.7%
Mr. Xia Xue Nian	Beneficial owner	5,880,000	1%	0.7%

Notes:

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

Save as disclosed above, as at 30 June 2004, none of the Directors, chief executives or supervisors had interest or short position 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 5.40 to 5.58 of the GEM Listing Rules 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 Director or chief executive or Supervisors of the Company, as at 30 June 2004, the interests and short positions of in the shares or underlying shares of the Company, other than interest of the Directors or Supervisors, which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or is 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 Group were as follows:

(i) the Company

Long positions in shares

Name of shareholder	Capacity	Number of H shares held	Approximate percentage of interests in H shares in issue as at 30 June 2004	Approximate percentage of interests in total issued share capital as at 30 June 2004
UBS AG	Person having a security interest in shares	20,710,000	8.28%	2.47%
Martin Currie China Hedge Fund Limited	Investment manager	22,370,000 (note 1)	8.94%	2.67%
Mr. Chan Kin Sun	Beneficial owner	19,000,000	7.60%	2.27%
Mr. Liu Yuen Sung, David	Beneficial owner	16,000,000	6.4%	1.91%

Note:

- Pursuant to the corporate substantial shareholder notice filed by Martin Currie China Hedge Fund Limited on 9 December 2003, Martin Currie Investment Management Limited is the person in accordance with whose directions Martin Currie China Hedge Fund Limited or its directors are accustomed to act.

(ii) the subsidiary of the Company

As at 30 June 2004, the parties, directly or indirectly, having 10% or more interests in other member of the Group were as follows:

Name of owner	Name of subsidiary	Approximate percentage of total registered capital
Mr. Sun De Yuan	紹興縣加佰利貿易有限公司 (Shaoxing County Gabriel Trading Co., Ltd.*)	20%
Honour Glory International Limited	紹興永隆化纖有限公司 (Shaoxing Yonglong Chemical Fibre Co., Ltd.*)	25%

Save as disclosed above, as at 30 June 2004, there was no other person, other than the Directors or Supervisors of the Company, who was recorded in the register of the Company having interests or short positions in the shares or underlying shares of the Company under Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or who was 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 other member of the Group.

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

Save as disclosed above, during the six months ended 30 June 2004, none of the Directors, chief executives or supervisors of the Group was granted options to subscribe for H shares of the Company. As at 30 June 2004, none of the Directors, chief executives or the supervisors of the Group 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 (as defined under the GEM Listing Rules) of the Group 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 Group 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 two years thereafter expiring on 31 December 2004.

As at 30 June 2004, neither Kingsway and Guotai Junan, nor their directors, employees or any of their associates (as defined in the GEM Listing Rules), 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 5.28 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 two meetings in this interim period. The meetings were held on 26 March 2004 and 9 May 2004 for discussion of the operating results, statements of the Company for the year ended 31 December 2003 and listed to the advice provided by auditors; and the first quarterly of 2004 respectively. The audit committee has reviewed the interim report of 2004.

BOARD PRACTICES AND PROCEDURES

The Company had complied with rules 5.34 to 5.45 to the GEM Listing Rules concerning board practices and procedures throughout the six months ended 30 June 2004.

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 2004.

By Order of the Board

Sun Li Yong

Chairman

Zhejiang, the PRC, 12 August 2004