



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

Third 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.

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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 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 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

For the nine months ended 30 September 2004:

- turnover of the Group increased from approximately RMB348.3 million to approximately RMB360.3 million, representing a growth of approximately 3.4% when compared to the corresponding period in 2003;
- net profit to the period was approximately RMB19.3 million, representing a decrease of approximately 22% as compared to the corresponding period in 2003; and
- the Directors do not recommend the payment of an interim dividend.

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and nine months ended 30 September 2004

The board of directors (the "Board" or the "Directors") 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 subsidiary for the three months and nine months ended 30 September 2004, together with the comparative results for the corresponding period in 2003 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	2	119,482	143,422	360,267	348,331
Cost of sales		(103,611)	(119,756)	(307,997)	(303,352)
Gross profit		15,871	23,666	52,270	44,979
Other operating income		2,828	1,928	7,177	4,185
Selling expenses		(2,456)	(922)	(5,729)	(2,163)
Administrative expenses		(1,482)	(2,300)	(7,015)	(7,119)
PROFIT FROM OPERATIONS	3	14,761	22,372	46,703	39,882
Finance costs	4	(7,389)	(2,073)	(18,512)	(8,586)
PROFIT BEFORE TAXATION		7,372	20,299	28,191	31,296
Taxation	5	(2,058)	(5,194)	(8,928)	(6,507)
Net profit before minority interest		5,314	15,105	19,263	24,789
Minority interests		84	—	63	—
Profit for the period		5,398	15,105	19,326	24,789
Dividend paid	6	—	—	2,500	2,500
Earnings per share — basic (RMB)	7	0.6 cents	1.8 cents	2.3 cents	3.0 cents

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 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		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Profit from operations has been arrived at after charging: Depreciation and amortisation	5,900	5,665	17,460	15,592

4. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	7,440	2,210	18,348	8,770
Interest on other borrowings wholly repayable within five years	165	194	1,241	583
Less: Amounts capitalized in construction in progress	(216)	(331)	(1,077)	(767)
	7,389	2,073	18,512	8,586

Borrowing costs capitalised during the period arose on general borrowing pool and are calculated by applying a capitalised rate of 5.86% to expenditure on qualifying assets.

5. TAXATION

	Three months ended		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
The charge comprises:				
PRC enterprise income tax for the period	2,324	6,173	9,194	9,801
PRC enterprise income tax overprovided in previous year	—	—	—	(2,971)
Deferred tax	(266)	(979)	(266)	(323)
	2,058	5,194	8,928	6,507

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.

6. 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 a dividend for the three months and nine months ended 30 September 2004.

7. EARNINGS PER SHARE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Earnings for the purpose of calculating basic earnings per share	5,398	15,105	19,326	24,789
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 nine months ended 30 September 2004 and the corresponding period 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
Dividend paid	—	—	—	—	—	(2,500)	(2,500)
Net 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	9,093	55,674	183,325
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	—	—	—	—	—	19,326	19,326
Transfer	—	—	1,933	966	—	(2,899)	—
Balance at 30							
September 2004	83,800	26,229	8,185	4,093	25,158	78,116	225,581

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 30 September 2004, the Group recorded a turnover of approximately RMB360.3 million, representing an increase of approximately 3.4% as compared with that of the same period in 2003. The gross profit for the period was approximately RMB52.3 million, representing a gross profit margin of approximately 14.5%, which was approximately 1.6% higher than that of the corresponding period in 2003.

The increase in turnover for the nine months ended 30 September 2004 was in line with the Group's expansion of production capacity. Selling expenses increased sharply as compared with that of the previous period mainly due to increase of direct export sales. Finance cost increased significantly mainly due to increase of bank loans for the acquisition of the property, plant and equipment. Earnings per share for the nine months ended 30 September 2004 amounted to approximately RMB2.3 cents as compared with earnings per share of approximately RMB3.0 cents for the corresponding period in 2003.

About 31.6% of the Group's products were directly exported to the Group's overseas customers for the nine months ended 30 September 2004, which was the result of the effort from expansion of direct international sales network.

Business and Operation Review

During the period, the Group continued to design, develop and implement production technologies, which further eliminate potential imperfections and smoothen the production processes. In order to facilitate the market trend in product diversification, the Group is restructuring the production machines so as to meet the production requirement. In additions, the Group continues to search for the opportunities to enter the area of down stream dyeing and finishing. The Board considers that the Group's technologies, systems, processes and locations permit year-round production in a seamless and an efficient manner.

Product Research and Development

The Group will continuously exploit opportunities with competitive edge. The cooperation with DuPont Fibers (China) Limited and Donghua Universities enhance the Group to innovate and provide more high quality product to the customers. The Group continues to search for the cooperation opportunities with international partner so as to share the various valuable technical knowledge and experiences in designing fabrics.

Sales and Marketing

The Group continues the globalisation strategy by developing 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. According to the announcement dated 2 September 2004, the Company signed a non-legal binding letter of intent with Miroglio S.p.A., which was incorporated in Italy and engaged in the textile, and garment business; and was a reputable multinational group in the textile industry for the possible acquisition of the Company's H shares. The Company is still negotiating with it on the feasibility of cooperation. The Group is still 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 Group mainly engaged in the research and development, manufacturing and sales of fiber fabric, on 1 January 2005, various agreements on quota of fibers will be ended which as a result creates more business opportunities to the Group from direct international sales. In additions, in view of the competitive advantages regarding a large number of low-priced labour supply, government strategies and currency policies to the textile industry in the PRC compared with that the international competitors, the Group has already equipped itself from advance textiles machines and experience

international sales team so as move towards the international textile arena. Guiding by the doctrine of globalisation, the Group continues to the important transformation which including enhance quality control and infrastructure. The Directors believe that the future prospect of the textile industry is encouraging.

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

As at 30 September 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 require (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 percentage of interests in domestic shares in issue	Approximate percentage of interests in total issued share capital
			as at 30 September 2004	as at 30 September 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 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 September 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 September 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 September 2004	Approximate percentage of interests in total issued share capital as at 30 September 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 <i>(Note 1)</i>	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%

Notes:

- 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 September 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. Zhang Jin Fa	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 September 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 nine months ended 30 September 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 September 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 September 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 three members comprising the three independent non-executive Directors, Mr. Lui Tin Nang, Mr. Luk Guo Qing and Mr. Zhu Yu Lin. Mr. Lui Tin Nang is the chairman of the audit committee.

Up to the date of this announcement, the audit committee has conducted three meetings in these periods. The meeting was held on 26 March 2004, 9 May 2004 and 12 August 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, the first quarterly result of 2004 and the interim result of 2004 respectively. The audit committee has reviewed the unaudited quarterly accounts for the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2004.

By Order of the Board

Sun Li Yong

Chairman

Zhejiang, the PRC, 10 November, 2004