



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

Annual Report

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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.

Corporate Information

Executive directors

Mr. Sun Li Yong
Ms. Fang Xiao Jian
Mr. Sun Jian Feng
Mr. Xia Xue Nian
Mr. Li Cheng Jun

Independent non-executive directors

Mr. Lui Tin Nang
Mr. Luk Guo Qing
Mr. Zhu Yu Lin

Supervisors

Mr. He Dong Hui
Mr. Shao Bao Hua
Mr. Luo Teng Fa

Independent supervisors

Mr. Wang He Rong
Mr. Hu Jin Huan

Company secretary

Ms. Chen Yen Yung *CPA, CPA (Aust.)*

Audit committee

Mr. Lui Tin Nang
Mr. Luk Guo Qing
Mr. Zhu Yu Lin

Qualified accountant

Ms. Chen Yen Yung *CPA, CPA (Aust.)*

Legal address

Yangxun Qiao Town
Shaoxing County
Zhejiang Province
PRC

Head office and principal place of business in Hong Kong

Suite 604, 6th Floor
Prudential Tower
The Gateway, 25 Canton Road
Tsimshatsui, Kowloon
Hong Kong

Compliance officer

Mr. Xia Xue Nian

Authorised representatives

Mr. Sun Li Yong
Mr. Sun Jian Feng

Principal bankers

Agriculture Bank of China
Shaoxing Branch
333 Jin Ke Quao Da Road
Shaoxing County
Zhejiang Province
PRC

Joint auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

KLL Associates CPA Limited
Certified Public Accountants
Suite 1303
Shanghai Industrial Investment Building
60 Hennessy Road
Wanchai
Hong Kong

H Share share registrar and transfer office

Standard Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

Joint sponsor

Kingsway Capital Limited
5th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Legal Advisers

As to Hong Kong law
David Lo & Partners
Suite 2502, Nine Queen's Road
Central, Hong Kong

As to PRC law
Commerce & Finance Law Offices
714 Huapu International Plaza
19 Chaowai Avenue
Beijing
PRC

Stock Code

8211

Highlights

- Turnover of the Company decreased from approximately RMB466.67 million in year 2003 to approximately RMB449.77 million in year 2004, representing a drop of approximately 3.62%.
- Net profit for the year was approximately RMB19.03 million, representing a decrease of approximately 44.27% when compared with that of 2003.
- The Directors do not recommend the payment of a final dividend for the year ended December 31, 2004.

Highlights

Chairman's Statement

On behalf of 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"), I am pleased to present to our shareholders the annual report of the Company for the year ended December 31, 2004.

FINANCIAL PERFORMANCE

For the year ended December 31, 2004, the Company recorded a turnover of approximately RMB449.77 million, representing a decrease of approximately 3.62% as compared with that for the year ended December 31, 2003. The decrease in turnover for the year of 2004 mainly due to the decrease in sales to customers in the Middle East and the local export and import companies whose ultimate customers were mainly located in the Middle East. The gross profit for the year under review was approximately RMB55.80 million, representing a gross profit margin of approximately 12.41% as compared with a gross profit of approximately RMB63.07 million and a gross profit margin of approximately 13.52% for last year. About 27.77% of the Company's products were directly exported to the Company's overseas customers for the year ended December 31, 2004. The overseas customers of the Company were mainly located in the Middle East and Europe.

Net profit for the year was approximately RMB19.03 million, representing a decrease of approximately RMB15.12 million as compared with that of last year. Administrative expenses for the year were approximately RMB8.92 million, representing a decrease of approximately 28.60% as compared with that of last year. It was the result of strictly control of expenses. Selling expenses for the year was approximately RMB6.93 million, representing an increase of approximate 36.87% as compared with that for the year ended December 31, 2003, which was in line with the expansion of direct export sales business. Finance cost increased significantly for the year ended December 31, 2004 when compared with that of 2003. The increase was mainly due to the increase in bank loans for the acquisition of property, plant and equipment and the construction of a new production plant during the year. Earnings per share amounted to RMB2.3 cents, compared to RMB4.1 cents for the year ended December 31, 2003.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended December 31, 2004 and propose that the profit for the year be retained.

* for identification purpose only

Chairman's Statement

OUR STRATEGY GOING FORWARD

A. Globalization

According to the Company's announcement dated December 2, 2004, the Company and the major shareholders of the Company entered into a subscription agreement ("Subscription Agreement") with Miroglio S.p.A. ("Miroglio") on November 30, 2004 for placing of 209,500,000 new H shares of the Company to Miroglio. Miroglio was incorporated in Italy and engaged in the textile, and garment business; and was a reputable multinational group in the textile industry. The Company is still in progress to arrange for placing the 209,500,000 new H shares to Miroglio. Through the strategic partnership with Miroglio, the Company can be able to bring in state-of-the-art machines and technology, penetrate new channels and market opportunities.

The Company is planning to use 60% of the subscription money ("Subscription Money") that is to be raised from placing of new H shares to Miroglio for establishment or acquisition of a dyeing factory in the PRC. Dyeing and finishing is key to a textile value chain, which controls the final quality and also derives more profit than upstream.

B. Vertical Integration Strategy

According to the Company's announcement dated January 4, 2005, it is announced that in view of the fact that there are excess supply of subcontracting services of specialized fibers, aramid fibres, spandex and carbon fibres in the PRC, and which were the proposed principal businesses to be engaged by 紹興永隆化纖有限公司 (Shaoxing Yonglong Chemical Fiber Co., Ltd.*), the joint venture company ("JV Company"), the shareholders of the JV Company estimated that the profit margin to be generated by the JV Company may be low and the JV Company may face a strong competition in the industry, the shareholders of the JV Company therefore determined to terminate the JV Agreement and to dissolve the JV Company. The shareholders of the JV Company passed a resolution on December 30, 2004 to terminate the JV Agreement and to dissolve the JV Company. Accordingly, the Company currently does not consider investing in upstream texturing.

C. Pursue operational excellence

The Company continues 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 Company has restructured the production machines so as to meet the production requirement. We believe that through transforming and reengineering our operation model, efficiencies and further cost-saving can be achieved.

* for identification purpose only

Chairman's Statement

OUR STRATEGY GOING FORWARD (Continued)

D. Product innovation

The Company is planning to use 20% of the Subscription Money for research and development of technology of the Company. Besides the continuous co-operation with DuPont China, through the strategic partnership with Miroglio, the Company can continue the strategic in providing new products design and technologies so as to fulfill customers' needs, and therefore makes the Company an inspirational brand standing out among its peers in China.

PROSPECTS

The Company mainly engaged in the research and development, manufacturing and sales of fiber fabric, on January 1, 2005, various agreements on quota of fibers will be ended which as a result creates more business opportunities to the Company 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 Company has already equipped itself from advance textiles machines and experience international sales team so as move towards the international textile arena.

Fiber is the major materials of the fabric produced by the Company. The major raw material of fiber is by product of oil. In view of the increasing of oil price in 2005, we expect that the gross profit margin of the Company for the year in 2005 may be affected due to the increase of raw material cost. In additions, due to the fast expansion and high capital investment of the Company in these few years, the finance cost of the Company increase significantly that cause the decrease in net profit. We expect that guiding by the doctrine of globalisation, the Company can further increase revenue and profit and then decrease bank loans in order to minimize finance cost.

APPRECIATION

On behalf of the Board, I wish to extend our appreciation to our customers, vendors, banks and shareholders for their enthusiasm and support, and to every employee for their hard work and dedication throughout the year.

Sun Li Yong

Chairman

Hong Kong, March 22, 2005

Management Discussion and Analysis

PRODUCT RESEARCH AND DEVELOPMENT

The Company continues to cooperate with DuPont Fibers (China) Limited and Donghua University which enables the Company to innovate and provide more high quality products to customers. In order to strengthen the research and development ability of the Company, the Company employed several more experienced technicians to join the research and development team. For the year ended December 31, 2004, the Company innovated and developed over 60 series of new products. These new products representing approximately 30% of turnover for the year ended December 31, 2004 were all launched to the market and well received by customers. The Company continues to search for the cooperation opportunities with international partner so as to share the various valuable technical knowledge and experiences in designing fabrics.

PRODUCTION FACILITIES

The Company 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. In additions, it will also allow the Company to serve its customers better and differentiate it from the players in the region. In order to facilitate the market trend in product diversification, the Company has restructured the production machines so as to meet the production requirement.

SALES AND MARKETING

The Company'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 Company's product to the international market. The Company's customers comprise both domestic and overseas customers. Domestic customers consist local textile wholesalers, garment manufacturers and trading companies in the PRC, which were mainly located in the Zhejiang Province and Shanghai. Overseas customers, which are mainly textile wholesalers and import agents, were mainly located in the Middle East, Europe, Asia, the North America and the Latin America. The Company's products, which were directly exported to the overseas customers increased from approximately RMB124.21 million in 2003 to approximately RMB124.89 million in 2004. The Directors believe that through the strategic cooperation with Miroglio can help the Company to speed-up the progress of globalisation. During the year, the Company actively participated in various trade fairs held in PRC and overseas so as to gain exposure in the fabrics market and to popularize the Company's new products.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at December 31, 2004, the Company had net current assets of approximately RMB0.5 million.

As at December 31, 2004, the current assets comprised inventories of approximately RMB55.47 million, trade receivables of approximately RMB68.33 million, other receivables, deposits and prepayments of approximately RMB50.96 million, amount due from a related company of approximately RMB0.54 million, investment in securities of approximately RMB0.50 million, restricted cash of approximately RMB100.95 million and bank balances and cash of approximately RMB280.36 million.

As at December 31, 2004, the current liabilities comprised trade payables of approximately RMB54.15 million, other payables and accruals of approximately RMB15.99 million, deposit received in respect of issue of share of approximately RMB2.68 million, taxation of approximately RMB24.74 million and borrowings due within one year of approximately RMB459.01 million.

Borrowings and banking facilities

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

As at December 31, 2004, the Company had bank loans and other loans due within one year and bank loans due after one year of approximately RMB430.78 million, RMB28.23 million and RMB78.00 million respectively. The loans bear interests at prevailing market rates range from approximately 3.5% per annum to 7.06% per annum and repayable in installments over a period of three months to two years. The unsecured loans were jointly guaranteed by the directors of the Company, Zhejiang Gabriel Holdings Group Limited ("Zhejiang Gabriel"), a related company which Mr. Sun Li Yong, Ms. Fang Xiao Jian, Mr. Sun Jian Feng and Mr. Xia Xue Nian are also directors and shareholders of this company, the domestic shareholders of the Company including Mr. Sun Li Yong, Mr. Xia Xue Nian, Mr. Sun Jian Feng and Ms. Fang Xiao Jian, certain assets owned by Zhejiang Gabriel, certain assets owned by directors of the Company, another related company, Zhejiang Hongxing Sabrina Garments Co., Ltd. which Zhejiang Gabriel is its major shareholder, Shaoxing Zhiye Real Estate Development Co., Ltd. ("Shaoxing Zhiye"), a company in which Mr. Sun Li Yong has controlling interest in Shaoxing Zhiye and he is also a director of Shaoxing Zhiye and independent third parties.

Management Discussion and Analysis

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

As at December 31, 2004, the Company had commitments of approximately RMB12,547,000 (2003: RMB22,274,000) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

FORWARD CONTRACTS COMMITMENTS

As at December 31, 2004, the Company had forward contracts commitments expressed in Euro of hedging against bank borrowings of Euro8,526,000 (2003: Euro8,887,600).

MATERIAL ACQUISITIONS/DISPOSALS

According to the Company's announcement dated January 4, 2005, it is announced that in view of the fact that there are excess supply of subcontracting services of specialized fibers, aramid fibres, spandex and carbon fibres in the PRC, and which were the proposed principal businesses to be engaged by 紹興永隆化纖有限公司 (Shaoxing Yonglong Chemical Fiber Co., Ltd.*), the joint venture company ("JV Company"), the shareholders of the JV Company estimated that the profit margin to be generated by the JV Company may be low and the JV Company may face a strong competition in the industry, the shareholders of the JV Company therefore determined to terminate the JV Agreement and to dissolve the JV Company. The shareholders of the JV Company passed a resolution on December 30, 2004 to terminate the JV Agreement and to dissolve the JV Company.

SEGMENT INFORMATION

Segment information of the Company is set out in note 3 to the financial statements.

EMPLOYEE AND REMUNERATION POLICIES

As at December 31, 2004, the Company had 1,730 employees (2003: 1,827), comprising 10 (2003: 9) in Research and development, 26 (2003: 29) in Sales and marketing, 1,559 (2003: 1,661) in Production, 109 (2003: 100) in Quality control, 10 (2003: 9) in Management, and 16 (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.

* for identification purpose only

Management Discussion and Analysis

CHARGES ON COMPANY ASSETS

As at December 31, 2004 the Company's property, plant and equipment and investment properties with an aggregate net book value of approximately RMB217.34 million (2003: approximately RMB154.96 million), were pledged as securities for the banking facilities granted to the Company.

Restricted cash of approximately RMB100.95 million (2003: RMB108.64 million) as at December 31, 2004 have been pledged as securities for the banking facilities granted to the Company.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Except as disclosed in the section "Statement of business objectives" of the prospectus issued by the Company on October 31, 2002, according to the Company's announcement dated December 2, 2004, the Company was planning that the net proceeds that is to be raised from issue of new H shares to Miroglio of approximately HK\$49,680,000 will be used as to 60% for the establishment or acquisition of a dying factory in the PRC and as to 20% for research and development of technology of the Company and as to 20% for the general working capital of the Company.

GEARING RATIO

The gearing ratio (total debts over total assets) of the Company as at December 31, 2004 was 74.50% (2003: 75.77%).

FOREIGN EXCHANGE EXPOSURE

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

Management Discussion and Analysis

FOREIGN EXCHANGE EXPOSURE (Continued)

Under the existing foreign exchange regulation in the PRC, the Company may undertake current account foreign exchange transactions, including payment of dividends, without prior approval from SAFE, 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 Company is not able to hedge effectively against currency risk, including future depreciation of the Renminbi. Any depreciation in value of Renminbi against US dollars could affect the ability of the Company to pay dividends in foreign currencies and the ability of the Company to import equipment and materials.

CONTINGENT LIABILITIES

As at December 31, 2004, the Company did not have any significant contingent liabilities..

Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual business progress in the comparison with the business objectives set out in the prospectus of the Company for the period from October 24, 2002 to December 31, 2004:

Business objectives

Actual business progress

Expansion of production capacity

- | | |
|--|---|
| 1. Lease an additional 400 sets of woven fabric looms to expand the production | In view of the production capacity of the existing looms that are sufficient to meet the sales orders, the Directors decide to defer lease an additional 400 sets of woven fabric looms to expand the production. |
|--|---|

Expansion of sales network

- | | |
|--|--|
| 1. Continue to explore opportunities to expand the distribution network in the overseas market | In progress. |
| 2. Continue the promotional activities from the last period | In progress. |
| 3. Continue to participate in major sales exhibitions and trade shows | The Company has participated in various exhibitions held in Europe, the PRC and Hong Kong during the year. |
| 4. Build up brand name and trademark | 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. |

Comparison of Business Objectives with Actual Business Progress

USE OF NET PROCEEDS FROM THE ISSUING OF THE NEW SHARES

The Company raised net proceeds of HK\$48.3 million (after deduction of listing expenses) from its public offering on November 8, 2002. From November 8, 2002 to December 31, 2004, the Company utilised 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 December 31, 2004 is as follows:

	Planned use of proceed as set out in the prospectus up to December 31, 2004 HK\$'000	Actual use of proceeds HK\$'000
Payment of other payables 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

According to the prospectus of the Company dated October 31, 2002, the estimated net proceeds to be raised was approximately 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.

Directors and Senior Management's Profile

EXECUTIVE DIRECTORS

Mr. Sun Li Yong (孫利永), aged 34, is the Chairman and an executive director of the Company. Mr. Sun is the founder of the Company and is responsible for the strategic planning and overall management of the Company. Mr. Sun received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has over 10 years of experience in corporate management in the PRC.

Ms. Fang Xiao Jian (方曉健), aged 32, is an executive director of the Company and the wife of Mr. Sun Li Yong. She is responsible for sales and marketing management of the Company. Ms. Fang received her tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. She has over 7 years of experience in the textile industry. She joined the Company in April 2002.

Mr. Sun Jian Feng (孫建鋒), aged 34, is an executive director of the Company. Mr. Sun is responsible for the financial management of the Company. Mr. Sun received his diploma in accounting from the Hangzhou University of Commerce (杭州商學院) in 1990. He has over 9 years of experience in finance and accounting. Mr. Sun joined the Company in April 2002.

Mr. Xia Xue Nian (夏雪年), aged 40, is an executive director of the Company. Mr. Xia is responsible for corporate administration of the Company. He received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has over 15 years of experience in the corporate management. Mr. Xia joined the Company in April 2002.

Mr. Li Cheng Jun (李成軍) aged 39, is the brother-in-law of Mr. Sun Li Yong, the Chairman and an executive directors of the Company. Mr. Li is responsible for the product operation and manufacturing technology of the Company. From July 1986 to June 1994, Mr. Li was the project manager of 浙江省工業設備安裝公司 (Zhejiang Province Industrial Facilities Installation Company*), a services company for installation of industrial facilities in Zhejiang Province. From July 1994 to March 1996, Mr. Li was the production manager of 浙江國宏經編工業有限公司 (Zhejiang Guohong Wrap Knitting Industrial Co., Ltd.*) a company for manufacturing and sales of knitted wrap. From April 1996 to May 2002, Mr. Li was the project manager of 蕭山建築工程公司 (Xiaoshan Construction Engineering Company*), a construction company. Mr. Li graduated from Zhejiang University of Technology (浙江工業大學) in 1986 and holds a degree in electronic engineering. Mr. Li has about 18 years of experience in the project and production management. Mr. Li joined the Company in June 2002.

* for identification purpose only

Directors and Senior Management's Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lui Tin Nang (呂天能), aged 47, is an independent non-executive director of the Company. Mr. Lui has over 10 years experience in accounting, auditing, taxation and finance field. Mr. Lui has obtained a Bachelor of Science degree from the University of Leeds and a master degree in business administration from the University of Bradford in the United Kingdom. He is a practicing certified public accountant at T.N. Lui & Co., Certified Public Accountants in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Institute of Chartered Accountants in England & Wales and a member of the Chartered Institute of Management Accountants. Mr. Lui was appointed as an independent non-executive director of the Company in June 2002.

Mr. Luk Guo Qing (陸國慶), aged 40, is an independent non-executive director of the Company. Mr. Luk graduated from the Hangzhou University in 1986 and holds a degree in law. He is a licensed lawyer and is a partner of 浙江中法大律師事務所 (Zhejiang Zhong Fa Law Firm), a law firm in Zhejiang Province. He has extensive experience in securities law. During 1988 to 1998, he practiced in 浙江國大律師事務所. Mr. Luk was appointed as an independent non-executive director of the Company in May 2002.

Mr. Zhu Yu Lin (竺玉林), aged 45, is an independent non-executive director of the Company. Mr. Zhu graduated from Zhejiang University of Finance & Economics (浙江財經學院) in 1982 and holds a degree in commerce. He is a PRC Certified Public Accountant (中國註冊會計師), a PRC Certified Assets Appraiser (中國註冊資產評估師) and a PRC Certified Tax Appraiser (中國註冊稅務師). During the period from July 1982 to August 1999, he worked as administrative accountant in Zhejiang University of Finance & Economics (浙江財務學院). He has been practicing in Zhejiang Zhijiang Certified Public Accountants (浙江之江會計師事務所) which formerly named as Zhejiang Zhoucai Certified Public Accountants (浙江周財會計師事務所), a certified public accounting firm in Zhejiang Province, the PRC since August 1999 and he is also a director of Zhejiang Zhijiang Certified Public Accountants (浙江之江會計師事務所). Mr. Zhu was appointed as an independent non-executive director of the Company in September 2004.

INDEPENDENT SUPERVISORS

Mr. Hu Jin Huan (胡金煥), aged 40, is an independent supervisor of the Company. He is responsible for performing the supervisory function in relation to the Company's board of directors, manager and other officers and report independently to the shareholders in general meeting of the Company. He is a PRC certified public accountant and is now working as an audit supervisor in Shaoxing Xingye Certified Public Accountants Firms (紹興興業會計師事務所). He was appointed as an independent supervisor of the Company in May 2002.

Directors and Senior Management's Profile

INDEPENDENT SUPERVISORS (Continued)

Mr. Wang He Rong (王和榮), aged 43, is an independent supervisor of the Company. He is responsible for performing the supervisory function in relation to the Company's board of directors, manager and other officers and report independently to the shareholders in general meeting of the Company. He is a PRC certified public accountant and is now working as an audit supervisor in Shaoxing Hongtai Certified Public Accountants Firms (紹興宏泰會計師事務所). He was appointed as an independent supervisor of the Company in May 2002.

SUPERVISORS

Mr. Shao Bao Hua (邵寶華), aged 39, is the supervisor of the Company who joined the Company in December 1999. He is working in the Finance Department of the Company. From 1989 to December 1999, he worked as accounts clerk in the finance department of 紹興縣經編廠 (Shaoxing Wrap Knitting Factory), a wrap manufacturing company in the Zhejiang Province. He was appointed as Supervisor of the Company in April 2002.

Mr. Luo Teng Fa (羅騰法), aged 29, is the Supervisor of the Company who joined the Company in June 1998. He is the manager of the research and development department of the company. From 1998 to April 2002, he worked in the research and development department of 龍翔紡織有限公司 (Longxiang Textile Co., Ltd.*), a textile manufacturing company in the Zhejiang Province. He graduated from 蘇州絲綢工業學院 (Suzhou Silk Technical College*). He was appointed as Supervisor of the Company in April 2002.

Mr. He Dong Hui (何東輝), aged 35, is the Supervisor of the Company who joined the Group in December 1998. He is working in the administration department and is responsible for the website and network maintenance, information and technology support. From August 1992 to June 1993, Mr. He was at 湖北黃石下鋼總廠電氣分廠 (Branch of Electric Gas of Wubei Wangshi Xiagang*) and was responsible for the repair and maintenance of the mechanical and electrical facilities. From July 1993 to March 1996, Mr. He was at 湖北黃石康賽集團有限公司 (Wubei Wangshi Kangzhai Group Co., Ltd.*) and was responsible for the development of management software of information & technology department. From April 1996 to November 1998, Mr. He was at 湖北黃石康賽集團康博針織有限公司 (Wubei Wangshi Kangzhai Group Kangpao Knitting Co., Ltd.*) and was responsible for embroidery design. Mr. He graduated from Wuhan University of Technology (武漢理工大學) in 1992 and holds a degree in mechanical and electrical engineering. He was appointed as Supervisor of the Company in January 2004.

* for identification purpose only

Directors and Senior Management's Profile

SENIOR MANAGEMENT

Ms. Chen Yen Yung (陳燕雲), aged 33, is the qualified accountant and company secretary of the Company and the spouse of Mr. Sun Jian Feng. Ms. Chen studied in the Hong Kong Polytechnic University for higher certificate in accountancy and holds a bachelor's degree in commerce (accounting) from the Curtin University of Technology, Western Australia. She has over 8 years of experience in accounting and finance field. She is a member of the Australian Society of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. From February 1995 to February 2001, she was an assistant manager of K. L. Lee & Partners CPA Limited, Certified Public Accountants in Hong Kong. From February 2001 to June 2002, she was a director of BMI Consultants Limited, a business consultancy services company in Hong Kong. She joined the Company in June 2002.

Mr. Ding Zhong Xin (丁忠心), aged 34, is the manager of the finance department of the Company. He completed business management from Shanghai Lisin Professional Accounting College (上海立信會計高等專科學校) and has over 12 years of experience in accounting and finance. From April 1990 to February 2002, he worked in 紹興縣信用聯社 (Shaoxing County Credit Cooperation), a finance company and was responsible for the loan arrangements with its clients in the Zhejiang Province. He joined the Company in February 2002.

Mr. Dai Fu Qiang (戴富強), aged 34, is the manager of sales and marketing department of the Company. He has the oversea working experience, and with the abundant experience and knowledge in textile industry. He received his tertiary education from China Textile University (中國紡織大學) which changed its name to Donghua University (東華大學) in August 1999 and holds a bachelor degree of Textile Chemistry, majored in dyeing and finishing, and has over 9 years of experience in the international textile company. From July 1993 to August 1995, he worked in Shanghai Textile Research Institute. From September 1995 to July 1997, he worked in Shanghai FESCO, and worked for Dystar. He was responsible for sales and marketing of dyestuff. From May 1997 to June 1999 and from March 2001 to June 2003, he worked in DuPont Fibers (China) Ltd, which was engaged in sales and manufacturing of fibers in China. He was responsible for developing marketing strategies of the company's product in China, focus on Lycra*, Tactel*, Supplex*, Thermolite*, Coolmax* etc.. From June 1999 to February 2001, he worked in Dupont Singapore Pte Ltd., which was engaged in sales and manufacturing of fibers in Singapore. He was responsible for developing the marketing strategies of the company's product in Asian, Thailand, Singapore, Malaysia, Indonesia, and Philippines. From June 2003 to December 2003, he worked in BASF China Company Ltd. and was responsible for developing and executing co-branding strategies and marketing strategies of the company which mainly focus on nylon chips of Ultramid*. He joined the Company in April 2004.

Ms. Wong Ai Feng (王愛鳳), aged 68, is the head of research and development department of the Company. She obtained a degree in textile study from Hua Tung Textile Technical College 華東紡織工業學院 and has over 30 years of experience in textile and garment industries. From September 1974 to April 2002, she was a professor of Donghua University and was responsible for the course of textiles in Shanghai. She joined the Company in April 2002.

Report of the Directors

The directors of the Company present their annual report and the audited financial statements of the Company for the year ended December 31, 2004.

PRINCIPAL ACTIVITY

The Company is principally engaged in the research and development, manufacture and sale of woven fabrics.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended December 31, 2004 are set out in the income statement on page 29 of the annual report.

On March 26, 2004, the management shareholders of the Company, namely Mr. Sun Li Yong, Ms. Fang Xiao Jian, Mr. Sun Jian Feng and Mr. Xia Xue Nian (the "Management Shareholders"), who were holding 382,200,000, 182,280,000, 5,880,000 and 5,880,000 domestic shares and Mr. Fang Han Hong, a domestic share shareholder who was holding 11,760,000 domestic shares of the Company, entered into an agreement with the Company pursuant to which the Management Shareholders and Mr. Fang Han Hong agreed to give up their right to receive the final dividend of the Company for the year ended December 31, 2003. Therefore, the Company only paid the final dividend to the holders of the overseas-listed foreign shares ("H shares") of the Company.

A final dividend of RMB1 cent for the year ended December 31, 2003 was paid on June 23, 2004 to the holders of H shares.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

INVESTMENT PROPERTIES

The investment properties of the Company at December 31, 2004 were revalued by an independent firm of professional property valuers on an open market value basis. Details of these movements during the year in the investment properties of the Company are set out in note 10 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately RMB50 million in aggregate on factory premises and other plant and machinery to expand and upgrade its production capacity.

Details of these and other movements during the year in the property, plant and equipment of the Company are set out in note 11 to the financial statements.

Report of the Directors

SHARE CAPITAL

There was no movement in the Company's share capital during the year. Details of the share capital of the Company are set out in note 21 to the financial statements.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Sun Li Yong
Ms. Fang Xiao Jian
Mr. Sun Jian Feng
Mr. Xia Xue Nian
Mr. Li Cheng Jun (appointed on January 9, 2004)

Independent Non-Executive Directors:

Mr. Luk Guo Qing
Mr. Lui Tin Nang
Mr. Zhu Yu Lin (appointed on September 28, 2004)

Supervisors:

Mr. Shao Bao Hua
Mr. Luo Teng Fa
Mr. He Dong Hui (appointed on January 9, 2004)

Independent Supervisors:

Mr. Hu Jin Huan
Mr. Wang He Rong

Each of the directors and supervisors (including the independent non-executive directors and independent supervisors) has entered into a service agreement with the Company for three years from the date of appointment. Each of the directors and supervisors was appointed as director and supervisor of the Company respectively subject to termination in certain circumstances as stipulated in the relevant services contracts.

Report of the Directors

DIRECTORS AND SUPERVISORS (Continued)

In accordance with the provisions of the Company's Articles of Association, the directors and supervisors are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

At December 31, 2004, the interests and short positions of the directors, chief executives and supervisors 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 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 Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

Long positions

Name of director	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares	Approximate percentage of interests in total registered capital
Mr. Sun Li Yong	Beneficial owner	382,200,000	65%	45.6%
	Held by spouse (Note 1)	182,280,000	31%	21.8%
		564,480,000	96%	67.4%
Ms. Fang Xiao Jian	Beneficial owner	182,280,000	31%	21.8%
	Held by spouse (Note 2)	382,200,000	65%	45.6%
		564,480,000	96%	67.4%
Mr. Sun Jian Feng	Beneficial owner	5,880,000	1%	0.7%
Mr. Xia Xue Nian	Beneficial owner	5,880,000	1%	0.7%

Report of the Directors

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES (Continued)

Short positions

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 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 December 31, 2004, none of the directors, chief executives or supervisors had any interests 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 such provisions of the SFO); (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 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE H SHARES OR DEBENTURES

At no time during the year was the Company a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors nor the supervisors, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 27 to the financial statements, no other contracts of significance to which the Company was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

CONNECTED TRANSACTIONS

Save as disclosed in notes 14, 18, 19 and 27 to the financial statements, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

The independent non-executive directors have reviewed the connected transactions set out in note 14, 18, 19 and 27 to the financial statements and in their opinion, these transactions entered into by the Company were:

- (i) in the ordinary and usual course of business of the Company;
- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed in "Directors' and Supervisors' Interests In Securities", the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Long positions

Ordinary Shares of RMB0.10 each of the Company

Name of shareholder	Capacity	Number of H-share held	Approximate percentage of interests in H- share in issue	Approximate percentage of interests in total registered capital
Miroglio S.p.A.	Beneficial owner	209,500,000	(Note 1)	(Note 1)
UBS AG	Person having a securing interest in shares	20,710,000	8.28%	2.47%
Martin Currie China Hedge Fund Limited	Investment manager	22,370,000 (Note 2)	8.94%	2.67%
Mr. Chan Kin Sun	Beneficial owner	19,000,000	7.6%	2.27%
Mr. Liu Yuen Sung, David	Beneficial owner	16,000,000	6.4%	1.91%

Report of the Directors

SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

1. Pursuant to a subscription agreement entered into between the Company, Miroglio S.p.A., Mr. Sun Li Yong and Ms. Fang Xiao Jian dated November 30, 2004, Miroglio S.p.A. has agreed to subscribe for 209,500,000 H shares of the Company (the "Subscription Shares"). Such subscription is subject to certain conditions as disclosed in the announcement of the Company dated December 2, 2004. At December 31, 2004, the subscription has not yet been completed. Following the completion of the subscription agreement, Miroglio S.p.A. will be interested in approximately 45.59% of the total H shares in issue of the Company and 20.0% of the total registered capital.
2. Pursuant to the corporate substantial shareholder notice filed by Martin Currie China Hedge Fund Limited on December 9, 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.

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at December 31, 2004.

COMPETING INTERESTS

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

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers and customers of the Company accounted for approximately 72% and 29% of the Company's purchases and turnover, respectively. The largest supplier accounted for approximately 22% of the purchases of the Company.

At no time during the year did a director, a supervisor, an associate or a shareholder of the Company, which to the knowledge of the directors, own more than 5% of the Company's issued share capital, have any interest in the share capital of any of the five largest suppliers or customers of the Company.

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

The Company did not purchase, sell or redeem any of the Company's listed securities for the year ended December 31, 2004.

Report of the Directors

AUDIT COMMITTEE

The Company has established an audit committee in May 2002 and 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.

The quarterly results for the three months ended March 31, 2004, June 30, 2004, September 30, 2004 of the Company and the financial statements of the Company for the year ended December 31, 2004 have been reviewed by the audit committee. The audit committee had held four meetings during the current financial year.

EMOLUMENT POLICY

The emoluments of the directors of the Company are decided by the board of directors, having regard to their duties and responsibilities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the People's Republic of China (the "PRC"), which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended December 31, 2004.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors and supervisors, all directors and supervisors confirmed they have complied with the required standard and the code of conduct regarding securities transactions by directors and supervisors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rules 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended December 31, 2004.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 29 to the financial statements.

JOINT AUDITORS

The financial statements were audited by Messrs. Deloitte Touche Tohmatsu and KLL Associates CPA Limited. A resolution will be submitted to the annual general meeting to re-appoint them as joint auditors.

On behalf of the Board of
Zhejiang Yonglong Enterprises Co., Ltd.

Sun Li Yong
CHAIRMAN

Zhejiang, the PRC, March 22, 2005

Report of Supervisors

To: All Shareholders

We are the supervisory committee of Zhejiang Yonglong Enterprises Co., Ltd., in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company (the "Articles of Association") during the year ended December 31, 2004, exercised conscientiously its authority, safeguarded the interest of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

During the year we have carefully reviewed the use of the proceeds raised in strict compliance with the plan of use of proceeds disclosed in the Prospectus of the Company and provided reasonable suggestions and advice on the operations and development plans to the Directors and strictly and effectively monitored whether the policies and decisions made had confirmed with the state laws and regulations and the Articles of Association or safeguarded the interests of the shareholders.

After review, we consider that the financial statements of the Company, audited by the joint auditors, Deloitte Touche Tohmatsu and KLL Associates CPA Limited, truly and sufficiently reflects the operating distribution proposal. We consider that the above report and proposal meet the requirements of the relevant regulations and Articles of Association. We have attended the meeting of the Board. We consider that the members of the Board, the general manager and other officers have strictly complied with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interest of the Company. Up to now, none of the Directors, general manager and the officers have abused their powers, caused damage the interests of the Company and infringed upon the interests of the Company and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

We are satisfied with the various tasks achieved as well as the cost effectiveness gained and are confident about the prospectus of future development of the Company.

By order of the Board

Zhejiang Yonglong Enterprises Co., Ltd.

He Dong Hui

Chairman of the Supervisory Committee

Shaoxing, Zhejiang Province, The PRC

March 22, 2005

Joint Auditors' Report

Deloitte.
德勤

 **KLL ASSOCIATES CPA LTD**
華融會計師事務所有限公司

TO THE SHAREHOLDERS OF
ZHEJIANG YONGLONG ENTERPRISES CO., LTD.

浙江永隆實業股份有限公司

(established as a joint stock limited company in the People's Republic of China)

We have audited the financial statements on pages 29 to 64 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Joint Auditors' Report

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at December 31, 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants

KLL ASSOCIATES CPA LIMITED
Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, March 22, 2005

Income Statement

For the year ended December 31, 2004

	NOTES	2004 RMB'000	2003 RMB'000
Turnover	3	449,766	466,669
Cost of sales		(393,968)	(403,597)
Gross profit		55,798	63,072
Other operating income		16,083	20,633
Selling expenses		(6,934)	(5,066)
Administrative and operating expenses		(8,915)	(12,484)
Revaluation decrease arising on revaluation of investment properties	10	(753)	—
Profit from operations	4	55,279	66,155
Finance costs	6	(26,141)	(17,758)
Profit before taxation		29,138	48,397
Taxation	7	(10,104)	(14,243)
Net profit for the year		19,034	34,154
Dividend paid during the year	8	2,500	2,500
Earnings per share — basic	9	2.3 cents	4.1 cents

Balance Sheet

At December 31, 2004

	NOTES	2004 RMB'000	2003 RMB'000
Non-current assets			
Investment properties	10	22,567	23,320
Property, plant and equipment	11	287,705	259,887
Deferred tax assets	20	990	—
		311,262	283,207
Current assets			
Inventories	12	55,465	30,510
Trade receivables	13	68,330	63,629
Other receivables, deposits and prepayments		50,957	83,256
Amount due from a related company	14	544	—
Investment in securities	15	500	4,800
Restricted cash	24	100,950	108,640
Bank balances and cash		280,356	279,513
		557,102	570,348
Current liabilities			
Trade payables	16	54,153	36,017
Other payables and accruals		15,994	25,638
Deposit received in respect of issue of share	17	2,675	—
Amount due to a related company	18	—	24,881
Taxation		24,735	19,867
Borrowings — due within one year	19	459,006	386,715
		556,563	493,118
Net current assets		539	77,230

Balance Sheet

At December 31, 2004

	NOTES	2004 RMB'000	2003 RMB'000
Total assets less current liabilities		311,801	360,437
Non-current liabilities			
Borrowings — due after one year	19	78,000	141,230
Deferred tax liabilities	20	12,392	12,392
		90,392	153,622
NET ASSETS		221,409	206,815
Capital and reserves			
Share capital	21	83,800	83,800
Reserves		137,609	123,015
SHAREHOLDERS' FUNDS		221,409	206,815

The financial statements on pages 29 to 64 were approved and authorised for issue by the Board of Directors on March 22, 2005 and are signed on its behalf by:

Sun Li Yong
DIRECTOR

Xia Xue Nian
DIRECTOR

Statement of Changes in Equity

For the year ended December 31, 2004

	Share capital	Share premium	Other reserve	Assets revaluation reserve	Statutory surplus reserve	Statutory welfare fund	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 21 (a))		(Note 21 (b))		(Note 21 (b))	(Note 21 (b))	(Note 21 (b))	
At January 1, 2003	83,800	26,229	—	14,796	3,207	1,604	37,103	166,739
Final dividend paid to holders of H shares for the year ended December 31, 2002	—	—	—	—	—	—	(2,500)	(2,500)
Final dividend waived by domestic shareholders for the year ended December 31, 2002	—	—	5,880	—	—	—	(5,880)	—
Tax effect arising on final dividend waived by holders of domestic shares	—	—	(1,940)	—	—	—	—	(1,940)
Revaluation increase for the year	—	—	—	15,467	—	—	—	15,467
Deferred tax liability arising on assets revaluation	—	—	—	(5,105)	—	—	—	(5,105)
Transfer	—	—	—	—	3,045	1,523	(4,568)	—
Net profit for the year	—	—	—	—	—	—	34,154	34,154
At December 31, 2003	83,800	26,229	3,940	25,158	6,252	3,127	58,309	206,815
Final dividend paid holders of H shares for the year ended December 31, 2003	—	—	—	—	—	—	(2,500)	(2,500)
Final dividend waived by domestic shareholders for the year ended December 31, 2003	—	—	5,880	—	—	—	(5,880)	—
Tax effect arising on final dividend waived by holders of domestic shares	—	—	(1,940)	—	—	—	—	(1,940)
Transfer	—	—	—	—	1,747	888	(2,635)	—
Net profit for the year	—	—	—	—	—	—	19,034	19,034
At December 31, 2004	83,800	26,229	7,880	25,158	7,999	4,015	66,328	221,409

Cash Flow Statement

For the year ended December 31, 2004

	2004 RMB'000	2003 RMB'000
OPERATING ACTIVITIES		
Profit from operations	55,279	66,155
Adjustments for:		
Revaluation decrease arising on revaluation of investment properties	753	—
Government grant recognised as income	(771)	(1,596)
Interest income	(9,906)	(11,415)
Investment income from other investment	(5)	—
Gain on disposal of property, plant and equipment	—	(13)
Allowances for bad and doubtful debts	—	251
Allowance for inventories	3,000	—
Depreciation and amortisation of property, plant and equipment	23,499	21,679
Operating cash flows before movements in working capital	71,849	75,061
(Increase) decrease in inventories	(27,955)	14,605
Increase in trade receivables	(4,701)	(21,921)
Decrease (increase) in other receivables, deposits and prepayments	41,973	(60,681)
Increase in amount due from a related company	(544)	—
Increase in trade payables	18,136	1,738
Decrease in other payables and accruals	(9,644)	(41,566)
Decrease in bills payable	—	(20,020)
Cash generated by (used in) from operations	89,114	(52,784)
Interest paid	(27,471)	(18,903)
Government grant received	771	4,047
People's Republic of China ("PRC") enterprise income tax paid	(8,166)	(14,476)
PRC enterprise income tax refunded	—	2,971
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	54,248	(79,145)

Cash Flow Statement

For the year ended December 31, 2004

	2004 RMB'000	2003 RMB'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(49,987)	(41,604)
Acquisition of investment in securities	(500)	(4,800)
Interest received	9,906	11,415
Decrease (increase) in restricted cash	7,690	(52,440)
Proceeds from disposal of investment in securities	4,800	—
Investment income from other investments	5	—
Proceeds from disposal of property, plant and equipment	—	1,321
NET CASH USED IN INVESTING ACTIVITIES	(28,086)	(86,108)
FINANCING ACTIVITIES		
Repayment of borrowings	(965,247)	(487,537)
Repayment to a related company	(24,881)	(39,058)
Dividend paid	(2,500)	(2,500)
New borrowings raised	964,634	873,281
Deposit received in respect of issue of shares	2,675	—
Advance from a related company	—	24,881
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(25,319)	369,067
NET INCREASE IN CASH AND CASH EQUIVALENTS	843	203,814
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	279,513	75,699
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	280,356	279,513

Notes to the Financial Statements

For the year ended December 31, 2004

1. GENERAL

The Company is a joint stock limited company established in the People's Republic of China (the "PRC") and the H Shares of the Company are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 are denominated.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, land use rights and buildings, and in accordance with accounting principles generally accepted in Hong Kong.

Potential impact arising from the recently issued accounting standards

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended December 31, 2004.

The Company has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

The principal accounting policies adopted by the Company currently are as follows:

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Sub-contracting fee income is recognised when services are provided.

Notes to the Financial Statements

For the year ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the term of the relevant lease.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and amortisation and accumulated impairment losses.

Revaluation of land use rights and building is performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Notes to the Financial Statements

For the year ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Any revaluation increase arising on revaluation of land use rights and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment, other than construction in progress, over their estimated useful lives from the date on which they become fully operational, using the straight line method, at the following rates per annum:

Land use rights	Over the term of the rights
Buildings	5%
Motor vehicles	20%
Plant and machinery	10%
Furniture, fixture and equipment	20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress

Construction in progress is stated at cost, which includes land cost and the related construction and borrowings costs, as appropriate, less any identified impairment loss. When the construction is completed and the asset is ready for its intended use, the related cost is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with the above policy.

Notes to the Financial Statements

For the year ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. No internally-generated intangible asset has been recognised and all development expenditures are recognised as expenses in the period in which they are incurred.

Notes to the Financial Statements

For the year ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Where government grants are given for the purposes of immediate financial support to the Company with no further related cost to be incurred, the grants are recognised as income when they become receivable. Grants relating to assets are presented as a deduction from the cost of the relevant asset.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Notes to the Financial Statements

For the year ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

Transactions in currencies other than RMB are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Forward contracts

A forward contract is an agreement to exchange different currencies at a specified future date and at a specified rate. A non-speculative forward contract is one which is designated and effective as a hedge of a net investment in a foreign entity, of a foreign currency asset, of a net monetary asset or liability or of a firm commitment. All other forward contracts, or parts of forward contracts in excess of the amount hedged, are speculative.

Where a non-speculative forward contract is used as a hedge of a net monetary asset or liability, the gain or loss and the discount or premium on the contract is taken to the income statement.

Notes to the Financial Statements

For the year ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Forward contracts (Continued)

Where a forward contract is speculative, the gain or loss should be credited or charged to the income statement.

Retirement benefits scheme

Payment to state-managed retirement benefit schemes are charged as an expense as they fall due.

3. SEGMENT INFORMATION

Turnover of the Company represents the amounts received and receivable for goods sold, which is net of value-added tax, less returns and allowances, during the year.

In accordance with the Company's internal financial reporting, the Company has determined that geographical segments is its primary reporting segment.

Notes to the Financial Statements

For the year ended December 31, 2004

3. SEGMENT INFORMATION (Continued)

Geographical segments

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

2004

	PRC RMB'000	The Middle East RMB'000	Europe RMB'000	Asia other than PRC RMB'000	Others RMB'000	Total RMB'000
TURNOVER — external	324,875	62,932	41,739	8,637	11,583	449,766
SEGMENT RESULT	14,034	12,150	12,884	2,893	1,984	43,945
Unallocated corporate income						16,083
Unallocated corporate expenses						(3,996)
Revaluation decrease arising on revaluation of investment properties						(753)
Profit from operations						55,279
Finance costs						(26,141)
Profit before taxation						29,138
Taxation						(10,104)
Net profit for the year						19,034

Notes to the Financial Statements

For the year ended December 31, 2004

3. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

2004

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by the geographical location of its customers:

	PRC RMB'000	The Middle East RMB'000	Europe RMB'000	Asia other than PRC RMB'000	Others RMB'000	Total RMB'000
ASSETS						
Segment assets	90,890	12,282	18,295	754	1,574	123,795
Unallocated corporate assets						744,569
Consolidated total assets						868,364
LIABILITIES						
Segment liabilities	42,043	6,609	3,546	695	1,260	54,153
Unallocated corporate liabilities						592,802
Consolidated total liabilities						646,955
OTHER INFORMATION						
Depreciation and amortisation	18,244	2,868	1,539	301	547	23,499
Unallocated capital expenditure						51,317

Notes to the Financial Statements

For the year ended December 31, 2004

3. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

2003

	PRC	The Middle East	Europe	Asia other than PRC	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER — external	342,461	81,265	16,589	13,891	12,463	466,669
SEGMENT RESULT	17,171	19,417	4,197	6,118	3,448	50,351
Unallocated corporate income						20,633
Unallocated corporate expenses						(4,829)
Profit from operations						66,155
Finance costs						(17,758)
Profit before taxation						48,397
Taxation						(14,243)
Net profit for the year						34,154

Notes to the Financial Statements

For the year ended December 31, 2004

3. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

2003

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by the geographical location of its customers:

	PRC	The Middle East	Europe	Asia other than PRC	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS						
Segment assets	80,272	6,527	2,564	1,790	2,986	94,139
Unallocated corporate assets						<u>759,416</u>
Consolidated total assets						<u>853,555</u>
LIABILITIES						
Segment liabilities	28,641	5,082	1,011	556	727	36,017
Unallocated corporate liabilities						<u>610,723</u>
Consolidated total liabilities						<u>646,740</u>
OTHER INFORMATION						
Depreciation and amortisation	17,240	3,059	609	334	437	21,679
Unallocated capital expenditure						<u>42,749</u>

In addition to the analysis by the geographical location of its customers, the carrying amount of segment assets and capital expenditure, analysed by the geographical area in which the assets and liabilities, are located in the PRC.

Business segments

The Company is solely engaged in manufacturing and sale of woven fabrics.

Notes to the Financial Statements

For the year ended December 31, 2004

4. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations has been arrived at after charging:		
Staff costs (including directors' and supervisors' remuneration):		
Salaries, bonus and other benefits	19,119	24,549
Retirement benefits scheme contributions	844	580
	19,963	25,129
Allowance for bad and doubtful debts	—	251
Allowance for inventories	3,000	—
Auditors' remuneration		
— current year	800	713
— over-provision in prior years	(277)	—
Depreciation and amortisation of property, plant and equipment	23,499	21,679
Net exchange loss	284	—
Research and development costs	299	300
and after crediting:		
Gain on disposal of property, plant and equipment	—	13
Government grants (<i>note 28</i>)	771	1,596
Interest income	9,906	11,415
Investment income from other investment	5	—
Net exchange gain	—	6,628
Rental income from investment properties, net of outgoings of approximately RMB58,000 (2003: RMB54,000)	1,106	1,020

Notes to the Financial Statements

For the year ended December 31, 2004

5. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS

Particulars of the emoluments of directors, supervisors and the five highest paid employees are as follows:

(a) Directors' emoluments

The emoluments paid or payable to each of the eight (2003: seven) directors were as follows:

2004

	Mr. Sun Li Yong RMB'000	Ms. Fang Xiao Jian RMB'000	Mr. Sun Jian Feng RMB'000	Mr. Xia Xue Nian RMB'000	Mr. Li Cheng Jun RMB'000	Mr. Luk Guo Qing RMB'000	Mr. Lui Tin Nang RMB'000	Mr. Zhu Yu Lin RMB'000	Total RMB'000
Fees	—	—	—	—	—	36	106	12	154
Other emoluments:									
Salaries and other benefits	60	60	60	60	60	—	—	—	300
Bonus	—	—	—	—	150	—	—	—	150
Retirement benefits scheme contributions	1	1	1	1	1	—	—	—	5
Less: amount waived	(24)	(29)	(29)	(31)	(29)	—	—	—	(142)
Total emoluments	37	32	32	30	182	36	106	12	467

2003

	Mr. Sun Li Yong RMB'000	Ms. Fang Xiao Jian RMB'000	Mr. Sun Jian Feng RMB'000	Mr. Xia Xue Nian RMB'000	Mr. Fang Han Hong RMB'000	Mr. Luk Guo Qing RMB'000	Mr. Lui Tin Nang RMB'000	Total RMB'000
Fees	—	—	—	—	—	36	106	142
Other emoluments:								
Salaries and other benefits	60	60	60	60	45	—	—	285
Retirement benefits scheme contributions	—	1	—	1	1	—	—	3
Less: amount waived	(48)	(48)	(51)	(50)	(45)	—	—	(242)
Total emoluments	12	13	9	11	1	36	106	188

Notes to the Financial Statements

For the year ended December 31, 2004

5. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS (Continued)

(b) Supervisors' emoluments

The emoluments paid or payable to each of the five (2003: five) supervisors were as follows:

2004

	Mr. Shao Bao Hua RMB'000	Mr. Luo Teng Fa RMB'000	Mr. He Dong Hui RMB'000	Mr. Hu Jin Huan RMB'000	Mr. Wang He Rong RMB'000	Total RMB'000
Fees	—	—	—	12	12	24
Other emoluments:						
Salaries and other benefits	36	36	36	—	—	108
Bonus	55	76	—	—	—	131
Retirement benefits scheme contributions	1	1	—	—	—	2
Less: amount waived	(17)	(12)	(36)	—	—	(65)
Total emoluments	75	101	—	12	12	200

2003

	Mr. Shao Bao Hua RMB'000	Mr. Luo Teng Fa RMB'000	Mr. He Dong Hui RMB'000	Mr. Hu Jin Huan RMB'000	Mr. Wang He Rong RMB'000	Total RMB'000
Fees	—	—	—	12	12	24
Other emoluments:						
Salaries and other benefits	36	36	27	—	—	99
Retirement benefits scheme contributions	—	1	—	—	—	1
Less: amount waived	(36)	(25)	(27)	—	—	(88)
Total emoluments	—	12	—	12	12	36

Notes to the Financial Statements

For the year ended December 31, 2004

5. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS (Continued)

(c) Employees' emoluments

Of the five individuals with the highest emoluments in the Company, two (2003: one) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of remaining three (2003: four) individuals were as follows:

	2004 RMB'000	2003 RMB'000
Salaries and allowances	212	370
Bonus	402	—
Retirement benefits scheme contributions	6	5
	620	375

The emoluments of each of the five highest paid individuals are less than HK\$1,000,000 (equivalent to approximately RMB1,060,000) for the year.

6. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on bank borrowings wholly repayable within five years	24,927	17,393
Interest on other borrowings wholly repayable within five years	2,544	1,510
	27,471	18,903
Less: Amounts capitalised in construction in progress	(1,330)	(1,145)
	26,141	17,758

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

Notes to the Financial Statements

For the year ended December 31, 2004

7. TAXATION

	2004 RMB'000	2003 RMB'000
The charge (credit) comprises:		
Current tax:		
PRC enterprise income tax for the year	11,094	15,828
Overprovision in prior years	—	(1,585)
	11,094	14,243
Deferred tax (<i>note 20</i>)	(990)	—
	10,104	14,243

PRC enterprise income tax is calculated at a rate of 33% on the Company's estimated assessable profit for the year.

The income tax expense for the year can be reconciled to the profit before taxation per the income statement as follows:

	2004 RMB'000	2003 RMB'000
Profit before taxation	29,138	48,397
Tax at the domestic income tax rate of 33%	9,616	15,971
Tax effect of expenses that are not deductible in determining taxable profit	490	2,560
Overprovision in previous years	—	(1,585)
Tax effect of income that are not taxable in determining taxable profit	(2)	(2,703)
Tax expense for the year	10,104	14,243

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Company's land use rights and buildings has been charged directly to equity.

Notes to the Financial Statements

For the year ended December 31, 2004

8. DIVIDEND

	2004 RMB'000	2003 RMB'000
Final dividend paid to holders of H shares — 2003 (<i>note a</i>)	2,500	—
Final dividend paid to holders of H shares — 2002 (<i>note b</i>)	—	2,500
	2,500	2,500

Notes:

- (a) On March 26, 2004, a final dividend in respect of financial year ended December 31, 2003 of approximately RMB8,380,000 at RMB0.01 per share was declared to all persons whose names appeared on the register of members of the Company on April 16, 2004.

The domestic shareholders of the Company entered into an agreement with the Company on March 26, 2004 to waive their rights to receive the final dividend of the Company for the year ended December 31, 2003. The amount of dividend they waived were amounted to RMB5,880,000. The dividends waived by domestic shareholders are treated as capital contribution to the Company, and accordingly were recognised directly in equity.

- (b) On March 24, 2003, a final dividend in respect of financial year ended December 31, 2002 of approximately RMB8,380,000 at RMB0.01 per share was declared to all persons whose names appeared on the register of members of the Company on April 14, 2003.

The domestic shareholders of the Company entered into an agreement with the Company on March 24, 2003 to waive their rights to receive the final dividend of the Company for the year ended December 31, 2002. The amount of dividend they waived were amounted to RMB5,880,000. The dividends waived by domestic shareholders are treated as capital contribution to the Company and comparative figures as at December 31, 2003 have been restated. The balance of accumulated profits as at December 31, 2003 has been decreased by RMB5,880,000 with a corresponding increase in the balance of "other reserve". In addition, the balance of tax payable as at December 31, 2003 has been increased by RMB1,940,000 with a corresponding decrease in the balance of "other reserve".

Notes to the Financial Statements

For the year ended December 31, 2004

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of RMB19,034,000 (2003: RMB34,154,000) and 838,000,000 (2003: 838,000,000) shares in issue during the year.

Diluted earnings per share is not presented for the two years ended December 31, 2004 as there were no potential ordinary shares in existence for both years.

10. INVESTMENT PROPERTIES

	RMB'000
<hr/>	
VALUATION	
Balance at January 1, 2004	23,320
Revaluation decrease for the year	<u>(753)</u>
Balance at December 31, 2004	<u>22,567</u>

The investment properties of the Company are held under medium-term leases in the PRC for rental income under operating leases.

At December 31, 2004, these investment properties were revalued by BMI Appraisals Limited, a firm of independent professional valuers, on an open market value basis. The revaluation decrease had been charged to the income statement.

Notes to the Financial Statements

For the year ended December 31, 2004

11. PROPERTY, PLANT AND EQUIPMENT

	Land use rights RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST/VALUATION							
At January 1, 2004	10,992	68,965	1,147	187,711	1,511	16,934	287,260
Additions	—	—	512	4,249	94	46,462	51,317
Transfer	9,020	24,567	—	—	—	(33,587)	—
At December 31, 2004	20,012	93,532	1,659	191,960	1,605	29,809	338,577
Comprising:							
At cost	9,020	34,977	1,659	191,960	1,605	29,809	269,030
At valuation — 2003	10,992	58,555	—	—	—	—	69,547
	20,012	93,532	1,659	191,960	1,605	29,809	338,577
DEPRECIATION AND AMORTISATION							
At January 1, 2004	—	537	200	26,249	387	—	27,373
Provided for the year	348	3,575	278	18,997	301	—	23,499
At December 31, 2004	348	4,112	478	45,246	688	—	50,872
NET BOOK VALUES							
At December 31, 2004	19,664	89,420	1,181	146,714	917	29,809	287,705
At December 31, 2003	10,992	68,428	947	161,462	1,124	16,934	259,887

The buildings are situated on land held under medium-term land use rights in the PRC.

The cost of land use rights is amortised over the term of the rights on a straight line basis ranging from 46 years to 50 years.

During the year, the interest costs capitalised in the construction in progress amounted to approximately RMB1,330,000 (2003: RMB1,145,000).

If land use rights and buildings had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation at approximately RMB13,287,000 (2003: RMB4,552,000) and RMB72,600,000 (2003: RMB52,301,000) respectively.

Notes to the Financial Statements

For the year ended December 31, 2004

12. INVENTORIES

	2004 RMB'000	2003 RMB'000
Raw materials	2,887	3,578
Work in progress	4,664	6,199
Finished goods	47,914	20,733
	55,465	30,510

Included above are finished goods of approximately RMB19,568,000 (2003: RMB949,000) which are carried at net realisable value.

13. TRADE RECEIVABLES

The Company allows an average credit period of 30 days to 120 days to its trade customers. The aged analysis of trade receivables at the respective balance sheet dates is as follows:

	2004 RMB'000	2003 RMB'000
Within 30 days	34,365	46,854
31-60 days	9,647	5,411
61-90 days	13,772	2,139
91-120 days	3,762	5,685
121-180 days	2,361	51
181-365 days	4,423	2,132
Over 365 days	—	1,357
	68,330	63,629

Notes to the Financial Statements

For the year ended December 31, 2004

14. AMOUNT DUE FROM A RELATED COMPANY

At December 31, 2004, the amount represents balance due by 浙江宏興莎美娜服飾有限公司 (Zhejiang Hongxing Sabrina Garments Co., Ltd.) ("Sabrina"). Sabrina is a subsidiary of 浙江加佰利控股集團有限公司 (Zhejiang Gabriel Holdings Group Company Limited) ("Gabriel"), in which Messrs. Sun Li Yong, Xia Xue Nian, Sun Jian Feng and Ms. Fang Xiao Jian, directors of the Company, have beneficial interests. The amount is interest bearing at prevailing market rate, unsecured and repayable on demand. The maximum balance outstanding during the year amounted to approximately RMB68,000,000 (2003: RMB88,687,000).

15. INVESTMENT IN SECURITIES

	2004 RMB'000	2003 RMB'000
Other investments		
Unlisted equity interest (<i>note</i>)	—	4,800
Investment fund	500	—
	500	4,800

Note: Other investment at December 31, 2003 represented the Company's unlisted equity investment in 紹興縣加佰利貿易有限公司 (Shaoxing County Gabriel Trading Co. Ltd.) ("Shaoxing County Gabriel"), a limited liability company established in the PRC. Although the Company has 80% equity interest in Shaoxing County Gabriel, the financial statements of Shaoxing County Gabriel had not been accounted for during the year ended December 31, 2003 because Shaoxing County Gabriel was established exclusively with a view to be disposed to an independent third party in the near future. Accordingly, the investment has been accounted for as other investments.

Pursuant to an agreement dated November 29, 2004, the Company disposed of its 80% equity interest in Shaoxing County Gabriel to an independent third party at a consideration of approximately RMB4,800,000 (the "Disposal"). The directors considered the Disposal would improve the financial position and profitability of the Company. Details of the transactions entered into by the Company with Shaoxing County Gabriel during the year were set out in note 27.

Notes to the Financial Statements

For the year ended December 31, 2004

16. TRADE PAYABLES

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

	2004 RMB'000	2003 RMB'000
Within 30 days	27,577	17,578
31–60 days	13,064	6,239
61–90 days	5,372	4,238
91–120 days	2,348	3,588
121–180 days	3,258	599
181–365 days	1,718	1,279
1–2 years	816	2,496
	54,153	36,017

17. DEPOSIT RECEIVED IN RESPECT OF ISSUE OF SHARES

Pursuant to an agreement entered by the Company, the substantial shareholder of the Company and an independent third party on November 30, 2004 (the "Subscription Agreement"), the Company proposed to issue 209,500,000 new H Shares to the independent third party at an issue price of HK\$0.24 per subscription share ("Subscription Shares"). The Subscription Shares represent approximately 25% of the existing total issued share capital of the Company and approximately 19.7% of the enlarged total issued share capital of the Company. The completion of the Subscription Agreement is, amongst others, conditional upon the approval obtained from the independent shareholders of the Company, the Stock Exchange and China Securities Regulatory Commission and is expected to be completed on or before March 25, 2005. Upon the completion of the Subscription Agreement, the independent third party shall have the right to appoint one member to the Board of Directors as executive director.

At the balance sheet date, the Company had received a deposit of RMB2,675,000 (equivalent to approximately HK\$2,514,000) from the independent third party.

In addition, in order to maintain the public float of the H shares of the Stock Exchange of the Company as required under the Rules Governing the Listing of Securities on the GEM, the Company is required to issue not less than 16,000,000 new H shares to independent third parties (the "Placing"). The Company will appoint a placing agent to complete the Placing. The new H shares will be issued pursuant to the general mandate granted to the directors by the shareholders at the annual general meeting of the Company held on May 18, 2004. At the balance sheet date, the Company has not yet appointed any placing agent and the Placing is expected to be completed on or before March 25, 2005.

Notes to the Financial Statements

For the year ended December 31, 2004

18. AMOUNT DUE TO A RELATED COMPANY

At December 31, 2003, the amount represented balance due by the Company to Gabriel. The amount was interest bearing at prevailing market rate, unsecured and fully repaid during the year. During the year, the Company also made advances to Gabriel and the maximum outstanding balance during the year amounted to approximately RMB108,708,000.

19. BORROWINGS

	2004 RMB'000	2003 RMB'000
Borrowings comprise:		
Bank loans	508,776	514,715
Other loans	28,230	13,230
	537,006	527,945
Analysed as:		
Secured (see note 24)	212,976	197,191
Unsecured	324,030	330,754
	537,006	527,945
Bank borrowings are repayable as follows:		
Within one year or on demand	430,776	386,715
More than one year but not exceeding two years	78,000	128,000
	508,776	514,715
Other borrowings are repayable as follows:		
Within one year or on demand	28,230	—
More than one year but not exceeding two years	—	13,230
	28,230	13,230
Total	537,006	527,945
Less: Amount repayable within one year or on demand and shown under current liabilities	(459,006)	(386,715)
Amount due after one year	78,000	141,230

Notes to the Financial Statements

For the year ended December 31, 2004

19. BORROWINGS (Continued)

	2004 RMB'000	2003 RMB'000
The borrowings were guaranteed by:		
Gabriel	11,000	—
Gabriel and Mr. Sun Li Yong	—	60,000
Gabriel and directors of the Company	14,000	—
Gabriel and domestic shareholders of the Company (Note i)	15,000	—
Gabriel and Sabrina	—	10,000
Gabriel, Sabrina and independent third parties	50,000	—
Gabriel, Mr. Sun Li Yong and an independent third party	—	20,000
Gabriel and an independent third party	—	94,924
Sabrina and directors of the Company	—	13,230
Sabrina and an independent third party	—	7,200
Sabrina, directors of the Company and an independent third party	13,230	—
Mr. Sun Li Yong and Independent third parties	65,000	—
Directors of the Company and an independent third party	5,000	60,000
Shaoxing Zhiye, Mr. Sun Li Yong and independent third parties (Note ii)	30,000	—
Independent third parties and secured by certain assets owned by Gabriel	58,000	—
Secured by certain assets owned by an independent third party and directors of the company	1,000	—
Independent third parties	75,200	99,800
	337,430	365,154

Note:

- (i) The domestic shareholders of the Company include Messrs. Mr. Sun Li Yong, Xia Xue Nian and Sun Jian Feng and Ms. Fang Xiao Jian, directors of the Company.
- (ii) 紹興市置業房地產開發有限公司 (Shaoxing Zhiye Real Estate Development Co., Ltd.) ("Shaoxing Zhiye"), a company in which Mr. Sun Li Yong, a director of the Company, has controlling interest.

Notes to the Financial Statements

For the year ended December 31, 2004

19. BORROWINGS (Continued)

During the year, the Company obtained new bank and other loans in the amount of approximately RMB965 million. The loans bear interest at prevailing market rates and repayable in instalments over a period of three months to two years. The proceeds were used to finance the acquisition of property, plant and equipment, and for working capital usage of the Company.

20. DEFERRED TAX LIABILITIES/(ASSETS)

The major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years are summarised below:

	Allowances of inventories RMB'000	Revaluation of land use rights and buildings RMB'000	Total RMB'000
At January 1, 2003	—	7,287	7,287
Charged to equity for the year	—	5,105	5,105
At December 31, 2003	—	12,392	12,392
Credited to income statement for the year	(990)	—	(990)
At December 31, 2004	(990)	12,392	11,402

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2004 RMB'000	2003 RMB'000
Deferred tax liability	12,392	12,392
Deferred tax assets	(990)	—
	11,402	12,392

Notes to the Financial Statements

For the year ended December 31, 2004

21. SHARE CAPITAL AND RESERVES

(a) Share capital

Details of the share capital of the Company are as follows:

	Number of shares	Value RMB'000
<hr/>		
Share capital of RMB0.10 each as at January 1, 2003, December 31, 2003 and 2004	838,000,000	83,800
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Represented by:		
Domestic shares	588,000,000	58,800
H shares	250,000,000	25,000
<hr/>		
	838,000,000	83,800
<hr/>		

The domestic shares and H shares carry same rights to dividends, receive notice of attender vote at any general meeting of the Company on to participate in any distribution on winding up.

(b) Reserves

Statutory surplus reserve

As stipulated by the relevant PRC laws and regulations, when distributing the net profit for each year, the Company (after conversion to a limited liability company) shall set aside 10% of its net profit after taxation (based on the Company's PRC statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's share capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

Notes to the Financial Statements

For the year ended December 31, 2004

21. SHARE CAPITAL AND RESERVES (Continued)

(b) Reserves (Continued)

Statutory welfare fund

As stipulated by the relevant PRC laws and regulations, the Company (after conversion to a limited liability company) shall appropriate 5% to 10% of its net profit after taxation (based on the Company's PRC statutory accounts) as the statutory welfare fund. The directors shall have discretion in determining the percentage within the range specified by the relevant PRC laws and regulations.

Other reserve

The balance of other reserve represents dividends waived by holders of domestic shares.

Accumulated profits

Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the accounting principles generally accepted in the PRC and the amount determined under accounting principles generally accepted in Hong Kong. As at December 31, 2004, the amount of reserve available for distribution was approximately RMB63,001,000 (2003: RMB53,575,000).

22. OPERATING LEASES

(a) Operating lease commitments

The Company made approximately RMB284,000 (2003: RMB261,000) minimum lease payments under operating leases during the year in respect of land and buildings.

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2004 RMB'000	2003 RMB'000
Within one year	627	748
More than one year but within five years	—	457
	627	1,205

Notes to the Financial Statements

For the year ended December 31, 2004

22. OPERATING LEASES (Continued)

(a) Operating lease commitments (Continued)

Operating lease payments represent rentals payable by the Company for its office premises. Leases are negotiated for an average term of three years and rentals are fixed for the lease term.

(b) Operating lease arrangements

Property rental income earned during the year was RMB1,164,000 (2003: RMB1,074,000). The properties are expected to generate rental yields of 5% on an ongoing basis.

At the balance sheet date, the Company had no operating lease arrangement at the balance sheet date.

23. CAPITAL COMMITMENTS

At the balance sheet date, the Company had commitments of approximately RMB12,547,000 (2003: RMB22,274,000) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

24. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Company with the following carrying values had been pledged to secure borrowings granted to the Company:

	2004 RMB'000	2003 RMB'000
Restricted cash	100,950	108,640
Investment properties	22,567	23,320
Land use rights	19,664	4,038
Buildings	46,122	14,289
Plant and machinery	99,199	113,317
Construction in progress	29,787	—
	318,289	263,604

Notes to the Financial Statements

For the year ended December 31, 2004

25. FORWARD CONTRACTS COMMITMENTS

At the balance sheet date, the Company had forward contracts commitments, expressed in Euro, as follows:

	2004 EURO	2003 EURO
Principal amounts of forward contracts held for hedging purposes against bank borrowings and other payables		
— purchase of Euro	8,526,000	8,887,600
Principal amounts of forward contracts held for speculative purposes		
— purchase of Euro	—	3,571,600
	8,526,000	12,459,200

26. RETIREMENT BENEFIT SCHEME

The Company contributed to a local municipal government retirement scheme for all qualified employees in the PRC. The employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Company with respect to the retirement scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The total cost charged to income statement of approximately RMB844,000 (2003: RMB580,000) represents contributions payable to the scheme by the Company during the year.

Notes to the Financial Statements

For the year ended December 31, 2004

27. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Company had the following significant transactions with the related parties:

Name of related company	Nature	2004 RMB'000	2003 RMB'000
Sabrina	Rental income (Note 1)	181	135
	Interest income (Note 2)	40	2,939
	Interest expenses (Note 2)	128	38
Gabriel	Interest income (Note 2)	3	469
	Interest expenses (Note 2)	361	1,020
Shaoxing County Gabriel	Sales of good (Note 3)	6,348	—

Notes:

1. The transactions were carried out in accordance with the relevant agreements.
2. The interest is calculated with reference to prevailing market rates.
3. The transactions were carried out on terms determined and agreed by the relevant parties.

Details of the guarantee given by related parties to the financial institutions in respect of the loans granted to the Company as at December 31, 2003 and 2004 are set out in note 19.

Details of dividend waived by domestic shareholders for the year ended December 31, 2002 and 2003 are set out in note 8.

Balances with related parties as at December 31, 2004 are set out in notes 14 and 18.

28. GOVERNMENT GRANTS

Government grants of approximately RMB771,000 (2003: RMB1,596,000) have been received and receivable during the year for the encouragement of the development of business in Zhejiang Province. The amounts have been included in other operating income for the year.

29. POST BALANCE SHEET EVENTS

Subsequent to December 31, 2004, the Company appointed a placing agent to complete the placing of 16,000,000 new H shares to independent third parties at HK\$0.24 per share. An announcement by the board of directors was issued on March 8, 2005.

Financial Summary

RESULTS

	THE COMPANY				THE GROUP		
	<i>(Note 1)</i>				<i>(Note 2)</i>		
	For the year ended December 31,				For the year ended December 31,		
	2004	2003	2002	2001	2002	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER	449,766	466,669	405,883	195,086	405,883	237,965	101,055
PROFIT BEFORE TAXATION	29,138	48,397	60,233	12,958	63,905	11,056	2,309
TAXATION	(10,104)	(14,243)	(17,542)	(4,490)	(17,542)	(4,490)	—
PROFIT BEFORE MINORITY INTERESTS	19,034	34,154	42,691	8,468	46,363	6,566	2,309
MINORITY INTEREST	—	—	—	—	—	28	40
NET PROFIT FOR THE YEAR	19,034	34,154	42,691	8,468	46,363	6,594	2,349

ASSETS AND LIABILITIES

	At December 31,				At December 31,		
	2004	2003	2002	2001	2002	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	868,364	853,555	503,231	132,946	503,231	167,469	60,864
TOTAL LIABILITIES	(646,955)	(646,740)	(336,492)	(120,193)	(329,205)	(154,678)	(54,639)
MINORITY INTEREST	—	—	—	—	—	(4,317)	(4,345)
SHAREHOLDERS' FUNDS	221,409	206,815	166,739	12,753	174,026	8,474	1,880

Financial Summary

Note:

- (1) The summary of the results and the assets and liabilities of the Company for the year ended December 31, 2001, 2002 and 2003 are extracted from the audited financial statements.
- (2) During the year ended December 31, 2002, the Company disposed of its entire interest in a subsidiary, Zhejiang Hongxing Sabrina Garments Co., Ltd. and its entire interest in an associate, Shaoxing Zhiye Real Estate Development Co., Ltd.. The summary of the consolidated results and the assets and liabilities of the Company for the two years ended December 31, 2000 and 2001 are extracted from the Accountants' Report included in the Prospectus of the Company dated October 31, 2002. The summary of the combined results of the Company and its former subsidiary and associate up to the date of disposal for the year ended December 31, 2002 are extracted from the management accounts of the Company and is prepared for information purposes only.