



永隆實業
ENTERPRISES

Onglong

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)

2005

First Quarterly Report

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

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

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

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

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

HIGHLIGHTS

- Turnover of the Company for the three months ended 31 March 2005 decreased from approximately RMB100.59 million to approximately RMB80.94 million, representing a decrease of approximately 19.5% when compared to the corresponding period in 2004.
- Net loss for the three months ended 31 March 2005 was approximately RMB3.34 million.
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2005.

UNAUDITED PROFIT AND LOSS ACCOUNT**For the three months ended 31 March 2005**

The board of directors (the "Board" or the "Directors") of 浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd.*) (the "Company") is pleased to announce the unaudited results of the Company for the three months ended 31 March 2005, together with the comparative results for the corresponding periods in 2004 as follows:

	Notes	Three months ended 31 March	
		2005 RMB'000	2004 RMB'000
Turnover	2	80,944	100,593
Cost of sales		(77,198)	(85,437)
Gross profit		3,746	15,156
Other operating income		3,474	2,669
Selling expenses		(1,835)	(1,417)
Administrative expenses		(2,201)	(2,749)
PROFIT FROM OPERATIONS	3	3,184	13,659
Finance costs	4	(6,523)	(4,541)
(LOSS)/PROFIT BEFORE TAXATION		(3,339)	9,118
Taxation	5	—	(3,009)
Net (loss)/profit for the period		(3,339)	6,109
Dividend paid	6	—	—
(Loss)/earnings per share — basic (RMB)	7	(0.39 cents)	0.73 cents

Notes:

1. BASIS OF PREPARATION

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 is denominated.

The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2004. The unaudited results are prepared in accordance with accounting principles generally accepted in Hong Kong.

2. TURNOVER

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

3. PROFIT FROM OPERATIONS

	Three months ended	
	31 March	
	2005	2004
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	6,234	5,743

4. FINANCE COSTS

	Three months ended	
	31 March	
	2005	2004
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	6,958	4,100
Interest on other borrowings wholly repayable within five years	39	784
Less: Amounts capitalized in construction in progress	(474)	(343)
	6,523	4,541

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

5. TAXATION

	Three months ended	
	31 March	
	2005	2004
	RMB'000	RMB'000
The charge comprises:		
PRC enterprise income tax for the period	—	(3,009)
	—	(3,009)

No provision for PRC enterprise income tax has been provided for the period as the Company had no estimated assessable profit arising in or derived from the PRC during the three months ended 31 March 2005 (three months ended 31 March 2004: 33%).

There was no significant unprovided deferred taxation for the three months ended 31 March 2005.

6. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2005 (2004: nil).

7. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the following data:

	Three months ended	
	31 March	
	2005	2004
	RMB'000	RMB'000
(Loss)/earnings for the purpose of calculating basic (loss)/earnings per share	(3,339)	6,109
Number of shares:		
Number of shares for the purpose of basic (loss)/earnings per share (<i>Note</i>)	858,044,444	838,000,000
Weighted average number of shares for the purpose of calculating (loss)/earnings per share	858,044,444	838,000,000

Note:

The calculation of the basic (loss)/earnings per share for the three months ended 31 March 2005 and 2004 were based on the unaudited net (loss)/profit for the periods and the number of shares in issue as above.

Diluted earnings per share has not been calculated for the three months ended 31 March 2005 and 2004 as there were no dilutive ordinary shares during these periods.

8. MOVEMENTS IN RESERVES

	Paid-up capital	Share premium	Other reserve	Statutory surplus reserve	Statutory welfare fund	Assets revaluation reserve	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January								
2004	83,800	26,229	3,940	6,252	3,127	25,158	58,309	206,815
Profit for the period	—	—	—	—	—	—	6,109	6,109
Transfer	—	—	—	955	478	—	(1,433)	—
Balance at 31 March								
2004	83,800	26,229	3,940	7,207	3,605	25,158	62,985	212,924
Balance at 1 January								
2005	83,800	26,229	7,880	7,999	4,015	25,158	66,328	221,409
Issue of H shares	22,550	35,201	—	—	—	—	—	57,751
Expenses paid in connection with the issue of shares	—	(1,697)	—	—	—	—	—	(1,697)
Loss for the period	—	—	—	—	—	—	(3,339)	(3,339)
Balance at 31 March								
2005	106,350	59,733	7,880	7,999	4,015	25,158	62,989	274,124

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the three months ended 31 March 2005, the Company recorded a turnover of approximately RMB80.9 million, representing a decrease of approximately 19.5% as compared with that of the corresponding period in 2004. The gross profit for the period was approximately RMB3.75 million, representing a gross profit margin of approximately 4.6%, which was approximately 10.4% lower than the gross profit of approximately RMB15.16 million and a gross profit margin of approximately 15% for the corresponding period in 2004. The gross profit margin decreased mainly due to increase in the cost of raw material, electricity and fixed cost. Fiber was the major material of fabrics produced by the Company. The major raw material of fiber is by-product of oil. Therefore, the cost of fibers rised as a result of increase in

oil price. Although the Company was provided with sufficient power supply due to its listing status on the GEM, due to shortage of power supply, commenced from the second half year of 2004, the unit cost of electricity increased. In additions, due to decrease in production output, unit cost of fixed overhead increased. Selling expenses increased by approximately 29.5% was in line with development of new customers and new products. Administrative expenses decreased by approximately 20% mainly due to application of cost control. Finance cost increased by approximately 43.6% was mainly due to the increase in bank loans for the acquisition of property, plant and equipment. Net loss for the three months ended was approximately RMB3.34 million.

Business and operation review

During the period under review, the Company placed effort in developing the Europe market. As a result, the export sales to Europe for the period ended 31 March 2005 increased by approximately three times when compared with that in 2004. However, on the other hand, the export sales to the Middle East decreased sharply as the Company was restructuring its marketing strategy in order to maximize the profit. The fundamentals of the Company did not change. Loss incurred during the periods ended 31 March 2005 mainly due to sales decreased as a result from developing Europe market and increased of cost of sales which mainly due to increase of material cost, electricity and fixed cost.

Production facilities

The Company continues to search for the opportunities to enter the area of down stream dyeing and finishing.

Product research and development

The Company continues to innovate and develop new product so as to meet the customers' need and search for the cooperation opportunities with international partner for sharing the various valuable technical knowledge and experience in designing fabrics.

Sales and marketing

On 24 March 2005, the Company issued new H shares to Miroglio S.p.A. ("Miroglio"), a company incorporated in Italy and engaged in the textile, and garment business and was a reputable multinational group in the textile industry, which became substantial shareholders (as defined under the GEM Listing Rules) of the Company immediately. The Directors believe that through the strategic cooperation with Miroglio, the Company can speed-up the progress of globalisation. During the periods, 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.

Outlook

Due to the increase in oil price and the shortage of power supply, the cost of raw materials and electricity increased sharply. The Directors expect that the gross profit margin of the Company may continue to be affected. Therefore, in order to maximize profit of the Company, the Company concentrates in developing high profile market such as Europe and U.S. The Directors expect that year 2005 will be a difficult year to the Company.

DIRECTOR'S, CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 March 2005, the interests and short positions of the Directors, chief executives, supervisors and their respective associates (as defined under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange (the "GEM Listing Rules")) of the Company in the shares,

underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are 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 GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company

Name	Type of interests	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares	Approximate percentage of interests in the total registered capital
Mr. Sun Li Yong	Personal Family	Beneficial owner Held by spouse <i>(Note 1)</i>	382,200,000	65%	35.94%
			182,280,000	31%	17.14%
			564,480,000	96%	53.08%
Ms. Fang Xiao Jian	Personal Family	Beneficial owner Held by spouse <i>(Note 2)</i>	182,280,000	31%	17.14%
			382,200,000	65%	35.94%
			564,480,000	96%	53.08%
Mr. Sun Jian Feng	Personal	Beneficial owner	5,880,000	1%	0.55%
Mr. Xia Xue Nian	Personal	Beneficial owner	5,880,000	1%	0.55%

Notes:

1. Mr. Sun Li Yong is the husband of Ms. Fang Xiao Jian and shall be deemed by virtue of the SFO to be interested in the 182,280,000 shares beneficially owned by Ms. Fang Xiao Jian.
2. Ms. Fang Xiao Jian is the wife of Mr. Sun Li Yong and shall be deemed by virtue of the SFO to be interested in 382,200,000 shares beneficially owned by Mr. Sun Li Yong.

Short positions in the shares of the Company

None

Save as disclosed above, as at 31 March 2005, none of the Directors, chief executives or supervisors and their respective associates (as defined under the GEM Listing Rules) of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to be Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2005, so far as it is known to the Directors, chief executives or supervisors of the Company, the persons (not being a Director, chief executive or supervisor of the Company) who had equity interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO, were as follows:

Long positions in the shares of the Company

Name	Capacity	Number of H-shares held	Approximate percentage of interests in H-shares	Approximate percentage of interests in total registered capital
Miroglio S.p.A.	Beneficial owner	209,500,000 (Note)	44.06%	19.70%

Note:

Pursuant to a subscription agreement entered into between the Company, Miroglio S.p.A., Mr. Sun Yi Long and Ms. Fang Xiao Jian on 30 November 2004, Miroglio S.p.A. has agreed to subscribe for 209,500,000 H-shares of the Company. Such subscription was subject to certain conditions as disclosed in the announcement of the Company dated 2 December 2004. On 24 March 2005, the subscription was completed. Following the completion of the subscription agreement, Miroglio S.p.A. is interested in approximately 44.06% of the total H-shares of the Company in issue and 19.70% of the total registered capital of the Company.

Save as disclosed above, as at 31 March 2005, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

COMPETING INTERESTS

None of the Directors or the management shareholders and their respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company for the period under review and up to the date of this report.

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

Neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2005.

AUDIT COMMITTEE

An audit committee was established in October 2002 with written terms of reference in compliance with rules 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The audit committee has three members comprising the three independent non-executive Directors, Mr. Lui Tin Nang, Mr. Luk Guo Qing and Mr. Zhu Yu Lin. Mr. Lui Tin Nang is the chairman of the audit committee.

Up to the date hereof, the audit committee has conducted a meeting in this quarter. The audit committee has reviewed the first quarterly results and the first quarterly report for the three months ended 31 March 2005.

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 three months ended 31 March 2005.

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, they confirmed that they have complied with the required standard and the code of conduct regarding securities transactions by Directors and supervisors adopted by the Company.

By Order of the Board

Sun Li Yong

Chairman

Zhejiang, the PRC, 9 May 2005