



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

Interim Report

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

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

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.

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

HIGHLIGHTS

For the six months ended 30 June 2005,

- Turnover of the Company decrease from approximately RMB234.6 million to approximately RMB209 million, representing a drop of approximately 10.9% when compared to the corresponding period in 2004;
- Net loss for the six months ended 30 June 2005 was approximately RMB1.37 million; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005.

UNAUDITED CONDENSED INCOME STATEMENT

For the six months ended 30 June 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 and six months ended 30 June 2005 as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	2	128,015	134,035	208,959	234,628
Cost of sales		(117,717)	(113,744)	(194,915)	(199,181)
Gross profit		10,298	20,291	14,044	35,447
Other operating income		3,449	1,680	6,923	4,349
Selling expenses		(2,352)	(1,413)	(4,187)	(2,830)
Administrative expenses		(3,970)	(2,513)	(6,171)	(5,262)
OPERATING PROFIT	4	7,425	18,045	10,609	31,704
Finance costs	5	(5,456)	(6,439)	(11,979)	(10,980)
PROFIT (LOSS) BEFORE TAX		1,969	11,606	(1,370)	20,724
Income tax expense	6	—	(3,830)	—	(6,839)
Profit (loss) for the period		1,969	7,776	(1,370)	13,885
Dividend paid	7	—	2,500,000	—	2,500,000
Earnings per share — basic (RMB)	8	0.19 cents	0.93 cents	(0.14 cents)	1.66 cents

UNAUDITED CONDENSED BALANCE SHEET

	Note	As at 30 June 2005 RMB'000 (Unaudited)	As at 31 December 2004 RMB'000 (Audited)
NON-CURRENT ASSETS			
Investment properties		22,567	22,567
Property, plant and equipment	9	263,928	268,041
Deferred tax assets		990	990
Prepaid lease payments		19,042	18,834
		306,527	310,432
CURRENT ASSETS			
Prepaid lease payments		415	830
Inventories		72,926	55,465
Trade receivables	10	72,676	68,330
Other receivables, deposits and prepayments		24,175	50,957
Amount due from a related company	11	205	544
Investment in securities		400	500
Restricted cash		79,919	100,950
Bank balances and cash		354,023	280,356
		604,739	557,932
CURRENT LIABILITIES			
Trade payables	12	33,098	54,153
Other payables and accruals		13,375	15,994
Deposit received in respect of issue of share		—	2,675
Current tax liabilities		18,564	24,735
Borrowings — due within one year	13	499,898	459,006
		564,935	556,563

	Note	As at 30 June 2005 RMB'000 (Unaudited)	As at 31 December 2004 RMB'000 (Audited)
NET CURRENT ASSETS		39,804	1,369
TOTAL ASSETS LESS CURRENT LIABILITIES		346,331	311,801
NON CURRENT LIABILITIES			
Borrowings — due after one year	13	58,000	78,000
Deferred tax liabilities		12,392	12,392
		70,392	90,392
NET ASSETS		275,939	221,409
Capital and Reserves			
Share capital		106,350	83,800
Reserves		169,589	137,609
SHAREHOLDERS' FUNDS		275,939	221,409

UNAUDITED CONDENSED CASH FLOW STATEMENT

	Six months ended 30 June	
	2005 RMB'000	2004 RMB'000
Net cash from (used in) operating activities	(18,984)	97,760
Net cash used in investing activities	18,533	(167,346)
Net cash from (used in) financing activities	74,118	(8,378)
Net increase (decrease) in cash and cash equivalents	73,667	(77,964)
Cash and cash equivalents at beginning of the period	280,356	279,513
Cash and cash equivalents at end of the period, representing bank balances and cash	354,023	201,549

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital	Share premium	Other reserve	Assets revaluation reserve	Statutory surplus reserve	Statutory welfare fund	Accumulated profits (loss)	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	25,158	6,252	3,127	58,309	206,815
Final dividend paid to holders of H shares for the year ended 31 December 2003	—	—	—	—	—	—	(2,500)	(2,500)
Final dividend waived by domestic shareholders for the year ended 31 December 2003	—	—	5,880	—	—	—	(5,880)	—
Tax effect arising on final dividend waived by holders of domestic shares	—	—	(1,940)	—	—	—	—	(1,940)
Profit for the period	—	—	—	—	—	—	13,885	13,885
Transfer	—	—	—	—	1,389	694	(2,083)	—
Balance at 30 June 2004	83,800	26,229	7,880	25,158	7,641	3,821	61,731	216,260
Balance at 1 January 2005	83,800	26,229	7,880	25,158	7,999	4,015	66,328	221,409
Issue of H shares	22,550	34,855	—	—	—	—	—	57,405
Expenses paid in connection with the issue of shares	—	(1,505)	—	—	—	—	—	(1,505)
Loss for the period	—	—	—	—	—	—	(1,370)	(1,370)
Balance at 30 June 2005	106,350	59,579	7,880	25,158	7,999	4,015	64,958	275,939

Notes:

1. BASIS OF PREPARATION

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

The Company has prepared the condensed financial statements in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

In 2004, the HKICPA issued a number of new and revised Hong Kong Financial Reporting Standards ("new HKFRSs") and HKAS which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs had no material impact on the Company's results of operations and financial position except certain presentation and disclosure of financial statements would be changed.

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

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

3. SEGMENTAL INFORMATION

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

Geographical segments

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

	Six months ended			
	30 June 2005 Revenue RMB'000	30 June 2005 Results RMB'000	30 June 2004 Revenue RMB'000	30 June 2004 Results RMB'000
PRC	132,628	(4,487)	168,116	6,960
The Middle East	13,650	(18)	45,481	14,389
Europe	47,857	7,733	12,570	5,022
Asia other than PRC	8,472	1,660	5,321	1,987
Others	6,352	1,282	3,140	513
	208,959	6,170	234,628	28,871
Unallocated corporate expenses		(2,484)		(1,516)
Other operating income		6,923		4,349
Operating profit		10,609		31,704

4. OPERATING PROFIT

	Three months ended 30 June		Six months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Operating profit has been arrived at after charging:				
Lease payment	104	57	207	150
Depreciation and amortisation	5,971	5,758	12,102	11,408

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	4,384	6,665	11,342	10,765
Interest on other borrowings wholly repayable within five years	1,554	292	1,593	1,076
Less: Amounts capitalised in construction in progress	(482)	(518)	(956)	(861)
	5,456	6,439	11,979	10,980

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.

6. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
The charge comprises:				
PRC enterprise income tax for the period	—	(3,830)	—	(6,839)

No provision for the 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 and six months ended 30 June 2005 (three and six months ended 30 June 2004: 33%).

There was no significant unprovided deferred taxation for the three and six months ended 30 June 2005.

7. DIVIDEND PAID

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2005.

8. (LOSS)/EARNINGS PER SHARE

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

	Three months ended 30 June		Six months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
(Loss)/earnings for the purpose of calculating basic (loss)/earnings per share	1,969	7,776	(1,370)	13,885
Number of shares for the purpose of basic (loss)/earnings per share (Note)	1,063,500,000	838,000,000	960,093,922	838,000,000
Weighted average number of shares for the purpose of calculating (loss)/earnings per share	1,063,500,000	838,000,000	960,093,922	838,000,000

Note:

Diluted earnings per share has not been calculated for the three months and six months ended 30 June 2005 and the corresponding period as there were no dilutive potential ordinary shares during these periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period for the six months ended 30 June 2005, the Company spent approximately RMB7.3 million (31 December 2004: RMB51.3 million) on additions of property, plant and equipment.

10. TRADE RECEIVABLES

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

	30 June 2005	31 December 2004
	RMB'000	RMB'000
Within 30 days (Note (i))	37,468	34,365
31–60 days	18,001	9,647
61–90 days	6,491	13,772
91–120 days	4,759	3,762
121–180 days	2,323	2,361
181–365 days	3,603	4,423
Over 365 days	31	—
	72,676	68,330

Notes:

- (i) The trade receivables included approximately RMB4,758,000 due from Miroglio S.p.A. ("Miroglio"), a substantial shareholder (as defined under the GEM Listing Rules) of the Company, and one of its subsidiary. The balance arose from purchase of goods by Miroglio and its subsidiary from the Company during the six months ended 30 June 2005.
- (ii) An amount of approximately RMB17,781,000 of the trade receivables was transferred by the Company to the banks in exchange for cash during the six months ended 30 June 2005. The transaction has been accounted for as a collateralized borrowing (note 13).

11. AMOUNT DUE FROM A RELATED COMPANY

At 30 June 2005, 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 non-interest bearing, unsecured and repayable on demand. The maximum balance outstanding during the year amounted to approximately RMB768,000 (31 December 2004: RMB68,000,000).

12. TRADE PAYABLES

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

	30 June 2005 RMB'000	31 December 2004 RMB'000
Within 30 days	17,164	27,577
31–60 days	8,475	13,064
61–90 days	2,449	5,372
91–120 days	1,434	2,348
121–180 days	2,337	3,258
181–365 days	779	1,718
1–2 years	460	816
	33,098	54,153

13. BORROWINGS AND BANKING FACILITIES

The Company generally finances its operations and capital expenditures with cashflow generated internally and banking facilities provided by its bankers. The loans bear interest at prevailing market rates range from approximately 5.04% per annum to 7.06% per annum.

	30 June 2005 RMB'000	31 December 2004 RMB'000
Borrowings comprise:		
Bank loans	477,109	508,776
Collateralized borrowings (note 10)	17,559	—
Other loans	63,230	28,230
	557,898	537,006
Analysed as:		
Secured (note 14)	194,688	212,976
Unsecured	363,210	324,030
	557,898	537,006
Bank borrowings are repayable as follows:		
Within one year or on demand	436,668	430,776
More than one year but not exceeding two years	58,000	78,000
	494,668	508,776
Other borrowings are repayable within one year or on demand	63,230	28,230
Total	557,898	537,006
Less: amount repayable within one year or on demand and shown under current liabilities	499,898	(459,006)
Amount due after one year	58,000	78,000

	30 June 2005 RMB'000	31 December 2004 RMB'000
The borrowings were guaranteed by:		
Gabriel	—	11,000
Gabriel and directors of the Company	—	14,000
Gabriel and domestic shareholders of the Company (Note i)	—	15,000
Gabriel, Sabrian and independent third parties	20,000	50,000
Sabrian, directors of the Company and an independent third party	—	13,230
Mr. Sun Li Yong, Ms. Fang Xiao Xian and independent third parties	50,000	—
Mr. Sun Li Yong and independent third parties	40,000	65,000
Directors of the Company and an independent third party	29,600	5,000
Shaoxing Zhiye, Mr. Sun Li Yong and independent third parties (Note ii)	28,000	30,000
Independent third parties and secured by certain assets owned by Gabriel	58,000	58,000
Secured by certain assets owned by an independent third party and directors of the company	—	1,000
Independent third parties	129,190	75,200
Letter of credits (note iii)	8,420	—
	363,210	337,430

Notes:

- (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.
- (iii) It represents letter of credits opened by customers that certain amount of the letter of credits has not been used as at 30 June 2005.

14. PLEDGE OF ASSETS

At 30 June 2005, certain assets of the Company with the following carrying values has been pledged to secure borrowings granted to the Company:

	30 June 2005	31 December 2004
	RMB'000	RMB'000
Restricted cash	79,919	100,950
Investment properties	22,567	22,567
Prepaid lease payments on land use rights	19,457	19,664
Buildings	44,920	46,122
Plant and machinery	92,519	99,199
Construction in progress	29,786	29,787
Trade receivables (<i>note 10</i>)	17,781	—
	306,949	318,289

15. RELATED PARTY TRANSACTIONS

During the period for the six months ended 30 June 2005, the Company had the following transactions with the related parties:

Name of related party	Nature	Six months ended 30 June	
		2005	2004
		RMB'000	RMB'000
Sabrina	Rental income (<i>Note i</i>)	90	90
	Interest income	—	40
	Interest expenses	—	128
Zhejiang Gabriel	Interest income	—	3
	Interest expenses	—	361
Miroglio and its subsidiaries	Sales of woven fabrics (<i>note ii</i>)	11,808	—

In the opinion of Directors, the above related parties transactions were carried out in the ordinary course of business.

Notes:

- (i) The transactions were carried out in accordance with the relevant agreements.
- (ii) Goods are sold on the basis of the price lists in force with non-related parties.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2005, the Company recorded a turnover of approximately RMB209 million, representing a decrease of approximately 10.9% as compared with that of the same period in 2004. It was mainly due to decrease in local sales. The gross profit for the period under review was approximately RMB14 million, representing a gross profit margin of approximately 6.7% which was approximately 8.4% lower than the gross profit margin in the corresponding period in 2004. As mentioned in the first quarter of 2005, increase in cost of raw materials, electricity and labour cost caused decrease of gross profit margin. Fiber was the major material of woven fabrics manufactured by the Company, which represented approximately 71% of the cost of sales of the Company. By-product of oil is raw material of fiber. Rising of oil price led to rise of price of fibers. Compared with 2004, the cost of raw materials increased from the range of approximately 2.3% to 6%. Electricity charges represented approximately 8% of cost of sales. Due to shortage of power supply, the unit price of electricity increased by approximately 14.3% when compared with the corresponding period in 2004. In additions, in order to employ high quality workers, the labour cost of average cost of fabrics per meter increased by approximately 5.3%. Selling expenses increased by approximately 48% was in line with development of new customers, new products and direct export sales. Administrative expenses increased by approximately 17% mainly due to increase of bank charges which arose from settlement of export sales, salaries, research and development cost and insurance. Finance cost

increased by approximately 9% mainly due to rise of interest rate. Loss per share for the six months ended 30 June 2005 amounted to approximately RMB0.14 cents as compared with earnings per share of approximately RMB1.66 cents for the corresponding period in 2004.

Business and Operation Review

In order to maximize profit, the Company has been restructuring its marketing strategy by concentrating on high profile market such as Europe and U.S.A. Although recently U.S.A. and Europe are going to impose trade restrictions on China textile products, the relevant restrictions mainly relates to knitted shirts and trousers made by cotton and underwear made by cotton and fibers. The woven fabric manufactured by the Company is mainly made by fibers. It is mainly applied into manufacturing of suit, fashionable dress, causal wear and sport wear. Therefore, the latest trade barriers from U.S.A. will not have any material impact to the Company. During the period under review, export to Europe increased by approximately RMB35.3 million which represented increase of approximately 280% and export to other area which including USA increased by approximately RMB3.2 million which represented increase of approximately 102%. On the other hand, local sales and export to the Middle East decreased by approximately 21% and 70% respectively. The fundamentals of the Company did not change. Loss during the six months ended 30 June 2005 mainly due to increase of cost of sales and drop of sales.

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 opportunities to co-operate with international partner for sharing the various valuable technical knowledge and experience in designing fabrics. In order to enhance the quality of

research and development, the Company continues to employ experienced and talent staff and also pays more so as to retain high calibre staff. Training is also provided to the staff.

Sales and marketing

On 24 March 2005, the Company issued new H shares to Miroglio S.p.A. ("Miroglio"), a reputable multinational group in the textile industry, which was incorporated in Italy and engaged in the textile and garment business. The Directors believe that through the strategic co-operation with Miroglio, the Company can speed-up the progress of globalisation. During the six months ended 30 June 2005, 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

In view of the continuance rising of oil price that lead to increase of raw materials price and shortage of power supply that lead to increase of electricity cost of the Company, the Directors expect that the gross profit margin of the Company may continue be affected. The Directors expect that year 2005 is a difficult year to the Company and the textile industry in the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 June 2005, the Company had net current assets of approximately RMB39.8 million.

As at 30 June 2005, the current assets comprised prepaid lease payments of approximately RMB0.4 million, inventories of approximately RMB72.9 million, trade receivables of approximately RMB72.7 million, other receivable, deposits and prepayments of approximately RMB24.2 million, amount due from a related company of approximately RMB0.2 million, investment in

securities of approximately RMB0.4 million, restricted cash of approximately RMB79.9 million and bank balances and cash of approximately RMB354 million.

As at 30 June 2005, the current liabilities comprised trade payables of approximately RMB33.1 million, other payables and accruals of approximately RMB13.4 million, current tax liabilities of approximately RMB18.6 million and borrowings due within one year of approximately RMB499.9 million.

Borrowings and banking facilities are set out in note 14 and 15 above.

CAPITAL COMMITMENTS

As at 30 June 2005, the Company had commitments of approximately RMB10.9 million (31 December 2004: approximately RMB12,547,000) for capital expenditure in respect of acquisition of property, plant and equipment.

FORWARD CONTRACTS COMMITMENTS

As at 30 June 2005, the Company had forward contracts commitments expressed in Euro of hedging against bank borrowings of Euro5,390,000 (31 December 2004: Euro8,256,000).

MATERIAL ACQUISITIONS/DISPOSALS

During the six months ended 30 June 2005, the Company did not have any material acquisitions/disposals except for an report of the Company dated January 4, 2005 announced that an investment in a joint venture company was disposed to an independent third party as mentioned on page 9 of the annual report for the year ended 31 December 2004.

SEGMENTAL INFORMATION

Segmental information of the Company is set out in note 3 above.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2005, the Company had 1,764 employees (31 December 2004: 1,730), comprising 21 (31 December 2004: 10) in research and development, 44 (31 December 2004: 26) in sales and marketing, 1,557 (31 December 2004: 1,559) in production, 116 (31 December 2004: 109) in quality control, 11 (31 December 2004: 10) in management, and 15 (31 December 2004: 16) 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.

The Board, having regard to the duties and responsibilities, decides the emoluments of the directors of the Company.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

According to the Company's report dated 24 March 2005, the Company issued 205,000,000 of H shares to its customer, Miroglio and placed 16,000,000 of H shares to other independent third parties in order to maintain the public float of the H Shares of the Company as required under the GEM Listing Rules. The net proceeds from the issue of H shares to Miroglio and independent third parties after deduction of expenses in connection with the issue of shares was approximately RMB55.9 million. It is planned that approximately RMB33.5 million will be used for the acquisition of a dyeing factory in the PRC, approximately RMB11.2 million will be used for research and development of technology of the company and approximately RMB11.2 million will be used as the general working capital of the Company.

For the six months ended 30 June 2005, the Company has used approximately RMB91,000 in research and development. The Company is in progress of searching for appropriate dyeing factory in the PRC as at 30 June 2005.

GEARING RATIO

The gearing ratio (total debts over total assets) of the Company as at 30 June 2005 was approximately 69.7% (31 December 2004: approximately 74.5%).

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.

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 中華人民共和國外匯管理局 (the State Administration for Foreign Exchange*), by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions.

Under the current foreign exchange system in the PRC, the Company is not able to hedge effectively against currency risk, including future depreciation of the Renminbi. Any depreciation in value of Renminbi versus that of US dollar 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 30 June 2005, the Company did not have any significant contingent liabilities.

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

As at 30 June 2005, the interests and short positions of the Directors, chief executives and supervisors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are require (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 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 of Directors	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares in issue as at 30 June 2005	Approximate percentage of interests in total issued share capital as at 30 June 2005
Mr. Sun Li Yong	Beneficial owner	382,200,000	65%	35.94%
	Interest of spouse (<i>Note 1</i>)	182,280,000	31%	17.14%
		564,480,000	96%	53.08%
Ms. Fang Xiao Jian	Beneficial owner	382,200,000	65%	17.14%
	Interest of spouse (<i>Note 2</i>)	182,280,000	31%	35.94%
		564,480,000	96%	53.08%
Mr. Sun Jian Feng	Beneficial owner	5,880,000	1%	0.55%
Mr. Xia Xue Nian	Beneficial owner	5,880,000	1%	0.55%

Notes:

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

Save as disclosed above, as at 30 June 2005, none of the Directors, chief executives or supervisors had interest or short position in the shares underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS IN SHARES OF THE COMPANY

So far as was known to the Director or chief executive or Supervisors of the Company, as at 30 June 2005, the interests and short positions of in the shares or underlying shares of the Company, other than interest of the Directors or Supervisors, which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or is interested directly or indirectly in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company were as follows:

Long positions in the shares of the Company

Name of shareholder	Capacity	Number of H shares held	Approximate percentage of interests in H shares in issue as at 30 June 2005	Approximate percentage of interests in total issued share capital as at 30 June 2005
Miroglio S.p.A.	Beneficial owner	209,500,000	44.06%	19.70%

Other than the interest 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 30 June 2005.

Save as disclosed above, as at 30 June 2005, there was no other person, other than the Directors or Supervisors of the Company, who was recorded in the register of the Company having interests or short positions in the shares or underlying shares of the Company under Divisions 2 and 3 of Part XV of the SFO.

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

Save as disclosed above, during the six months ended 30 June 2005, none of the Directors, chief executives or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2005, none of the Directors, chief executives or the supervisors of the Company nor their spouses or children under the age of 18 had any rights to acquire H shares in the Company or had exercised any such right during the period.

COMPETING INTERESTS

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

AUDIT COMMITTEE

The Company has established an audit committee in October 2002 with written terms of references, which have been updated in accordance with the requirement of the CG Code. 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. Luk Guo Qing, Mr. Zhu Yu Lin and Mr. Zong Pei Min.

Up to the date of this report, the audit committee has conducted two meetings in the six months ended 30 June 2005. The meeting were held on 21 March 2005 and 9 May 2005 for discussion of the operating results, statements of the Company for the year ended 31 December 2004 and listed to the advice provided by auditors; and the first quarterly of 2005 respectively. The audit committee has reviewed the interim report of 2005.

CORPORATE GOVERNANCE

The Company has complied, through the six months ended 30 June 2005, with all the code provisions (with exception of Code Provision C.2 on internal controls) set out in Appendix 15 Code on Corporate Governance Practices ("CG Code") of the GEM Listing Rules except for the following derivations:

- (a) Code A.1.3 stipulates that notice of at least of 14 days should be given of a regular board meeting to give all directors an opportunity to attend. In order to ensure full compliance with Code A.1.3, a special resolution will be proposed to amend the relevant Articles of Association of the Company at the Annual General Meeting to be held in 2006, so that notice of at least of 14 days should be given of a regular board meeting to give all directors an opportunity to attend.
- (b) Code Provision A.2.1. stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Sun Li Yong is the Chairman and Chief Executive of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals and meets regularly every month to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Sun and believes that his appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects of the Company.

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 Rule 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors of the Company, all Directors of the Company confirm that they complied with such code of conduct throughout the six months ended 30 June 2005.

The Company has complied with the requirement to appoint a sufficient number of independent non-executive director as set out in Rule 5.05 (1) of the GEM Listing Rules.

The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive directors pursuant to Rule 5.09 of the GEM Listing Rules and all independent non-executive directors are considered to be independent.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not purchase, sell or redeem any of the Company's listed shares during the six months ended 30 June 2005.

By Order of the Board

Sun Li Yong

Chairman

Zhejiang, the PRC, 10 August, 2005