



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)

2005

Third Quarterly Report

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

**HIGHLIGHTS**

For the nine months ended 30 September 2005,

- turnover of the Company decreased from approximately RMB343 million to approximately RMB303.9 million, representing a drop of approximately 11.4% when compared to the corresponding period in 2004;
- net loss for the period was approximately RMB2.2 million, and
- the Directors do not recommend the payment of an interim dividend.

**UNAUDITED CONDENSED PROFIT AND LOSS ACCOUNT**

*For the three months and nine months ended 30 September 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 nine months ended 30 September 2005, together with the comparative results for the corresponding period in 2004 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	2	<b>94,943</b>	108,397	<b>303,902</b>	343,025
Cost of sales		<b>(84,525)</b>	(92,899)	<b>(279,440)</b>	(292,080)
Gross profit		<b>10,418</b>	15,498	<b>24,462</b>	50,945
Other operating income		<b>2,375</b>	2,825	<b>9,298</b>	7,174
Selling expenses		<b>(4,068)</b>	(1,893)	<b>(8,255)</b>	(4,723)
Administrative expenses		<b>(1,867)</b>	(1,294)	<b>(8,038)</b>	(6,556)
PROFIT FROM OPERATIONS	3	<b>6,858</b>	15,136	<b>17,467</b>	46,840
Finance costs	4	<b>(7,729)</b>	(7,351)	<b>(19,708)</b>	(18,331)
(LOSS)/PROFIT BEFORE TAXATION		<b>(871)</b>	7,785	<b>(2,241)</b>	28,509
Income tax expenses	5	—	(2,089)	—	(8,928)
(Loss)/profit for the period		<b>(871)</b>	5,696	<b>(2,241)</b>	19,581
Dividend paid	6	—	—	—	2,500
(Loss)/earnings per share					
— basic (RMB)	7	<b>(0.08 cents)</b>	0.7 cents	<b>(0.2 cents)</b>	2.3 cents

Notes:

### 1. BASIS OF PREPARATION

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

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

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

### 3. PROFIT FROM OPERATIONS

	Three months ended		Nine months ended	
	30 September		30 September	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Profit from operations has been arrived at after charging:				
Lease payment on land use right	104	94	311	244
Depreciation and amortisation	6,326	5,802	18,428	17,210

## 4. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	6,997	7,402	18,339	18,167
Interest on other borrowings wholly repayable within five years	1,261	165	2,854	1,241
Less: Amounts capitalised in construction in progress	(529)	(216)	(1,485)	(1,077)
	7,729	7,351	19,708	18,331

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. INCOME TAX EXPENSES

	Three months ended		Nine months ended	
	30 September		30 September	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
The charge comprises:				
PRC enterprise income tax for the period	—	2,089	—	8,928

No provision for the PRC enterprises income tax has been provided for the period as the Company has no estimated assessable profit arising in or derived from the PRC during the three and nine months ended 30 September 2005 (three and nine months ended 30 September 2004: 33%). There was no significant unprovided deferred taxation for the three and nine months ended 30 September 2005.

## 6. DIVIDEND PAID

The Directors do not recommend the payment of a dividend for the three months and nine months ended 30 September 2005.

## 7. (LOSS)/EARNINGS PER SHARE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
(Loss)/earnings for the purpose of calculating basic (loss)/earnings per share	<b>(871)</b>	5,696	<b>(2,241)</b>	19,581
Number of shares for the purpose of basic (loss)/earnings per share (Note)	<b>1,063,500,000</b>	838,000,000	<b>1,038,210,280</b>	838,000,000
Weighted average number of shares for the purpose of calculating (loss)/earnings per share	<b>1,063,500,000</b>	838,000,000	<b>1,038,210,280</b>	838,000,000

Note:

Diluted earnings per share has not been calculated for the three months and nine months ended 30 September 2005 and the corresponding period as there were no dilutive potential 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
Final dividend paid to holders of H shares for the year ended 31 December 2003	—	—	—	—	—	—	(2,500)	(2,500)
Final dividend waived by holders of H shares for the year ended 31 December 2003	—	—	5,880	—	—	—	(5,880)	—
Tax effect arising on final dividend waived by holders of H shares for the year ended 31 December 2003	—	—	(1,940)	—	—	—	—	(1,940)
Net profit for the period	—	—	—	—	—	—	19,581	19,581
Transfer	—	—	—	1,958	979	—	(2,937)	—
Balance at 30 September 2004	83,800	26,229	7,880	8,210	4,106	25,158	66,573	221,956
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	34,855	—	—	—	—	—	57,405
Expenses paid in connection with the issue of shares	—	(1,505)	—	—	—	—	—	(1,505)
Net loss for the period	—	—	—	—	—	—	(2,241)	(2,241)
Balance at 30 September 2005	106,350	59,579	7,880	7,999	4,015	25,158	64,087	275,068

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

For the nine months ended 30 September 2005, the Company recorded a turnover of approximately RMB303.9 million, representing a drop of approximately 11.4% as compared with that of the same period in 2004. It was mainly due to decrease of local sales as a result of reorganization of sales structure of the Company. The gross profit for the period was approximately RMB24.5 million, representing a gross profit margin of approximately 8%, which was approximately 6.9% lower than that of the corresponding period in 2004. It was mainly due to cost of sales that including cost of raw materials, electricity charges, depreciation, wages and repair and maintenance of machines increased sharply.

Administrative expenses increased by approximately of 22.6% mainly due to increased of depreciation, advertising, research and development, bank-handling charges, technical support fee (for development of new product and new production line) and salaries. Selling expenses increased sharply by 74.8% mainly due to increase of transportation and freight charges, exhibition, testing fee, samples expenses and staff salaries as compared with that of the previous period which was in line with increase of direct export sales. Finance cost increased significantly mainly due to increase of bank loans for the acquisition of the property, plant and equipment. Loss per share for the nine months ended 30 September 2005 amounted to approximately RMB0.2 cents as compared with earnings per share of approximately RMB2.3 cents for the corresponding period in 2004.

### Business and operation review

During year 2005, the Company has reorganized its sales structure and marketing strategy by concentrating in developing high profile market such as Europe and U.S.A.. Compared with that for the period ended 30 September 2004, local sales decreased by approximately RMB45.6 million or 18.2%, while direct export sales increased by approximately RMB6.5 million or 6.9%. Direct export to Europe increased by approximately RMB41.6 million or 165.8% while direct export to the Middle East decreased by approximately RMB39.7 million or 74%. In order to fulfill the high quality requirement from

the customers of the Company, the Company spent more on the quality control, samples, research and development and technical support. The increase in direct export sales also led to sharply increase of transportation and freight charges.

### **Production facilities**

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

### **Product research and development**

In order to fulfill the high quality requirement of the high profile customers, the Company continues to innovate and develop new products and employ experience and talent staff. In order to improve the quality of the product, the Company also engages experience consultants for the technical support.

### **Sales and marketing**

On 24 March 2005, 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, became a substantial shareholder of the Company. The Directors believe that through the strategic co-operation with Miroglio, the Company can speed-up the progress of globalisation. During the nine months ended 30 September, 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**

Due to the continuance rising of oil price and shortage of power supply that lead to rise of raw material cost and increase of electricity cost of the Company, the gross profit margin of the Company dropped sharply. It is expected that this impact will continue in year 2005. In view of this impact, the Company had reorganized its sales structure and marketing strategy in order to develop high profile market. The Directors expect that year 2005 is a difficult year to the Company and the textile industry in the PRC.

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

As at 30 September 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 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 to be notified to the Company and the Stock Exchange were as follows:

### Long positions in the shares of the Company

Name of Directors	Type of interests	Capacity	Number of domestic shares	Approximate percentage of interests in domestic shares in issue as at 30 September 2005	Approximate percentage of interests in total issued share capital as at 30 September 2005
Mr. Sun Li Yong	Personal	Beneficial owner	382,200,000	65%	35.94%
	Family	Interest of spouse	182,280,000	31%	17.14%
		(Note 1)			
			564,480,000	96%	53.08%
Ms. Fang Xiao Jian	Personal	Beneficial owner	182,280,000	31%	17.14%
	Family	Interest of spouse	382,200,000	65%	35.94%
		(Note 2)			
			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 is deemed by virtue of the SFO to be interested in the 182,280,000 shares beneficially owned by Ms. Fang Xiao Jian.
2. Ms. Fang Xiao Jian is the wife of Mr. Sun Li Yong and is deemed by virtue of the SFO to be interested in the 382,200,000 shares beneficially owned by Mr. Sun Li Yong.

Save as disclosed above, as at 30 September 2005, 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 associates 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 the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

So far as it was known to any Directors or chief executives or Supervisors of the Company, as at 30 September 2005, the interests and short positions of person 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 who is interested directly or indirectly in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company were as follows:

### Long positions in the shares of the Company

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

Save as disclosed above, as at 30 September 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 which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or who is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company.

## 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 provisions of the Code on Corporate Governance Practices as set out in Appendix 15 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. Luk Guo Qing, Mr. Zhu Yu Lin and Mr. Zong Pei Min.

Up to the date of this report, the audit committee has conducted three meetings in the nine months ended 30 September 2005. The meeting were held on 21 March 2005, 9 May 2005 and 10 August 2005 for discussion of the operating results, financial statements of the Company for the year ended 31 December 2004 and listed to the advice provided by auditors; the first quarterly of 2005; and the interim results for the six months ended 30 June 2005 respectively. The audit committee has reviewed the third quarterly report of 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 nine months ended 30 September 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.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2005.

By Order of the Board

**Sun Li Yong**

*Chairman*

Zhejiang, the PRC, 10 November 2005

As at the date of the this report, the executive directors of the Company are Mr. Sun Li Yong, Ms. Fang Xiao Jian, Mr. Sun Jian Feng, Mr. Xia Xue Nian, Mr. Marco Borio and Mr. Li Cheng Jun; the independent non-executive directors are Mr. Luk Guo Qing, Mr. Zong Pei Min and Mr. Zhu Yu Lin.