



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)



2006

Stock Code: 8211

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.

The Stock Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document, for which the directors of Zhejiang Yonglong Enterprises Co., Ltd. (the “Company”) 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 the Company. The directors of the Company (the “Directors”), 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 2006 decrease from approximately RMB80.94 million to approximately RMB79.08 million, representing a decrease of approximately 2.3% when compared to the corresponding period in 2005.
- Net loss for the three months ended 31 March 2006 was approximately RMB5.85 million.
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2006.

UNAUDITED INCOME STATEMENT

For the three months ended 31 March 2006

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 2006, together with the comparative results for the corresponding period in 2005 as follows:

	Notes	Three months ended 31 March	
		2006 RMB'000	2005 RMB'000
Turnover	2	79,075	80,944
Cost of sales		(76,776)	(77,198)
Gross profit		2,299	3,746
Other income		2,917	3,474
Selling expenses		(1,264)	(1,835)
Administrative and operating expenses		(4,302)	(2,201)
Finance costs	4	(5,502)	(6,523)
LOSS BEFORE TAXATION	3	(5,852)	(3,339)
Taxation	5	—	—
Loss for the period		(5,852)	(3,339)
Dividend paid during the period	6	—	—
Loss per share — basic (RMB)	7	0.55 cents	0.39 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"), which is the same as the functional currency of the Company.

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 2005. 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 the PRC business tax and value-added tax, less returns and allowances, during the period.

3. LOSS BEFORE TAXATION

	Three months ended 31 March	
	2006	2005
	RMB'000	RMB'000
Loss before taxation has been arrived at after charging: Depreciation and amortisation	7,236	6,234

4. FINANCE COSTS

	Three months ended 31 March	
	2006	2005
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	6,140	6,958
Interest on other borrowings wholly repayable within five years	—	39
	6,140	6,997
Less: Amounts capitalized in construction in progress	(638)	(474)
	5,502	6,523

Borrowing costs capitalised during the period arose on general borrowing pool and are calculated by applying a capitalised rate of 6.02% to expenditure on qualifying assets.

5. Taxation

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, 2006 (three months ended 31 March 31, 2005: nil).

There was no significant unprovided deferred taxation for the two periods ended 31 March 2005 and 2006.

6. Dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2006 (2005: nil).

7. Loss per share

The calculation of the basic loss per share is based on the loss for the period of RMB5,852,000 (2005: RMB3,339,000) and the weighted average number of ordinary shares of 1,063,500,000 (2005: 858,044,444) during the period.

Diluted earnings per share is not presented for the two periods ended 31 March 2005 and 2006 as there were no potential ordinary shares in existence for both periods.

8. Movements in reserves

	Paid-up capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Statutory welfare fund RMB'000	Accumulated profits RMB'000	Total RMB'000
Balance at 1 January 2005 as restated	83,800	36,381	7,880	15,959	7,999	4,015	54,330	210,364
Transfer	—	—	—	—	145	58	(203)	—
Loss for the period	—	—	—	—	—	—	(3,339)	(3,339)
Issue of new shares	22,550	34,855	—	—	—	—	—	57,405
Transaction costs attributable to issue of new shares	—	(1,599)	—	—	—	—	—	(1,599)
Balance at 31 March 2005	106,350	69,637	7,880	15,959	8,144	4,073	50,788	262,831
Balance at 1 January 2006	106,350	69,637	7,880	15,959	8,144	4,073	50,467	262,510
Loss for the period	—	—	—	—	—	—	(5,852)	(5,852)
Balance at 31 March 2006	106,350	69,637	7,880	15,959	8,144	4,073	44,615	256,658

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the three months ended 31 March 2006, the Company recorded a turnover of approximately RMB79.08 million, representing a decrease of approximately 2.3% as compared with that of the corresponding period in 2005. The gross profit for the period was approximately RMB2.3 million, representing a gross profit margin of approximately 2.9%, which was approximately 1.7% lower than the gross profit of approximately RMB3.7 million and a gross profit margin of approximately 4.6% for the corresponding period in 2005. The gross profit margin decreased mainly due to increase in wages, subcontracting charges, electricity charges and fixed overhead. Due to decrease in production output, unit cost of fixed overhead increased. Selling expenses decreased by approximately 31.2% was result of improvement in cost control. Administrative expenses increased by approximately 95.5% mainly due to increase of depreciation and communication expenses. Finance cost decreased by approximately 15.7% mainly due to decrease of bank loans. Loss for the three months ended was approximately RMB5.85 million.

Business and operation review

The Company had set the market strategies and target of 60% and 40% respectively for domestic sales and direct export sales. During the period under review, approximately 71.68% and 28.32% respectively of product in value were local sales and direct export. In 2005 of the same periods, approximately 76.88% and 23.12% respectively of product in value were local sales and direct export. The Company continued the market strategy of developing Europe market. The export sales to Europe for the period ended 31 March, 2006 increased sharply by approximately 48.2% when compared with that in 2005. On the other hand, the export sales to the Middle East for the three months ended 31 March 2006 decreased significantly from approximately RMB7 million to approximately RMB0.7 million when compared with the same period in 2005 as the Company has been restructuring its marketing strategy since year 2005. The fundamentals of the Company did not change. January 2006 was Chinese New Year and the first quarter normally was slack season of the Company and the textile industry. The Directors expected that the merit result from reorganization of

internal operation flow since mid of February 2006 will be reflected from the second quarter of this year. Higher operation cost incurred due to development of high profile market such as Europe at the preliminary stage. The Directors expected that the impact was temporary and would be recovered at the near future.

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

During the periods under review, 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

The first quarter was slack season of the Company and the textile industry in China. The merit result from reorganization of internal operation flow since mid of February 2006 is expected to be reflected from the second quarter of this year. Under the effort of development of high profile market, the Directors expect that the benefits will be generated and compensate the higher operation cost at the near future. Loss incurred for the three months ended 31 March 2006 is temporary. The fundamental of the Company did not change. The Directors expect that the result of the Company in year 2006 will be better than that in 2005.

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

As at 31 March 2006, 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 require (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 (Note 1)	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 (Note 2)	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 2006, 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 2006, 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

H-shares of RMBO.1 each of the Company

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

Note:

Save as disclosed above, as at 31 March 2006, 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 2006.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the three months ended 31 March 2006, the Company had the following significant transactions with the related parties:

Name of related company	Nature	Three months ended	
		31 March	
		2006	2005
		RMB'000	RMB'000
Sabina (Note a)	Sales of goods	14	—
	Rental income	45	45
	Electricity cost reimbursement	21	50
Miroglio S.p.A. and its subsidiaries ("Miroglio S.p.A. Group") (Note b)	Sales of goods	3,846	—

Note:

- (a) 浙江宏興莎美娜服飾有限公司 (Zhejiang Hungxing Sabina Garments Co., Ltd.) ("Sabina") 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 51%, 8.87%, 5.13% and 25% beneficial interests respectively.
- (b) Miroglio S.p.A. is a shareholder of the Company since 24 March 2005. The sales orders placed by Miroglio S.p.A. Group to the Company from 24 March 2005 to 31 March 2005 was approximately RMB0.78 million. No sales was recognized by the Company from 24 March 2005 to 31 March 2005 for orders placed by Miroglio S.p.A. Group since 24 March 2005.

AUDIT COMMITTEE

An audit committee was established in May 2002 with written terms of reference, which have been updated in accordance with the provision of the Code of Corporate Governance Practices 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. Zong Pei Min, Mr. Luk Guo Qing and Mr. Zhu Yu Lin. Mr. Luk Guo Qing is the chairman of the audit committee.

Up to the date hereof, the audit committee has conducted two meetings in this quarter. The audit committee has reviewed the first quarterly results and the first quarterly report for the three months ended 31 March 2006.

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 2006.

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 2006

* For identification purposes only