



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)

2006

Stock Code: 8211

Interim Report

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This document, for which the directors (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, 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

For the six months ended 30 June 2006,

- Turnover of the Company decrease from approximately RMB209 million to approximately RMB191.9 million, representing a drop of approximately 8.2% when compared to the corresponding period in 2005;
- Net loss for the six months ended 30 June 2006 was approximately RMB1.6 million; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006.

UNAUDITED CONDENSED INCOME STATEMENT

For the six months ended 30 June 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 and six months ended 30 June 2006 as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000 (Restated)
Turnover	2	112,786	128,015	191,861	208,959
Cost of sales		(105,280)	(118,253)	(182,056)	(195,451)
Gross profit		7,506	9,762	9,805	13,508
Other income		4,108	1,577	7,025	5,051
Selling expenses		(1,020)	(2,352)	(2,284)	(4,187)
Administrative and operating expenses		(2,200)	(4,418)	(6,502)	(6,619)
Finance costs	5	(4,934)	(5,456)	(10,436)	(11,979)
(LOSS) PROFIT BEFORE TAXATION	4	3,460	(887)	(2,392)	(4,226)
Taxation	6	—	5,408	789	5,408
(Loss) profit for the period		3,460	4,521	(1,603)	1,182
Dividend paid during the period	7	—	—	—	—
(Loss) earnings per share — basic (RMB)	8	0.33 cents	0.43 cents	(0.15 cents)	0.12 cents

UNAUDITED CONDENSED BALANCE SHEET

	<i>Note</i>	As at 30 June 2006 RMB'000 (Unaudited)	As at 31 December 2005 RMB'000 (Audited)
NON-CURRENT ASSETS			
Investment properties		13,292	13,707
Property, plant and equipment	9	249,128	256,766
Prepaid lease payments		11,977	12,114
Bank deposits		53,474	53,135
		327,871	335,722
CURRENT ASSETS			
Inventories		102,613	89,432
Prepaid lease payments		273	273
Trade receivables	10	83,550	87,774
Other receivables, deposits and prepayments	10	29,476	30,063
Amounts due from related parties	11	—	436
Investment held-for-trading		635	400
Restricted cash		31,150	47,408
Fixed bank deposits		85,442	167,840
Bank balances and cash		107,420	22,602
		440,559	446,228
CURRENT LIABILITIES			
Trade payables	12	35,440	31,324
Other payables and accruals	12	16,169	16,637
Amount due to a related party	11	426	—
Taxation		15,169	15,169
Borrowings — due within one year	13	369,255	352,458
		436,459	415,588

	<i>Note</i>	As at 30 June 2006 RMB'000 (Unaudited)	As at 31 December 2005 RMB'000 (Audited)
NET CURRENT ASSETS		4,100	30,640
TOTAL ASSETS LESS CURRENT LIABILITIES		331,971	366,362
NON CURRENT LIABILITIES			
Borrowings — due after one year		66,000	98,000
Deferred tax liabilities		5,064	5,852
		71,064	103,852
NET ASSETS		260,907	262,510
Capital and Reserves			
Share capital		106,350	106,350
Reserves		154,557	156,160
SHAREHOLDERS' FUNDS		260,907	262,510

UNAUDITED CONDENSED CASH FLOW STATEMENT

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000 (Restated)
Net cash from (used in) operating activities	1,449	(18,984)
Net cash used in investing activities	98,572	250,972
Net cash from (used in) financing activities	(15,203)	74,119
Net increase in cash and cash equivalents	84,818	306,107
Cash and cash equivalents at beginning of the period	22,602	47,916
Cash and cash equivalents at end of the period, representing bank balances and cash	107,420	354,023

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	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2005 as restated	83,800	36,381	7,880	15,959	7,999	4,015	50,935	206,969
Transfer	—	—	—	—	118	59	(177)	—
Profit for the period	—	—	—	—	—	—	1,182	1,182
Issue of new shares	22,550	34,855	—	—	—	—	—	57,405
Transaction costs attributable to issue of new shares	—	(1,504)	—	—	—	—	—	(1,504)
Balance at 30 June 2005 as restated	106,350	69,732	7,880	15,959	8,117	4,074	51,940	264,052
Balance at 1 January 2006	106,350	69,637	7,880	15,959	8,144	4,073	50,467	262,510
Net loss for the period	—	—	—	—	—	—	(1,603)	(1,603)
Balance at 30 June 2006	106,350	69,637	7,880	15,959	8,144	4,073	48,864	260,907

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 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").

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

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, Europe and Asia other than PRC. Segment information about these geographical markets is presented below:

	Six months ended 30 June			
	2006		2005	
	Revenue	Results	Revenue	Results
	RMB'000	RMB'000	RMB'000	RMB'000
			(Restated)	(Restated)
PRC	136,902	3,745	132,628	608
The Middle East	0	0	13,650	(914)
Europe	40,751	621	47,857	3,002
Asia other than PRC	12,289	(1,900)	8,472	(292)
Others	1,919	91	6,352	1,867
	191,861	2,557	208,959	4,271
Unallocated corporate income		7,025		5,051
Unallocated corporate expenses		(1,538)		(1,569)
Finance costs		(10,436)		(11,979)
Loss before taxation		(2,392)		(4,226)
Taxation		789		5,408
(Loss) profit for the period		(1,603)		1,182

4. (Loss) profit before taxation

	Three months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Restated)
(Loss) profit before taxation has been arrived at after charging:				
Depreciation and amortisation of				
— property, plant and equipment	5,262	6,955	12,291	12,982
— investment properties	208	208	415	415

5. Finance costs

	Three months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Restated)
Interest on bank borrowings wholly repayable within five years	5,572	5,762	11,712	12,759
Interest on other borrowings wholly repayable within five years	—	176	—	176
Less: Amounts capitalised in construction in progress	(638)	(482)	(1,276)	(956)
	4,934	5,456	10,436	11,979

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. Taxation

	Three months ended 30 June		Six months ended 30 June	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000 (Restated)
The (credit) charge comprises:				
Current tax:				
PRC enterprise income tax for the period	1,142	—	—	—
Overprovision in previous years	—	(3,395)	—	(3,395)
	1,142	(3,395)	—	(3,395)
Deferred tax	(1,142)	(2,013)	(789)	(2,013)
	—	(5,408)	(789)	(5,408)

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 2006 (three and six months ended 30 June 2005: Nil).

The income tax (credit) charge for the period can be reconciled to the (loss) profit before taxation per the income statement as follows:

	Three months ended 30 June		Six months ended 30 June	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000 (Restated)
(Loss) profit before taxation	3,460	(887)	(2,392)	(4,226)
Tax at the domestic income tax rate of 33% (2005: 33%)	1,142	(293)	(789)	(1,395)
Tax effect of income that are not taxable in determining taxable profit	(1,142)	(1,720)	—	(618)
Overprovision in previous periods	—	(3,395)	—	(3,395)
Tax (credit) charge for the period	—	(5,408)	(789)	(5,408)

7. Dividend paid

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2006.

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	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		(Restated)
(Loss)/earnings for the purpose of calculating basic (loss)/earnings per share	3,460	4,521	(1,603)	1,182
Number of shares:				
Number of shares for the purpose of basic (loss)/earnings per share (Note)	1,063,500,000	1,063,500,000	1,063,500,000	960,093,922
Weighted average number of shares for the purpose of calculating (loss)/earnings per share	1,063,500,000	1,063,500,000	1,063,500,000	960,093,922

Note: Diluted earnings per share has not been calculated for the three months and six months ended 30 June 2006 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 2006, the Company spent approximately RMB4.7 million (31 December 2005: RMB51.3 million) on additions of property, plant and equipment.

10. Trade and other 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 2006 RMB'000	31 December 2005 RMB'000
Within 30days	39,339	46,003
31–60 days	21,300	24,061
61–90 days	8,642	8,097
91–120 days	4,491	2,488
121–180 days	5,437	1,902
181–365 days	3,939	5,231
Over 365 days	402	61
	83,550	87,843
Less: Accumulated impairment	—	(69)
	83,550	87,774
Other receivables, deposits and prepayments	29,476	30,063

The fair value of the Company's trade and other receivables at 30 June 2006 approximates to their carrying amount.

11. Amounts due from related parties

Details of amounts due from related parties are as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Sabina	—	227
Mr. Li Cheng Jun	—	209
	—	436

Amount due to a related party

	30 June 2006 RMB'000	31 December 2005 RMB'000
Sabina	426	—

The amount is interest free, unsecured and repayable on demand.

The fair value of the amount due to a related party at 30 June 2006 approximates to its carrying amount.

12. Trade payables and other payables

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

	30 June 2006 RMB'000	31 December 2005 RMB'000
Within 30days	20,118	18,750
31–60 days	6,684	7,440
61–90 days	1,165	1,890
91–120 days	800	567
121–180 days	3,224	1,128
181–365 days	3,143	1,370
1–2 years	306	179
	35,440	31,324
Other payables and accruals	16,169	16,637

The fair value of the Company's trade and other payables at 30 June 2006 approximates to their carrying amount.

13. Borrowings and facilities

The Company generally finances its operations and capital expenditures with cashflow generated internally and banking facilities provided by its bankers. The bank borrowings carry interests ranging from 5.22% to 7.31% per annum (31 December 2005: from 4.92% to 7.06% per annum).

	30 June 2006 RMB'000	31 December 2005 RMB'000
Borrowings comprise:		
Bank loans	435,255	450,458
Analysed as:		
Secured (note 14)	151,980	122,630
Unsecured	283,275	327,828
	435,255	450,458
Denominated in RMB	435,255	450,458
The bank and other borrowings carry interest at fixed rate and are repayable as follows:		
Within one year or on demand	369,255	352,458
More than one year, but not exceeding two years	66,000	98,000
	435,255	450,458
Less: amount due within one year shown under current liabilities	(369,255)	(352,458)
Amount due after one year	66,000	98,000

	30 June 2006 RMB'000	31 December 2005 RMB'000
The borrowings were guaranteed by:		
Gabriel, directors of the Company and independent third parties	—	49,128
Gabriel, Sabrina and independent third parties	40,000	—
Gabriel and directors of the Company	10,000	29,600
Gabriel and Mr. Sun Li Yong and an independent third party	65,000	20,000
Directors of the Company and an independent third party	70,000	96,000
Zhejiang Zhiye, Mr. Sun Li Yong and independent third parties (<i>Note i</i>)	30,000	28,000
Independent third parties	68,275	105,100
	283,275	327,828

Note (i): 浙江置業房地產開發有限公司 (Zhejiang Zhiye Real Estate Development Co., Ltd.) (“Zhejiang Zhiye”), a company in which Gabriel has 32% of controlling interest and Mr. Sun Li Yong is also a director of Zhejiang Zhiye.

During the period, the Company obtained new bank loans in the amount of approximately RMB548.4 million. The loans bear fixed interest at prevailing market rates and repayable in instalments over a period of three months to two years. The proceeds were used to finance the acquisition of property, plant and equipment, and for general working capital of the Company.

The directors consider that the carrying amount of bank borrowings approximates their fair value as the weighted average interest rates approximate the market rate.

14. Pledge of assets

At 30 June 2006, certain assets of the Company with the following carrying values has been pledged to secure borrowings granted to the Company:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Restricted cash	46,101	47,408
Investment properties	13,292	13,707
Prepaid lease payments	10,419	10,535
Buildings	43,081	43,718
Plant and machinery	11,850	12,867
Construction in progress	45,229	40,798
	169,972	169,033

15. Related party transactions

During the period for the six months ended 30 June 2006, the Company had the following transactions with the related parties:

Name of related party	Nature	Six months ended 30 June	
		2006 RMB'000	2005 RMB'000 (Restated)
Sabrina	Rental income	90	90
	Sales of goods	17	—
	Electricity cost reimbursement	110	110
Miroglio and its subsidiaries (note 1)	Sales of woven fabrics	7,184	9,310
Fulida Dyeing (note 3)	Subcontracting fee	2,439	—

Notes:

- (1) Miroglio S.p.A. is a shareholder of the Company since 24 March 2005.

- (2) As at 30 June 2006, the amounts due from Miroglio S.p.A. Group (included in trade receivables) amounted to approximately RMB4.2 million (31 December 2005: RMB9,846,000)
- (3) 浙江米羅利奧富利達紡織有限公司 (Zhejiang Miroglio Fulida Dyeing Co. Ltd.) (“Fulida Dyeing”) is owned as to 50% by Miroglio, a substantial shareholder of the Company, and 50% by an independent third party. The Company has engaged Fulida Dyeing to provide dyeing services for the weaving fabrics of the Company since 29 May 2006. As at 30 June 2006, the amounts due to Fulida Dyeing (included in trade payables) amounted to approximately RMB2.2 million.

Details of the guarantee given by related parties to the financial institutions in respect of the loans granted to the Company as at 30 June 2006 and 31 December 2005 are set out in note 13.

In addition to the above, balances with related parties as at 30 June 2006 and 31 December 2005 are set out in note 11.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2006, the Company recorded a turnover of approximately RMB191.9 million, representing a decrease of approximately 8.2% as compared with that of the same period in 2005. Under the market strategies, the Company ceased to export fabrics to the Middle East. Hence, the sales turnover for the six months ended 30 June 2006 decreased when compared with the corresponding period in 2005. The gross profit for the period under review was approximately RMB9.8 million, representing a gross profit margin of approximately 5.1% which decreased slightly when compared with the corresponding period in 2005. It was mainly due to increase of cost of sales which including fixed overheads and variable cost such as cost of raw materials, wages, cost of electricity and cost on repair and maintenance of machinery. The production output during the period under review decrease led to rising of fixed overheads. Selling expenses dropped by approximately 45.5% when compared with that in 2005 representing the result of cost control. There was no significant change in administrative expenses for the six months ended 30 June 2006. Finance cost dropped by approximately 12.9% mainly due to decrease of bank loans. Loss for the six months ended was approximately RMB1.6 million.

BUSINESS AND OPERATION REVIEW

The Company continued the market strategies and target of 60% and 40% respectively for domestic sales and direct export sales. During the period under review, approximately 71.4% and 28.6% respectively of product in value were domestic sales and direct export. In the corresponding period in 2005, approximately 63.5% and 36.5% respectively of product in value were domestic sales and direct export. The Company continued to develop new and high profile market. During the period under review, sales to Europe was stable and sales to Asia other than the PRC increased by approximately 31%. On the other hand, the Company ceased to sales fabrics to the Middle East in order to reallocate the resources in developing high profile market. Since mid of February 2006, the Company had reorganized the internal operation flow so as to smooth the operations and minimize the cost. The merits were

gradually reflected from the result for the three months ended 30 June 2006. The fundamentals of the Company did not change. The Directors expect that the impact 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 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

During the six months ended 30 June 2006, 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

Since mid of February 2006, the Company had reorganized the internal operation flow so as to smooth the operations and minimize the cost. The Directors expect that the benefits from sales to high profile market would gradually compensate the high initial development cost. The results for the three months ended 30 June 2006 showing that the Company was recovering. The fundamentals of the Company did not change. The Directors expect that the result of the Company in year 2006 will be improved when compared with that in year 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 June 2006, the Company had net current assets of approximately RMB4.1 million (31 December 2005: RMB30.6 million).

As at 30 June 2006, the current assets comprised inventories of approximately RMB102.6 million (31 December 2005: RMB89.4 million), prepaid lease payments of approximately RMB0.3 million (31 December 2005: RMB0.3 million), trade receivables of approximately RMB83.6 million (31 December 2005: RMB87.7 million), other receivable, deposits and prepayments of approximately RMB30 million (31 December 2005: RMB30 million), amount due from a related company of approximately RMBNil million (31 December 2005: RMB0.4 million), investment held-for-trading of approximately RMB0.6 million (31 December 2005: RMB0.4 million), restricted cash of approximately RMB31.2 million (31 December 2005: RMB47.4 million), fixed bank deposits of approximately RMB85.4 million and bank balances and cash of approximately RMB107.4 million (31 December 2005: RMB22.6 million).

As at 30 June 2006, the current liabilities comprised trade payables of approximately RMB35.4 million (31 December 2005: RMB31.3 million), other payables and accruals of approximately RMB16.2 million (31 December 2005: RMB16.6 million), amounts due to related parties of approximately RMB0.9 million (31 December 2005: nil), taxation payable of approximately RMB15.2 million (31 December 2005: RMB15.2 million) and borrowings due within one year of approximately RMB369.3 million (31 December 2005: RMB352.5 million).

Borrowings and banking facilities are set out in note 13 and 14.

CAPITAL COMMITMENTS

As at 30 June 2006, the Company had commitments of approximately RMB12.6 million (31 December 2005: approximately RMB10,840,000) for capital expenditure in respect of acquisition of property, plant and equipment.

MATERIAL ACQUISITIONS/DISPOSALS

During the six months ended 30 June 2006, the Company did not have any material acquisitions/disposals.

SEGMENTAL INFORMATION

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

EMPLOYEE AND EMOLUMENT POLICIES

As at 30 June 2006, the Company had 1,553 employees (31 December 2005: 1,795), comprising 18 (31 December 2005: 22) in research and development, 39 (31 December 2005: 43) in sales and marketing, 1,243 (31 December 2005: 1,375) in production, 236 (31 December 2005: 332) in quality control, 9 (31 December 2005: 10) in management, and 8 (31 December 2005: 13) 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 Company has established a remuneration committee in January 2005 and the primary duties of the remuneration committee are to formulate and make recommendation to the Board on the Company's policy and structure for all the remuneration of the directors and senior management and on the establishment of formal and transparent procedures for developing policy on such remuneration. The remuneration committee comprises three Independent Non-Executive Directors and Mr. Sun Li Yong, the Chairman and an Executive Director of the Company.

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

According to the Company's announcement 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 dying 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 2006, the Company has used approximately RMB222,000 in research and development. The Company is in progress of searching for appropriate dying factory in the PRC as at 30 June 2006.

GEARING RATIO

The gearing ratio (total debts over total assets) of the Company as at 30 June 2006 was approximately 66% (31 December 2005: approximately 66.4%).

FOREIGN EXCHANGE EXPOSURE

The Company operates in the People's Republic of China (the "PRC") with most of the transactions denominated and settled in Renminbi ("RMB"). However, foreign currencies, mainly United States Dollars, Euro and Hong Kong Dollars, are required to settle the Company's expenses and additions on plant and equipment. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The Company has used forward contracts, foreign currency borrowings or other means to hedge its foreign currency exposure. The Company considers it has no material foreign exchange risk to the Company.

CONTINGENT LIABILITIES

As at 30 June 2006, the Company did not have any significant contingent liabilities.

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

As at 30 June 2006, 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 5.68 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 2006	Approximate percentage of interests in total issued share capital as at 30 June 2006
Mr. Sun Li Yong	Beneficial owner Interest of 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	Beneficial owner Interest of spouse (Note 2)	382,200,000	65%	17.14%
		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 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 June 2006, 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 2006, 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	Approximate percentage of interests in total
			H shares in issue as at 30 June 2006	issued share capital as at 30 June 2006
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 2006.

Save as disclosed above, as at 30 June 2006, 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 2006, 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 2006, 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 under the period under review.

AUDIT COMMITTEE

The Company has established an audit committee in May 2002 and the primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The audit committee has three members comprising the three Independent Non-Executive Directors, Mr. Luk Guo Qing, Mr. Zhong Pei Min and Mr. Zhu Yu Lin. Mr. Luk Guo Qing is the chairman of the audit committee.

Up to the date of this report, the audit committee has conducted two meetings in the six months ended 30 June 2006. The meeting were held on 28 March 2006 and 9 May 2006 for discussion of the operating results,

statements of the Company for the year ended 31 December 2005 and listed to the advice provided by auditors; and the first quarterly of 2006 respectively. The audit committee has reviewed the interim report of 2006.

CORPORATE GOVERNANCE

The Company has complied, through the six months ended 30 June 2006, 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:

1. 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 2006.

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 2006.

By Order of the Board
Sun Li Yong
Chairman

Zhejiang, the PRC, 10 August, 2006