



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

Third Quarterly Report

Stock Code: 8211

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

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*This document, for which the directors (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 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 nine months ended 30 September 2006,*

- turnover of the Company decreased slightly from approximately RMB303.9 million to approximately RMB293.3 million, representing a drop of approximately 3.5% when compared to the corresponding period in 2005;
- net profit for the period was approximately RMB0.4 million; and
- the Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2006.

## UNAUDITED CONDENSED INCOME STATEMENT

### For the three months and nine months ended 30 September 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 nine months ended 30 September 2006, together with the comparative results for the corresponding period in 2005 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000 (Restated)
Turnover	2	<b>101,457</b>	94,943	<b>293,318</b>	303,902
Cost of sales		<b>(92,746)</b>	(83,989)	<b>(274,802)</b>	(279,440)
Gross profit		<b>8,711</b>	10,954	<b>18,516</b>	24,462
Other operating income		<b>877</b>	2,368	<b>7,902</b>	7,419
Selling expenses		<b>(814)</b>	(4,068)	<b>(3,098)</b>	(8,255)
Administrative expenses		<b>(1,224)</b>	(1,624)	<b>(7,726)</b>	(8,243)
Finance costs	4	<b>(4,711)</b>	(7,729)	<b>(15,147)</b>	(19,708)
<b>PROFIT (LOSS) BEFORE TAXATION</b>	3	<b>2,839</b>	(99)	<b>447</b>	(4,325)
Taxation	5	<b>(789)</b>	35	—	5,443
Profit (loss) for the period		<b>2,050</b>	(64)	<b>447</b>	1,118
Dividend paid during the period	6	—	—	—	—
Earnings/(loss) per share					
— basic (RMB)	7	<b>0.19 cents</b>	(0.006 cents)	<b>0.04 cents</b>	0.11 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") 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 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 value-added tax, less returns and allowances, during the period.

### 3. Profit (loss) before taxation

	Three months ended 30 September		Nine months ended 30 September	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000 (Restated)
Profit (loss) before taxation has been arrived at after charging:				
Depreciation and amortisation of:				
— property, plant and equipment	5,951	5,649	18,242	18,631
— investment properties	208	208	623	623

#### 4. Finance costs

	Three months ended		Nine months ended	
	30 September		30 September	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	5,348	6,997	17,060	18,339
Interest on other borrowings wholly repayable within five years	—	1,261	—	2,854
Less: Amounts capitalised in construction in progress	(637)	(529)	(1,913)	(1,485)
	4,711	7,729	15,147	19,708

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

#### 5. Taxation

	Three months ended		Nine months ended	
	30 September		30 September	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
The (credit) charge comprises:				
Current tax:				
PRC enterprise income tax for the period	936	—	147	—
Overprovision in previous years	—	—	—	(3,395)
	936	—	147	(3,395)
Deferred tax	(147)	(35)	(147)	(2,048)
PRC enterprise income tax for the period	789	(35)	—	(5,443)

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 2006 (three and nine months ended 30 September 2005: Nil).

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

	Three months ended 30 September 2006		Nine months ended 30 September 2006	
	RMB'000	2005 RMB'000 (Restated)	RMB'000	2005 RMB'000 (Restated)
Profit (loss) before taxation	<b>2,839</b>	(99)	<b>447</b>	(4,325)
Tax at the domestic income tax rate of 33% (2005: 33%)	<b>936</b>	(35)	<b>147</b>	(1,428)
Tax effect of income that are not taxable in determining taxable profit	<b>(147)</b>	—	<b>(147)</b>	(620)
Overprovision in previous periods	—	—	—	(3,395)
Tax (credit) charge for the period	<b>789</b>	(35)	—	(5,443)

## 6. Dividend

The Directors do not recommend the payment of a dividend for the three months and nine months ended 30 September 2006.

## 7. Earnings/(loss) per share

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

	Three months ended 30 September		Nine months ended 30 September	
	2006 RMB'000	2005 RMB'000 (Restated)	2006 RMB'000	2005 RMB'000 (Restated)
Earnings/(loss) for the purpose of calculating basic earnings/(loss) per share	2,050	(64)	447	1,118
Number of shares for the purpose of calculating basic earnings/(loss) per share (Note)	1,063,500,000	1,063,500,000	1,063,500,000	1,038,210,280
Weighted average number of shares for the purpose of calculating basic earnings/(loss) per share	1,063,500,000	1,063,500,000	1,063,500,000	1,038,210,280

Note: Diluted earnings per share has not been calculated for the three months and nine months ended 30 September 2006 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	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	—	—	—	—	112	56	(168)	—
Profit for the period	—	—	—	—	—	—	1,118	1,118
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 September 2005 as restated	106,350	69,732	7,880	15,959	8,111	4,071	51,885	263,988
Balance at 1 January 2006	106,350	69,637	7,880	15,959	8,144	4,073	50,467	262,510
Transfer	—	—	—	—	45	22	(67)	—
Net profit for the period	—	—	—	—	—	—	447	447
Balance at 30 September 2006	106,350	69,637	7,880	15,959	8,189	4,095	50,847	262,957

## 9. Related party transactions

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

Name of related party	Nature	Nine months ended 30 September	
		2006 RMB'000	2005 RMB'000
Sabrina	Rental income	135	135
	Sales of goods	17	—
	Electricity cost reimbursement	184	174
	Purchase of goods	4	—
Miroglio and its subsidiaries	Sales of woven fabrics (Note 1)	23,358	2,493
Fulida Dyeing	Subcontracting fee (Note 2)	5,967	—

Notes:

- (1) Miroglio S.p.A. ("Miroglio") has been a shareholder of the Company since 24 March 2005.
- (2) 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

For the nine months ended 30 September 2006, the Company recorded a turnover of approximately RMB293.3 million, representing a drop of approximately 3.5% as compared with that of the same period in 2005. According to the new marketing strategies established in early 2006, the Company ceased to export fabrics to the Middle East, which represented approximately 4.6% of sales value in 2005. On the other hand, the Company placed the resources in developing the local market and other overseas markets. Hence, the turnover decreased slightly by 3.5%. The gross profit for the period was approximately RMB18.5 million, representing a gross profit margin of approximately 6.3%, which was approximately 1.7% lower than that of the corresponding period in 2005. It was mainly due to rise of fixed overheads and variable overheads. Production outputs during the period under review decreased by approximately 14.5% when compared with the correspondence period in 2005, led to increase of fixed overheads. In additions, cost of raw materials increased by approximately 10.6% when compared with that in 2005.

Administrative expenses decreased by approximately 6.3% mainly due to effective cost control. Selling expenses decreased sharply by approximately 62.5% mainly due to decrease of transportation and freight charges, exhibition, testing fee, samples expenses and sales commission as compared with that of the previous period. Finance cost decreased by approximately 23% mainly due to decrease of bank loans. Earnings per share for the nine months ended 30 September 2006 amounted to approximately RMB0.04 cents as compared with earnings per share of approximately RMB0.11 cents for the corresponding period in 2005.

### Business and operation review

During year 2006, the Company continued the marketing strategies and target of 60% and 40% respectively for domestic sales and direct export sales. During the period under review, approximately 73.2% and 26.8% respectively of product in value were domestic sales and direct export. In 2005, approximately 67.2% and 32.8% 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 while sales to Asia other than the PRC increased by approximately 61% which represented approximately RMB6.2 million. In additions, the Company ceased to sales fabrics to the Middle East in order to reallocate the resource to develop high profile market. Since mid of February 2006, the Company had reorganized its internal operation flow so as to streamline the operations and minimize the cost. The merits were gradually reflected from the result for the periods from 1 April 2006 to 30 September 2006.

### **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 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 engages experience consultants for the technical support.

### **Sales and marketing**

During the nine months ended 30 September 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 streamline 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 September 2006 were encouraging which showed 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.

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

As at 30 September 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	Approximate percentage of interests in total issued share capital as at
			30 September 2006	30 September 2006
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	182,280,000	31%	21.8%
	Interest of spouse ( <i>Note 2</i> )	382,200,000	65%	45.6%
		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 September 2006, none of the Directors, chief executives or Supervisors of the Company or their respective associates (as defined in the GEM Listing Rules) 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 September 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	Approximate
			percentage of interests in H shares in issue as at 30 September 2006	percentage of interests in total issued share capital as at 30 September 2006
Miroglio S.p.A.	Beneficial owner	209,500,000	44.06%	19.70%

Other than as disclosed above, 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 and the GEM Listing Rules.

Save as disclosed above, as at 30 September 2006, the Directors or chief executives or Supervisors of the Company are not aware of any persons or corporations who are entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

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

Save as disclosed above, during the nine months ended 30 September 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 September 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 during the period under review.

## **AUDIT COMMITTEE**

The Company has established an audit committee in May 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 2006. The meeting were held on 28 March 2006, 9 May 2006 and 10 August 2006 for discussion of the operating results, financial statements of the Company for the year ended 31 December 2005 and listed to the advice provided by auditors; the first quarterly of 2006; and the interim results for the six months ended 30 June 2006 respectively. The audit committee has reviewed the third quarterly report of 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 nine months ended 30 September 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.

## 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 2006.

By Order of the Board

**Sun Li Yong**

*Chairman*

Zhejiang, the PRC, 10 November 2006

As at the date of 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.

\* *For identification purposes only*