



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)



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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 (the “GEM Listing Rules”) 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

- Turnover of the Company for the three months ended 31 March 2007 increase from approximately RMB79.08 million to approximately RMB89.77 million, representing an increase of approximately 13.53% when compared to the corresponding period in 2006.
- Profit for the three months ended 31 March 2007 was approximately RMB1.79 million.
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2007.

## UNAUDITED INCOME STATEMENT

### For the three months ended 31 March 2007

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 2007 together with the comparative results for the corresponding periods in 2006 as follows:

		<b>Three months ended</b>	
		<b>31 March</b>	
	<i>Notes</i>	<b>2007</b>	2006
		<b>RMB'000</b>	RMB'000
			(restated)
Turnover	2	<b>89,770</b>	79,075
Cost of sales		<b>(83,018)</b>	(76,776)
Gross profit		<b>6,752</b>	2,299
Other income		<b>1,760</b>	2,917
Selling expenses		<b>(1,278)</b>	(1,264)
Administrative and operating expenses		<b>(3,617)</b>	(2,833)
Finance costs	3	<b>(4,599)</b>	(5,502)
<b>LOSS BEFORE TAXATION</b>		<b>(982)</b>	(4,383)
Taxation	4	<b>2,771</b>	
Profit (loss) for the period	5	<b>1,789</b>	(4,383)
Dividend	6	–	–
Earnings (loss) per share			
– basic	7	<b>RMB0.17 cents</b>	RMB(0.41) 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 2006. The unaudited results of the Company are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and disclosure requirement of the GEM Listing Rules.

### 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. Finance costs

	Three months ended 31 March	
	2007	2006
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	5,363	6,140
Less: Amounts capitalised in construction in progress	(764)	(638)
	4,599	5,502

Borrowing costs capitalised during the period arose on general borrowing pool and are calculated by applying a capitalised rate of 6.37% to expenditure on qualifying assets.

#### 4. Taxation

	Three months ended 31 March	
	2007 RMB'000	2006 RMB'000
The credit comprises:		
PRC enterprise income tax for the period	–	–
Overprovision in previous years	3,453	–
	3,453	–
Deferred tax	(682)	–
	2,771	–

No provision for PRC enterprise income tax for both periods as there is no assessable profit for the two periods ended 31 March 2007 and 2006.

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

	Three months ended 31 March	
	2007 RMB'000	2006 RMB'000 (restated)
Loss before taxation	(982)	(4,383)
Tax at the domestic income tax rate of 33% (2006: 33%)	(324)	(1,446)
Tax effect of expenses that are not deductible in determining taxable profit	1,006	1,446
Overprovision in previous periods	(3,453)	–
Tax credit for the period	2,771	–

#### 5. Profit (loss) for the period

	Three months ended 31 March	
	2007 RMB'000	2006 RMB'000
Profit (loss) for the period has been arrived at after charging:		
Depreciation and amortisation	6,492	6,323

## 6. Dividend

No dividend was paid or proposed during the period ended 31 March 2007, nor has any dividend been proposed since 31 March 2007 (2006: nil).

## 7. Earnings (loss) per share

The calculation of the basic earnings (loss) per share for the three months ended 31 March 2007 is based on the profit (loss) for the period of approximately RMB1,789,000 (2006: Loss for the period of approximately RMB4,383,000) and the weighted average of 1,063,500,000 (2006:1,063,500,000) ordinary shares in issue during the period.

No diluted earnings (loss) per share have been presented for the two periods ended 31 March 2007 and 2006, as there was no diluting events existed during those periods.

## 8. Movements in reserves

	Paid-up capital	Share premium	Other reserve	Assets revaluation reserve	Statutory surplus reserve	Statutory welfare fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (restated)	RMB'000
At 1 January 2006	106,350	69,637	7,880	15,959	8,144	4,073	50,467	262,510
Loss for the period	-	-	-	-	-	-	(4,383)	(4,383)
At 31 March 2006	106,350	69,637	7,880	15,959	8,144	4,073	46,084	258,127
At 1 January 2007	106,350	69,637	7,880	15,959	8,423	4,073	54,671	266,993
Transfer	-	-	-	-	192	-	(192)	-
Profit for the period	-	-	-	-	-	-	1,789	1,789
At 31 March 2007	106,350	69,637	7,880	15,959	8,615	4,073	56,268	268,782

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

For the three months ended 31 March 2007, the Company recorded a turnover of approximately RMB89.77 million, representing an increase of approximately 13.53% as compared with that of the corresponding period in 2006. The sales volume dropped by approximately 20.02% while on the other hand, the average selling price rose by approximately 41.94% as the Company concentrated on sales of high value product during the period. The gross profit for the period was approximately RMB6.75 million, representing a gross profit margin of approximately 7.52%, which was approximately 4.61% higher than the gross profit of approximately RMB2.30 million and a gross profit margin of approximately 2.91% for the corresponding period in 2006. Selling expenses was increased slightly by approximately 1.11%, which was in line with increase in turnover. Administrative expenses increased by approximately 27.67% mainly due to exchange loss on certain foreign currency cash deposit as at 31 March 2007 which was approximately RMB1.56 million. Finance cost decreased by approximately 16.41% was due to decrease of bank loans. Earnings per shares for the three months ended 31 March 2007 were approximately RMB0.17 cents (2006: loss per shares was approximately RMB0.41 cents).

### Business and operation review

During the period under review, the fellow textile manufacturers in the PRC continued to struggle for the keen competition and rising of production cost. In order to minimise the risk, the Company continues the policies of keeping the strong position in Europe and developing other high profile and high value ended user customers. The direct export sales for the three months ended 31 March 2007 increased by approximately 54.62% when compared with the corresponding period in 2006. It was mainly due to export sales to Europe increased sharply by approximately 11.74 million, which represented 54.68% when compared with that in 2006. In additions, the export sales to Asia also increased by approximately 60.89%. Furthermore, the average selling price of the export sales increased by approximately 23.98% when compared with



the corresponding period in 2006. During the period under review, although the domestic sales dropped by approximately RMB3.10 million which represented 5.75% when compared with that in 2006, the average selling price increased by approximately 36.51%. The increase in sales value means that the Company had successfully developed a batch of high profile customers whom in return requested for high value product. Externally, the Company will continue the market strategy so as to maximise turnover value and internally, the Company will continue to supervise the effectiveness and efficiency of operation so as to minimise the operating cost.

### **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 period 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 Company is still suffering the keen competition and the increase in production overheads. The Directors had already noted the harsh environment in the textile industry. Since the second quarter of 2006, the Company had implemented various remedies so as to solve the problems, which included reorganization and restructuring of operation and marketing strategies. The outcomes of those remedies gradually appeared and the result was encouraged. It is the Company's strategy to keep the

strong position in the Europe. On the other hand, the Company continues to develop and explore high profile market and high value ended customers. In additions, the Company will continue the strategy and target of 60% and 40% respectively for domestic sale and direct export sales in order to balance the market share. During the three months ended 31 March 2007, the proportion of domestic sales and direct export sales were 56.51% and 43.49% respectively. In 2006 of the corresponding period, the proportion of domestic sales and direct export sales were 68.07% and 31.93% respectively. Except for end user customers, the customers of the Company also comprising trading companies, import and export companies and agency companies. In order to maximise profit of the Company, the Company will concentrate on and strengthening in searching for the ultimate end user customers like Zara, Mango, H&M, Next, Marks & Spencer in Europe and like Target, NYC, Sears, Fishman Toblin, JC Penny etc in USA and reduce the portion of customers that are trading companies, import and export companies and agency companies. Hence, the Company will continue to develop new and high value ended product so as to fulfill the customers' requirements. In additions, in order to maximise the profit of the Company, the Company is planning to reduce the bank loans so as to reduce the finance cost. The Directors believe that the textile industry is still full of business opportunities. The Directors expect that the result of the Company in year 2007 will be improved and better than year 2006.

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

As at 31 March 2007, 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 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	Beneficial owner	382,200,000	65%	35.94%
	Family	Held by spouse (Note 1)	182,280,000	31%	17.14%
			564,480,000	96%	53.08%
Ms. Fang Xiao Jian	Personal	Beneficial owner	182,280,000	31%	17.14%
	Family	Held by spouse (Note 2)	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 2007, 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 2007, 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 RMB0.1 each of the Company*

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

Note:

Save as disclosed above, as at 31 March 2007, 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 document.

## 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 2007.

## CONNECTED AND RELATED PARTY TRANSACTIONS

During the three months ended 31 March 2007, the Company had the following significant transactions with the related parties:

Name of related company	Nature	Three months ended 31 March	
		2007 RMB'000	2006 RMB'000
Sabrina (Note a)	Sales of goods	-	14
	Rental income	45	45
	Electricity cost reimbursement	-	1
Hongxing (Note a)	Purchase of goods	2	-
	Rental income	246	-
Miroglio S.p.A. and its subsidiaries ("Miroglio S.p.A. Group") (Note b)	Sales of goods	9,709	1,336
Miroglio Fulida (Note c)	Subcontracting fee	801	-

*Note:*

- (a) 浙江宏興莎美娜服飾有限公司 (Zhejiang Hongxing Sabrina Garments Co., Ltd.) (“Sabrina”) and 浙江宏興紡織有限公司 ( Zhejiang Hongxing Textiles Co., Ltd.) (“Hongxing”) are subsidiaries of 浙江加佰利控股集團有限公司 (Zhejiang Gabriel Holdings Group Co., Ltd.) (“Gabriel”), in which Messrs. Sun Li Yong, Xia Xue Nian, Sun Jian Feng, Li Cheng Jun and Ms. Fang Xiao Jian, directors of the Company, have beneficial interests.
- (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 for the three months ended 31 March 2007 were approximately RMB20,763,000 (2006: approximately RMB7,707,000). Sales recognized by the Company for the three months ended 31 March 2007 was approximately RMB9,709,000 (2006: approximately RMB1,336,000).
- (c) Zhejiang Miroglio Fulida Dyeing Co., Ltd (浙江米羅利奧富麗達紡織有限公司) (“Miroglio Fulida”) a company established in the PRC, the registered capital of which is owned as to 50% by Miroglio S.p.A.

## AUDIT COMMITTEE

The written terms of reference of the audit committee of the Company 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 2007.

## 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 2007.

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.