



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)



Interim Report 2007

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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 2007,

- Turnover of the Company decrease from approximately RMB191.86 million to approximately RMB188.36 million, representing a slight decrease of approximately 1.83% when compared to the corresponding period in 2006;
- Net profit for the six months ended 30 June 2007 was approximately RMB0.66 million; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007.

## UNAUDITED CONDENSED INCOME STATEMENT

For the six months ended 30 June 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 and six months ended 30 June 2007 as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2007	2006	2007	2006
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	98,586	112,786	188,356	191,861
Cost of sales		(89,735)	(105,280)	(172,753)	(182,056)
Gross profit		8,851	7,506	15,603	9,805
Other operating income		1,427	4,108	3,187	7,025
Selling expenses		(1,692)	(1,020)	(2,970)	(2,284)
Administrative and operating expenses		(4,339)	(2,200)	(7,956)	(6,502)
Finance costs	4	(5,827)	(4,934)	(10,426)	(10,436)
<b>(LOSS) PROFIT BEFORE TAXATION</b>	5	<b>(1,580)</b>	3,460	<b>(2,562)</b>	(2,392)
Taxation	6	454	–	3,225	789
Profit (loss) for the period		<b>(1,126)</b>	3,460	<b>663</b>	(1,603)
Dividend paid during the period	7	–	–	–	–
Earnings (loss) per share – basic	8	<b>RMB(0.1) cents</b>	RMB0.33 cents	<b>RMB0.06 cents</b>	RMB(0.15) cents

## UNAUDITED CONDENSED BALANCE SHEET

	Note	As at 30 June 2007 RMB'000 (Unaudited)	As at 31 December 2006 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Investment properties	9	12,461	12,876
Property, plant and equipment		239,074	241,786
Prepaid lease payments		11,705	11,841
		<b>263,240</b>	266,503
<b>CURRENT ASSETS</b>			
Inventories		144,669	106,671
Prepaid lease payments		273	273
Trade receivables	10	145,535	115,378
Other receivables, deposits and prepayments	10	22,079	16,028
Amounts due from related companies	11	648	11
Pledged bank deposits		15,900	41,617
Fixed bank deposits		77,073	102,132
Bank balances and cash		36,071	47,514
		<b>442,248</b>	429,624
<b>CURRENT LIABILITIES</b>			
Trade payables	12	96,018	66,101
Other payables and accruals		24,407	17,466
Amount due to a related company	11	–	275
Tax liabilities		6,040	9,493
Borrowings – due within one year	13	263,830	259,490
		<b>390,295</b>	352,825

	<i>Note</i>	<b>As at 30 June 2007 RMB'000 (Unaudited)</b>	As at 31 December 2006 RMB'000 (Audited)
NET CURRENT ASSETS		<b>51,953</b>	76,799
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>315,193</b>	343,302
NON CURRENT LIABILITIES			
Borrowings – due after one year	13	<b>41,000</b>	70,000
Deferred tax liabilities		<b>6,537</b>	6,309
		<b>47,537</b>	76,309
NET ASSETS		<b>267,656</b>	266,993
Capital and Reserves			
Share capital		<b>106,350</b>	106,350
Reserves		<b>161,306</b>	160,643
SHAREHOLDERS' FUNDS		<b>267,656</b>	266,993

## UNAUDITED CONDENSED CASH FLOW STATEMENT

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Net cash (used in) from operating activities	(29,965)	1,449
Net cash used in investing activities	43,182	98,572
Net cash used in financing activities	(24,660)	(15,203)
Net (decrease) increase in cash and cash equivalents	(11,443)	84,818
Cash and cash equivalents at beginning of the period	47,514	22,602
Cash and cash equivalents at end of the period, representing bank balances and cash	36,071	107,420

## 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 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
Balance at 1 January 2007	106,350	69,637	7,880	15,959	8,423	4,073	54,671	266,993
Net profit for the period	-	-	-	-	-	-	663	663
Balance at 30 June 2007	106,350	69,637	7,880	15,959	8,423	4,073	55,334	267,656

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 2006. 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 2007	30 June 2007	30 June 2006	30 June 2006
	Revenue RMB'000	Results RMB'000	Revenue RMB'000	Results RMB'000
PRC	109,658	3,640	136,902	3,745
Europe	58,186	3,534	40,751	621
Asia other than PRC	19,463	1,624	12,289	(1,900)
Others	1,049	166	1,919	91
	<b>188,356</b>	<b>8,964</b>	191,861	2,557
Unallocated corporate income		3,187		7,025
Unallocated corporate expenses		(4,287)		(1,538)
Finance costs		(10,426)		(10,436)
Loss before taxation		(2,562)		(2,392)
Taxation		3,225		789
Profit (loss) for the period		<b>663</b>		(1,603)

#### 4. Finance Costs

	Three months ended		Six months ended	
	30 June		30 June	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Interest on bank borrowings wholly repayable within five years	6,636	5,572	11,999	11,712
Less: Amounts capitalised in construction in progress	(809)	(638)	(1,573)	(1,276)
	<b>5,827</b>	4,934	<b>10,426</b>	10,436

Borrowing costs capitalised during the period arose on general borrowing pool and are calculated by applying a capitalised rate of 6.41% to expenditure on qualifying assets.

## 5. (Loss) profit before taxation

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) profit before taxation has been arrived at after charging:				
Depreciation and amortisation of				
– property, plant and equipment	6,284	5,262	12,613	12,291
– investment properties	208	208	415	415

## 6. Taxation

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The (credit) charge comprises:				
Current tax:				
PRC enterprise income tax for the period	–	1,142	–	–
Overprovision in previous years	–	–	3,453	–
	–	1,142	3,453	–
Deferred tax	454	(1,142)	(228)	(789)
	454	–	3,225	(789)

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 2007 (three and six months ended 30 June 2006: 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	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) profit before taxation	(1,580)	3,460	(2,562)	(2,392)
Tax at the domestic income tax rate of 33% (2006: 33%)	(521)	1,142	(845)	(789)
Tax effect of income that are not taxable in determining taxable profit	-	(1,142)	-	-
Tax effect of expenses that are not deductible in determining taxable profit	975	-	617	-
Overprovision in previous periods	-	-	3,453	-
Tax (credit) charge for the period	454	-	3,225	(789)

#### 7. Dividend paid

The Directors do not recommend the payment of an interim dividend for the three months and six months ended 30 June 2007 respectively.

#### 8. Earnings (loss) per share

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

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Earnings (loss) for the purpose of calculating basic earnings (loss) per share	(1,580)	3,460	663	(1,603)
Number of shares:				
Number of shares for the purpose of basic earnings (loss) per share (Note)	1,063,500,000	1,063,500,000	1,063,500,000	1,063,500,000
Weighted average number of shares for the purpose of calculating earnings (loss) per share	1,063,500,000	1,063,500,000	1,063,500,000	1,063,500,000

Note:

Diluted earnings (loss) per share has not been calculated for the three months and six months ended 30 June 2007 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 2007, the Company spent approximately RMB9.9 million (31 December 2006: RMB13.26 million) on additions of property, plant and equipment.

#### 10. Trade receivables, other receivables, deposits and prepayments

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:

	<b>30 June 2007</b>	31 December 2006
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	<b>69,212</b>	54,142
31 – 60 days	<b>13,338</b>	25,242
61 – 90 days	<b>9,377</b>	12,672
91 – 120 days	<b>13,865</b>	5,444
121 – 180 days	<b>11,572</b>	12,536
181 – 365 days	<b>27,276</b>	5,299
Over 365 days	<b>895</b>	43
	<b>145,535</b>	115,378
Less: Accumulated impairment	–	–
	<b>145,535</b>	115,378
Other receivables, deposits and prepayments	<b>22,079</b>	16,028

The fair value of the Company's trade receivables, other receivables, deposits and prepayments as at 30 June 2007 approximates to the corresponding amount due to their short-term maturities.

## 11. Amounts due from related companies

Details of amounts due from related companies are as follows:

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Sabrina (Note 1)	208	11
Hongxing (Note 2)	440	–
	<b>648</b>	11

Notes:

1. At the balance sheet date, the amount of approximately RMB208,000 (31 December 2006: RMB11,000) represents balance due by 浙江宏興莎美服飾有限公司 (Zhejiang Hongxing Sabrina Garments Co., Ltd.) (“Sabrina”). Sabrina is a subsidiary 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. The amount is interest-free, unsecured and repayable on demand. The maximum balance outstanding during the six months ended 30 June 2007 amounted to approximately RMB117,000 (31 December 2006: RMB1,144,000).
2. At the balance sheet date, the amount of approximately RMB440,000 (31 December 2006: Nil) represents balance due by 浙江宏興紡織有限公司 (Zhejiang Hongxing Textiles Co., Ltd.) (“Hongxing”). Hongxing is a subsidiary of Gabriel. The amount is interest-free, unsecured and repayable on demand. The maximum balance outstanding during the six months ended 30 June 2007 amounted to approximately RMB600,000 (31 December 2006: Nil).

The fair value of the amounts due from related companies at 30 June 2007 approximates to its carrying amount due to the short-term maturities.

*Amount due to a related company*

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Hongxing	–	275

## 12. Trade payables, other payables and accruals

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

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Within 30 days	<b>24,718</b>	23,781
31 – 60 days	<b>14,579</b>	20,521
61 – 90 days	<b>30,505</b>	8,608
91 – 120 days	<b>10,960</b>	2,984
121 – 180 days	<b>12,563</b>	6,342
181 – 365 days	<b>1,472</b>	2,099
1 – 2 years	<b>1,221</b>	1,766
	<b>96,018</b>	66,101
Other payables and accruals	<b>24,407</b>	17,466

The fair value of the Company's trade payables, other payables and accruals at 30 June 2007 approximates to their carrying amount due to the short-term maturities.

### 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 5.02% to 7.56% per annum (31 December 2006: from 4.92% to 7.06% per annum).

	<b>30 June 2007</b>	31 December 2006
	<b>RMB'000</b>	<i>RMB'000</i>
Borrowings comprise:		
Bank loans	<b>304,830</b>	329,490
Analysed as:		
Secured (Note 14)	<b>56,230</b>	109,730
Unsecured	<b>248,600</b>	219,760
	<b>304,830</b>	329,490
Denominated in RMB	<b>304,830</b>	329,490
The bank and other borrowings carry interest at fixed rate and are repayable as follows:		
Within one year or on demand	<b>263,830</b>	259,490
More than one year, but not exceeding two years	<b>41,000</b>	70,000
	<b>304,830</b>	329,490
Less: amount due within one year shown under current liabilities	<b>(263,830)</b>	(259,490)
Amount due after one year	<b>41,000</b>	70,000

	<b>30 June 2007</b>	31 December 2006
	<b>RMB'000</b>	<b>RMB'000</b>
The borrowings were guaranteed by:		
Gabriel and independent third parties	<b>40,000</b>	40,000
Gabriel and directors of the Company	<b>10,000</b>	10,000
Zhejiang Zhiye, Mr. Sun Li Yong and independent third parties ( <i>Note i</i> )	–	25,000
Mr. Sun Li Yong, Ms. Fang Xiao Jian and independent third parties	<b>51,000</b>	57,000
Independent third parties	<b>147,600</b>	130,760
	<b>248,600</b>	262,760

*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 RMB366.91 million (31 December 2006: RMB893.89 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 2007, certain assets of the Company with the following carrying values has been pledged to secure borrowings granted to the Company:

	<b>30 June 2007</b>	31 December 2006
	<b>RMB'000</b>	<b>RMB'000</b>
Pledged bank deposits	<b>15,900</b>	41,617
Investment properties	<b>15,690</b>	–
Prepaid lease payments	<b>5,339</b>	4,899
Buildings	<b>17,476</b>	18,805
Plant and machinery	<b>9,818</b>	10,833
Construction in progress	<b>53,227</b>	46,612
	<b>117,450</b>	122,766



## 15. Related party transactions

During the period for the six months ended 30 June 2007, the Company had the following transactions with the related parties:

Name of related party	Nature	Six months ended 30 June	
		2007	2006
		RMB'000	RMB'000
Sabrina	Rental income	90	90
	Sales of goods	-	17
	Electricity cost reimbursement	-	5
Hongxing (Note i)	Rental income	492	-
	Electricity cost reimbursement	2	-
	Purchase of goods	2,666	-
Miroglio and its subsidiaries ("Miroglio S.p.A. Group") (Note ii)	Sales of woven fabrics	25,780	7,184
Fulida Dyeing (Note iii)	Subcontracting fee	5,017	2,439

Notes:

- (i) Hongxing was being acquired by Gabriel on 30 August 2006.
- (ii) Since 24 March 2005, Miroglio S.p.A. became a substantial shareholder of the Company. The sales order placed by Miroglio S.p.A. Group to the Company for the six months ended 30 June 2007 was approximately RMB42,517,000 (2006: RMB25,739,000). Sales recognized by the Company for the six months ended 30 June 2007 was approximately RMB25,780,000 (2006: RMB7,184,000). As at 30 June 2007, the amounts due from Miroglio S.p.A. Group (included in trade receivables) amounted to approximately RMB11,392,000 (31 December 2006: RMB12,385,000).
- (iii) 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 2007. As at 30 June 2007, the amounts due to Fulida Dyeing (included in trade payables) amounted to approximately RMB1,735,000 (2006: RMB2,179,000).

Details of the guarantee given by related parties to the banks in respect of the loans granted to the Company as at 30 June 2007 and 31 December 2006 are set out in note 13.

In addition to the above, balances with related parties as at 30 June 2007 and 31 December 2006 are set out in note 11.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

For the six months ended 30 June 2007, the Company recorded a turnover of approximately RMB188.36 million, representing a slight decrease of approximately 1.83% as compared with that of the same period in 2006. The sales volume dropped by approximately 26.86% while on the other hand, the average selling price rose by approximately 34.26% as the Company concentrated on sale of high value product during the period. The gross profit for the period was RMB15.60 million, representing a gross profit margin of approximately 8.28%, which was approximately 3.17% higher than the gross profit of approximately RMB9.81 million and a gross profit margin of approximately 5.11% for the corresponding period in 2006. Selling expenses increased by approximately 30.03%, which was in line with increase of export sales. Administrative expenses increased by approximately 22.36% mainly due to exchange loss on certain foreign currency cash deposit during the six months ended 30 June 2007. The exchange loss was approximately RMB2.46 million. Finance cost increased slightly mainly due to increase of interest rate of the bank borrowings.

## **BUSINESS AND OPERATION REVIEW**

During the period under review, the Company was still under severe cost pressure arising from the negative operating environment, through various initiatives implemented in enhancing its operating efficiency and searched for and development of high profile and potential customers, the Company has improved the gross profit margin from product. Hence, the respective gross profit and gross profit margin for the six months ended 30 June 2007 was approximately RMB15.60 million (2006: RMB9.81 million) and 8.28% (2006: 3.17%). During the period under review, for the domestic market development, the Company successful developed certain high profile and potential customers, such as provided fabrics for manufacturing of uniform for the military of the PRC. During the six months ended 30 June 2007, the sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB32.80 million, which represented approximately 29.90% of the total domestic sales. On the other hand, the Company experienced significant growth in its export sales by approximately 43.19% to RMB78.70 million (2006: RMB54.96 million). The growth in the export sales mainly contributed from sales to the Europe and Asia region, which were approximately RMB58.19 million (2006: RMB40.75 million) and RMB19.46 million (2006: RMB12.29 million) respectively. The Company will continue to search for high value ended customers and new market in order to diversify the risk and maximize profit of the Company.

### **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 2007, 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 challenges arising from heightening production cost pressure is expected to continue in the second half of the fiscal year, especially stemming from the upward movement of raw material prices, wages levels and energy prices. Facing these challenges, the Company is undertaking various productivity and operating efficiency enhancement projects with a view to alleviate the negative factors in a proactive manner. Given these enhancement initiatives, strong market demand and the gradual price adjustment for its products, the Directors are cautiously optimistic about the Company's performance in the second half of the fiscal year.

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 six months ended 30 June 2007, the domestic sales and direct export sales were 58.22% (2006: 71.35%) and 41.78% (2006: 28.65%) respectively. The Company will also continue to search for the ultimate ended 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 strengthen research and development of new and high value ended product so as to fulfill the customers' requirements.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### Net current assets

As at 30 June 2007, the Company had net current assets of approximately RMB51.95 million (31 December 2006: RMB76.80 million).

As at 30 June 2007, the current assets comprised inventories of approximately RMB144.67 million (31 December 2006: RMB106.67 million), prepaid lease payments of approximately RMB0.27 million (31 December 2006: RMB0.27 million), trade receivables of approximately RMB145.54 million (31 December 2006: RMB115.38 million), other receivable, deposits and prepayments of approximately RMB22.08 million (31 December 2006: RMB16.03 million), amounts due from related companies of approximately RMB0.65 million (31 December 2006: RMB0.01 million), pledged bank deposits of approximately RMB15.90 million (31 December 2006: RMB41.62 million), fixed bank deposits of approximately RMB77.07 million (31 December 2006: RMB102.13 million) and bank balances and cash of approximately RMB36.07 million (31 December 2006: RMB47.51 million).

As at 30 June 2007, the current liabilities comprised trade payables of approximately RMB96.02 million (31 December 2006: RMB66.10 million), other payables and accruals of approximately RMB24.41 million (31 December 2006: RMB17.47 million), amount due to a related company of approximately RMB Nil million (31 December 2006: RMB0.28 million), tax liabilities of approximately RMB6.04 million (31 December 2006: RMB9.49 million) and borrowings due within one year of approximately RMB263.83 million (31 December 2006: RMB259.49 million).

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

## **CAPITAL COMMITMENTS**

As at 30 June 2007, the Company had commitments of approximately RMB0.26 million (31 December 2006: approximately RMB2.77 million) for capital expenditure in respect of acquisition of property, plant and equipment.

## **MATERIAL ACQUISITIONS/DISPOSALS**

During the six months ended 30 June 2007, 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 2007, the Company had 1,496 employees (31 December 2006: 1,560), comprising 13 (31 December 2006: 12) in research and development, 44 (31 December 2006: 44) in sales and marketing, 1,232 (31 December 2006: 1,254) in production, 189 (31 December 2006: 228) in quality control, 9 (31 December 2006: 10) in management, and 9 (31 December 2006: 12) 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 2006 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 2006, the Company issued 205,000,000 of H shares to its customer, Miroglio S.p.A. ("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 dyeing 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 period from 24 March 2005 to 30 June 2007, the Company has used approximately RMB964,000 (For the six months ended 30 June 2007: RMB253,000) in research and development. The Company is in progress of searching for appropriate dyeing factory in the PRC as at 30 June 2007.

## **GEARING RATIO**

The gearing ratio (total debts over total assets) of the Company as at 30 June 2007 was approximately 62.06% (31 December 2006: approximately 61.60%).

## **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 2007, the Company did not have any significant contingent liabilities.

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

As at 30 June 2007, 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	Approximate percentage of interests in total issued share capital
			as at 30 June 2007	as at 30 June 2007
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	382,200,000	65%	17.14%
	Interest of spouse ( <i>Note 2</i> )	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 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 2007, 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 2007, 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**

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of H shares held</b>	<b>Approximate percentage of interests in H shares in issue as at</b>	<b>Approximate percentage of interests in total issued share capital as at</b>
			<b>30 June 2007</b>	<b>30 June 2007</b>
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 2007.

Save as disclosed above, as at 30 June 2007, 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 2007, 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 2007, 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 announcement, the audit committee has conducted two meetings in the six months ended 30 June 2007. The meetings were held on 28 March 2007 and 9 May 2007 for discussion of the operating results, statements of the Company for the year ended 31 December 2006 and listed to the advice provided by auditors; and the first quarterly of 2007 respectively. The audit committee has reviewed the interim report of 2007.

## **CORPORATE GOVERNANCE**

The Company has complied, through the six months ended 30 June 2007, 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 2007.

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 2007.

By Order of the Board  
**Sun Li Yong**  
*Chairman*

Zhejiang, the PRC, 10 August, 2007

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