

ZHEJIANG YONGLONG ENTERPRISES CO., LTD

(a joint stock limited company incorporated in the People's Republic of China)

Stock Code: 8211



2008 THIRD QUARTERLY
REPORT

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, 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 report 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 report misleading; and (iii) all opinions expressed in this report 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 2008,

- turnover of the Company decreased from approximately RMB263.32 million to approximately RMB254.19 million, representing a drop of approximately 3.47% when compared to the corresponding period in 2007;
- net loss for the period was approximately RMB79.16 million; and
- the Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2008.

UNAUDITED CONDENSED INCOME STATEMENT

For the three months and nine months ended 30 September 2008

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 2008, together with the comparative results for the corresponding period in 2007 as follows:

	Notes	Three months ended		Nine months ended	
		30 September 2008	2007	30 September 2008	2007
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	95,060	74,965	254,194	263,321
Cost of sales		(122,994)	(59,634)	(276,486)	(232,387)
Gross (loss) profit		(27,934)	15,331	(22,292)	30,934
Other operating income (expenses)		(892)	1,079	3,194	4,266
Selling expenses		(2,758)	(1,799)	(4,423)	(4,769)
Administrative expenses		(38,729)	(2,625)	(46,870)	(10,581)
Finance costs	3	(9,946)	(2,843)	(20,303)	(13,269)
(LOSS) PROFIT BEFORE TAXATION	4	(80,259)	9,143	(90,694)	6,581
Taxation	5	6,879	(1,718)	11,535	1,507
(Loss) profit for the period		(7,338)	7,425	(79,159)	8,088
Dividend paid during the period	6	-	-	-	-
(Loss) earnings per share – basic	7	(RMB0.69 cents)	RMB0.7cents	(RMB7.00 cents)	RMB0.76cents

Notes:

1. Basis of preparation

The Company was incorporated as a joint stock company 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 2007. The unaudited results are prepared in accordance with accounting principles generally accepted in Hong Kong.

In the current period, the Company has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on or after 1 January 2008. The adoption of these new HKFRSs has no material effect on how the results for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Company has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards, amendments and interpretations will have no material impact on the results and financial position of the Company.

HKFRS (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Revised Presentation of Financial Statements ²
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedge Items ³
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 8	Operating Segments ²
HK(IFRIC) – INT 12	Service Concession Arrangements ⁴
HK(IFRIC) – INT 13	Customer Loyalty Programmes ⁵
HK(IFRIC) – INT 14	HKAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁴
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate ²
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation ⁶
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners ³

- ¹ Effective for annual periods beginning on or after 1 January 2009, except the amendments to HKFRS 5 which are effective for annual periods beginning on or after 1 July 2009.
- ² Effective for annual periods beginning on or after 1 January 2009.
- ³ Effective for annual periods beginning on or after 1 July 2009.
- ⁴ Effective for annual periods beginning on or after 1 January 2008.
- ⁵ Effective for annual periods beginning on or after 1 July 2008.
- ⁶ Effective for annual periods beginning on or after 1 October 2008.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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. Finance costs

	Three months ended 30 September		Nine months ended 30 September	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Interest on bank borrowings wholly repayable within five years	9,946	3,630	20,303	15,629
Less: Amounts capitalised in construction in progress	–	(787)	–	(2,360)
	9,946	2,843	20,303	13,269

Borrowing costs capitalised during the three and nine months ended 30 September 2007 arose on general borrowing pool and were calculated by applying a capitalised rate of 6.41% to expenditure on qualifying assets.

4. (Loss)profit before taxation

	Three months ended		Nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Loss (profit) before taxation has been arrived at after charging:				
Depreciation and amortisation of:				
– property, plant and equipment	9,488	6,341	21,705	18,854
– investment properties	208	208	623	623

5. Taxation

	Three months ended		Nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
The (credit) charge comprises:				
Current tax:				
PRC enterprise income tax for the period	–	404	–	404
Underprovision (overprovision) in previous years	(2,547)	–	624	(3,453)
	(2,547)	404	624	(3,049)
Deferred tax	(4,332)	1,314	(12,159)	1,542
	(6,879)	1,718	(11,535)	(1,507)

No provision for PRC enterprises income tax for the period as the Company had no estimated assessable profit arising in or derived from the PRC during the three and nine months ended 30 September 2008 (three and nine months ended 30 September 2007: Nil)

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The tax rate of the Company changed from 33% to 25% from 1 January 2008.

6. Dividend

The Directors do not recommend the payment of an interim dividend for the three months and nine months ended 30 September 2008 respectively.

7. (Loss) earnings per share

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

	Three months ended 30 September 2008		Nine months ended 30 September 2008	
	RMB'000	2007 RMB'000	RMB'000	2007 RMB'000
(Loss) earnings for the purpose of calculating basic (loss) earnings per share	(7,338)	7,425	(79,159)	8,088
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	1,063,500,000
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	1,063,500,000

Note: Diluted (loss) earnings per share has not been calculated for the three months and nine months ended 30 September 2008 and the corresponding period as there were no dilutive potential ordinary shares during these periods.

8. Movements in reserves

	Paid-up capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Assets	Statutory	Total RMB'000	
				revaluation reserve RMB'000	surplus reserve RMB'000		Accumulated profits RMB'000
Balance at 1 January 2007	106,350	69,637	7,880	15,959	12,496	54,671	266,993
Transfer	-	-	-	-	802	(802)	-
Net profit for the period	-	-	-	-	-	8,088	8,088
Balance at 30 September 2007	106,350	69,637	7,880	15,959	13,298	61,957	275,081
Balance at 1 January 2008	106,350	69,637	7,880	15,959	12,496	59,832	272,154
Transfer	-	-	-	-	-	(79,159)	(79,159)
Net loss for the period	-	-	-	-	-	(79,159)	(79,159)
Balance at 30 September 2008	106,350	69,637	7,880	15,959	12,496	(19,327)	192,995

9. Related party transactions

During the period for the nine months ended 30 September 2008, the Company had the following transactions with the related parties:

Name of related party	Nature	Nine months ended	
		2008	2007
		RMB'000	RMB'000
Zhejiang Sabrina (Note i)	Rental income	–	135
	Sales of woven fabrics	10	–
	Electricity cost reimbursement	22	6
	Purchase of goods	–	4
Zhejiang Hongxing (Note ii)	Rental income	–	737
	Electricity cost reimbursement	53	18
	Purchase of knitted fabrics	6	2,666
	Sales of woven fabrics	4	–
Miroglio and its subsidiaries (Note iii)	Sales of woven fabrics	27,901	44,577
Miroglio Fulida (Note iv)	Subcontracting fee	10,322	7,589
	Sales of woven fabrics	486	–

Notes:

- (i) 浙江宏興莎美娜服飾有限公司 (Zhejiang Hongxing Sabrina Garments Co., Ltd.*) (“Zhejiang 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.
- (ii) 浙江宏興紡織有限公司 (Zhejiang Hongxing Textiles co., Ltd*) (“Zhejiang Hongxing”) is a subsidiary of Gabriel.
- (iii) Since 24 March 2005, Miroglio S.p.A. (“Miroglio”) became a substantial shareholder of the Company. The sales order placed by Miroglio and its subsidiaries to the Company for the nine months ended 30 September 2008 was approximately RMB46,757,000 (2007: RMB68,123,000). Sales recognized by the Company for the nine months ended 30 September 2008 was approximately RMB27,901,000 (2007: RMB44,577,000).
- (iv) 浙江米羅利奧富利達紡織有限公司 (Zhejiang Miroglio Fulida Textile Co. Ltd.*) (“Miroglio Fulida”) is owned as to 50% by Miroglio, a substantial shareholder of the Company, and 50% by an independent third party.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the nine months ended 30 September 2008, the Company recorded a turnover of approximately RMB254.19 million, representing a decrease of approximately 3.47% as compared with that of the same period in 2007. The sales volume increased by approximately 41.75% while on the other hand, the average selling price dropped by approximately 31.90%. It was mainly due to the global financial crisis led to poor consumer consumption sentiments globally. Hence the export sales for the nine months ended 30 September 2008 dropped by approximately 28.36%. During the nine months ended 30 September 2008, the Company incurred significant gross loss in the amount of approximately RMB22.29 million mainly due to average selling price and export sales dropped that the Company has to shift the market from overseas market to the local market. Hence, the local sales increased by approximately 13.30%. The local sales for the nine months ended 30 September 2008 also involved sales of some obsolete stock of which the selling price was lower. In additions, under the new labour ordinance in the PRC, the cost of wages for the nine months ended 30 September 2008 increased significantly by approximately 61.43% when compared with the same period in 2007. Selling expenses increased slightly by approximately 7.27% mainly due to increased of exhibition expenses, which was in line with the strategy of the Company of expanding the overseas market. Administrative expenses increased sharply by approximately 342.94% mainly due to provision on impairment of accounts receivable and inventory which were amounted to approximately RMB17.69 million and RMB18.39 million respectively. In additions, under the new labour ordinance in the PRC, the related staff welfare expenses and salaries increased by approximately RMB0.42 million and approximately RMB1.18 million. Finance cost increased mainly due to bank borrowing interest rate increased during the nine months ended 30 September 2008.

Business and operation review

During the period under review, due to the global financial turmoil, the global consumer consumption sentiment was very poor. Hence, the export sales and average selling price of the Company during the nine months ended 30 September 2008 dropped by approximately 28.36% and 17.85% respectively. During the nine months ended 30 September 2008, in order to get rid of new customers and new orders from the shrinking overseas market, the Company continually to participate in overseas exhibition. In view of dropping of export sales during the nine months ended 30 September 2008 and in order to maintain stable production and operation, the Company had to shift the market from overseas to local, which however in return has lower selling price and profit margin. During the nine months ended 30 September 2008, about 70.13% and 29.87% respectively of product were local sales and export sales. During the nine months ended 30 September 2008, the sales turnover and subcontracting services fee for fabrics sold to and services provided to the PRC government for manufacturing uniform of the military was approximately RMB33.50 million and approximately RMB1.83 million respectively, which the sales turnover represented approximately 18.79% of the total domestic sales. Comparing with the operation status of fellow manufacturers in the local region, the Company is at a normal status. Provided that the external environment will not continue to worsen, under realistic estimation, the Company should be able to maintain its production and operation normally.

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.

Sales and marketing

During the nine months ended 30 September 2008, 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

Reference is made to the announcements of the Company dated 19 October 2008, 24 October 2008, 11 November 2008, 14 November 2008, 20 March 2009, 25 March 2009 and 24 July 2009 respectively.

As affected by the financial crisis of 浙江華聯三鑫石化有限公司 (Zhejiang Hualian Sunshine Petro-Chemical Co. Ltd.*), (“Hualian Sunshine”), a company established in the PRC, Gabriel encountered cash flow problems that its cash flow could not be revolved normally. At the same time, the Company was also affected and encountered difficulties in its fund flow. Mr. Sun Li Yong and Ms. Fang Xiao Jian (collectively “Mr. Sun and Mrs. Sun”) went to the United States of America on 14 September 2008 and have not returned to the PRC as at the date of this report. The Board has difficulties in contacting them. Hence, Mr. and Mrs. Sun could not perform their regular duties as a chairman and/or a director of the Company. In view of such situation, other executive Directors undertook a review on the financial records of the Company under the support from the local government authority of the PRC and found that the Company has several financial problems which including the Company’s fund was misappropriated by Gabriel, Zhejiang Sabrina, Zhejiang Hongxing and 浙江永禾實業有限公司 (Zhejiang Yonghe Enterprises Co., Ltd.*), (“Zhejiang Yonghe”) and the Company had provided corporate guarantee to secure the loan granted to Gabriel.

Due to the impact of the financial crisis of Gabriel, certain bank loans and bills payable of the Company could not be renewed as usual upon their maturity due to the reason that guarantors (including Gabriel, Mr. and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee. In addition, due to financial problems encountered by the Company, the Company cannot repay certain bank loans and bills payable upon maturity. In view of the above, the relevant banks may take legal action against the Company.

The Company is principally engaged in the research and development, manufacture and sales of woven fabrics. Due to misappropriation of the Company's funds in an aggregate amount of approximately RMB302,386,000 by Gabriel, Zhejiang Sabrina, Zhejiang Hongxing and Zhejiang Yonghe, the Company is currently encountering cash flow problems. In order to solve the cash flow problems and ensure stable production and operation, the Company has modified its raw materials procurement approach by requiring some of the local customers to provide their own raw materials to the Company for further processing so as to minimize trade payables of the Company incurred in the manufacturing process. In view of the scale, volume, quality, cost control, sales and raw materials supply of the production, the production of Company is at a stable status. During January to May this year, the operating rate of textile machines achieved 85% and the production volume dropped 20% comparing with same period last year. Comparing with the operation status of fellow manufacturers in the local region, the Company is at a normal status. Provided that the external environment will not continue to worsen, under realistic estimation, the Company should be able to maintain its production and operation normally.

Under the support from local government authority in the PRC, Gabriel is underwent group reorganization and debt restructuring. As at 30 September, 2008, the outstanding balance due from the following parties are as follow:

	<i>RMB'000</i>
Gabriel	99,457
Zhejiang Sabrina	8,108
Zhejiang Hongxing	32,746
Zhejiang Yonghe	43,805
	<hr/> 184,116 <hr/>

No impairment of loss on the above outstanding balance was provided to the income statement of the Company for the nine months ended 30 September, 2008 as the Company is waiting for the proposal of group reorganization and debt restructuring of Gabriel.

During the investigation, the Board discovered that the Company had provided guarantee to secure loans granted by Ms. Zhu Li Mei ("Ms. Zhu") ("Zhu Loan") and 紹興縣亞太投資有限公司 (Shaoxing Yatai Investment Co., Ltd.*) ("Shaoxing Yatai") ("Yatai Loan") to Gabriel. In July 2009, the Company received a civil writ (民事起訴狀) (the "Writ") from Hangzhou Xiacheng District People's Court (杭州市下城區人民法院) in relation to a claim of the outstanding loan granted by Ms. Zhu to Gabriel against Gabriel, the Company and Mr. Sun Li Yong. Pursuant to the Writ, Ms. Zhu claims, among others, (i) a sum of RMB21,731,100 comprising outstanding Zhu Loan of RMB16,700,000, related interest of RMB168,000 and damages for breach of contract of RMB4,863,100 to be repaid by Gabriel; and that (ii) Mr. Sun Li Yong and the Company as guarantors to be held liable for the foregoing loans. The Company is seeking legal advice regarding the Writ and will issue further announcement to the Shareholders as and when appropriate if there is significant development. Moreover, so far as the Board was aware, there is no legal action brought against the Company by Shaoxing Yatai in respect of the overdue Yatai Loan as at the date of this report.

Reference is made to the announcement of the Company dated 25 March 2009 in relation to the temporary impoundment of certain shares of the Company held by Mr. and Mrs. Sun under an order of the relevant court in the PRC. Mr. and Mrs. Sun and 浙江永利實業集團有限公司 (Zhejiang Yongli Enterprises Group Ltd.*) ("Zhejiang Yongli") a company established in the PRC, jointly provided guarantee to secure RMB60,000,000 of bank loans granted to third parties. As the borrower could not repay principal and interest to the banks at maturity date, Zhejiang Yongli repaid these sums on behalf of the borrower. In this connection, Zhejiang Yongli took legal action against Mr. and Mrs. Sun requesting them to undertake their guarantee obligation in the aggregate amount (including principal and interest) of RMB35,027,736.87. Therefore, part of the shareholding interest of Mr. and Mrs. Sun in the Company, which is 550,000,000 shares representing 51.72% of the total issued shares of the Company, has been impounded by Shaoxing Intermediate Court. On 30 April 2009, Shaoxing Intermediate Court made a judgment, which has not yet been effective, requiring Mr. and Mrs. Sun to undertake their respective part of responsibility as guarantor. Upon the judgment becomes effective, the court may give an order for an auction of the 550,000,000 shares of the Company held by Mr. and Mrs. Sun, which may lead to a change in the controlling shareholder of the Company.

If the relevant banks take legal action against the Company and the judgment from Shaoxing Intermediate Court against Mr. and Mrs. Sun becomes effective, the Board expects that the Company may undergo shareholding reorganization under the support of the local government authority in the PRC which would result in change of controlling shareholder of the Company.

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

As at 30 September 2008, the interests and short positions of the Directors, chief executives and Supervisors 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 (Chapter 571 of the Laws of Hong Kong) (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 5.48 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 of Directors	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares in issue as at 30 September 2008	Approximate percentage of interests in total issued share as at 30 September 2008
Mr. Sun Jian Feng	Beneficial owner	5,880,000	1%	0.55%
Mr. Xia Xue Nian	Beneficial owner	5,880,000	1%	0.55%

Save as disclosed above, as at 30 September 2008, 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 5.48 to 5.67 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 2008, the interests and short positions of person in the shares or underlying shares of the Company, other than the 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 who 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 H shares in issue as at 30 September 2008	Approximate percentage of interests in total issued share capital as at 30 September 2008
Mr. Sun Li Yong	Beneficial owner	382,200,000	65%	35.94%
	Interest of spouse (Note 1)	182,280,000	31%	17.14%
		564,480,000	96%	53.08%
Ms. Fang Xiao Jian	Beneficial owner	182,280,000	31%	17.14%
	Interest of spouse (Note 2)	382,200,000	65%	35.94%
		564,480,000	96%	53.08%
Miroglio S.p.A.	Beneficial owner	209,500,000	44.06%	19.70%

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.

Reference is made to the announcement of the Company dated 25 March 2009 in relation to the temporary impoundment of certain shares of the Company held by Mr. and Mrs. Sun under an order of the relevant court in the PRC. Mr. and Mrs. Sun and 浙江永利實業集團有限公司 (Zhejiang Yongli Enterprises Group Ltd.*) ("Zhejiang Yongli") a company established in the PRC, jointly provided guarantee to secure RMB60,000,000 of bank loans granted to third parties. As the borrower could not repay principal and interest to the banks at maturity date, Zhejiang Yongli repaid these sums on behalf of the borrower. In this connection, Zhejiang Yongli took legal action against Mr. and Mrs. Sun requesting them to undertake their guarantee obligation in the aggregate amount (including principal and interest) of RMB35,027,736.87. Therefore, part of the shareholding interest of Mr. and Mrs. Sun in the Company, which is 550,000,000 shares representing 51.72% of the total issued shares of the Company, has been impounded by Shaoxing Intermediate Court. On 30 April 2009, Shaoxing Intermediate Court made a judgment, which has not yet been effective, requiring Mr. and Mrs. Sun to undertake their respective part of responsibility as guarantor. Upon the judgment becomes effective, the court may give an order for an auction of the 550,000,000 shares of the Company held by Mr. and Mrs. Sun, which may lead to a change in the controlling shareholder of the Company.

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 2008, 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 2008, 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 2008, 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. Lu 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 2008. The meeting were held on 26 March 2008, 8 May 2008 and 11 August 2008 for discussion of the operating results, financial statements of the Company for the year ended 31 December 2007 and listed to the advice provided by auditors; the first quarterly results of 2008; and the interim results for the six months ended 30 June 2008 respectively. The audit committee has reviewed the third quarterly report of 2008.

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 2008.

RESIGNATION OF EXECUTIVE DIRECTORS AND CHAIRMAN

Reference is made to the announcement of the Company dated 29 July 2009. The Board has received resignation letters from Mr. Sun Li Yong ("Mr. Sun") and Ms. Fang Xiao Jian ("Mrs. Sun") respectively on 27 July 2009, pursuant to which Mr. Sun resigned as executive director and chairman of the Company and Mrs. Sun resigned as executive director of the Company, in each case, with effect from 29 July 2009, the date on which the Board resolved to accept the above resignations of Mr. Sun and Mrs. Sun.

By Order of the Board
Xia Xue Nian Li Cheng Jun Sun Jian Feng
Executive Directors

Zhejiang, the PRC, 29 July 2009

As at the date of the this report, the executive directors of the Company are Mr. Sun Jian Feng, Mr. Xia Xue Nian, Mr. Marco Borio and Mr. Li Cheng Jun; the independent non-executive directors are Mr. Lu Guo Qing, Mr. Zong Pei Min and Mr. Zhu Yu Lin.