



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)

(Stock Code: 8211)

THIRD QUARTERLY REPORT



2012

** For identification purpose only*

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

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This document, for which 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 (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 the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

HIGHLIGHTS

For the nine months ended 30 September 2012,

- Turnover of the Company decreased from approximately RMB108.96 million to approximately RMB99.50 million, representing a drop of approximately 8.69% when compared to the corresponding period in 2011;
- Net loss was approximately RMB10.06 million; and
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2012.

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2012

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 2012 as follows:

	<i>Notes</i>	Three months ended 30 September		Nine months ended 30 September	
		2012	2011	2012	2011
		RMB'000	<i>RMB'000</i>	RMB'000	<i>RMB'000</i>
Turnover	3	35,058	53,899	99,495	108,959
Cost of sales		(31,268)	(47,817)	(85,239)	(100,282)
Gross profit (loss)		3,790	6,082	14,256	8,677
Other operating income	3	147	376,198	1,230	395,187
Selling expenses		(24)	(51)	(86)	(173)
Administrative and other operating expenses		(1,151)	(1,626)	(3,305)	(3,975)
Legal and professional fees	4	(161)	-	(4,593)	(1,339)
Finance costs	5	(5,854)	4,622	(17,561)	-
(Loss) profit before taxation		(3,253)	385,225	(10,059)	398,377
Income tax expenses	6	-	-	-	-
(Loss) profit and total comprehensive (expenses) income for the period	7	(3,253)	385,225	(10,059)	398,377
		RMB	<i>RMB</i>	RMB	<i>RMB</i>
(Loss) earnings per share – basic and diluted	9	(0.31) cents	36.22cents	(0.95) cents	37.45 cents

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital RMB' 000	Share premium RMB' 000	Other reserve RMB' 000 (Note a)	Assets revaluation reserve RMB' 000	Statutory surplus reserve RMB' 000 (Note b)	Accumulated losses RMB' 000 (Note c)	Total RMB' 000
Balance at 1 January 2011	106,350	69,637	7,880	24,315	12,496	(660,975)	(440,297)
Total comprehensive income for the period	-	-	-	-	-	398,377	398,377
Balance at 30 September 2011	<u>106,350</u>	<u>69,637</u>	<u>7,880</u>	<u>24,315</u>	<u>12,496</u>	<u>(262,598)</u>	<u>(41,920)</u>
Balance at 1 January 2012	106,350	69,637	124,950	27,115	12,496	(263,408)	77,140
Total comprehensive expenses for the period	-	-	-	-	-	(10,059)	(10,059)
Balance at 30 September 2012	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>27,115</u>	<u>12,496</u>	<u>(273,467)</u>	<u>67,081</u>

Notes:

- (a) Other reserve represents dividends waived by the holders of domestic shares, net of tax effect and the deemed contribution arising from the discounting of the non-current interest-free loan from the immediate and ultimate holding company.
- (b) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), when distributing the net profit for each year, the Company (after conversion to a limited liability company) shall set aside 10% of its net profit after taxation (based on the Company's PRC statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's share capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset against accumulated losses or increase the share capital.
- (c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 30 September 2012 and 2011, no reserves were available for distribution due to accumulated losses being noted.

Notes:

1. BASIS OF PREPARATION

The Company is a joint stock limited company established in the PRC and the H Shares of the Company are listed on the GEM of 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 Company has prepared the condensed financial statements in accordance with the applicable disclosure required by the GEM Listing Rules and with Hong Kong Accounting Standards ("HKAS") as 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 2011. The unaudited results are prepared in accordance with accounting principles generally accepted in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The financial statements have been prepared in accordance with new and revised standards and interpretations ("new and revised HKFRSs") issued by the HKICPA.

The Company has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ¹
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
HKFRS 9	Financial Instruments ²
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ³
HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁴
HK(International Financial Reporting Interpretation Committee ("IFRIC")) – Interpretation ("Int") 20	Stripping Costs in the Production Phase of a Surface Mine ¹

- ¹ Effective for annual periods beginning on or after 1 January 2013.
- ² Effective for annual periods beginning on or after 1 January 2015.
- ³ Effective for annual periods beginning on or after 1 July 2012.
- ⁴ Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Directors are in the process of assessing the impact from application of the new standard on the results and the financial position of the Company.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Other than disclosed above, the directors of the Company anticipate that application of the other new and revised standards and amendments will have no materials impact on the results and the financial position of the Company.

3. TURNOVER AND OTHER OPERATING INCOME

Turnover represents the net amounts received and receivable for goods sold by the Company to outside customers, net of sales related taxes.

An analysis of the Company's turnover and other operating income for the period is as follows :

	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sales of woven fabrics	20,357	43,956	58,304	81,944
Sub-contracting fee income	14,701	9,943	41,191	27,015
	<u>35,058</u>	<u>53,899</u>	<u>99,495</u>	<u>108,959</u>
Other operating income				
Interest income	5	2	27	4
Other debts waived by a creditor	-	-	-	5,505
Government grants (Note i)	320	187,090	426	189,552
Sundry income	-	-	14	-
Sales of scrap materials	1,113	882	1,998	2,018
Debts waived by guarantors (Note ii)	-	168,326	-	168,326
Gain (loss) on disposal of plant and machinery	(1,291)	42	(1,235)	1,427
Finance cost over provided in previous years (Note iii)	-	19,856	-	28,355
	<u>147</u>	<u>376,198</u>	<u>1,230</u>	<u>395,187</u>
Total revenues	<u>35,205</u>	<u>430,097</u>	<u>100,725</u>	<u>504,146</u>

Notes :

- (i) Government subsidies of approximately RMB2,463,000 and RMB187,090,000 were granted to the Company for the nine months ended 30 September 2011 for encouraging the Company's business development in the Zhejiang Province and for supporting the debt restructuring of the Company respectively. There are no unfulfilled conditions or contingencies relating to the subsidies.
- (ii) Debts waived by guarantors of approximately RMB168,326,000 for the nine months ended 30 September 2011 represents various debts waived by the creditors according to the debt restructuring agreement entered into between the Company and the creditors during the nine months ended 30 September 2011, details are set out in the announcements of the Company dated 29 December 2010 and 18 October 2011.
- (iii) Finance costs of approximately RMB 19,856,000 and approximately RMB 8,499,000 were provided in previous years for overdue bank loans and bills payables and provision for claim respectively. The over-provided amount was written off after the debt agreements have been signed between the guarantors and Ms. Zhu Li Mei during the nine months ended 30 September 2011.

4. LEGAL AND PROFESSIONAL FEES

The legal and professional fees of approximately RMB4,593,000 and RMB1,339,000 for the nine months ended 30 September 2012 and 2011 respectively represents professional services fees paid for (i) preparation of resumption of trading of shares of the Company on the GEM of the Stock Exchange as trading of shares of the Company had been suspended since 24 October 2008 and resumed on 13 March 2012, details are set out in the announcement of the Company dated 8 March 2012, and (ii) preparation of the relevant documents for the very substantial disposal and continuing connected transactions as set out in the circular of the Company dated 24 February 2012.

5. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Interest over-provided on bank borrowings wholly repayable within five years	-	(4,622)	-	-
Imputed interest on non-current interest-free amount due to the immediate and ultimate holding company	5,854	-	17,561	-
	<u>5,854</u>	<u>(4,622)</u>	<u>17,561</u>	<u>-</u>

6. INCOME TAX EXPENSES

No provision for Hong Kong Profit Tax has been provided for the periods as the Company did not have any assessable profits subject to Hong Kong Profit Tax for the three and nine months ended 30 September 2012 (three and nine months ended 30 September 2011: Nil).

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the Company is 25% from 1 January 2008 onwards.

The Company’s tax losses brought forward from prior years exceed the estimated assessable profits for the three and nine months ended 30 September 2012 and 2011, therefore, no provision for the PRC Enterprise Income Tax was made for the three and nine months ended 30 September 2012 and 2011.

7. (LOSS) PROFIT FOR THE PERIOD

	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	RMB’000	RMB’000	RMB’000	RMB’000
(Loss) profit for the period has been arrived at after charging:				
Depreciation and amortisation	<u>4,130</u>	<u>5,882</u>	<u>15,975</u>	<u>18,689</u>

8. DIVIDEND PAID

The Directors do not recommend the payment of an interim dividend for the three and nine months ended 30 September 2012 and 2011.

9. (LOSS) EARNINGS PER SHARE

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

	Three months ended 30 September		Nine months ended 30 September	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
(Loss) profit for the purpose of calculating basic (loss) earnings per share	<u>(3,253)</u>	<u>385,225</u>	<u>(10,059)</u>	<u>398,377</u>
Number of shares for the purpose of basic (loss) earnings per share (Note)	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>
Weighted average number of shares for the purpose of calculating (loss) earnings per share	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>

Note:

No diluted (loss) earnings per share have been presented for the three months and nine months ended 30 September 2012 and 2011, as there was no diluting events existed during these periods.

10. RELATED PARTY TRANSACTIONS

During the period for the nine months ended 30 September 2012, the Company had the following transactions with the related parties:

Name of related party	Nature	Nine months ended 30 September	
		2012 RMB'000	2011 RMB'000
Zhejiang Yongli Thermal (Note i)	Electricity	7,180	5,546
	Steam	<u>285</u>	<u>448</u>

Notes:

- (i) 浙江永利熱電有限公司(Zhejiang Yongli Thermal Electricity Company Limited*) (“Zhejiang Yongli Thermal”) is a subsidiary of 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Limited*) (“Zhejiang Yongli”), which has become the immediate and ultimate holding company of the Company since 9 March 2012 and Mr. Xia Xian Fu is a common director of the Company and it.
- (ii) The aforesaid transactions were in the ordinary course of business of the Company and on normal commercial terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the nine months ended 30 September 2012, the Company recorded a turnover of approximately RMB99.50 million, represents a drop of approximately 8.69% when compared with the same period in 2011. It is mainly because turnovers of sales and manufacturing of woven fabrics dropped by approximately 28.85% while on the other hand subcontracting fee income increased by approximately 52.48%. Since 24 December 2010, Zhejiang Yongli became a substantial shareholder of the Company, under the financial support of Zhejiang Yongli, the Company has been gradually returned to the normal operation status before the financial crisis incurred in 2008. Gross profit margin for the nine months ended 30 September 2012 and 2011 was approximately 14.33% and 7.96% respectively. The increase in gross profit margin mainly due to lower production cost which was achieved from the following factors: (i) The merge of old and new factories of the Company in March 2011 reduce the logistic and labour cost; (ii) during the year ended 31 December 2011, the Company spent approximately RMB6 million in upgrading, replacement and renovation of plant and machinery to improve the production capacity and efficiency. Therefore, the production volume was increased and the production cost was reduced due to the scale of production; (iii) the agreed supply of electricity and steam at a lower rate from 2012 to 2014 from Zhejiang Yongli Thermal enhanced the Company a stable supply of electricity and steam and a lower cost of production. The selling and administrative expenses for nine months ended 30 September 2012 decreased when compared with the corresponding period in 2011 mainly due to tighter operation control is adopted. Net loss of approximately RMB10.06 million incurred during the nine months ended 30 September 2012 mainly due to finance cost of approximately RMB17.56 million was estimated in respect of imputed interest on non-current interest-free amount due to Zhejiang Yongli and the legal and professional fees of approximately RMB4.59 million paid for (i) preparation of resumption of trading of shares of the Company on the GEM of the Stock Exchange as trading of shares of the Company had been suspended since 24 October 2008 and resumed on 13 March 2012, details were set out in the announcement of the Company dated 8 March 2012, and (ii) preparation of the relevant documents for the very substantial disposal and continuing connected transactions as set out in the circular of the Company dated 24 February 2012. The aggregate amount of the above finance cost and legal and professional fees was approximately RMB22.15 million. Despite of the net loss for the nine months ended 30 September 2012 of approximately RMB10.06 million, the Board considers that the Company's overall financial positions are healthy and the Board remains positive on the prospects of the Company. The Board would like to emphasize that the Company's financial position remains stable and has sufficient cash resources to meet its present and future cash flow requirements. As at 30 September 2012, the bank balance and cash of the Company was approximately RMB44.01 million. Other operating income for the nine months ended 30 September 2012 dropped by approximately RMB393.96 million when compared with the corresponding period in 2011 mainly because there were various exception income such as gain on disposal of plant and machinery of approximately RMB1.43 million, government grants of approximately RMB189.55 million, other debts waived by a creditor of approximately RMB5.5 million, debts waived by guarantors of approximately RMB168.33 million and finance cost over provided in previous years of approximately RMB28.36 million in 2011. Loss and earnings per share for the nine months ended 30 September 2012 and 2011 were approximately RMB0.95 cents and RMB37.45 cents respectively.

Business and operation review

In view of the financial problem in Europe and U.S., the foreign markets have been shrinking. However, the local demand has been increasing. The Company will focus on the domestic market and sales efforts will be placed in expanding domestic market shares and continuing to consolidate the military fabric production. During the nine months ended 30 September 2012, the Company has not commenced the export business. The sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB13.01 million during the nine months ended 30 September 2012, which represents approximately 13.08% on the total turnover.

Production facilities

During the nine months ended 30 September 2012 under review, the Company spent approximately RMB577,000 in additions of office and factory equipment and approximately RMB437,000 in updating of plant and machinery.

Product research and development

During the nine months ended 30 September 2012, the Company continued to innovate and develop new product so as to meet the customers' need and enhance sales orders from customers.

OUTLOOK

Since 24 December 2010, Zhejiang Yongli became a substantial shareholder of the Company, a number of reorganisation activities, as set out in the announcement of the Company dated 29 December 2010, started to activate, such as the transfer of the installed machinery and equipment from the Company's production plant at Sunjia Qiao to the Company's existing production plant at Jianwu Village, the disposal of the old factory of the Company as located at Sunjia Qiao and entered into a three-years agreement with Zhejiang Yongli Thermal for supplying electricity and steam to the Company. Further details are set out in the circular of the Company dated 24 February 2012. The above activities (i) ensure that the Company will have additional working capital for operation in the near future, (ii) enable the Company to have sufficient supply of electricity and steam over the next three years, (iii) insulate the Company from the potential increase and fluctuation in the market rate and therefore (iv) enable the Company to stay competitive in the competitive fabric industry. As at the date of this document, the Company has completed all the reorganisation activities. In view of the financial problems in the US and Europe, the worldwide economies will continue to be affected, hence it will continue to be a challenge to the industry of the textile in 2012. The Directors believe that base on the above reorganisation activities, the experience of the management and the well established infrastructure of the Company, the Company is well equipped to face with the challenge.

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 30 September 2012, the interests and short positions of the directors, chief executives and supervisors of the Company 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 (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 5.46 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	Type of interests	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares	Approximate percentage of interests in total registered capital
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%

Save as disclosed above, as at 30 September 2012, none of the directors, chief executives or supervisors of the Company 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

At 30 September 2012, 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 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*Domestic shares of the Company*

Name of shareholders	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares	Approximate percentage of interests in total registered capital
Zhejiang Yongli Industry Group Co. Ltd	Beneficial owner	564,480,000	96.00%	53.08%

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
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.60%

Save as disclosed above, as at 30 September 2012, 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 Division 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 (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 and up to date of this document.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in May 2002 with written terms of reference, 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. Mr. Lu Guo Qing is the chairman of the Audit Committee.

The Audit Committee has reviewed the third quarterly results of the Company for the nine months ended 30 September 2012.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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 and supervisors of the Company, all directors and supervisors 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 2012.

By Order of the Board
Zhejiang Yonglong Enterprises Co., Ltd.*
Ru Guan Jun
Chairman

Zhejiang, the PRC, 13 November, 2012

As at the date of this document, the executive directors of the Company are Mr. Ru Guan Jun, Mr. Xia Xian Fu, Mr. Sun Jian Feng, Mr. Xia Xue Nian; the independent non-executive directors are Mr. Zhu Yu Lin, Mr. Zong Pei Min and Mr. Lu Guo Qing.

** For identification purpose only*