

ZHEJIANG YONGLONG ENTERPRISES CO., LTD

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

Stock Code: 8211



2008 FIRST QUARTERLY
REPORT

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This document, for which the directors (the “Directors”) of Zhejiang Yonglong Enterprises Co., Ltd. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors of the Company having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this document is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this document misleading; and (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover of the Company for the three months ended 31 March 2008 decrease from approximately RMB89.77 million to approximately RMB56.64 million, representing a drop of approximately 36.90% when compared to the corresponding period in 2007.
- Loss for the three months ended 31 March 2008 was approximately RMB2.39 million.
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2008.

UNAUDITED INCOME STATEMENT

For the three months ended 31 March 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 ended 31 March 2008 together with the comparative results for the corresponding periods in 2007 as follows:

	Notes	Three months ended 31 March	
		2008 RMB'000	2007 RMB'000
Turnover	2	56,642	89,770
Cost of sales		(55,421)	(83,018)
Gross profit		1,221	6,752
Other income		2,310	1,760
Selling expenses		(1,435)	(1,278)
Administrative and operating expenses		(4,327)	(3,617)
Finance costs	3	(4,576)	(4,599)
LOSS BEFORE TAXATION		(6,807)	(982)
Taxation	4	4,413	2,771
(Loss) profit for the period	5	(2,394)	1,789
Dividend	6	–	–
(Loss) earnings per share – basic	7	(RMB0.23 cents)	RMB0.17 cents

* For identification purpose only

Notes:

1. Basis of preparation

The Company is a joint stock limited company established in the People's Republic of China (the "PRC") and the H Shares of the Company are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is principally engaged in the research and development, manufacture, and sale of woven fabrics.

The Company's books and records are maintained in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2007. The unaudited results of the Company are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and disclosure requirement of the GEM Listing Rules.

2. Turnover

Turnover represents the amounts received and receivable for goods sold, which is net of the PRC business tax and value-added tax, less returns and allowances, during the period.

3. Finance costs

	Three months ended	
	31 March	
	2008	2007
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	4,576	5,363
Less: Amounts capitalised in construction in progress	—	(764)
	4,576	4,599

Borrowing costs capitalised during the period ended 31 March 2007 arose on general borrowing pool and are calculated by applying a capitalised rate of 6.37% to expenditure on qualifying assets.

4. Taxation

	Three months ended	
	31 March	
	2008	2007
	RMB'000	RMB'000
The credit comprises:		
PRC enterprise income tax for the period	–	–
Overprovision in previous years	2,547	3,453
	2,547	3,453
Deferred tax	1,866	(682)
	4,413	2,771

No provision for PRC enterprise income tax for both periods as there is no assessable profit for the two periods ended 31 March 2008 and 2007.

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

	Three months ended	
	31 March	
	2008	2007
	RMB'000	RMB'000
Loss before taxation	6,807	982
Tax at the domestic income tax rate of 25% (2007: 33%)	1,701	324
Tax effect of expenses that are not deductible in determining taxable profit	–	(1,006)
Tax effect of income that are not taxable in determining taxable profit	165	–
Overprovision in previous periods	2,547	3,453
Tax credit for the period	4,413	2,771

5. (Loss) profit for the period

	Three months ended	
	31 March	
	2008	2007
	RMB'000	RMB'000
(Loss) profit for the period has been arrived at after charging:		
Depreciation and amortisation	5,320	6,492

6. Dividend

No dividend was paid or proposed during the period ended 31 March 2008, nor has any dividend been proposed since 31 March 2008 (2007: Nil).

7. (Loss) earnings per share

The calculation of the basic (loss) earnings per share for the three months ended 31 March 2008 is based on the loss for the period of approximately RMB2,394,000 (2007: profit for the period of approximately RMB1,789,000) and the weighted average of 1,063,500,000 (2007:1,063,500,000) ordinary shares in issue during the period.

No diluted (loss) earnings per share have been presented for the two periods ended 31 March 2008 and 2007, as there was no diluting events existed during those periods.

8. Movements in reserves

	Paid-up capital	Share premium	Other reserve	Assets revaluation reserve	Statutory surplus reserve	Statutory welfare fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	106,350	69,637	7,880	15,959	8,423	4,073	54,671	266,993
Transfer	-	-	-	-	192	-	(192)	-
Loss for the period	-	-	-	-	-	-	1,789	1,789
At 31 March 2007	106,350	69,637	7,880	15,959	8,615	4,073	56,268	268,782
At 1 January 2008	106,350	69,637	7,880	15,959	12,496	-	59,832	272,154
Loss for the period	-	-	-	-	-	-	(2,394)	(2,394)
At 31 March 2008	106,350	69,637	7,880	15,959	12,496	-	57,438	269,760

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the three months ended 31 March 2008, the Company recorded a turnover of approximately RMB56.64 million, representing a drop of approximately 36.90% as compared with that of the corresponding period in 2007. The sales volume dropped by approximately 20.81%. The gross profit for the period was approximately RMB1.22 million, representing a gross profit margin of approximately 2.16%, which was approximately 5.36% lower than the gross profit of approximately RMB6.75 million and a gross profit margin of approximately 7.52% for the corresponding period in 2007. The dropping of sales turnover and gross profit margin mainly due to the Snowing Disaster incurred during the first quarter of 2008. The Company early started the Chinese New Year Holidays and some of the workers could not return to the factory on time led to insufficient production. Hence, there were only two months of production for the three months ended 31 March 2008. Therefore, the relative fixed overheads increased significantly due to the dropping of production volume when compared with that in 2007. The snowing also prevented the product being transported to the customers for local sales and the dock for exporting. In additions, the continue increase in raw materials cost was another factor to the dropping of gross profit margin. Furthermore, as all the export sales were denominated in USD, the appreciation of RMB led to decrease of export sales value. Selling expenses increased by approximately 12.25% mainly due to increase of salaries, traveling expenses and communication expenses which was in line with the policies of developing the overseas market. Administrative expenses increased by approximately 19.62% mainly due to increase of local government levy charges, and exchange loss on certain foreign currency cash deposit as a result of appreciation of RMB. Finance cost decreased slightly by approximately 0.5% was due to decrease of bank loans. Loss per share for the three months ended 31 March 2008 was approximately RMB0.23 cents (2007: earnings per shares of approximately RMB0.17 cents).

Business and operation review

During the period under review, except the keen competition and rising of production cost, the fellow textile manufacturers in the PRC were struck by the Snowing Disaster. Under the severe business environment, the Company

will continue the strategies of keeping the strong position in Europe and developing of other high profile and high value ended user customers. The Direct export sales for the three months ended 31 March 2008 decreased by approximately 54.59% when compared with the corresponding period in 2007. It was mainly due to appreciation of RMB that led to decrease of sales value; and the Snowing Disaster that prevented or delayed the product being transported to the dock for exporting. As the production cost on raw materials, wages, electricity etc continues increasing, the Company will continue to supervise the effectiveness and efficiency of operation so as to minimise the operating cost.

Production facilities

The Company continues to search for the opportunities to enter the area of down stream dyeing and finishing.

Product research and development

The Company continues to innovate and develop new product so as to meet the customers' need and search for the cooperation opportunities with international partner for sharing the various valuable technical knowledge and experience in designing fabrics.

Sales and marketing

During the period under review, the Company actively participated in various trade fairs held in PRC and overseas so as to gain exposure in the fabrics market and to popularize the Company's new products.

Outlook

Except be suffering from the keen competition and high production cost, the Company and the fellow textile manufacturers in the PRC was struck by the Snowing Disaster during the three months ended 31 March 2008. In additions, the appreciation of RMB also led to the depreciation of the export sales value. Hence, the sentiment of the textile industry was poor. The Company will continue the strategies of cost control and development of new market, new and potential customers.

During the three months ended 31 March 2008, sales of fabrics and provision of subcontracting services to the PRC government department for manufacturing of uniform to the PRC military was approximately RMB10.51 million (2007: Nil) and RMB0.88 million (2007: Nil) respectively. The sales were 27% and 18.55% on local sales and total sales respectively for the three months ended 31 March 2008. The Company will continue to keep the strong position in the Europe. On the other hand, the Company continues to develop and explore high profile market and high value ended customers. In additions, the Company will continue the strategy and target of 60% and 40% respectively for domestic sale and direct export sales in order to balance the market share. During the three months ended 31 March 2008, the proportion of domestic sales and direct export sales were 68.70% and 31.30% respectively. In 2007 of the corresponding period, the proportion of domestic sales and direct export sales were 56.51% and 43.49% respectively.

In additions, in view of the harsh business environment of the textile industry and in order to maximise the profit of the Company, the Company is searching for potential investment opportunities. Hence, the Company is planning to raise additional fund through placing of new H shares. On 13 November 2007, the shareholders of the Company passed a special resolution on the extraordinary general meeting and approved the directors of the Company to place a maximum of 880,000,000 new H Shares ("Placing Shares") at a placing price of HK\$0.55 per H Share ("Placing"). The net proceeds of the Placing, after deducting the related commission and expenses, will be approximately HK\$470,900,000, representing a net placing price of approximately HK\$0.535 per H Share. The Company intends to use such net proceeds for working capital and future investment purposes. Up to the date of this announcement, the procedures of Placing has not completed as it is still under the relevant government authorities' approval.

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

As at 31 March 2008, the interests and short positions of the Directors, chief executives, supervisors and their respective associates (as defined under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange (the "GEM Listing Rules")) of the Company in the shares, underlying shares and debentures of the Company

and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company

Name	Type of interests	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares	Approximate percentage of interests in the total registered capital
Mr. Sun Li Yong	Personal	Beneficial owner	382,200,000	65%	35.94%
	Family	Held by spouse (Note 1)	182,280,000	31%	17.14%
			564,480,000	96%	53.08%
Ms. Fang Xiao Jian	Personal	Beneficial owner	182,280,000	31%	17.14%
	Family	Held by spouse (Note 2)	382,200,000	65%	35.94%
			564,480,000	96%	53.08%
Mr. Sun Jian Feng	Personal	Beneficial owner	5,880,000	1%	0.55%
Mr. Xia Xue Nian	Personal	Beneficial owner	5,880,000	1%	0.55%

Notes:

1. Mr. Sun Li Yong is the husband of Ms. Fang Xiao Jian and shall be deemed by virtue of the SFO to be interested in the 182,280,000 shares beneficially owned by Ms. Fang Xiao Jian.
2. Ms. Fang Xiao Jian is the wife of Mr. Sun Li Yong and shall be deemed by virtue of the SFO to be interested in 382,200,000 shares beneficially owned by Mr. Sun Li Yong.

Short positions in the shares of the Company

None

Save as disclosed above, as at 31 March 2008, none of the Directors, chief executives or supervisors and their respective associates (as defined under the GEM Listing Rules) of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to be Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2008, so far as it is known to the Directors, chief executives or supervisors of the Company, the persons (not being a Director, chief executive or supervisor of the Company) who had equity interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO, were as follows:

Long positions in the shares of the Company

H-shares of RMB0.1 each of the Company

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

Note:

Save as disclosed above, as at 31 March 2008, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

COMPETING INTERESTS

None of the Directors or the management shareholders and their respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company for the period under review and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2008.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the three months ended 31 March 2008, the Company had the following significant transactions with the related parties:

Name of related company	Nature	Three months ended 31 March	
		2008 RMB'000	2007 RMB'000
Sabina (Note a)	Rental income	45	45
	Electricity cost reimbursement	3	-
Hongxing (Note a)	Purchase of goods	4	2
	Rental income	246	246
	Electricity cost reimbursement	9	-
Miroglio S.p.A. and its subsidiaries ("Miroglio S.p.A. Group") (Note b)	Sales of goods	5,382	9,709
Miroglio Fulida (Note c)	Subcontracting fee	2,971	801
	Sales of goods	196	-

Note:

- (a) 浙江宏興莎美娜服飾有限公司 (Zhejiang Hongxing Sabrina Garments Co., Ltd.) ("Sabina") and 浙江宏興紡織有限公司 (Zhejiang Hongxing Textiles Co., Ltd.) ("Hongxing") are subsidiaries of 浙江加佰利控股集團有限公司 (Zhejiang Gabriel Holdings Group Co., Ltd.) ("Gabriel"), in which Messrs. Sun Li Yong, Xia Xue Nian, Sun Jian Feng, Li Cheng Jun and Ms. Fang Xiao Jian, directors of the Company, have beneficial interests.
- (b) Miroglio S.p.A. is a shareholder of the Company since 24 March 2005. The sales orders placed by Miroglio S.p.A. Group to the Company for the three months ended 31 March 2008 were approximately RMB14,776,000 (2007: RMB7,707,000). Sales recognized by the Company for the three months ended 31 March 2008 was approximately RMB5,382,000 (2007: RMB9,709,000).
- (c) Zhejiang Miroglio Fulida Dyeing Co., Ltd (浙江米羅利奧富麗達紡織有限公司) ("Miroglio Fulida") a company established in the PRC, the registered capital of which is owned as to 50% by Miroglio S.p.A.

AUDIT COMMITTEE

The written terms of reference of the audit committee of the Company have been updated in accordance with the provision of the Code of Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The audit committee has three members comprising the three independent non-executive Directors, Mr. Zong Pei Min, Mr. Luk Guo Qing and Mr. Zhu Yu Lin. Mr. Luk Guo Qing is the chairman of the audit committee.

Up to the date hereof, the audit committee has conducted two meetings in this quarter. The audit committee has reviewed the first quarterly results and the first quarterly report for the three months ended 31 March 2008.

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules throughout the three months ended 31 March 2008.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors and supervisors, they confirmed that they have complied with the required standard and the code of conduct regarding securities transactions by directors and supervisors adopted by the Company.

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

By Order of the Board
Sun Li Yong
Chairman

Zhejiang, the PRC, 8 May 2008