



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)



Third Quarterly Report 2007

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

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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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 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 nine months ended 30 September 2007,

- turnover of the Company decreased from approximately RMB293.32 million to approximately RMB263.32 million, representing a drop of approximately 10.23% when compared to the corresponding period in 2006;
- net profit for the period was approximately RMB8.09 million; and
- the Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2007.

UNAUDITED CONDENSED INCOME STATEMENT

For the three months and nine months ended 30 September 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 nine months ended 30 September 2007, together with the comparative results for the corresponding period in 2006 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2007	2006	2007	2006
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	74,965	101,457	263,321	293,318
Cost of sales		(59,634)	(92,746)	(232,387)	(274,802)
Gross profit		15,331	8,711	30,934	18,516
Other operating income		1,079	877	4,266	7,902
Selling expenses		(1,799)	(814)	(4,769)	(3,098)
Administrative expenses		(2,625)	(1,224)	(10,581)	(7,726)
Finance costs	3	(2,843)	(4,711)	(13,269)	(15,147)
PROFIT BEFORE TAXATION	4	9,143	2,839	6,581	447
Taxation	5	(1,718)	(789)	1,507	-
Profit for the period		7,425	2,050	8,088	447
Dividend paid during the period	6	-	-	-	-
Earnings per share – basic	7	RMB0.7 cents	RMB0.19 cents	RMB0.76 cents	RMB0.04 cents

Notes:

1. Basis of preparation

The Company was incorporated as a joint stock company with limited liability 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 2006. 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 either effective for accounting periods beginning on or after 1 March 2006 or 1 January 2007. The adoption of the new HKFRSs had 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.

HKAS 23 (Revised)	Borrowing costs
HKFRS 8	Operating segments
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 14	HKAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	3,630	5,348	15,629	17,060
Less: Amounts capitalised in construction in progress	(787)	(637)	(2,360)	(1,913)
	2,843	4,711	13,269	15,147

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

4. Profit before taxation

	Three months ended 30 September		Nine months ended 30 September	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:				
Depreciation and amortisation of:				
– property, plant and equipment	6,341	5,951	18,854	18,242
– investment properties	208	208	623	623

5. Taxation

	Three months ended 30 September		Nine months ended 30 September	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
The (credit) charge comprises:				
Current tax:				
PRC enterprise income tax for the period	404	936	404	147
Overprovision in previous years	-	-	(3,453)	-
	404	936	(3,049)	147
Deferred tax	1,314	(147)	1,542	(147)
	1,718	789	(1,507)	-

The PRC enterprises income tax has been provided at the rate of 33% on the Company's estimated assessable profit for the three and nine months ended 30 September 2007 (three and nine months ended 30 September 2006: Nil)

6. Dividend

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

7. Earnings per share

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

	Three months ended 30 September		Nine months ended 30 September	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Earnings for the purpose of calculating basic earnings per share	7,425	2,050	8,088	447
Number of shares for the purpose of calculating basic 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 earnings per share	1,063,500,000	1,063,500,000	1,063,500,000	1,063,500,000

Note: Diluted earnings per share has not been calculated for the three months and nine months ended 30 September 2007 and the corresponding period as there were no dilutive potential ordinary shares during these periods.

8. Movements in reserves

	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
Transfer	-	-	-	-	45	22	(67)	-
Net profit for the period	-	-	-	-	-	-	447	447
Balance at 30 September 2006	106,350	69,637	7,880	15,959	8,189	4,095	50,847	262,957
Balance at 1 January 2007	106,350	69,637	7,880	15,959	8,423	4,073	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	9,225	4,073	61,957	275,081

9. Related party transactions

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

Name of related party	Nature	Nine months ended 30 September	
		2007 RMB'000	2006 RMB'000
Sabrina (Note i)	Rental income	135	135
	Sales of woven fabrics	-	17
	Electricity cost reimbursement	6	8
	Purchase of goods	4	4
Hongxing (Note ii)	Rental income	737	82
	Electricity cost reimbursement	18	2
	Purchase of knitted fabrics	2,666	-
Miroglio and its subsidiaries (Note iii)	Sales of woven fabrics	44,577	23,358
Fulida Dyeing (Note iv)	Subcontracting fee	7,589	5,967
	Sales of woven fabrics	18	-

Notes:

- (i) 浙江宏興莎美娜服飾有限公司 (Zhejiang Hongxing Sabrina Garments Co., Ltd.*)"("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*)"("Hongxing") is a subsidiary of Gabriel. It is acquired by Gabriel on 30 August 2006.
- (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 2007 was approximately RMB68,123,000 (2006: RMB47,785,000). Sales recognized by the Company for the nine months ended 30 September 2007 was approximately RMB44,577,000 (2006: RMB23,358,000).
- (iv) 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 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the nine months ended 30 September 2007, the Company recorded a turnover of approximately RMB263.32 million, representing a decrease of approximately 10.23% as compared with that of the same period in 2006. The sales volume dropped by approximately 30.97% while on the other hand, the average selling price rose by approximately 30.05% as the Company concentrated on sale of high value product during the period. The gross profit for the period was RMB30.93 million, representing a gross profit margin of approximately 11.75%, which was approximately 5.44% higher than the gross profit of approximately RMB18.52 million and a gross profit margin of approximately 6.31% for the corresponding period in 2006. Selling expenses increased by approximately 53.95%, which was in line with increase of export sales. Administrative expenses increased by approximately 36.96% mainly due to exchange loss which was approximately RMB2 million on certain foreign currency cash deposit during the nine months ended 30 September 2007. Finance cost decreased mainly due to repayment of the bank borrowings during the nine months ended 30 September 2007.

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 nine months ended 30 September 2007 was approximately RMB30.93 million (2006: RMB18.52 million) and 11.75% (2006: 6.31%). 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 nine months ended 30 September 2007, the sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB42.24 million, which represented approximately 26.85% of the total domestic sales. On the other hand, the Company experienced significant growth in its export sales by approximately

34.82% to RMB105.98 million (2006: RMB78.61 million). The growth in the export sales mainly contributed from sales to the Europe and Asia region, which were approximately RMB78.27 million (2006: RMB61.78 million) and RMB26.10 million (2006: RMB16.33 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

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. In order to improve the quality of the product, the Company engages experience consultants for the technical support.

Sales and marketing

During the nine months ended 30 September 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 year 2007, 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 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 nine months ended 30 September 2007, the domestic sales and direct export sales were 59.75% (2006: 73.20%) and 40.25% (2006: 26.80%) 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.

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

As at 30 September 2007, 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 require (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) pursuant to Rules 5.48 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	Approximate percentage of interests in domestic shares in issue as at 30 September 2007		
		Number of domestic shares held	Approximate percentage of interests in domestic shares in issue as at 30 September 2007	Approximate percentage of interests in total issued share capital as at 30 September 2007
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%
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 September 2007, 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 2007, 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	Approximate
			percentage of H shares in issue as at 30 September 2007	percentage of interests in total issued share capital as at 30 September 2007
Miroglio S.p.A.	Beneficial owner	209,500,000	44.06%	19.70%

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 2007, 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 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 September 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 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. Luk 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 2007. The meetings were held on 28 March 2007, 9 May 2007 and 10 August 2007 for discussion of the operating results, financial statements of the Company for the year ended 31 December 2006 and listed to the advice provided by auditors; the first quarterly results of 2007; and the interim results for the six months ended 30 June 2007 respectively. The audit committee has reviewed the third quarterly report of 2007.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in rule 5.34 of the GEM Listing Rules, throughout the nine months ended 30 September 2007.

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in 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 nine months ended 30 September 2007.

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 2007.

PLACING OF NEW H SHARES

On 19 September 2007, the Company entered into a placing agreement (the "Placing Agreement") with a placing agent (the "Placing Agent"), pursuant to which the Company agreed to appoint the Placing Agent as agent for the placing (the "Placing") on a best effort basis, of 880,000,000 new H shares at a price of HK\$0.55 per placing share ("Placing Share").

The net proceeds of the Placing, after deducting the related commission and expenses, will be approximately HK\$470,900,000, representing a net price of approximately HK\$0.535 per H share. The Company intends to use such net proceeds for working capital and future investments purposes. The Company has been exploring potential investment and business opportunities and the net proceeds arising from the Placing will be used for such potential investment or business opportunities once they are identified.

A circular containing, inter alia, further information on the Placing, together with notices of the extraordinary general meeting (the "EGM") and the class meeting (the "Class Meetings") which are to be held on 13 November 2007, were sent to the shareholders of the Company on 28 September 2007.

By Order of the Board

Sun Li Yong

Chairman

Zhejiang, the PRC, 12 November 2007

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. Marco Borio and Mr. Li Cheng Jun; the independent non-executive directors are Mr. Luk Guo Qing, Mr. Zong Pei Min and Mr. Zhu Yu Lin.