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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

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 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.

* *For identification purpose only*

HIGHLIGHTS

For the year ended 31 December 2008,

- turnover of the Company decreased from approximately RMB393.08 million in year 2007 to approximately RMB324.99 million in year 2008, representing a decrease of approximately 17.32% when compared to the year ended 31 December 2007;

- loss for the year was approximately RMB517.79 million; and

- the Directors do not recommend the payment of a final dividend for the year ended 31 December 2008.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 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 audited results of the Company for the year ended 31 December 2008, together with the comparative results for the corresponding period in 2007 as follows:

	Notes	**2008** ***RMB'000***	2007 *RMB'000* (Restated)
Turnover	*3*	**324,992**	393,077
Cost of sales		**(428,012)**	(354,041)
Gross (loss) profit		**(103,020)**	39,036
Other operating income	*3*	**5,047**	7,498
Selling and distribution costs		**(8,490)**	(6,315)
Administrative expenses		**(30,433)**	(20,462)
Impairment loss recognised in respect of various assets	*5*	**(22,262)**	(341)
Loss on misconducts of directors	*6*	**(342,471)**	-
Finance costs	*8*	**(27,464)**	(18,581)
(Loss) profit before taxation		**(529,093)**	835
Income tax credit	*9*	**11,303**	4,326
(Loss) profit for the year	*10*	**(517,790)**	5,161
Other comprehensive income for the year			
Gain on revaluation of properties		**1,804**	-
Income tax relating to revaluation of properties		**(451)**	-
Other comprehensive income for the year, net of tax		**1,353**	-
Total comprehensive (expenses) income for the year		**(516,437)**	5,161
		RMB	RMB
(Loss) earnings per share – basic and diluted	*11*	**(48.69) cents**	0.48cent

STATEMENT OF FINANCIAL POSITION
At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment		**217,242**	229,890
Investment properties		**9,046**	12,045
Prepaid lease payments		**11,295**	11,568
		237,583	253,503
Current assets			
Inventories		**59,868**	168,362
Trade and other receivables	*12*	**70,203**	137,425
Prepaid lease payments		**273**	273
Amounts due from related companies	*13*	**1,210**	20
Fixed bank deposits		**-**	60,565
Bank balances and cash			
- pledged		**42,552**	65,192
- unpledged		**6,212**	10,182
		180,318	442,019
Current liabilities			
Trade and other payables	*14*	**213,048**	116,942
Amount due to a guarantor		**27,603**	-
Provision		**27,883**	-
Income tax payable		**-**	6,040
Bank borrowings	*15*	**393,650**	254,950
		662,184	377,932
Net current (liabilities) assets		**(481,866)**	64,087
		(244,283)	317,590
Non-current liabilities			
Bank borrowings	*15*	**-**	40,000
Deferred taxation		**-**	5,436
		-	45,436
		(244,283)	272,154
Capital and reserves			
Share capital		**106,350**	106,350
Reserves		**(350,633)**	165,804
		(244,283)	272,154

STATEMENT OF CHANGES IN EQUITY

	Share 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))	Retained profits (accumulated losses) RMB'000 (Note (c))	Total RMB'000
At 1 January 2007	106,350	69,637	7,880	15,959	12,496	54,671	266,993
Total comprehensive income for the year	-	-	-	-	-	5,161	5,161
At 31 December 2007 and 1 January 2008	106,350	69,637	7,880	15,959	12,496	59,832	272,154
Loss for the year	-	-	-	-	-	(517,790)	(517,790)
Other comprehensive income for the year	-	-	-	1,353	-	-	1,353
Total comprehensive income (expenses) for the year	-	-	-	1,353	-	(517,790)	(516,437)
At 31 December 2008	106,350	69,637	7,880	17,312	12,496	(457,958)	(244,283)

Notes:

(a) The other reserve represents the dividends waived by the holders of domestic shares, net of tax.

(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 PRC statutory accounts of the Company) 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 31 December 2008, no reserves were available for distribution due to accumulated losses being noted (2007: retained profits of approximately RMB59,832,000).

EXTRACTS FROM THE INDEPENDENT AUDITOR'S REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2008

The auditor of the Company, SHINEWING (HK) CPA Limited ("SHINEWING"), made the qualified opinion arising from limitation of scope in the independent auditor's report for the year ended 31 December 2008 as follows:

“LIMITATION OF SCOPE

1. FINANCIAL GUARANTEE LIABILITIES

As disclosed in Notes 13 and 31 to the financial statements, the Company acted as a guarantor to certain loans granted to a related company with principal amounts of RMB40,000,000 and a provision of approximately RMB27,883,000 was recognised in the statement of financial position as at 31 December 2008. Due the absence of adequate and relevant information, we were unable to satisfy ourselves on the accuracy of the fair value of these financial guarantees at its initial recognition and at the year ended 31 December 2008. Consequently, the financial effects of these guarantees have not been properly measured and accounted for in the financial statements of the Company for the current year.

2. OTHER RECEIVABLES

As disclosed in Note 25 to the financial statements, the carrying amounts of other receivables amounting to approximately RMB7,949,000 as at 31 December 2008, after netting off provision for impairment loss of approximately RMB98,742,000. We were unable to obtain direct confirmations from a receivable balance of approximately RMB18,500,000 due to the debtor being struck off. The amount was written off during the year. There were no other alternative audit procedures that we could adopt to satisfy ourselves on the existence, accuracy and completeness of the balance stated in the statement of financial position at 31 December 2008, or the appropriateness of the amount written off in respect thereof.

3. CONSIGNMENT STOCKS

During the year, the Company has written off consignment stocks amounting to RMB3,401,000 which was held by an independent third party. We were unable to obtain direct confirmation from the relevant parties for these consignment stocks or to carry out alternative audit procedures that we considered necessary to satisfy ourselves as to the ownership, existence and valuation of these consignment stocks at 31 December 2008, or appropriateness of the amounts written off in respect thereof during the year.

We were unable to carry out alternative audit procedures to satisfy ourselves as to the matters set out above.

Any adjustment that might have been found to be necessary in respect of the matters set out in the paragraphs above would have a significant consequential effect on the financial position of the Company as at 31 December 2008 and the loss and cash flows of the Company for the year then ended and the related disclosures in the financial statements.

QUALIFIED OPINION ARISING FROM LIMITATION OF SCOPE

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had we been able to satisfy ourselves as to the fair value of the financial guarantee liabilities, other receivables and consignment stocks as mentioned above, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2008, and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2 to the financial statements which indicates that the Company had net current liabilities of approximately RMB481,866,000 and a capital deficiency of approximately RMB244,283,000 as at 31 December 2008. These conditions as set out in Note 2 to the financial statements indicate the existence of material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern."

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 (i) manufacture and sale of woven fabrics, and (ii) provision of subcontracting services.

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

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

In the current year, the Company has applied the following new and revised standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Interpretation ("INT") 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – INT 12	Service Concession Arrangements
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new and revised HKFRSs has had no material effect on the financial statements of the Company for the current or prior accounting periods.

In addition, the Company has early adopted the following new and revised HKFRSs which have been issued but are not yet effective and where early adoption is permitted.

HKFRSs (Amendments)	Improvements to HKFRSs
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of improvements to HKFRSs 2008
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-base Payments - Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Interpretation (“INT”) 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC) – INT 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – INT 13	Customer Loyalty Programmes
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) – INT 18	Transfers of Assets from Customers

Except as described below, the early adoption of the above new and revised HKFRSs had no material effect on the financial statements of the Company for the current or prior accounting periods.

Early adoption of new and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised in 2007) – Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 "Operating Segments"

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Company's reportable segments (See Note 4) and changes in the basis of measurement of the Company's segment profit or loss, segment assets and segment liabilities.

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 "Financial Instruments: Disclosures")

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Company has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

Early adoption of the above new and revised HKFRSs has not affected the reported results and/or financial position of the Company.

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[8]
HKFRS 10	Consolidated Financial Statements[8]
HKFRS 11	Joint Arrangements[8]
HKFRS 12	Disclosure of Interests in Other Entities[8]
HKFRS 13	Fair Value Measurement[8]
HKAS 1 (Revised)	Presentation of Financial Statements[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 19 (as revised in 2011)	Employee Benefits[8]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[8]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[8]
HKAS 32 (Amendment)	Classification of Rights Issues[2]

HK(IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

[1] Amendments that are effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 February 2010.
[3] Effective for annual periods beginning on or after 1 July 2010.
[4] Effective for annual periods beginning on or after 1 January 2011.
[5] Effective for annual periods beginning on or after 1 July 2011.
[6] Effective for annual periods beginning on or after 1 January 2012.
[7] Effective for annual periods beginning on or after 1 July 2012.
[8] Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments has (as revised in November 2010) adds requirements for 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.

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.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

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

HK(IFRIC) - Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Company has not entered into transactions of this nature. However, if the Company does enter into any such transactions in the future, HK(IFRIC) - Int 19 will affect the required accounting. In particular, under HK(IFRIC)- Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The directors of the Company anticipate that the application of other new and revised HKFRSs, amendments or interpretations will have no material 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 for the year is as follows:

	2008	2007
	RMB'000	*RMB'000*
		(Restated)
Turnover		
Sales of woven fabrics	**319,133**	384,007
Subcontracting fee income	**5,859**	9,070
	324,992	393,077
Other operating income		
Interest income	**2,301**	4,062
Government grants (Note i)	**639**	33
Gross rental income from investment properties (Note ii)	**-**	1,106
Sales of scrap materials	**2,049**	2,297
Reversal of impairment loss recognised in respect of trade receivables	**58**	-
	5,047	7,498
Total revenues	**330,039**	400,575

Notes:

i) Government grants of approximately RMB639,000 (2007: RMB33,000) were awarded to the Company during the year ended 31 December 2008 for encouraging business development in overseas market.

ii) An analysis of the Company's net rental income is as follows:

	2008	2007
	RMB'000	*RMB'000*
Gross rental income from investment properties	-	1,106
Less: Outgoings (included in administrative expenses)	-	(1,048)
Net rental income from investment properties	-	58

4. SEGMENTAL INFORMATION

The Company has early adopted HKFRS 8 "Operating Segments" for the year ended 31 December 2008. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Company that is regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. In the past, the Company's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has resulted in a re-designation of the Company's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior years, no business segment was presented as the Company only focuses on the woven fabric segment. During the year ended 31 December 2008, due to the misconducts of certain former directors of the Company as set out in Note 6, the Company encountered cash flow problems. In order to solve the cash flow problems and maintain a stable production capacity and operations, the Company accepted more customers to provide their raw materials to the Company for further processing so as to minimise the trade payables balance by providing such sub-contracting services. Accordingly, for management purposes, the Company is currently organised into two operating divisions – woven fabric and subcontracting services.

The relevant segment information for the year ended 31 December 2007 was restated for the purposes of presenting the two operating divisions.

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods sold or services delivered or provided.

Specifically, the Company's reportable segments under HKFRS 8 are as follows:

Woven fabric - Manufacture and sale of woven fabrics

Subcontracting services - Provision of subcontracting services

(a) Segment revenues and results

The following is an analysis of the Company's revenue and results by reportable segment:

	Woven fabric		Subcontracting services		Total	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	**319,133**	384,007	**5,859**	9,070	**324,992**	393,077
Segment results	**(136,503)**	30,466	**(2,544)**	665	**(139,047)**	31,131
Unallocated corporate income						
- Interest income					**2,301**	4,062
- Government grants					**639**	33
- Gross rental income from investment properties					**-**	1,106
Unallocated corporate expenses						
- Loss on misconducts of directors					**(342,471)**	-
- Impairment loss recognised in respect of other receivables					**(220)**	(171)
- Impairment loss recognised in respect of property, plant and equipment					**(3,489)**	-
- Impairment loss recognised in respect of investment properties					**(2,168)**	-
- Depreciation of investment properties					**(831)**	(831)
- Others					**(16,343)**	(15,914)
- Finance costs					**(27,464)**	(18,581)
(Loss) profit before taxation					**(529,093)**	835

Segment results represents the results of each segment without allocation of interest income, government grants, gross rental income from investment properties, loss on misconducts of directors, impairment loss recognised in respect of other receivables, impairment loss recognised in respect of property, plant and equipment, impairment loss recognised in respect of investment properties, depreciation of investment properties, directors' remuneration, central administration costs and finance costs. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

(b) Geographical information

The Company's markets are located in the PRC, Europe, Asia other than the PRC and others.

The Company's revenue from external customers by geographical location of revenue from external customers is detailed below:

	Revenue from external customers	
	2008	2007
	RMB'000	*RMB'000*
The PRC (country of domicile)	**249,983**	240,545
Europe	**58,347**	113,146
Asia other than the PRC	**13,670**	37,243
Others	**2,992**	2,143
	324,992	393,077

The Company's non-current assets, other than financial instruments, are all located in the PRC.

5. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF VARIOUS ASSETS

	2008	2007
	RMB'000	*RMB'000*
Impairment loss recognised in respect of various assets comprised:		
- trade receivables (Note i)	**16,385**	170
- other receivables (Note ii)	**220**	171
- property, plant and equipment (Note iii)	**3,489**	-
- investment properties (Note iv)	**2,168**	-
	22,262	341
Allowance for inventories included in cost of sales (Note v)	**28,620**	385

Due to misconducts of certain former directors of the company as set out in Note 6, the Company encountered cash flow problems which resulted in a decrease in sales order and operations as compared with previous years. The directors of the Company conducted a review of various assets of the Company and determined that a number of those assets were impaired:

i) For the year ended 31 December 2008, the impairment loss recognised in respect of trade receivables of approximately RMB16,385,000 (2007: RMB170,000) relates to amounts which are long outstanding and the balances are considered not recoverable at the end of the reporting period.

ii) For the year ended 31 December 2008, an impairment loss of approximately RMB220,000 was recognised in respect of staff advances recorded in trade and other receivables (2007: RMB171,000). In light of those staffs went into resignation, the directors of the Company considered that the likelihood of recovery of the amounts due being very remote and an impairment loss has been recognised.

iii) For the year ended 31 December 2008, an impairment loss of approximately RMB3,489,000 was recognised in respect of property, plant and equipment (2007: Nil).

iv) For the year ended 31 December 2008, an impairment loss of approximately RMB2,168,000 was recognised in respect of investment properties (2007: Nil).

v) For the year ended 31 December 2008, the allowance for inventories of RMB28,620,000 (2007: RMB385,000) relates to slow moving inventories which are stated at higher than its net realisable value.

6. LOSS ON MISCONDUCTS OF DIRECTORS

	2008	2007
	RMB'000	*RMB'000*
Losses comprised:		
- impairment loss recognised in respect of amounts due from related companies (Note a)	**216,237**	-
- impairment loss recognised in respect of other receivables (Note a)	**79,851**	-
- direct written-off of other receivable (Note a)	**18,500**	-
- provision (Note b)	**27,883**	-
	342,471	-

With reference to the announcement of the Company dated 24 July 2009, during the year ended 31 December 2008, there was a misappropriation of the Company's funds by certain former directors and major shareholders of the Company, Mr. Sun Li Yong ("Mr. Sun") and his wife, Ms. Fang Xiao Jian ("Mrs. Sun") which consisted of the provision of fund advances and financial guarantees to certain related companies and independent third parties.

a) Misappropriation of the Company’ s funds

It was found that during the year ended 31 December 2008, an amount of RMB156,178,000, RMB47,517,000, RMB23,390,000, RMB82,305,000, and RMB18,500,000 were advanced to Zhejiang Gabriel Holdings Group Company Ltd.* “浙江加佰利控股集團有限公司” (“Gabriel”), Zhejiang Hongxing Textiles Co., Ltd.* “浙江宏興紡織有限公司” (“Zhejiang Hongxing”), Zhejiang Hongxing Sabrina Garments Ltd.* “浙江宏興莎美娜服飾有限公司” (“Zhejiang Sabrina”), Zhejiang Yonghe Enterprises Co., Ltd.* “浙江永禾實業有限公司” (“Zhejiang Yonghe”) and Shaoxing County Gabriel Trading Co. Ltd.* “ 紹興縣加佰利貿易有限公司” (“Shaoxing Gabriel”) respectively (collectively referred to as the “Cash Advances”).

At 31 December 2008, the following balances were still outstanding:

	RMB’000
Amounts due from related companies	
Gabriel	156,178
Zhejiang Hongxing	37,884
Zhejiang Sabrina	23,385
	217,447
Other receivable	
Zhejiang Yonghe	82,305
	299,752

The Cash Advances were unsercured, interest free and repayable on demand.

Gabriel, a company established in the PRC, is owned as to 51% and 25% by Mr. and Mrs. Sun respectively. Gabriel is the major shareholder of Zhejiang Hongxing, and Zhejiang Sabrina.

Zhejiang Yonghe, a company established in the PRC, is a customer of Zhejiang Hualian Sunshine Petro-Chemical Co., Limited and of which one of its executive directors was Mr. Sun’ s cousin-in-law, for the period from April 2008 to December 2008. Zhejiang Yonghe and its ultimate beneficial owner are independent third parties of the Company.

Since Gabriel, Zhejiang Hongxing and Zhejiang Sabrina are in the process of liquidation and Zhejiang Yonghe is inactive and facing financial difficulties, the directors of the Company considered that the likelihood of recovery of the amounts due being very remote, a loss on misappropriation of funds of approximately RMB296,088,000 was recognised during the year ended 31 December 2008.

Since Shaoxing Gabriel had been struck off, the balance of approximately RMB18,500,000 has been directly written off during the year ended 31 December 2008.

b) Guarantees provided by the Company to secure loans granted to a connected person

During the year ended 31 December 2008, the Company acted as guarantor to secure loans granted to Gabriel by Ms. Zhu Li Mei ("Ms. Zhu") (the "Zhu Loan") and Shaoxing Yatai Investment Co., Ltd. 紹興縣亞太投資有限公司 ("Yatai") (the "Yatai Loan") for an amount of RMB20,000,000 and RMB20,000,000 respectively, both are independent third parties of the Company.

(i) On 21 September 2008, the Zhu Loan has been expired and Gabriel was unable to repay the loan to Ms. Zhu. On 19 June 2009, the Company received a writ from Hangzhou Xiacheng District People's Court (杭州市下城區人民法院) in relation to a claim for the outstanding amount of the Zhu Loan by Ms. Zhu against Gabriel, the Company and Mr. Sun for the outstanding overdue borrowings principal plus the interest and liquidated damages in the amount of approximately RMB21,731,000. On 20 October 2009, the Company received a civil judgment issued by the Hangzhou Xiacheng District People's Court, pursuant to which Gabriel is liable to repay the sum of outstanding principal of RMB16,700,000 and the interest and liquidated damages amount of approximately RMB2,412,000, as a guarantor, the Company is jointly and severally liable to the above sum. During the year ended 31 December 2008, provision has been made in respect of the default payment for the amount of approximately RMB17,883,000, which including interest and liquidated damages of approximately RMB1,183,000 together with the outstanding principal of RMB16,700,000.

    On 10 June 2011, the Company signed a settlement agreement with Ms. Zhu, accordingly to the agreement, Ms. Zhu conditionally waived the interest and liquidated damages from the Company, as long as the Company can settle the outstanding principal before 20 June 2011. The amount approximately of RMB546,000 had been settled through bankruptcy claim from Gabriel and the remaining principal balance of approximately RMB16,154,000 had been fully settled by the Company on 16 June 2011.

(ii) On 18 October 2008, the Yatai Loan has been expired and Gabriel was unable to repay the loan to Yatai. On 18 August 2009, the Company received a writ from Shaoxing Intermediate People's Court (紹興市中級人民法院) in relation to a claim of the outstanding Yatai Loan by Yatai against Gabriel and the Company for the outstanding overdue borrowings principal plus the interest and legal fees amount of approximately RMB30,280,000.

    On 9 October 2009, a civil mediation was issued by the Shaoxing Intermediate People's Court, pursuant to which Gabriel is liable to repay the sum of outstanding principal of RMB20,000,000, the interest for the period between 18 September 2008 to 20 October 2009 and legal fees amount of RMB200,000, as a guarantor, the Company is jointly and severally liable to a sum of RMB10,000,000.

    As at the date of publication of this document, the Yatai Loan has yet to be settled.

** English name is for identification only*

7. DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008.

8. FINANCE COSTS

	2008	2007
	RMB'000	*RMB'000*
Interest expenses on bank borrowings wholly repayable within five years	**26,718**	21,726
Interest expenses on overdue trust receipt loans	**1,215**	-
Less: interest capitalised in construction in progress (Note)	**(572)**	(3,145)
	27,361	18,581
Interest paid for loan from a guarantor	**103**	-
	27,464	18,581

Note: Borrowing costs capitalised during the year arose on general borrowing pool and were calculated by applying a capitalisation rate of 7.76% (2007: 6.41%) to expenditure on qualifying assets for the year.

9. INCOME TAX CREDIT

	2008	2007
	RMB'000	*RMB'000*
PRC Enterprise Income Tax		
- Overprovision in previous years	**(5,416)**	(3,453)
Deferred taxation		
- Current year	**(5,887)**	656
- Effect of a change in tax rate	**-**	(1,529)
	(5,887)	(873)
	(11,303)	(4,326)

On 16 March 2007, the PRC promulgated the Law of PRC on Enterprise Income Tax (the "EIT Law") by Order No. 63 of the President of the PRC. On 6 Decembber 2007, the State Council of the PRC issued Implementation of the EIT Law. Under the EIT Lawand Implementation Regulation, the Enterprise Income Tax rate of the Company was reduced from 33% to 25% from 1 January 2008 onwards.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company did not have any assessable profits subject to Hong Kong Profits Tax for both years.

No provision for PRC Enterprise Income Tax has been made in the financial statements as no assessable profits were made for both years.

10. (LOSS) PROFIT FOR THE YEAR

	2008	2007
	RMB'000	*RMB'000*
(Loss) profit for the year has been arrived at after charging:		
Staff cost (including directors' and supervisors' emoluments):		
Salaries, wages and other benefits in kind	**30,837**	22,557
Retirement benefit scheme contributions	**727**	527
	31,564	23,084
Amortisation of prepaid lease payments	**273**	273
Auditors' remuneration	**661**	655
Bad debts written off	**6,380**	-
Cost of inventories recognised as expenses	**367,200**	345,361
Deprecation of investment properties	**831**	831
Depreciation of property, plant and equipment	**28,494**	25,517
Loss on disposal of property, plant and equipment	**32**	41
Net exchange loss	**8,522**	7,996
Research and development cost	**537**	479

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the year is based on the loss for the year of approximately RMB517,790,000 (2007: Profit for the year of approximately RMB5,161,000) and the weighted average of 1,063,500,000 (2007: 1,063,500,000) ordinary shares in issue during the year.

No diluted (loss) earnings per share have been presented for the two years ended 31 December 2008 and 2007 as there were no diluting events existed during both years.

12. TRADE AND OTHER RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**78,751**	128,506
Less: impairment loss recognised	**(16,497)**	(170)
	62,254	128,336
Prepayments, deposits and other receivables	**88,191**	9,260
Less: impairment loss recognised	**(80,242)**	(171)
	7,949	9,089
Total trade and other receivables	**70,203**	137,425

At 31 December 2008, other receivables included Cash Advances to Zhejiang Yonghe with balance of approximately RMB82,305,000 (2007 : Nill). The details of Cash Advance are set out in Note 6.

The Company allows an average credit period of 60 days to 120 days to its trade customers.

An aged analysis of trade receivables, net of impairment loss recognised is presented based on invoice date are as follow:

	2008	2007
	RMB'000	*RMB'000*
0 – 60 days	**32,749**	73,548
61 – 90 days	**4,337**	16,674
91 – 365 days	**24,649**	38,114
Over 365 days	**519**	-
	62,254	128,336

13. AMOUNTS DUE FROM RELATED COMPANIES

Details of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

At 31 December 2008

	Gabriel	**Zhejiang Hongxing**	**Zhejiang Sabrina**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note i)	(Note ii)	(Note ii)	
Amounts due from related companies	156,178	37,884	23,385	217,447
Less: impairment loss recognised (Note 6)	(156,178)	(37,884)	(22,175)	(216,237)
	-	-	1,210	1,210
Maximum amounts outstanding during the year	156,178	47,517	23,390	

At 31 December 2007

	Gabriel	**Zhejiang Hongxing**	**Zhejiang Sabrina**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note i)	(Note ii)	(Note ii)	
Amounts due from related companies	-	20	-	20
Maximum amounts outstanding during the year	-	2,868	210	

The movements in impairment loss recognised in respect of amounts due from related companies are as follows:

	2008	2007
	RMB'000	*RMB'000*
At the beginning of the year	**-**	-
Recognised during the year (Note 6)	**216,237**	-
At the end of the year	**216,237**	-

Notes:

i) Mr. and Mrs. Sun, Mr. Xia Xue Nian, Mr. Sun Jian Feng and Mr. Li Cheng Jun, directors of the Company, have beneficial interests in Gabriel.

ii) Zhejiang Hongxing and Zhejiang Sabrina are subsidiaries of Gabriel.

iii) The amounts are unsecured, non-interest bearing and repayable on demand.

14. TRADE AND OTHER PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Trade and bills payables (Notes i & ii)	**174,511**	97,438
Accrued interests (Note iii)	**747**	-
Receipt in advance	**10,211**	8,269
Other taxes payable	**6,487**	2,834
Accrued expenses and other payables	**21,092**	8,401
	213,048	116,942

(i) The Company normally receives credit periods from suppliers ranging from 30 days to 90 days. The Company was in place financial risk management policies to ensure that all payables are settled within the credit timeframe. Due to the misconducts of certain former directors of the Company mentioned in Note 6, the Company were unable to settle all the payables within the credit period and several suppliers took legal action against the Company, details of which can be found in Note 17.

(ii) An aged analysis of the trade and bills payables at the end of the reporting period based on invoice date is as follows:

	2008	2007
	RMB'000	*RMB'000*
0-60 days	**58,238**	72,028
61-90 days	**6,258**	8,811
91-365 days	**107,418**	14,505
Over 365 days	**2,597**	2,094
	174,511	97,438

(iii) Accrued interests included interests for outstanding bank loans over the borrowing terms amounting to approximately RMB92,000 for the year ended 31 December 2008 (2007: Nil). At the date of publication of this document, the accrued interests were fully settled.

15. BANK BORROWINGS

	Notes	2008 RMB'000	2007 RMB'000
Bank loans, within credit terms		**328,150**	294,950
Bank loans, overdue		**23,000**	-
	(i)	**351,150**	294,950
Overdue bills payables	*(i)*	**42,500**	-
		393,650	294,950
Secured (Note 16)	*(ii)*	**121,730**	56,230
Unsecured		**271,920**	238,720
		393,650	294,950

(i) The exposure of bank borrowings to interest rate change is as follows:

	2008 RMB'000	2007 RMB'000
Fixed-rate bank loans	**281,930**	204,950
Variable-rate bank loans	**111,720**	90,000
	393,650	294,950

(ii) The maturity of total bank borrowings are set out as follows:

	2008 RMB'000	2007 RMB'000
Carrying amounts repayable:		
On demand or within one year	**393,650**	254,950
More than one year but not exceeding two years	**-**	40,000
	393,650	294,950
Less: Amounts due within one year shown under current liabilities	**(393,650)**	(254,950)
Amounts due after one year	**-**	40,000

(iii) Certain bank borrowings of the Company are guaranteed by the directors of the Company, related companies and independent third parties. The amounts of the guarantees provided by related companies and independent third parties are as follows:

	2008	2007
	RMB'000	*RMB'000*
Mr. and Mrs. Sun	**-**	5,200
Gabriel and independent third parties	**40,000**	80,000
Mr. and Mrs. Sun, Mr. Sun Jian Feng, Mr. Xia Xue Nian, Mr. Li Cheng Jun and Gabriel	**25,500**	-
Mrs. Sun, Mr. Sun Jian Feng, Mr. Li Cheng Jun and independent third parties	**-**	10,000
Mr. and Mrs. Sun and independent third parties	**115,700**	39,500
Mr. Sun and independent third parties	**-**	20,000
Independent third parties	**120,720**	84,020
	301,920	238,720

(iv) The accrued interest at 31 December 2008 of approximately RMB747,000 (2007: Nil) was recorded under current liabilities.

16. PLEDGE OF ASSETS

At the end of the reporting period, certain assets of the Company were pledged to secure banking facilities granted to the Company as follows:

	2008	2007
	RMB'000	*RMB'000*
Buildings	**102,962**	102,080
Plant and machinery	**23,656**	30,714
Investment properties	**9,046**	12,045
Pledged bank deposits	**42,552**	65,192
Prepaid lease payments	**11,425**	11,694
	189,641	221,725

17. LITIGATION

At the reporting date, a number of lawsuits and claims were lodged against the Company which remain outstanding.

(i) Legal action of banks

(a) As at 31 December 2008, the total amount of bank loans was RMB393,650,000, in which loans in an aggregate amount of RMB57,703,000 from three relevant banks could not be renewed as usual upon their maturity due to the reason that the guarantors (including Gabriel, Mr. and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee; and (b) As at 31 December 2008, total bills payable amounting to RMB42,500,000 could not be renewed as usual upon their maturity due to the same reason as mentioned above. In addition, due to financial problems encountered by the Company, the Company could not repay the above bank loans and bills upon maturity. In view of the above, the relevant banks have taken legal actions against the Company. At the date of this document, the amounts have been fully settled by the Guarantors on behalf of the Company.

(ii) Overdue trade creditors

Due to the cash flow problem of the Company, the Company was faced with short term financing problems and as such were unable to meet payments of certain suppliers. Legal actions were taken by six suppliers against the Company for a total amount of approximately RMB805,000. All cases were completed following the subsequent settlement in 2011.

(iii) Outstanding construction fees

On 15 January 2008, the Company entered into a construction contract for the construction of a warehouse and staff quarters for a total contract amount of RMB66,000,000. The construction contract was terminated in 2008 following financial difficulties faced by the Company. In October 2008, both parties agreed that the total construction cost would be approximately RMB63,315,000 which was based on the percentage of completion of the project and approximately RMB3,961,000 should be paid by the Company. Legal action was taken against the Company following the amount being unsettled and in accordance with the judgment dated 21 October 2009, the Company was liable to the outstanding construction fee of RMB3,961,000 plus court related expenses. At the date of this document, the amount has been fully settled.

(iv) Staff quarters

On 8 May 2008, the Company entered into an agreement for the construction of two quarters which was completed 17 December 2008. Due to a financial difficulties faced by the Company, the outstanding balance of RMB5,180,000 construction costs was not settled by the Company. The contractors took legal action against the Company and a judgment dated 30 April 2010 conferred that the Company was liable for the outstanding construction costs plus interest and court related expenses. At the date of this document, the amounts have been fully settled.

18. RELATED PARTY AND CONNECTED PARTY TRANSACTIONS

(a) The balances with related parties at the end of the reporting period are disclosed elsewhere in the financial statements.

(b) Details of the funds advance to related parties are set out in Note 13.

Details of the guarantee given by related parties to the banks in respect of the loans granted to the Company as at 31 December 2008 are set out in Note 15.

(c) During the year, the Company had the following significant transactions with the related parties:

Name of company	Nature	**2008** *RMB'000*	2007 *RMB'000*
Zhejiang Sabrina (Note i)	Sales of goods	**16**	-
	Rental income	**-**	181
	Electricity cost reimbursement	**385**	35
	Purchase of goods	**-**	7
Zhejiang Hongxing (Note i)	Sales of goods	**4**	-
	Rental income	**-**	983
	Electricity cost reimbursement	**955**	11
	Purchase of goods	**6**	2,674
Miroglio S.p.A. and its subsidiaries ("Miroglio S.p.A Group") (Note ii)	Sales of goods	**33,104**	65,868
Zhejiang Miroglio Fulida Textile Co., Ltd. 浙江米羅利奧富麗達紡織有限公司("Miroglio Fulida") (Note iii)	Subcontracting fee	**11,453**	9,545
	Sales of goods	**3,716**	18

Notes:

i. The aforesaid transactions were in the ordinary course of business of the Company and on normal commercial terms.

ii. Since 24 March 2005, Miroglio S.p.A. had become a substantial shareholder of the Compnay. The sales order placed by Miroglio S.p.A. Group to the Company for the year ended 31 December 2008 was approximately RMB96,669,000 (2007: RMB82,776,000). Sales recognised by the Company for the year ended 31 December 2008 was approximately RMB33,104,000 (2007: RMB65,868,000). As at 31 December 2008, the amounts due from Miroglio S.p.A. Group (included in trade receivables) were amounted to approximately RMB6,124,000 (2007: RMB17,597,000). The outstanding balance was incurred in the ordinary course of business of the Company and on normal commercial terms, hence, it is receivable according to the relevant contractual terms.

iii. Miroglio Fulida is a company established in the PRC, the registered capital of which is owned as to 50% by Miroglio S.p.A.. At 31 December 2008, the amount due to Miroglio Fulida (included in trade payables) was amounted to approximately RMB939,000 (2007: RMB1,262,000). The outstanding balance was incurred in the ordinary course of business of the Company and on normal commercial terms, hence, it is repayable according to the relevant contractual terms.

(d) The remuneration of directors and other members of key management are as follows:

	2008 ***RMB'000***	2007 *RMB'000*
Salaries, other short-term employee benefits and equity-settled share-based payment expenses	**292**	352
Post-employment benefits	**25**	10
	317	362

19. EVENTS AFTER THE REPORTING PERIOD

As disclosed in the Company's announcement dated 29 December 2010, on 6 December 2010, the Company, Zhejiang Yongli Industry Group Co., Ltd.* 浙江永利實業集團有限公司 ("Zhejiang Yongli") and the People's Government of Yang Xun Qiao Town, Shaoxing County, Zhejiang Province "浙江省紹興縣楊汛橋鎮人民政府" ("Local Government") entered into a letter of intent for the proposed reorganisation of the Company by Zhejiang Yongli with the support from the Local Government (the "Restructuring Proposal"). Zhejiang Yongli is a company established in the PRC.

The principal terms of the letter of intent are set out below:

(i) Shareholding reorganisation

Zhejiang Yongli agreed to participate in the auction of the 564,480,000 shares held by Mr. and Mrs. Sun (representing approximately 53.08% of the total issued shares of the Company) for the purpose of becoming interested in not less than 29.90% of the shareholding in the Company.

(ii) Debt restructuring

In consideration of consents from all the Company's Guarantors to waive, and to abandon any claim against the Company for, 35% of the indebtedness owing by the Company to each of them, Zhejiang Yongli agreed, upon the change of the controlling shareholder, to undertake and warrant repayment on behalf of the Company of the remaining 65% to its creditors (together with any incidental liabilities) within 2 years from the date on which the Company's indebtedness becomes due.

Zhejiang Yongli will be responsible for the liabilities of not more than RMB10,000,000. Regarding any liabilities in excess of RMB10,000,000, the Local Government will assist Zhejiang Yongli in full settlement thereof by way of governmental subsidies.

(iii) Business reorganisation

Upon Zhejiang Yongli becoming the controlling shareholder, it agrees to proceed with reorganisation of the Company for the benefit of the shareholders in compliance with the stipulations made by China Securities Regulatory Commission, the Securities and Futures Commission and the Stock Exchange, and to carry on the business of the Company as a going concern with the coordination of the Local Government.

(iv) Reorganisation support

The Local Government agrees to offer assistance to Zhejiang Yongli in reorganisation of the Company, and to indemnify Zhejiang Yongli any losses suffered throughout the reorganisation process. Such reorganisation support policy will be implemented and completed within 5 years after Zhejiang Yongli has become a controlling shareholder and hence commences reorganisation of the Company. In this relation, the Local Government will, at the cost of not more than RMB50,000,000 use its endeavours to assist Zhejiang Yongli to become a controlling shareholder.

The Local Government is responsible for, inter alia, procuring the creditors of the Company to agree waiver of, and abandonment of any claim for, 35% of the indebtedness due and owing by the Company to each of them in order that reorganisation of the Company will not be affected and its liabilities will not be increased. The Local Government will provide Zhejiang Yongli with full support in respect of any losses suffered by Zhejiang Yongli as a result of the Local Government's failure to discharge the foregoing responsibilities.

Subsequent to the signing of the letter of intent for the Restructuring Proposal:

(a) The Company received confirmation from China Securities Depository and Clearing Corporation Ltd.* 中國證券登記結算有限責任公司 that 310,000,000 shares (representing approximately 29.15% of the total issued shares of the Company) were transferred from Mr. Sun to Zhejiang Yongli with effect from 24 December 2010. Zhejiang Yongli has become a controlling shareholder of the Company since then.

(b) The signed letter of intent regarding reorganisation of the Company from the relevant banks, pursuant to which the banks consent to abandon the right of any claim against the Company should Zhejiang Yongli or the Company repay 65% of the indebtedness due and owing by the Company with the remaining 35% to be borne by the Company's guarantors under the bank loan arrangements between the banks and the Company, being the creditors of the Company as referred to in the letter of intent, and;

(c) The signed letters of undertaking from the Guarantors addressed to the Company and the relevant banks, pursuant to which they consent to waive, and abandon any claim against the Company for, the remaining 35% of the indebtedness due and owing by the Company if 65% of the Company's indebtedness is to be repaid.

(d) The Company has signed debt agreements with each of the Company's five Guarantors, namely (1) Zhejiang Xiongsheng Holding Co., Ltd. * "浙江雄盛實業有限公司" ("Xiongsheng") and Xiongfeng Holding Group Co., Ltd. * "雄峰控股集團有限公司" ("Xiongfeng"), (2) Zhejiang Lingda Industry Co., Ltd. * "浙江凌達實業有限公司" ("Lingda"), (3) Zhejiang Zhiye Real Estate Group Co., Ltd. * "浙江置業房產集團有限公司" ("Zhiye"), (4) Jinggong Group Co., Ltd.* "精功集團有限公司" ("Jinggong") and (5) Zhejiang Yongli on 20 July 2011, 15 August 2011, 17 August 2011, 13 September 2011 and 15 August 2011 respectively to settle the Company's debts owed to the Guarantors. Each of the five Guarantors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies. The breakdown of these debt settlements are summarised in the table below:

Guarantors	Total amount to be settled	Debts settlement according to Debt Agreements: Waived by the Guarantors	Released as a result of government support	Settled by Zhejiang Yongli	Debt owed to Zhejiang Yongli after Debt Agreements
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(1) Xiongsheng and Xiongfeng	122,753	42,963	43,136	36,654	-
(2) Lingda	21,563	7,547	7,577	6,439	-
(3) Zhiye	19,986	6,995	7,023	5,968	-
(4) Jinggong	118,633	52,688	33,391	32,554	-
(5) Zhejiang Yongli	312,157	58,132	95,963	158,062	239,677
Total:	595,092	168,325	187,090	239,677	239,677

The Company and Zhejiang Yongli signed a debt restructuring agreement on 13 September 2011 with the following repayment terms:

(1) The Company shall owe the sum of approximately RMB239,677,000 (as shown in the table above) to Zhejiang Yongli, and Zhejiang Yongli shall permanently abandon any claim against the Company for the repayment of debt amounting to approximately RMB187,090,000, which will be compensated by the Local Government to Zhejiang Yongli by way of government subsidies (as shown in the table above);

(2) The Company agreed to repay Zhejiang Yongli, commencing from fifth anniversary after the signing of the debt restructuring agreement provided that the amount to be repaid shall not exceed 50% of the operating cash flow of the year and on an annual basis until the full repayment of the debt;

(3) Unless obtaining prior written agreement from both parties, Zhejiang Yongli shall not demand any early repayment of the debt notwithstanding the occurrence of one or a multiple of material adverse event(s) affecting Zhejiang Yongli's repayment capability, such as, among other things, serious operation problems, deterioration in financial situation and material litigation;

(4) No interest shall be incurred during the repayment period; and

(5) Zhejiang Yongli undertakes to assume all the contingent debts of the Company incurred at all times and permanently abandon any claim against the Company for the repayment of such contingent debts of the Company.

In addition to the five Guarantors, the Company has signed an agreement with Ms. Zhu on 16 June 2011 which provides that, after Ms. Zhu has obtained repayment of a portion of debts through the winding up procedure of Gabriel and the court enforcement against the Company respectively, the Company shall pay all outstanding amount to Ms. Zhu totalling approximately RMB13,000,000 before 20 June 2011. At present, the Company has settled the accumulated debts due to Ms. Zhu in the amount of approximately RMB16,154,000 which included the above mentioned amount of approximately RMB13,000,000 and the cost incurred in relation to such litigation. Furthermore, in respect of another creditor of the Company, Yatai, the Company will settle an outstanding debt in the maximum sum of RMB10,000,000 according to the civil affair mediation letter issued by the local court at Shaoxing County in Zhejiang Province on 9 October 2009.

20. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), Presentation of Financial Statements and HKFRS 8, Operating Segments, certain comparative figures of subcontracting fee income and its related cost have been reclassified to subcontracting services segement to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the year ended 31 December 2008, the Company recorded a turnover of approximately RMB324.99 million, representing a decrease of approximately 17.32% as compared with that of the same period in 2007. The sales volume increased by approximately 17.54% while on the other hand, the average selling price dropped by approximately 10.06%. It was mainly because the global financial crisis which led to poor consumer consumption sentiments globally. Hence the export sales for the year ended 31 December 2008 dropped by approximately 16.89%. During the year ended 31 December 2008, the Company incurred significant gross loss in the amount of approximately RMB103.02 million, which mainly due to average selling price and export sales dropped and cost of sales increase significantly. In order to minimise the loss from dropping of export sales, the Company has to shift the market from the overseas to the local. The local sales during the year ended 31 December 2008 increased by approximately 4.71% which involved sales of some obsolete stock that has lower selling price. In addition, under the new PRC labour ordinance that implemented in early 2008 (the "New Labour Ordinance"), the cost of wages in 2008 increased significantly by approximately 36.74% when compared with the same period in 2007. Due to misconduct of some former Directors as set out in Note 6, the operation was affected and the production volume decreased significantly since the end of 2008 which led to an increase of average fixed production overheads. Furthermore, the Directors conducted a review of various assets of the Company and determined that a significant amount of inventories amounting RMB28.62 million representing approximately 6.69% of cost of sales, were impaired. In addition, provision on impairment of various assets of approximately RMB22.26 million and loss on misconducts of directors of approximately RMB342.47 million were made. Selling expenses increased by approximately 34.44% mainly due to an increase of sales commission from approximately RMB0.1 million in 2007 to RMB1.52 million in 2008 and this was in line with the rising of sales volume from 2007 to the first half year of 2008. Administrative expenses increased by approximately 48.73%, which mainly due to increase of staff salary and benefits of approximately RMB3.3 million under the New Labour Ordinance. Finance cost increased by approximately 47.81%, which mainly due to bank borrowing interest rate increased during the year. Loss per share for the year ended 31 December 2008 amounted to RMB48.69 cents, while earning per share for the year ended 31 December 2007 was RMB0.48 cent.

Business and operation review

In prior years, the Company mainly focused on the research and development, manufacturing and sales of woven fabrics. During the year ended 31 December 2008, due to the misconducts of some former directors of the Company as set out in Note 6, the Company encountered cash flow problems. In order to solve the cash flow problems and maintain a stable production capacity and operations, the Company accepted more existing and new customers to provide their raw materials to the Company for further processing so as to minimise the trade payables balance by providing such sub-contracting services. Accordingly, for management purposes, the Company is currently organised into two operating divisions – sales of woven fabric and provision of subcontracting services. During the year under review, sales of woven fabric was approximately RMB319.13 million represents a drop of approximately 16.89% when compared with that in 2007. Due to export sales decreasing significantly by approximately 49.67% as a result of global financial turmoil in 2008. In addition, due to the financial crisis of the Company, the export sales market has to be temporarily suspended as the Company has insufficient cashflow to purchase raw materials for manufacturing. Turnovers from provision of subcontracting services for the year ended 2008 and 2007 were approximately RMB5.86 the million and RMB9.07 million respectively. During the year, ended 31 December 2008, the sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB46.65 million, which representes 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.

Production facilities

During the year ended 31 December 2008 under review, the Company did not have any material acquisition or disposal of production facilities.

Product research and development

Although the Company has encountered financial crisis since the year ended 31 December 2008, the Company continued to innovate and develop new products so as to meet the customers' needs and enhance sales orders from customers.

Sales and marketing

During the year under review, the Company continued to participate in various trade fairs held in the PRC so as to gain exposure in the fabrics market and to popularize the Company' s new products.

Outlook

Due to the misconduct of some of directors as set out in Note 6, the Company encountered a financial crisis which led to a shortage of cahsflow for settlement of trade debts and bank borrowings. As a result, there were several litigations against the Company as set out in Note 17 and for management purpose, the operation of the Company has to be reorganized into two divisions that is, sale of woven fabric and provision of subcontracting services.

With reference to the announcement of the Company dated 29 December 2010, the Company, Zhejiang Yongli and the Local Government entered into a letter of intent on 6 December 2010 for the proposed reorganisation of the Company by Zhejiang Yongli with the support from the Local Government (the "Restructuring Proposal"). Zhejiang Yongli is a company established in the PRC. The principal terms of the letter of intents are set out in Note 19.

Subsequent to the letter of intent was signed for the Restructuring Proposal as set out in Note 19, Zhejaing Yongli has become a controlling shareholder of the Company since 24 December 2010. Thereafter, Zhejaing Yongli recommended Mr. Ru Guan Jun and Mr. Xia Xian Fu to be executive directors of the Company and Mr. Ru Guan Jun to be Chairman of the Board of Directors and they were appointed accordingly at the extraordinary general meeting held on 11 March 2011. From 20 July 2011 to 15 September 2011, the Company has signed debt agreements with each of five Guarantors of the Company as set out in Note 19. After that, each of the five Guarantors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies.

In view of the above changes and arrangement and based on the experience of the management and the well established infrastructure of the Company, the directors believe that the Company will overcome the challenges and achieve sustainable business growth as before.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Company reported a loss of approximately RMB517,790,000 for the year ended 31 December 2008 and net current liabilities of approximately RMB481,866,000 and a capital deficiency of approximately RMB244,283,000 as at 31 December 2008. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the Directors are of the opinion that the Company will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the date of publication of this document given that:

(i) the debt restructuring of the Company's liabilities, details of which are set out in Note 19;

(ii) a shareholder of the Company will provide financial support to the Company to meet the Company's liabilities and commitments as and when it falls due; and

(iii) the Directors anticipates that the Company will generate positive cash flows from its operations.

Accordingly, the Directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Company be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments have not been reflected in the financial statements.

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

At 31 December 2008, the Company had no commitments (2007: RMB747,000) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

Fund Raising Activities

On 19 September 2007, a placing agreement (the "Placing Agreement") was entered into between the Company and OSK Asia Securities Limited (the "Placing Agent"), pursuant to which, the Company agreed to appoint the Placing Agent and the Placing Agent agreed to act as placing agent for the purpose of procuring, as agent for the Company, subscribers for up to 880,000,000 new H shares of the Company at a price of HK$ 0.55 per share, on a best effort basis by 31 March 2008 (the "Placing"). As amended and supplemented by a supplemental agreement (the "Supplemental Agreement") entered into between the Company and the Placing Agent, the Company and the Placing Agent agreed to extend the Long Stop Day, being the last day on which conditions precedent for the Placing Agreement are fulfilled, to 31 July 2008.

The Company was notified by the Placing Agent that the shares of the Company have not been successfully placed by the Long Stop Day. Accordingly, the Placing Agreement (as amended by the Supplemental Agreement) has been lapsed on 31 July 2008 with immediate effect, and the Placing Agreement agreed not to proceed with the Placing. For further details, please refer to the Company's announcements dated 20 September 2007, 28 March 2008, and 31 July 2008, respectively.

MATERIAL ACQUISITIONS/ DISPOSALS

During the year ended 31 December 2008, the Company did not have any material acquisitions/ disposals.

SEGMENTAL INFORMATION

Segmental information of the Company is set out in Note 4.

CHARGES ON GROUP ASSETS

The details of pledge of assets of the Company is set out in Note 16.

EMPLOYEE AND EMOLUMENT POLICIES

At 31 December 2008, the Company had 1,298 employees (2007: 1,462), comprising 11 (2007: 12) in research and development, 54 (2007: 46) in sales and marketing, 987 (2007: 1,174) in production, 230 (2007: 211) in quality control, 6 (2007: 10) in management, and 10 (2007: 9) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

FOREIGN EXCHANGE EXPOSURE

The Company operates in the PRC with most of the transactions denominated and settled in Renminbi (“RMB”). However, foreign currencies, mainly United States Dollars (“USD”), Euro and Hong Kong Dollars, are required to settle the Company’s expenses and additions on plant and equipment and all the direct export sales of the Company are denominated in USD. Since RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government, the Company has used forward contracts, foreign currency borrowings and other means to hedge its foreign currency exposure. The Company considers it has no material foreign exchange risk to the Company.

COMPETING INTERESTS

None of the Directors or the management shareholders (as defined under the GEM Listing Rules) of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company under the period under review and up to the date of this document.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in May 2002 and the primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors, Mr. Lu Guo Qing, Mr. Zong Pei Min and Mr. Zhu Yu Lin. Mr. Lu Guo Qing is the chairman of the Audit Committee.

The annual results for the year ended 31 December 2008 of the Company have been reviewed by the Audit Committee.

SCOPE OF WORK OF SHINEWING

The figures in respect of this preliminary document of the Company’s results for the year ended 31 December 2008 have been agreed by the Company’s auditors, SHINEWING, to the amounts set out in the Company’s draft financial statements for the year. The work performed by SHINEWING in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by SHINEWING on this preliminary document.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2008, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code Provision") as set out in the Appendix 15 of GEM Listing Rules, except for the following deviations:

1. Under Code E.1.2, the chairman of the board of directors (the "Board") should attend the annual general meeting. The chairman of the Board was unable to attend the Company's annual general meeting which was held on 20 May 2008 as he had other engagement that was important to the Company's business.

2. Due to other urgent business commitments of the Group, the members of the independent board committee were not able to attend the extraordinary general meeting of the Company held on 18 March 2008 for the continuing connected transactions between Zhejiang Miroglio Fulida Textile Co., Ltd., Miroglio S.p.A. and the Company, which does not comply with the Code Provision E.1.2 that the chairman of the independent board committee should also be available to answer questions at any general meeting to approve a connected transaction that is subject to independent shareholders' approval.

3. Due to the misconduct of some of the Directors as set out in Note 6, the Company encountered financial crisis that led to delay in publishing results and dispatching reports for the year ended 31 December 2008. This constitutes the breach of Rules 18.03, 18.49, 18.66, 18.67 and 18.79 of the GEM Listing Rules and the Code Provision C.1.

   Accordingly, the members of Audit Committee has not liaised with the Board and senior management and the Audit Committee has not met the auditor of the Company during the year ended 31 December 2008 to monitor the integrity of financial statements of the Company's annual reports and accounts, which does not comply with the Code Provision C.3.3.

4. Code Provision A.1.1 stipulates that the Board should hold at least four regular meetings a year at approximately quarterly intervals. During the year ended 31 December 2008, only three regular meetings were held to approve the financial results for the year ended 31 December 2007, the three months ended 31 March 2008 and the six months ended 30 June 2008. In addition, no annual general meeting of the Company has been held for the year of 2008.

5. Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, Mr. Sun Li Yong ("Mr. Sun") performed the roles of the chairman of the Board and the chief executive officer of the Company until his resignation as the executive director, chairman and chief executive officer of the Company on 29 July 2009. There was no chairman or chief executive officer of the Company until the appointments of Mr. Ru Guan Jun as the chairman of the Company passed on the extraordinary general meeting of the Company held on 11 March 2011 by the shareholders and Mr. Xia Xian Fu as the chief executive officer of the Company.

6. According to Code Provision C.2.1, the directors should at least annually conduct a review on the effectiveness of the internal control system; however, the Company did not conduct such review for the year ended 31 December 2008 until the investigation on the misconduct of some of the former Directors was carried out. In order to prevent recurrence of similar misconduct of directors, the Company has appointed an independent auditor on 1 September 2009 to carry out internal control review for the Company and has been completed on 30 October 2009.

   For the purpose of ensuring that the Company has adequate internal control procedures, the Company has appointed an independent auditor to review the internal control system of the Company and the relevant report is expected to be completed by the year ended 2011.

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 Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors except for Mr. Sun Li Yong and Ms. Fang Xiao Jian, who left the PRC on 14 September 2008 and have not returned since then and the Directors have had difficulties in contacting them; and supervisors of the company, all directors except for Mr. Sun Li Yong and Ms. Fang Xiao Jian and supervisors of the Company confirmed that they had complied with the required standard and the code of conduct regarding securities transactions by directors and supervisors adopted by the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed public float under the GEM Listing Rules.

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 year ended 31 December 2008.

SUSPENSION OF TRADING

Trading in the shares of the Company will remain suspended until all the resumption conditions required by the Stock Exchange as set out in the announcement of the Company dated 20 March 2009 have been fulfilled.

By Order of the Board
Ru Guan Jun
Chairman

Zhejiang, the PRC, 3 November 2011

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

This document will appear on the GEM website at http://www.hkgem.com on the "Latest Company Announcement" page for at least 7 days from the day of its posting thereon and the website of the Company at http://www.zj-yonglong.com.

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