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 with limited liability)
stock code: 8211

2005
Annual Report

CONTENTS

2 Corporate Information
3 Highlights
4 Chairman's Statement
6 Management Discussion & Analysis
9 Directors and Senior Management's Profile
12 Directors' Report
19 Supervisors' Report
20 Corporate Governance Report
26 Auditors' Report
27 Income Statement
28 Balance Sheet
30 Statement of Changes in Equity
31 Cash Flow Statement
33 Notes to the Financial Statements
68 Financial Summary

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

Corporate Information

Executive directors
Mr. Sun Li Yong *(Chairman)*
Ms. Fang Xiao Jian
Mr. Sun Jian Feng
Mr. Xia Xue Nian
Mr. Li Cheng Jun
Mr. Marco Borio

Independent non-executive directors
Mr. Zong Pei Min
Mr. Luk Guo Qing
Mr. Zhu Yu Lin

Supervisors
Mr. He Dong Hui
Mr. Fan Zhi Gang
Mr. Shao Bao Hua

Independent supervisors
Mr. Wang He Rong
Mr. Hu Jin Huan

Company secretary and qualified accountant
Ms. Chen Yen Yung – *CPA (Aust.), CPA*

Audit committee
Mr. Zong Pei Min
Mr. Luk Guo Qing
Mr. Zhu Yu Lin

Remuneration committee
Mr. Sun Li Yong
Mr. Zong Pei Min
Mr. Luk Guo Qing
Mr. Zhu Yu Lin

Legal address
Yangxun Qiao Town
Shaoxing County
Zhejiang Province
PRC

Head office and principal place of business in Hong Kong
Suite 3308, Shui On Centre
Nos. 6-8 Harbour Road
Wanchai, Hong Kong

Compliance officer
Mr. Xia Xue Nian

Authorised representatives
Mr. Sun Li Yong
Mr. Sun Jian Feng

Principal bankers
Agriculture Bank of China
Shaoxing Branch
333 Jin Ke Quao Da Road
Shaoxing County
Zhejiang Province
PRC

International auditors
Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor
Wing On Centre
111 Connaught Road
Central, Hong Kong

Domestic auditors
Deloitte Touche Tohmatsu CPA Ltd.
30th Floor
Bund Center
222 Yan An Road East
Shanghai 200002, PRC

H Share share registrar and transfer office
Union Registrars Limited
311-312 Two Exchange Square,
Central, Hong Kong

Legal Advisers
As to Hong Kong law
David Lo & Partners
Suite 2502, Nine Queen's Road Central
Hong Kong

As to PRC law
Commerce & Finance Law Offices
714 Huapu International Plaza,
19 Chaowai Avenue
Beijing
PRC

Stock Code
8211

Highlights

For the year ended December 31, 2005,

- turnover of the Company decreased from approximately RMB449.8 million in year 2004 to approximately RMB415.4 million in year 2005, representing a drop of approximately 7.6% when compared to the year ended December 31, 2004;

- Net loss for the year was approximately RMB3.7 million, and

- The Directors do not recommend the payment of a final dividend for the year ended December 31, 2005.

Chairman's Statement

On behalf of 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"), I am pleased to present to our shareholders the annual report of the Company for the year ended December 31, 2005.

Financial Performance

For the year ended December 31, 2005, the Company recorded a turnover of approximately RMB415.4 million, representing a drop of approximately 7.6% as compared with that of the same period in 2004. It was mainly due to decrease of domestic sales and export to the Middle East as a result of reorganization of sales structure. The gross profit for the year was approximately RMB38.3 million, representing a gross profit margin of approximately 9.2%, which was approximately 3.2% lower than that of the corresponding period in 2004. It was mainly due to average selling price for domestic sales and export to the Middle East dropped and cost of production that including electricity cost, steaming cost, wages and repair and maintenance of machines increased.

Administrative expenses increased by approximately of 67.3% mainly due to increase of staff salaries, depreciation, advertising, research and development, contributions of staff retirement benefits fund and exchange loss. Selling expenses increased by 55.6% mainly due to increase of transportation and freight charges, exhibition, testing fee, samples expenses, communication expenses and sales commission as compared with that of the previous year which was in line with increase of direct export sales. Finance cost increased significantly mainly due to increase of bank loans for the acquisition of the property, plant and equipment. Loss per share for the year ended December 31, 2005 amounted to approximately RMB0.4 cents as compared with earnings per share of approximately RMB2.3 cents for the corresponding period in 2004.

Dividend

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2005.

OUR STRATEGY GOING FORWARD

A. Globalisation

On March 24, 2005, Miroglio S.p.A. ("Miroglio"), a reputable multinational group in the textile industry, which was incorporated in Italy and engaged in the textile and garment business, became a substantial shareholder of the Company. The Directors believe that through the strategic co-operation with Miroglio, the Company can speed-up the progress of globalisation.

B. Streamline the operation

Provided that quality, production, sales volume and operation efficiency are secured, the Company will reorganise production management and continues to implement cost saving proposal so as to maximize profit in the coming year.

C. Product innovation

The company continues to develop new product so as to fulfill the international sales requirement. It is planned that 20% or equivalent to approximately RMB11.16 million of the new proceeds raised on March 24, 2005 from issuing of new shares will be used for the research and development of technology of the Company.

Chairman's Statement

Prospects

The year 2005 was a downturn year for many domestic enterprises due to the continuance rising of oil price and electricity shortage in China. Manufacturers were adversely affected by the scarcity of electricity supply and were inevitable suffered an increase in production overheads. The rise of oil price led to the increase of cost of raw materials of fiber fabrics. In additions, the anti-dumping actions imposed by Europe to the PRC exported textile product which mainly referred to the fiber products and the textile trade argument between China and US. The textile market sentiment was poor during the year. The fellow textile manufacturers were competing for the cost saving and market share. In view of the above impact, the Company had reorganized its sales structure and marketing strategy so as to develop high profile market. On the other hand, in order to balance the market share, the Company has set the strategies and target of 60% and 40% respectively for domestic sales and direct export sales. The Company also has reviewed its internal operation flow and implemented various cost saving policies so as to maximize profit of the Company. Furthermore, in the second half-year of 2005, the Company re-allocated certain resources for producing cotton fabrics in order to diversify the product and minimize the risk. Under theses policies, the Directors expect that the result of the Company in year 2006 will be improved and better than year 2005.

Appreciation

On behalf of the Board, I wish to extend our appreciation to our customers, vendors, banks and shareholders for their enthusiasm and support, and to every employee for their hard work and dedication throughout the year.

Sun Li Yong
Chairman

Hong Kong, March 28, 2006

Management Discussion and Analysis

Business and Operation Review

During year 2005, the Company has reorganized its sales structure and marketing strategy by concentrating in developing high profile market such as Europe and U.S.A.. Compared with that for the year ended December 31, 2005, local sales decreased by approximately 16.3%, while direct export sales increased by approximately 14.9%. Direct export to Europe increased by approximately RMB59.6 million, which represented an increase of approximately 142.9% while direct export to the Middle East decreased by approximately RMB48.9 million which represented a decrease of approximately 77.7%. In order to fulfill the high quality requirement, the Company spent more on the quality control, samples, research and development and technical support. The increase in direct export sales also led to sharply increase of communication, transportation and freight charges.

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 year ended December 31, 2005, 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. The marketing strategy for year 2006 will emphasis on the U.S. market, while still continue to keep strong position in the Europe market.

Liquidity and Financial Resources

Net current assets

As at December 31, 2005, the Company had net current assets of approximately RMB30.6 million (2004: net current liabilities RMB56.6 million).

As at December 31, 2005, the current assets comprised inventories of approximately RMB89.4 million (2004: RMB55.5 million), prepaid lease payments of approximately RMB0.3 million (2004: RMB0.3 million), trade receivables of approximately RMB87.8 million (2004: RMB68.3 million), other receivables, deposits and prepayments of approximately RMB30 million (2004: RMB51 million), amounts due from related parties of approximately RMB0.4 million (2004: RMB0.5 million), investments held-for-trading RMB0.4 million (2004: RMB0.5 million), restricted cash of approximately RMB47.4 million (2004: RMB101 million), fixed bank deposits of approximately RMB167.8 million (2004: RMB175 million) and bank balances and cash of approximately RMB22.6 million (2004: RMB47.9 million).

As at December 31, 2005, the current liabilities comprised trade payables of approximately RMB31.3 million (2004: RMB54.2 million), other payables and accruals of approximately RMB16.6 million (2004: RMB16 million), deposit received in respect of issue of shares of approximately RMB nil million (2004: RMB2.7 million), taxation of approximately RMB15.2 million (2004: RMB24.7 million) and borrowings due within one year of approximately RMB352.5 million (2004: RMB459 million) .

Borrowings and banking facilities and charges of company assets

The Company generally finances its operations and capital expenditures and other capital requirements with cashflow generated internally and banking facilities provided by its bankers.

Management Discussion and Analysis

As at December 31, 2005, the Company had bank loans due within one year and bank loans due after one year of approximately RMB352.5 million (2004: RMB459 million) and RMB98 million (2004: RMB78 million) respectively. The loans bear interest at prevailing market rates range from approximately 4.92% per annum to 7.32% per annum and repayable in installments over a period of six months to two years.

The unsecured loans were jointly guaranteed by the directors of the Company, Zhejiang Gabriel Holdings Group Company Limited ("Gabriel"), a related company which Mr. Sun Li Yong, Ms Fang Xiao Jian, Mr. Sun Jian Feng and Mr. Xia Xue Nian are also directors and shareholders of this company, another related company, Zhejiang Hongxing Sabrina Garments Co., Ltd. which Gabriel is its major shareholder, directors of the Company, Zhejiang Zhiye Real Estate Development Co., Ltd. ("Zhejiang Zhiye"), a company in which Gabriel has 32% controlling interest and Mr. Sun Li Yong is also a director of Zhejiang Zhiye and independent third parties.

The secured loans were pledged by restricted cash of approximately RMB47.4 million, construction in progress of approximately RMB40.8 million, prepaid lease payments, buildings, investment properties, plant and machinery situated in the PRC of net book values as at December 31, 2005 of approximately RMB10.5 million, RMB43.7 million, RMB13.7 million and RMB12.9 million respectively.

Capital Structure

During the year, the following changes in the share capital of the Company took place:

(a) In January 2005, a special resolution was approved in an extraordinary general meeting held by the Company to increase the authorised H share capital of the Company from RMB25,000,000 to RMB47,550,000 by the creation of an additional 225,500,000 shares of RMB0.10 each.

(b) In March 2005, the Company issued 16,000,000 H shares and 209,500,000 H shares of RMB0.10 each in the Company to a placing agent and Miroglio at a price of HK$0.24 per share, representing a discount of approximately 9.43% to the closing price of HK$0.265 per share as quoted on the Stock Exchange on March 4, 2005, being the last trading day of the H Shares immediately preceding the date of the placing announcement. The net proceeds from the issue of shares by placement and subscription will be used as to 60% for the establishment or acquisition of a dyeing factory in the PRC and as to 20% for research and development of technology of the Company and as to 20% for the general working capital of the Company.

The domestic shares and H shares carry same rights to dividends, receive notice of attender vote at any general meeting of the Company or to participate in any distribution on winding up.

As at December 31, 2005, the Company has 588,000,000 shares (2004: 588,000,000 shares) and 475,520,000 shares (2004: 250,000,000 shares) of Domestic Shares and H Shares in issued respectively. The par value of the Domestic Shares and H Shares is RMB0.1 each.

Capital Commitments and Significant Investments

As at December 31, 2005, the Company had commitments of approximately RMB10.84 million (2004: RMB12.55 million) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

Material Acquisitions/Disposals

During the year ended December 31, 2005, the Company did not have any material acquisitions/disposals.

Management Discussion and Analysis

Segmental Information

Segmental information of the Company is set out in note 7 to the financial statements.

Employee and Emolument Policies

As at December 31, 2005, the Company had 1,795 employees (2004: 1,730), comprising 22 (2004: 10) in research and development, 43 (2004: 26) in Sales and marketing, 1,375 (2004: 1,559) in Production, 332 (2004: 109) in Quality control, 10 (2004: 10) in Management, and 13 (2004: 16) 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.

The Company has established a remuneration committee in January 2005 and the primary duties of the remuneration committee are to formulate and make recommendation to the Board on the Company's policy and structure for all the remuneration of the directors and senior management and on the establishment of formal and transparent procedures for developing policy on such remuneration. The remuneration committee comprises three Independent Non-Executive Directors and Mr. Sun Li Yong, the Chairman and an Executive Director of the Company.

Based on the advice provided by the remuneration committee, the emoluments of the directors of the Company are recommended by the board of directors, having regard to their duties and responsibilities and approved by the shareholders of the Company.

Details of Future Plans for Material Investment or Capital Assets and Use of Net Proceeds from the Issuing of the New Shares

According to the Company's announcement dated March 24, 2005, the Company issued 205,000,000 of new H shares to its customer, Miroglio and placed 16,000,000 of new H shares to other independent third parties in order to maintain the public float of the H Shares of the Company as required under the GEM Listing Rules. The net proceeds from the issue of new H shares to Miroglio and independent third parties after deduction of transaction cost attributable to issue of the new shares was approximately RMB55.8 million. It is planned that 60% (equivalent to approximately RMB33.48 million) will be used for the acquisition of a dying factory in the PRC, 20% (equivalent to approximately RMB11.16 million) will be used for research and development of technology of the Company and 20% (equivalent to approximately RMB11.16 million) will be used as the general working capital of the Company.

For the year ended December 31, 2005, the Company has used approximately RMB276,000 in research and development. The Company is in progress of searching for appropriate dying factory in the PRC as at December 31, 2005.

Gearing Ratio

The gearing ratio (total debts over total assets) of the Company as at December 31, 2005 was 66.4% (2004: 75.3%).

Foreign Exchange Exposure

The Company operates in the People's Republic of China (the "PRC") with most of the transactions denominated and settled in Renminbi ("RMB"). However, foreign currencies, mainly United States Dollars, Euro and Hong Kong Dollars, are required to settle the Company's expenses and additions on plant and equipment. 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 or other means to hedge its foreign currency exposure. The Company considers it has no material foreign exchange risk to the Company.

Contingent Liabilities

As at December 31, 2005, the Company did not have any significant contingent liabilities.

Directors and Senior Management's Profile

Executive Directors

Mr. Sun Li Yong (孫利永), aged 35, is the Chairman and an executive Director of the Company. Mr. Sun is the founder of the Company and is responsible for the strategic planning and overall management of the Company. Mr. Sun received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has over 10 years of experience in corporate management in the PRC.

Ms. Fang Xiao Jian (方曉健), aged 33, is an executive Director of the Company and the spouse of Mr. Sun Li Yong. She is responsible for sales and marketing management of the Company. Ms. Fang received her tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. She has over 8 years of experience in the textile industry. She joined the Company in April 2002.

Mr. Sun Jian Feng (孫建鋒), aged 35, is an executive Director of the Company. Mr. Sun is responsible for the financial management of the Company. Mr. Sun received his diploma in accounting from the Hangzhou University of Commerce (杭州商學院) in 1990. He has over 10 years of experience in finance and accounting. Mr. Sun joined the Company in April 2002.

Mr. Xia Xue Nian (夏雪年), aged 41, is an executive Director of the Company. Mr. Xia is responsible for corporate administration of the Company. He received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has over 15 years of experience in the corporate management. Mr. Xia joined the Company in April 2002.

Mr. Li Cheng Jun (李成軍) aged 40, is an executive Director of the Company. He is the brother-in-law of Mr. Sun Li Yong, the Chairman and an executive Director of the Company. Mr. Li is responsible for the product operation and manufacturing technology of the Company. From July 1986 to June 1994, Mr. Li was the project manager of 浙江省工業設備安裝公司 (Zhejiang Province Industrial Facilities Installation Company*), a services company engaged in installation of industrial facilities in Zhejiang Province. From July 1994 to March 1996, Mr. Li was the production manager of 浙江國宏經編工業有限公司 (Zhejiang Guohong Wrap Knitting Industrial Co., Ltd.*), a company engaged in manufacturing and sales of knitted wrap. From April 1996 to May 2002, Mr. Li was the project manager of 蕭山建築工程公司 (Xiaoshan Construction Engineering Company*), a construction company. Mr. Li graduated from Zhejiang University of Technology (浙江工業大學) in 1986 and holds a degree in electronic engineering. Mr. Li has about 18 years of experience in the project and production management. Mr. Li joined the Company in June 2002.

Mr. Marco Borio, aged 35, is an executive Director of the Company and holds a degree major in international business. He has been working for Miroglio group since 1994 and was promoted as an executive Director of a subsidiary of Miroglio responsible for all the purchases of raw materials, including but not limited to polyester chips, yarns, loomstate and finished plain dyed fabrics in the Asian region. Mr. Borio joined the Company in March 2005.

Independent Non-executive Directors

Mr. Luk Guo Qing (陸國慶), aged 41, is an independent non-executive Director of the Company. Mr. Luk graduated from the Hangzhou University in 1986 and holds a degree in law. He is a licensed lawyer and is a partner of 浙江中法大律師事務所 (Zhejiang Zhong Fa Law Firm), a law firm in Zhejiang Province. He has extensive experience in securities law. During 1988 to 1998, he practiced in 浙江國大律師事務所. Mr. Luk was re-appointed as an independent non-executive Director of the Company in May 2005.

Directors and Senior Management's Profile

Mr. Zhu Yuk Lin (竺玉林), aged 46, is an independent non-executive Director of the Company. Mr. Zhu graduated from Zhejiang University of Finance & Economics (浙江財經學院) in 1982 and holds a degree in commerce. He is a PRC Certified Public Accountant (中國註冊會計師), a PRC Certified Assets Appraiser (中國註冊資產評估師) and a PRC Certified Tax Appraiser (中國註冊税務師). During the period from July 1982 to August 1999, he worked as administrative accountant in Zhejiang University of Finance & Economics (浙江財務學院). He has been practicing in Zhejiang Zhijiang Certified Public Accountants (浙江之江會計師事務所) which formerly named as Zhejiang Zhoucai Certified Public Accountants (浙江周財會計師事務所), a certified public accounting firm in Zhejiang Province, the PRC since August 1999 and he is also a director of Zhejiang Zhijiang Certified Public Accountants (浙江之江會計師事務所). Mr. Zhu was appointed as an Independent Non-Executive Director of the Company in September 2004.

Mr. Zong Pei Min (宗佩民), aged 42, an independent non-executive Director of the Company. Mr. Zong graduated from Hangzhou University of Commerce (杭州商業學院) in 1989 and holds a degree in economics. During the period from August 1989 to May 1990, he was working as an assistant lecturer at 金華職業技術學院 (Jin Hua Technical Institute*). From June 1990 to March 2000, he was working at 浙江興合集團 (Zhejiang Xing He Group*) as supervisor of investment department. From April 2000 to July 2002, he was working at 浙江省天堂硅谷創業投資有限公司 (Zhejiang Tian Tang Gui Gu Chuang Ye Investment Ltd.*) as general manager of consulting and research department. He is currently a director of 浙江華睿投資管理有限公司 (Zhejiang Hua Rui Investment Management Co. Ltd.*) Mr. Zong was appointed as an independent non-executive Director of the Company in May 2005.

Independent Supervisors

Mr. Hu Jin Huan (胡金煥), aged 41, is an independent Supervisor of the Company. He is responsible for performing the supervisory function in relation to the Company's Board of Directors, manager and other officers and report independently to the shareholders in general meeting of the Company. He is a PRC certified public accountant and is now working as an audit supervisor in Shaoxing Xingye Certified Public Accountants Firms (紹興興業會計師事務所). He was re-appointed as an independent Supervisor of the Company in May 2005.

Mr. Wang He Rong (王和榮), aged 44, is an independent Supervisor of the Company. He is responsible for performing the supervisory function in relation to the Company's Board of Directors, manager and other officers and report independently to the shareholders in general meeting of the Company. He is a PRC certified public accountant and is now working as an audit supervisor in Shaoxing Hongtai Certified Public Accountants Firms (紹興宏泰會計師事務所). He was re-appointed as an independent Supervisor of the Company in May 2005.

Supervisors

Mr. Shao Bao Hua (邵寶華), aged 40, is the Supervisor of the Company who joined the Company in December 1999. He is working in the Finance Department of the Company. From 1989 to December 1999, he worked as accounts clerk in the finance department of 紹興縣經編廠(Shaoxing Wrap Knitting Factory), a wrap manufacturing company in the Zhejiang Province. He was re-appointed as Supervisor of the Company in May 2005.

Mr. He Dong Hui (何東輝), aged 36, is the Supervisor of the Company who joined the Company in December 1998. He is working in the administration department and is responsible for the website and network maintenance, information and technology support. From August 1992 to June 1993, Mr. He worked with 湖北黃石下鋼轂廠電氣分廠 (Branch of Electric Gas of Wubei Wangshi Xiagang*) and was responsible for the repair and maintenance of the mechanical and electrical facilities. From July 1993 to March 1996, Mr. He worked with 湖北黃石康賽集團有限公司 (Wubei Wangshi Kangzhai Group Co., Ltd.*) and was responsible for the development of management software of information & technology department. From April 1996 to November 1998, Mr. He worked with 湖北黃石康賽集團康博針織有限公司 (Wubei Wangshi Kangzhai Group Kangpao Knitting Co., Ltd.*) and was responsible for embroidery design. Mr. He graduated from Wuhan University of Technology (武漢理工大學) in 1992 and holds a degree in mechanical and electrical engineering. Mr. He was appointed as Supervisor of the Company in January 2004.

Directors and Senior Management's Profile

Mr. Fan Zhi Gang (樊芝剛), aged 30, joined the Company in October 2000. He is working in the administration department and is responsible for the general administration and human resources. From July 1999 to September 2000, Mr. Fan was at 紹興聯興紡織有限公司 (Shaoxing Lianxing Textile Co., Ltd.*) and was responsible for the general administration. Mr. Fan graduated from Zhejiang University (浙江大學) in 1992 and holds a degree in economic management. He was appointed as Supervisor of the Company in May 2005.

Senior Management

Ms. Chen Yen Yung (陳燕雲), aged 34, is the qualified accountant and company secretary of the Company and the spouse of Mr. Sun Jian Feng. Ms. Chen studied in the Hong Kong Polytechnic University for higher certificate in accountancy and holds a bachelor's degree in commerce (accounting) from the Curtin University of Technology, Western Australia. She has over 10 years of experience in accounting and finance field. She is a member of the Australian Society of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. From February 1995 to February 2001, she was an assistant manager of K. L. Lee & Partners CPA Limited, Certified Public Accountants in Hong Kong. From February 2001 to June 2002, Ms. Chan was a director of BMI Consultants Limited, a business consultancy services company in Hong Kong. She joined the Company in June 2002.

Mr. Ding Zhong Xin (丁忠心), aged 35, is the manager of the finance department of the Company. He completed business management from Shanghai Lisin Professional Accounting College (上海立信會計高等專科學校) and has over 10 years of experience in accounting and finance. From April 1990 to February 2002, Mr. Ding worked in 紹興縣信用聯社 (Shaoxing County Credit Cooperation), a finance company and was responsible for the loan arrangements with its clients in the Zhejiang Province. He joined the Company in February 2002.

Ms. Xu Jie Lian (徐潔蓮), aged 32, is the manager of sales and marketing department of the Company. She has been working for many foreign invested enterprises and is experience in the textile industry, especially in international textile trading and import-export. Ms. Xu graduated from Shanghai Jiao Tong University and obtained a bachelor degree in International Financing. From June 1998 to February 2000, she worked with the import-export and marketing department of Taiwai Eupa Co., Ltd. From February 2000 to January 2004, she was a sales and marketing manager of Camin (HK) Ltd. Ms. Xu joined the Company in January 2004.

Ms. Wong Ai Feng (王愛鳳), aged 69, is the head of research and development department of the Company. She obtained a degree in textile study from Hua Tung Textile Technical College 華東紡織工業學院and has over 30 years of experience in textile and garment industries. From September 1974 to April 2002, she was a professor of Donghua University and was responsible for the course of textiles in Shanghai. She joined the Company in April 2002.

Directors' Report

The directors of the Company present their annual report and the audited financial statements of the Company for the year ended December 31, 2005.

Principal Activity

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

Results and Appropriations

The results of the Company for the year ended December 31, 2005 are set out in the income statement on page 27 of the annual report.

The directors do not recommend the payment of a dividend for the year ended December 31, 2005.

Investment Properties

Details of these movements during the year in the investment properties of the Company are set out in note 14 to the financial statements.

Property, Plant and Equipment

During the year, the Company spent approximately RMB13 million in aggregate on factory premises and other plant and machinery to expand and upgrade its production capacity.

Details of these and other movements during the year in the property, plant and equipment of the Company are set out in note 15 to the financial statements.

Share Capital

Details of the share capital of the Company are set out in note 26 to the financial statements.

Directors' Report

Directors and Supervisors

The directors and supervisors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Sun Li Yong *(Chairman)*	
Ms. Fang Xiao Jian	
Mr. Sun Jian Feng	
Mr. Xia Xue Nian	
Mr. Li Cheng Jun	
Mr. Marco Borio	(appointed on March 24, 2005)

Independent Non-Executive Directors:

Mr. Luk Guo Qing	
Mr. Zhu Yu Lin	
Mr. Zong Pei Min	(appointed on May 18, 2005)
Mr. Lui Tin Nang	(retired on May 18, 2005)

Supervisors:

Mr. Shao Bao Hua	
Mr. He Dong Hui	
Mr. Fan Zhi Gang	(appointed on May 24, 2005)
Mr. Luo Teng Fa	(retired on May 18, 2005)

Independent Supervisors:

Mr. Hu Jin Huan
Mr. Wang He Rong

Each of the directors and supervisors (including the independent non-executive directors and independent supervisors) has entered into a service agreement with the Company for three years from the date of appointment. Each of the directors and supervisors was appointed as director and supervisor of the Company respectively subject to termination in certain circumstances as stipulated in the relevant services contracts.

In accordance with the provisions of the Company's Articles of Association, the directors and supervisors are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment.

Directors' Report

Directors' and Supervisors' Interests in Securities

At December 31, 2005, 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 (the "SFO")), which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

Long positions

Name of director	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares	Approximate percentage of interests in total registered capital
Mr. Sun Li Yong	Beneficial owner	382,200,000	65%	35.94%
	Held by 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%
	Held by 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%

Short positions

None

Notes:

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

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

Save as disclosed above, as at December 31, 2005, none of the directors, chief executives or supervisors had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed, to have such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

Directors' Report

Arrangements to Purchase H Shares or Debentures

At no time during the year was the Company a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors nor the supervisors, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Directors' and Supervisors' Interests in Contracts of Significance

Save as disclosed in note 31 to the financial statements, no other contracts of significance to which the Company was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected Transactions

Save as disclosed in notes 20, 24 and 31 to the financial statements, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

The independent non-executive directors have reviewed the connected transactions set out in notes 20, 24 and 31 to the financial statements and in their opinion, these transactions entered into by the Company were:

(i) in the ordinary course of business of the Company;

(ii) on normal commercial terms or on terms no less favourable than terms available to/from independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Substantial Shareholders

As at December 31, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed in "Directors' and Supervisors' Interests In Securities", the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Long positions

H-shares of RMB0.10 each of the Company

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

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at December 31, 2005.

Directors' Report

Competing Interests

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

Major Suppliers and Customers

During the year, the five largest suppliers and customers of the Company accounted for approximately 54.43% and 21.04% of the Company's purchases and turnover, respectively. The largest supplier accounted for approximately 21.24% of the purchases of the Company.

Except for Miroglio S.p.A., a substantial shareholder of the Company, was one of the five largest customers of the Company during the year, at no time during the year did a director, a supervisor, an associate or a shareholder of the Company, which to the knowledge of the directors, own more than 5% of the Company's issued share capital, have any interest in the share capital of any of the five largest suppliers or customers of the Company.

The independent non-executive directors represented that the transactions between the Company and Miroglio S.p.A. were carried out on normal commercial terms.

Purchase, Sale or Redemption of the Company's Listed Securities

The Company did not purchase, sell or redeem any of the Company's listed securities for the year ended December 31, 2005.

Audit Committee

The Company has established an audit committee in May 2002 with terms of reference, which have been updated in accordance with the provision of the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The audit committee has three members comprising the three Independent Non-Executive Directors, Mr. Luk Guo Qing, Mr. Zong Pei Min and Mr. Zhu Yu Lin. Mr. Luk Guo Qing is the chairman of the audit committee.

The quarterly results for the three months ended March 31, 2005, June 30, 2005, September 30, 2005 of the Company and the financial statements of the Company for the year ended December 31, 2005 have been reviewed by the audit committee. The audit committee had held four meetings during the current financial year.

Emolument Policy

The Company has established a remuneration committee in January 2005 and the primary duties of the remuneration committee are to formulate and make recommendation to the Board on the Company's policy and structure for all the remuneration of the directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration. The remuneration committee comprises three Independent Non-Executive Directors and Mr. Sun Li Yong, the Chairman and an Executive Director of the Company.

Based on the advice provided by the remuneration committee, the emoluments of the directors of the Company are recommended by the board of directors, having regard to their duties and responsibilities and approved by the shareholders of the Company.

Directors' Report

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the People's Republic of China (the "PRC"), which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Corporate Governance

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended December 31, 2005.

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

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rules 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

Other Matters

As at December 31, 2005, the following entity had trading balance with the Company exceed 8% of the Company's total market capitalisation:

Name of entity	*RMB*	**% of total market capitalisation**
Set Societ Europe Tassiel S.p.A. ("Set")	11,318,012	9.88%

The above entity is independent of any of the Directors, the chief executives, supervisors (including the independent non-executive directors and independent supervisors), the management shareholders and the substantial shareholders (within the meaning of the GEM Listing Rules). Such amount represented the outstanding balances of certain sales transactions entered into the Company in its ordinary course of business and on normal commercial terms. It is interest free with the following payment terms.

	RMB
Terms of payment	
Telegraphic Transfer ("TT")	212,390
Cash Against Document ("CAD") 60 days	170,267
Irrecoverable Letter of Credit ("L/C") 90 days after Bill of Lading ("B/L") date	10,935,355
	11,318,012

According to the announcement of the Company dated December 21, 2005 and December, 28 2005, the trading balance due from Set as at November 30, 2005 amounted to RMB12,027,473.14.

Directors' Report

Auditors

During the year, one of the joint international auditors, KLL Associates CPA Limited, resigned and Messrs. Deloitte Touche Tohmatsu acted as sole international auditors.

The financial statements for the year ended December 31, 2005 were jointly audited by Messrs. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Ltd., the domestic auditors.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Ltd. as the Company's international auditors and domestic auditors respectively.

The financial statements for the year ended December 31, 2003 and 2004 were jointly audited by Messrs. Deloitte Touche Tohmatsu and KLL Associates CPA Limited.

On behalf of the Board of
Zhejiang Yonglong Enterprises Co., Ltd.

Sun Li Yong
CHAIRMAN

Zhejiang, the PRC, March 28, 2006

Supervisors' Report

To: All Shareholders

We are the supervisory committee of Zhejiang Yonglong Enterprises Co., Ltd., in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company (the "Articles of Association") during the year ended December 31, 2005, exercised conscientiously its authority, safeguarded the interest of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

During the year we have carefully reviewed the use of the proceeds raised in strict compliance with the plan of use of proceeds disclosed in the announcement of the Company dated March 8, 2005 and provided reasonable suggestions and advice on the operations and development plans to the Board and strictly and effectively and the Articles of Association or safeguarded the interests of the shareholders.

After review, we consider that the financial statements of the Company, jointly audited by the auditors, Deloitte Touche Tohmastsu and Deloitte Touche Tohmatsu CPA Ltd, truly and sufficiently reflects the operating distribution proposal. We consider that the above report and proposal meet the requirements of the relevant regulations and Articles of Association. We have attended the meeting of the Board. We consider that the members of the Board, the general manager and other officers have strictly complied with the principle of honestly and trustworthiness, worked diligently and sincerely acted in the best interest of the Company. Up to now, none of the directors, general manager and the officers have abused their powers, caused damage the interests of the Company and infringed upon the interests of the Company and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

We are satisfied with the various tasks achieved as well as the cost effectiveness gained and are confident about the prospectus of future development of the Company.

By order of the Board
Zhejiang Yonglong Enterprises Co., Ltd.

He Dong Hui
Chairman of the Supervisory Committee

Shaoxing, Zhejiang Province, the PRC
March 28, 2006

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

Except for the deviations as disclosed on this report, in the opinion of the Board, the Company has complied with all the code provisions on Corporate Governance Practices (the "Code") as set out in the GEM Listing Rules by establishing a formal and transparent procedures to protect and maximize the interests of shareholders throughout the year under review.

DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company has adopted a Code of Conduct for Securities Transactions by Directors (the "Dealing Rules") on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiry of all Directors and Supervisors, all Directors and Supervisors confirmed they have complied with the required standard and the Code of Conduct regarding Securities Transactions by Directors and Supervisors adopted by the Company.

SENIOR MANAGEMENT'S AND STAFF'S SECURITIES TRANSACTIONS

Senior managers and those staff who are more likely to be in possession of unpublished price-sensitive information or other relevant information in relation to the Company have adopted the Dealing Rules. These senior managers and staff have been individually notified and provided with a copy of the Dealing Rules.

BOARD OF DIRECTORS

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. Mr. Sun Li Yong is the Chairman and Chief Executive (i.e. the General Manager) of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Company. The operations of the Board, which comprises experienced, and high caliber individuals and meets regularly to discuss issues affecting operations of the Company ensure the balance of power and authority. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Sun and believes that his appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects of the Company.

The Board is responsible for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company affairs.

The Board currently comprises six executive Directors, three independent non-executive Directors. Their brief biographical details are set out in the "Directors' and Senior Management's Profile" on pages 9 and 10 of this Annual Report. Please refer to the Directors' Report on page 13 for the terms of appointment of each Director.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rules 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

The Board meets at least four times a year to review the financial and operating performance of the Company. Apart from the regular Board meetings of the year, the Board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each Board meeting. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's Articles of Association. According to the Code, at least 14 days of notice in advance should be given for a regular board meeting to give all Directors an opportunity to attend.

Corporate Governance Report

During the year under review, out of the four regular board meetings, there was one meeting given at least 14 days of notice in advance to the Directors, the other three board meetings were given at least 10 days in advance to the Directors according to the Articles of Association of the Company. In the forthcoming year, notice of 14 days will be given for all regular board meeting. The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meeting. She also keeps the minutes, which are opened for inspection at any reasonable notice by any Director.

There were thirteen Board meetings held in the financial year ended December 31, 2005. Individual attendance of each Board member at these meetings is as follows:

Name of Director	Attended/eligible to attend
Executive Directors	
Mr. Sun Li Yong (Chairman & General Manager)	13/13
Ms Fang Xiao Jian	13/13
Mr. Li Cheng Jun	12/13
Mr. Sun Jian Feng	13/13
Mr. Xia Xue Nian	13/13
Mr. Marco Borio (appointed on March 24, 2005)	2/13
Independent Non-executive Directors	
Mr. Lui Tin Nang (retired on May 18, 2005)	1/13
Mr. Luk Guo Qing	6/13
Mr. Zhu Yu Lin	5/13
Mr. Zong Pei Min (appointed on May 18, 2005)	2/13

During the regular meetings of the Board, the Directors discuss and formulate the overall strategies of the Company, review and monitor the business and financial performances and discuss the quarterly, half-yearly and annual results, as well as discuss and decide on other significant matters.

The Board confines itself to making broad policy decisions, such as the Company's overall strategies and policies, annual budgets and business plans, while delegating responsibility for more detailed consideration to the various Board Committees and management. Management is responsible for overseeing the Company's business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions. The management must obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

BOARD COMMITTEES

Audit Committee

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants and the mandatory provisions set out in the Code.

Corporate Governance Report

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. Zhong Pei Min and Mr. Zhu Yu Lin. Mr. Luk Guo Qing is the chairman of the audit committee.

The audit committee has reviewed the quarterly results for the three months ended March 31, 2005, June 30, 2005, September 30, 2005 of the Company. It also has reviewed the audited financial statements for the year ended December 31, 2005 with management and the Company's external auditors and recommended its adoption by the Board. The audit committee had held four meetings during the current financial year. Individual attendance of each committee member at these meetings is as follows:

Name of Director	Attended/eligible to attend
Independent Non-executive Directors	
Mr. Lui Tin Nang (retired on May 18, 2005)	2/4
Mr. Luk Guo Qing	4/4
Mr. Zhu Yu Lin	4/4
Mr. Zong Pei Min (appointed on May 18, 2005)	2/4

The authorities of the audit committee include (1) investigation of any activity within its terms of reference; (2) seeking any information it requires from any employee; and (3) obtaining outside legal or other independent professional advice if it considers necessary.

The main duties of the audit committee are as follows:

– to consider the appointment of the external auditors, the audit fee, and any question of resignation or dismissal;

– to discuss with the external auditors the nature and scope of the audit;

– to review and monitor the external auditors, independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

– to develop and implement policy on the engagement of external auditors to supply non-audit services;

– to review the Company's quarterly, interim and annual financial statements before submission to the Board;

– to discuss problem and reservations arising from the final audits and any matters that the external auditors may wish to discuss;

– to review the Company's statement on internal control system prior to endorsement by the Board;

– to consider the major findings of any internal investigation and the management's response; and

– to consider other topics as defined by the Board.

Corporate Governance Report

Auditors' Remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse affect to the Company.

External Auditor

KLL Associates CPA Limited had resigned as one of the Company's two joint international Auditor with effect from November 11, 2005. Deloitte Touche Tohmatsu ("Deloitte") has been appointed as the sole external international auditors of the Company by shareholders at the extraordinary general meeting held on December 30, 2005 and shall hold office until the conclusion of the forthcoming annual general meeting of the Company. Deloitte has audited the financial statements for the year ended December 31, 2005 while the financial statements for the year ended December 31, 2003 and 2004 were jointly audited by Deloitte and KLL Associates CPA Limited ("KLL Associates"). The external domestic auditors of the Company for the year ended December 31, 2004 and 2005 was Deloitte Touche Tohmatsu CPA Limited ("Shanghai Deloitte").

The audit committee holds meetings with the External Auditors each year to discuss the operating results, statements of the Company and listed to the advice provided by the auditors

The remuneration in respect of services provided by the external international auditors and external domestic auditors for the year ended December 31, 2005 and 2004 is analysed as follows:

	For the year ended December 31,	
	2005	2004
	RMB'000	RMB'000
Audit service	**850**	800
Performed agreed-upon procedures regarding financial information used for application of issuing new H shares	**10**	–
Performed agreed-upon procedures regarding financial information on connected transactions between the Company and Miroglio and its subsidiaries	**23**	–
	883	800

The audit services fee for the year ended December 31, 2004 representing services provided by the joint external international auditors, Deloitte and KLL Associates and the domestic auditors, Shanghai Deloitte. The audit services fee for the year ended December 31, 2005 representing services provided by Deloitte and Shanghai Deloitte. The other services fee for the year ended December 31, 2005 representing the services provided by Deloitte.

Corporate Governance Report

REMUNERATION COMMITTEE

According to the Code, the Company has established a remuneration committee in January 2005 and the primary duties of the remuneration committee are to formulate and make recommendations to the Board on the Company's policy and structure for all the remuneration of the Directors and Senior Management and on the establishment of a formal and transparent procedures for developing policy on such remuneration. The Remuneration Committee shall be appointed by the Board and shall consist of not less than three members, a majority of whom should be independent non-executive directors. The remuneration committee comprises three Independent Non-Executive Directors being Mr. Zong Pei Min, Mr. Luk Guo Qing and Mr. Zhu Yu Li and Mr. Sun Li Yong, the Chairman and an Executive Director of the Company. Mr. Zhu Yu Lin was elected as chairman of the remuneration committee. It is scheduled to meet at least once a year and the quorum necessary for the transaction of business is two.

The remuneration committee of the Company has considered and reviewed the existing terms of service contracts of the Directors and considers that the existing terms of the service contracts are fair and reasonable.

Prior to the establishment of the remuneration committee, the chairman of the Board is responsible for reviewing of the executive Directors and independent non-executive Directors and supervisors and independent supervisors of the Company and submitted recommendation to the Board for approval at Board meeting with the presence of the independent non-executive Directors.

Based on the advice provided from remuneration committee, the emoluments of the Directors of the Company are recommended by the Board of Directors, having regard to their duties and responsibilities and approved by the Shareholders of the Company.

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a Director, and approving terminating the appointment of a director.

The Chairman is mainly responsible for identify suitable candidates for members of the Board when there is a vacancy or an additional Director is considered necessary. He will propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Company on the basis of his qualifications, experience and background. The decision of appointing a Director must be approved unanimously by the members of the Board and make recommendation to the shareholders' meeting for approval.

The Company has complied with Code provision A.4.1 and A.4.2 of the Code as required by the GEM Listing Rules. According to the Company's Articles of Association, the Company appoints its Directors for a maximum term of three years and shall be elected by shareholders at annual general meeting every three years.

All Directors (including executive, non-executive and independent non-executive directors) are subject to election for appointment by shareholders at the annual general meeting at every three years. None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for termination of Executive Directors and Independent Non-executive Directors' contracts by either party is not less than three months.

Corporate Governance Report

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and in presenting the quarterly and annual financial statements, and announcements to shareholders, the Directors aim to present a balanced and understandable assessment of the Company's position and prospects.

The Directors' responsibilities in preparing financial statements and the auditors' responsibilities are set out in the Auditors' Report on page 26 of this Annual Report.

DIRECTORS AND SENIOR MANAGEMENT – REMUNERATION AND SHARES INTEREST

Details of the remuneration and share interest of the Directors and Senior Management are contained in note 9 to the financial statements on page 49 and Directors Report on page 14 of this Annual Report.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control. The audit committee also reviews the internal control system and evaluates their adequacy, effectiveness and compliance on a regular basis.

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

The Company has disclosed all necessary information to the shareholders and investors in compliance with GEM Listing Rules and uses a number of formal communications channels to account to shareholders and investors for the Company. These include (i) the publication of quarterly, interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) the Company replying to the enquiries from shareholders timely; (iv) updated and key information of the Company available on website of the Company; v) the Company's website offering communication channel between the Company and its shareholders and investors; and (vi) the Company's H share registrar in Hong Kong serves the H share shareholders regarding all share registration matters.

SUFFICIENCY OF PUBLIC FLOAT

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

LOOKING FORWARD

The Board of Directors of the Company believe that good corporate governance can safeguard the effective allocation of resources and safeguard shareholders' interest. The Company will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

Auditors' Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF
ZHEJIANG YONGLONG ENTERPRISES CO., LTD.
浙江永隆實業股份有限公司
(established as a joint stock limited company in the People's Republic of China)

We have audited the financial statements on pages 27 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at December 31, 2005 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
March 28, 2006

Income Statement

for the year ended December 31, 2005

	Notes	**2005 RMB'000**	2004 RMB'000 (restated)
Turnover	*7*	**415,366**	449,766
Cost of sales		**(377,080)**	(393,968)
Gross profit		**38,286**	55,798
Other income		**8,496**	16,083
Selling expenses		**(10,789)**	(6,934)
Administrative and operating expenses		**(16,069)**	(9,604)
Finance costs	*10*	**(27,997)**	(26,141)
(Loss) profit before taxation	*8*	**(8,073)**	29,202
Taxation	*11*	**4,413**	(10,104)
(Loss) profit for the year		**(3,660)**	19,098
Dividend paid during the year	*12*	**–**	2,500
(Loss) earnings per share – basic	*13*	**(0.4 cents)**	2.3 cents

Balance Sheet

at December 31, 2005

	Notes	2005 RMB'000	2004 RMB'000 (restated)
Non-current assets			
Investment properties	*14*	**13,707**	14,538
Property, plant and equipment	*15*	**256,766**	268,041
Prepaid lease payments	*16*	**12,114**	12,387
Bank deposits	*17(a)*	**53,135**	57,440
		335,722	352,406
Current assets			
Inventories	*18*	**89,432**	55,465
Prepaid lease payments	*16*	**273**	273
Trade receivables	*19*	**87,774**	68,330
Other receivables, deposits and prepayments	19	**30,063**	50,957
Amounts due from related parties	*20*	**436**	544
Investments held-for-trading	*17(b)*	**400**	500
Restricted cash	*21*	**47,408**	100,950
Fixed bank deposits		**167,840**	175,000
Bank balances and cash		**22,602**	47,916
		446,228	499,935
Current liabilities			
Trade payables	*22*	**31,324**	54,153
Other payables and accruals	*22*	**16,637**	15,994
Deposit received in respect of issue of shares	*23*	**–**	2,675
Taxation		**15,169**	24,735
Borrowings – due within one year	*24*	**352,458**	459,006
		415,588	556,563
Net current assets (liabilities)		**30,640**	(56,628)
Total assets less current liabilities		**366,362**	295,778

Balance Sheet

at December 31, 2005

	Notes	**2005 RMB'000**	2004 RMB'000 (restated)
Non-current liabilities			
Borrowings – due after one year	*24*	**98,000**	78,000
Deferred tax liabilities	*25*	**5,852**	6,870
		103,852	84,870
NET ASSETS		**262,510**	210,908
Capital and reserves			
Share capital	*26*	**106,350**	83,800
Reserves		**156,160**	127,108
SHAREHOLDERS' FUNDS		**262,510**	210,908

The financial statements on pages 27 to 67 were approved and authorised for issue by the Board of Directors on March 28, 2006 and are signed on its behalf by:

SUN LI YONG
DIRECTOR

FANG XIAO JIAN
DIRECTOR

Statement of Changes in Equity

for the year ended December 31, 2005

	Share capital RMB'000 *(Note 26 (a))*	Share premium RMB'000	Other reserve RMB'000 *(Note 26(b))*	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000 *(Note 26 (b))*	Statutory welfare fund RMB'000 *(Note 26 (b))*	Accumulated profits RMB'000 *(Note 26 (b))*	Total RMB'000
At January 1, 2004 as originally stated	83,800	26,229	3,940	25,158	6,252	3,127	58,309	206,815
Effects of changes in accounting policies *(Note 3)*	–	10,152	–	(9,199)	–	–	(11,518)	(10,565)
At January 1, 2004 as restated	83,800	36,381	3,940	15,959	6,252	3,127	46,791	196,250
Profit for the year (restated)	–	–	–	–	–	–	19,098	19,098
Final dividend paid to holders of H shares for the year ended December 31, 2003	–	–	–	–	–	–	(2,500)	(2,500)
Final dividend waived by holders of domestic shares for the year ended December 31, 2003	–	–	5,880	–	–	–	(5,880)	–
Tax effect arising on final dividend waived by holders of domestic shares	–	–	(1,940)	–	–	–	–	(1,940)
Transfer	–	–	–	–	1,747	888	(2,635)	–
At December 31, 2004	83,800	36,381	7,880	15,959	7,999	4,015	54,874	210,908
Effect of changes in accounting policies *(Note 3)*	–	–	–	–	–	–	(544)	(544)
At January 1, 2005 as restated	83,800	36,381	7,880	15,959	7,999	4,015	54,330	210,364
Transfer	–	–	–	–	145	58	(203)	–
Loss for the year	–	–	–	–	–	–	(3,660)	(3,660)
Issue of new shares	22,550	34,855	–	–	–	–	–	57,405
Transaction costs attributable to issue of new shares	–	(1,599)	–	–	–	–	–	(1,599)
At December 31, 2005	106,350	69,637	7,880	15,959	8,144	4,073	50,467	262,510

Cash Flow Statement

for the year ended December 31, 2005

	2005 RMB'000	2004 RMB'000 (restated)
OPERATING ACTIVITIES		
(Loss) profit before taxation	(8,073)	29,202
Adjustments for:		
Government grant recognised as income	(1,096)	(771)
Interest income	(5,265)	(9,906)
Investments income from other investments	–	(5)
Gain on disposal of investments held-for-trading	(19)	–
Reversal of impairment loss recognised in respect of trade receivables	(182)	–
(Reversal) write down of inventories	(400)	3,000
Interest expenses	27,997	26,141
Exchange loss recognised to income statement in respect of non-current bank deposits	1,264	–
Bad debts written off	900	–
Depreciation of investment properties	831	830
Depreciation and amortisation of property, plant and equipment	24,538	23,151
Release of prepaid lease payments	273	207
Operating cash flows before movements in working capital	40,768	71,849
Increase in inventories	(33,567)	(27,955)
Increase in trade receivables	(20,162)	(4,701)
Decrease in other receivables, deposits and prepayments	20,894	41,973
Decrease (increase) in amounts due from related parties	108	(544)
(Decrease) increase in trade payables	(22,829)	18,136
Increase (decrease) in other payables and accruals	643	(9,644)
Cash (used in) generated from operations	(14,145)	89,114
Interest paid	(30,006)	(27,471)
Government grant received	1,096	771
People's Republic of China enterprise income tax paid	(6,171)	(8,166)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	(49,226)	54,248
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(11,254)	(49,987)
Decrease in restricted cash	53,542	7,690
Decrease in fixed bank deposits	7,160	51,067
Interest received	7,762	9,906
Proceeds from disposal of investments held-for-trading	119	4,800
Increase in bank deposits	–	(57,440)
Acquisition of investment in securities	–	(500)
Investment income from other investments	–	5
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	57,329	(34,459)

Cash Flow Statement

for the year ended December 31, 2005

	2005 RMB'000	2004 RMB'000 (restated)
FINANCING ACTIVITIES		
Repayment of borrowings	**(1,117,148)**	(965,247)
Transaction costs attributable to issue of the new shares	**(1,599)**	–
New borrowings raised	**1,030,600**	964,634
Issue of new shares	**54,730**	–
Repayment to a related company	**–**	(24,881)
Dividend paid	**–**	(2,500)
Deposit received in respect of issue of new shares	**–**	2,675
NET CASH USED IN FINANCING ACTIVITIES	**(33,417)**	(25,319)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(25,314)**	(5,530)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**47,916**	53,446
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	**22,602**	47,916

Notes to the Financial Statements

For the year ended December 31, 2005

1. General

The Company is a joint stock limited company established in the People's Republic of China (the "PRC") and the H shares of the Company are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

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

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

2. Changes in Accounting Policies

In the current year, the Company has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after January 1, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and statement of changes in equity. The adoption of the new HKFRSs has resulted in changes to the Company's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Financial Instruments

In the current year, the Company has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*.

HKAS 32 requires retrospective application. Under HKAS 32, the transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Transaction costs that relate jointly to more than one transaction (for example, costs of a concurrent offering of some shares and a stock exchange listing of other shares) are allocated to these transactions using a basis of allocation that is rational and consistent with similar transactions.

This change in accounting policy has been applied retrospectively and an adjustment of approximately RMB10,152,000 has been adjusted from share premium to accumulated profits.

HKAS 39, which is effective for annual periods beginning on or after January 1, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis.

Classification and measurement of financial assets and financial liabilities

The Company has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Notes to the Financial Statements

For the year ended December 31, 2005

2. Changes in Accounting Policies (Continued)

Financial Instruments (Continued)

Classification and measurement of financial assets and financial liabilities (Continued)

By December 31, 2004, the Company had classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From January 1, 2005 onwards, the Company has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On January 1, 2005, the Company classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. An adjustment of approximately RMB544,000 to the previous carrying amounts of a fixed return bank deposits, details of which is disclosed in note 17(a), at January 1, 2005 has been made to the Company's accumulated profits.

Financial assets and financial liabilities other than debt and equity securities

From January 1, 2005 onwards, the Company has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Derivatives and hedging

By December 31, 2004, the Company classified the forward contacts as speculative forward contact and non-speculative forward contact. A non-speculative forward contacts is one which is designated and effective as a hedge of a net investment in a foreign entity, of a foreign currency assets, of a net monetary asset or liability or of a firm commitment. All other forward contacts, or parts of forward contacts in excess of the amount hedged, are speculative. When a non-speulative forward contacts is used as a hedge of a net monetary asset or liability, the gain or loss and the discount or premium on the contacts is taken to the income statement. Where a forward contact is speculative, the gain or loss should be credited or charged to the income statement.

From January 1, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

Notes to the Financial Statements

For the year ended December 31, 2005

2. Changes in Accounting Policies (Continued)

Derivatives and hedging (Continued)

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. The Company has applied the relevant transitional provisions in HKAS 39. For derivatives that do not meet the requirements of hedge accounting in accordance with HKAS 39, the Company has, from January 1, 2005 onwards, deemed such derivatives as held for trading. The adoption of HKAS 39 has had no material effect on the Company's accumulated profits and there is no outstanding financial contracts upon the repayment of the foreign currency borrowing during the year.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the valuation model. In the current year, the Company has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

Investment Properties

In the current year, the Company has, for the first time, applied HKAS 40 *Investment Property*. The Company has elected to use the cost model to account for its investment properties, under which investment properties are carried at cost less accumulated depreciation and accumulated impairment loss (if any). In previous years, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Company has resolved to apply the new accounting policy retrospectively. Comparative figures for 2004 has been restated. (see Note 3 for financial impact)

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Company has applied HK(SIC) Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Company expects to recover the property at each balance sheet date. The adoption of HK(SIC) Interpretation 21 has had no material effect on the results for the current and prior years.

Notes to the Financial Statements

For the year ended December 31, 2005

3. Summary of the effects of the Changes in Accounting Policies

The effects of the changes in the accounting policies described in note 2 above on the results for the current and prior years are as follows:

	Effect of adopting	2005 RMB'000	2004 RMB'000
Decrease in interest income from fixed return bank deposits	HKAS 39	**(2,497)**	–
Decrease in expenses regarding the prepaid lease payments	HKAS 17	**75**	141
Increase in depreciation of investment properties	HKAS 40	**(831)**	(77)
Increase in (loss) profit for the year		**(3,253)**	64

The cumulative effects of the application of the new HKFRSs on December 31, 2004 and January 1, 2005 are summarised below:

	As at December 31, 2004 RMB'000 (originally stated)	Adjustments on HKAS 17 and 40 RMB'000	Adjustments on HKAS 32 RMB'000	As at December 31, 2004 RMB'000 (restated)	Adjustments on HKAS 39 RMB'000	As at January 1, 2005 RMB'000 (restated)
Balance sheet items						
Property, plant and equipment	287,705	(19,664)	–	268,041	–	268,041
Prepaid lease payments	–	12,660	–	12,660	–	12,660
Investment properties	22,567	(8,029)	–	14,538	–	14,538
Deferred tax liability	(12,392)	4,532	–	(7,860)	–	(7,860)
Bank deposits	57,440	–	–	57,440	(544)	56,896
Total effects on assets and liabilities		(10,501)	–		(544)	
Share premium	26,229	–	10,152	36,381	–	36,381
Assets revaluation reserve	25,158	(9,199)	–	15,959	–	15,959
Accumulated profits	66,328	(1,302)	(10,152)	54,874	(544)	54,330
Total effects on equity		(10,501)	–		(544)	

Notes to the Financial Statements

For the year ended December 31, 2005

3. Summary of the effects of the Changes in Accounting Policies (Continued)

The financial effects of the application of the new HKFRSs to the equity at January 1, 2004 are summarised below:

	As originally stated RMB'000	Adjustments on HKAS 17 and 40 RMB'000	Adjustments on HKAS 32 RMB'000	As restated RMB'000
Share premium	26,229	–	10,152	36,381
Assets revaluation reserve	25,158	(9,199)	–	15,959
Accumulated profits	58,309	(1,366)	(10,152)	46,791
Total effects on equity	109,696	(10,565)	–	99,131

4. Accounting standards that effective after the Balance Sheet Date

The Company has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company have commenced considering the potential impact of these new standards and interpretation. Except for HKAS 39 & HKFRS 4 (Amendments) on financial guarantee contracts (which requires financial guarantees to be initially measured at fair value), which may have potential impact to the financial statements, the directors anticipate that the adoption of these new standards and interpretations should not result in any significant changes in the future as to how the results and financial position are prepared and presented. The Company are still not in the position to reasonably estimate the impact that may arise from HKAS 39 and HKFRS 4 (Amendments).

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5] Hong Kong land leases.

[1]Effective for annual periods beginning on or after January 1, 2007.
[2]Effective for annual periods beginning on or after January 1, 2006.
[3]Effective for annual periods beginning on or after December 1, 2005.
[4]Effective for annual periods beginning on or after March 1, 2006.
[5]Effective for annual periods beginning on or after May 1, 2006.

Notes to the Financial Statements

For the year ended December 31, 2005

5. Significant Accounting Policies

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Sub-contracting fee income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that assets' net carrying amount.

Rental income is recognised on a straight line basis over the term of the relevant lease. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amounts of the leased asset and recognised on a straight line basis over the lease term.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any impairment losses. Depreciation is charged so as to write off the cost of investment properties using straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Notes to the Financial Statements

For the year ended December 31, 2005

5. Significant Accounting Policies (Continued)

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and amortisation and accumulated impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is charged so as to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

Construction in progress

Construction in progress is stated at cost, which includes the related construction and borrowings costs, as appropriate, less any identified impairment loss. When the construction is completed and the asset is ready for its intended use, the related cost is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with the above policy.

Prepaid lease payment

Prepaid lease payments are up-front payments to lease medium-term leasehold land interests. The premiums payments are stated at cost and are charged to the income statement over the period of the lease on a straight-line basis.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notes to the Financial Statements

For the year ended December 31, 2005

5. Significant Accounting Policies (Continued)

Impairment (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and these overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. Where no internally-generated intangible asset can be recognised, development expenditures are recognised as expenses in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Where government grants are given for the purposes of immediate financial support to the Company with no further related cost to be incurred, the grants are recognised as income when they become receivable. Grants relating to assets are presented as a deduction from the cost of the relevant asset and are release to income over the useful lives of the assets.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible. The Company's liability of current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements

For the year ended December 31, 2005

5. Significant Accounting Policies (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the functional currency of the Company (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Company's financial assets are classified into certain categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Notes to the Financial Statements

For the year ended December 31, 2005

5. Significant Accounting Policies (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables (including trade and other receivables, amounts from related parties and bank deposits) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivable are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including bank and other borrowings, trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivatives financial instruments and hedging

The Company uses derivative financial instruments (primarily forward contact on foreign currency) to hedge its exposure against bank borrowings and acquisition of property, plant and equipment. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

There are three types of hedge relationships, including fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. Derivatives that doe not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair value of such derivates are recongised directly in profit or loss.

Notes to the Financial Statements

For the year ended December 31, 2005

5. Significant Accounting Policies (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Company's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Retirement benefits scheme

Payments to state-managed retirement benefit schemes are charged as an expense as they fall due.

6. Financial Risk Management Objectives and Policies

The Company's major financial instruments include borrowings, trade and other receivables and trade payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at December 31, 2005 is the carrying amount of trade receivables as stated in the balance sheets. In addition, the Company has concentration of credit risk by certain major customers. In order to minimise the credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are banks with high credit ratings assigned.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Company aims at maintaining flexibility in funding by arranging banking facilities and other external financing. In the opinion of the directors of the Company, most of the borrowings that mature within one year are able to be renewed and the Company expects to have adequate source of funding to finance the Company and manage the liquidity position.

Notes to the Financial Statements

For the year ended December 31, 2005

6. Financial Risk Management Objectives and Policies (Continued)

Foreign exchange risk

The Company operates in the People's Republic of China (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 purchases of on plant and equipment, while there are sales transactions denominated in USD. 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 or other means to hedge its foreign currency exposure. The Company considers it has no material foreign exchange risk to the Company.

Fair value interest rate risk

The Company's exposure to fair value interest rate risk relates primarily to the fixed-rate debt obligations, including bank and other borrowings. The Company has not entered into any interest rate hedging contacts.

7. Segment Information

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

In accordance with the Company's internal financial reporting, the Company has determined that geographical segments is its primary reporting segment.

Geographical segments

The Company's business is located in the PRC and its segment information is by geographical location of its customers who are principally located in the PRC and Europe. Segment information about these geographical markets is presented below:

2005

	PRC RMB'000	The Middle East RMB'000	Europe RMB'000	Asia other than PRC RMB'000	Others RMB'000	Total RMB'000
TURNOVER – external	**271,926**	**14,044**	**101,385**	**21,059**	**6,952**	**415,366**
SEGMENT RESULT	**6,003**	**811**	**11,473**	**1,466**	**246**	**19,999**
Unallocated corporate income						**8,496**
Unallocated corporate expenses						**(8,571)**
Finance costs						**(27,997)**
Loss before taxation						**(8,073)**
Taxation						**4,413**
Loss for the year						**(3,660)**

Notes to the Financial Statements

For the year ended December 31, 2005

7. Segment information (Continued)

Geographical segments (Continued)

2005

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by the geographical location of its customers:

	PRC RMB'000	The Middle East RMB'000	Europe RMB'000	Asia other than PRC RMB'000	Others RMB'000	Total RMB'000
ASSETS						
Segment assets	48,934	482	36,094	1,298	966	87,774
Unallocated corporate assets						694,176
Total assets						781,950

The liabilities of the Company are all unallocated.

	PRC RMB'000	The Middle East RMB'000	Europe RMB'000	Asia other than PRC RMB'000	Others RMB'000	Total RMB'000
OTHER INFORMATION						
Bad debts written off	900	–	–	–	–	900
Release of prepaid lease payments	206	10	44	10	3	273
Depreciation and amortisation	19,139	972	4,080	894	284	25,369

Notes to the Financial Statements

For the year ended December 31, 2005

7. Segment information (Continued)

Geographical segments (Continued)

2004

	PRC RMB'000 (restated)	The Middle East RMB'000 (restated)	Europe RMB'000 (restated)	Asia other than PRC RMB'000 (restated)	Others RMB'000 (restated)	Total RMB'000 (restated)
TURNOVER – external	324,875	62,932	41,739	8,637	11,583	449,766
SEGMENT RESULT	14,968	11,696	12,554	2,823	1,902	43,943
Unallocated corporate income						16,083
Unallocated corporate expenses						(4,683)
Finance costs						(26,141)
Profit before taxation						29,202
Taxation						(10,104)
Profit for the year						19,098

Notes to the Financial Statements

For the year ended December 31, 2005

7. Segment information (Continued)

Geographical segments (Continued)

2004

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by the geographical location of its customers:

	PRC RMB'000 (restated)	The Middle East RMB'000 (restated)	Europe RMB'000 (restated)	Asia other than PRC RMB'000 (restated)	Others RMB'000 (restated)	Total RMB'000 (restated)
ASSETS						
Segment assets	48,499	5,147	14,467	4	213	68,330
Unallocated corporate assets						784,011
Total assets						852,341

The liabilities of the Company are all unallocated.

	PRC RMB'000 (restated)	The Middle East RMB'000 (restated)	Europe RMB'000 (restated)	Asia other than PRC RMB'000 (restated)	Others RMB'000 (restated)	Total RMB'000 (restated)
OTHER INFORMATION						
Write down of inventories	3,000	–	–	–	–	3,000
Release of prepaid lease payments	161	25	14	2	5	207
Depreciation and amortisation	18,618	2,927	1,570	308	558	23,981

In addition to the analysis by the geographical location of its customers, the carrying amount of segment assets and capital expenditure, analysed by the geographical area in which the assets and liabilities, are located in the PRC.

Business segments

The Company is solely engaged in manufacturing and sale of woven fabrics.

Notes to the Financial Statements

For the year ended December 31, 2005

8. (Loss) profit before taxation

	2005 RMB'000	2004 RMB'000
(Loss) profit before taxation has been arrived at after charging:		
Auditors' remuneration		
– current year	850	800
– overprovision in prior years	–	(277)
Bad debts written off	900	–
Depreciation and amortisation of		
– property, plant and equipment	24,538	23,151
– investment properties	831	830
	25,369	23,981
Employee benefits expenses, including directors and supervisors' remuneration	24,162	19,963
Net exchange loss	3,061	284
Research and development costs	347	299
Write down of inventories	–	3,000
and after crediting:		
Gain on disposal of investments held-for-trading	19	–
Government grants *(note 32)*	1,096	771
Interest income	5,265	9,906
Investment income from other investments	–	5
Rental income from investment properties, net of outgoings of approximately RMB58,000 (2004: RMB58,000)	1,106	1,106
Reversal of impairment loss recognised in respect of trade receivables	182	–
Reversal of write down of inventories	400	–

Notes to the Financial Statements

For the year ended December 31, 2005

9. Directors', supervisors' and employees' remunerations

Particulars of the emoluments of directors, supervisors and the five highest paid employees are as follows:

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2004: eight) directors were as follows:

2005

	Mr. Sun Li Yong RMB'000	Ms. Fang Xiao Jian RMB'000	Mr. Sun Jian Feng RMB'000	Mr. Xia Xue Nian RMB'000	Mr. Li Cheng Jun RMB'000	Mr. Marco Borio RMB'000	Mr. Luk Guo Qing RMB'000	Mr. Lui Tin Nang RMB'000	Mr. Zhu Yu Lin RMB'000	Mr. Zong Pei Min RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	36	52	36	24	148
Other emoluments:											
Salaries and other benefits	60	60	60	60	60	50	–	–	–	–	350
Bonus	–	–	–	–	–	–	–	–	–	–	–
Retirement benefits scheme contributions	1	1	1	1	1	–	–	–	–	–	5
Less: amount waived	(24)	(29)	(29)	(32)	(29)	–	–	–	–	–	(143)
Total emoluments	37	32	32	29	32	50	36	52	36	24	360

2004

	Mr. Sun Li Yong RMB'000	Ms. Fang Xiao Jian RMB'000	Mr. Sun Jian Feng RMB'000	Mr. Xia Xue Nian RMB'000	Mr. Li Cheng Jun RMB'000	Mr. Luk Guo Qing RMB'000	Mr. Lui Tin Nang RMB'000	Mr. Zhu Yu Lin RMB'000	Total RMB'000
Fees	–	–	–	–	–	36	106	12	154
Other emoluments:									
Salaries and other benefits	60	60	60	60	60	–	–	–	300
Bonus	–	–	–	–	150	–	–	–	150
Retirement benefits scheme contributions	1	1	1	1	1	–	–	–	5
Less: amount waived	(24)	(29)	(29)	(31)	(29)	–	–	–	(142)
Total emoluments	37	32	32	30	182	36	106	12	467

Notes to the Financial Statements

For the year ended December 31, 2005

9. Directors', supervisors' and employees' remunerations (Continued)

(b) Supervisors' emoluments

The emoluments paid or payable to each of the six (2004: five) supervisors were as follows:

2005

	Mr. Fan Zhi Gang RMB'000	Mr. Shao Bao Hua RMB'000	Mr. Luo Teng Fa RMB'000	Mr. He Dong Hui RMB'000	Mr. Hu Jin Huan RMB'000	Mr. Wang He Rong RMB'000	Total RMB'000
Fees	–	–	–	–	12	12	24
Other emoluments:							
Salaries and other benefits	24	36	8	36	–	–	104
Bonus	–	–	–	–	–	–	–
Retirement benefits scheme contributions	1	–	1	–	–	–	2
Less: amount waived	–	(36)	–	(36)	–	–	(72)
Total emoluments	25	–	9	–	12	12	58

2004

	Mr. Shao Bao Hua RMB'000	Mr. Luo Teng Fa RMB'000	Mr. He Dong Hui RMB'000	Mr. Hu Jin Huan RMB'000	Mr. Wang He Rong RMB'000	Total RMB'000
Fees	–	–	–	12	12	24
Other emoluments:						
Salaries and other benefits	36	36	36	–	–	108
Bonus	55	76	–	–	–	131
Retirement benefits scheme contributions	1	1	–	–	–	2
Less: amount waived	(17)	(12)	(36)	–	–	(65)
Total emoluments	75	101	–	12	12	200

Notes to the Financial Statements

For the year ended December 31, 2005

9. Directors', supervisors' and employees' remunerations (Continued)

(c) Employees' emoluments

Of the five individuals with the highest emoluments in the Company, three (2004: two) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining two (2004: three) individuals were as follows:

	2005 RMB'000	2004 RMB'000
Salaries and allowances	98	74
Bonus	–	252
Retirement benefits scheme contributions	2	4
	100	330

The emoluments of each of the five highest paid individuals are less than HK$1,000,000 (equivalent to approximately RMB1,040,000) for the year.

10. Finance costs

	2005 RMB'000	2004 RMB'000
Interest on bank borrowings wholly repayable within five years	29,830	24,927
Interest on other borrowings wholly repayable within five years	176	2,544
	30,006	27,471
Less: Amounts capitalised in construction in progress	(2,009)	(1,330)
	27,997	26,141

Borrowing costs capitalised during the year arose on general borrowing pool and are calculated by applying a capitalised rate of 5.86% (2004: 5.86%) to expenditure on qualifying assets.

Notes to the Financial Statements

For the year ended December 31, 2005

11. Taxation

	2005 RMB'000	2004 RMB'000
The (credit) charge comprises:		
Current tax:		
PRC enterprise income tax for the year	–	11,094
Overprovision in previous years	(3,395)	–
	(3,395)	11,094
Deferred tax *(note 25)*	(1,018)	(990)
	(4,413)	10,104

No provision for PRC enterprise income tax has been made for the year as there is no assessable profit for the current year.

PRC enterprise income tax was calculated at a rate of 33% on the Company's estimated assessable profit for the year ended December 31, 2004.

The income tax (credit) charge for the year can be reconciled to the (loss) profit before taxation per the income statement as follows:

	2005 RMB'000	2004 RMB'000 (restated)
(Loss) profit before taxation	(8,073)	29,202
Tax at the domestic income tax rate of 33% (2004: 33%)	(2,664)	9,637
Tax effect of expenses that are not deductible in determining taxable profit	1,646	469
Tax effect of income that are not taxable in determining taxable profit	–	(2)
Overprovision in previous years	(3,395)	–
Tax (credit) charge for the year	(4,413)	10,104

Notes to the Financial Statements

For the year ended December 31, 2005

12. Dividends

	2005 RMB'000	2004 RMB'000
Final dividend paid to holders of H shares – 2003 *(Note)*	–	2,500

Note: On March 26, 2004, a final dividend in respect of financial year ended December 31, 2003 of approximately RMB8,380,000 at RMB0.01 per share was declared to all persons whose names appeared on the register of members of the Company on April 16, 2004.

The domestic shareholders of the Company entered into an agreement with the Company on March 26, 2004 to waive their rights to receive the final dividend of the Company for the year ended December 31, 2003. The amount of dividend they waived amounted to RMB5,880,000. The dividends waived by domestic shareholders are treated as capital contribution to the Company, and accordingly were recognised directly in equity.

13. (Loss) earnings per share

The calculation of the basic (loss) earnings per share is based on the net loss for the year of RMB3,660,000 (2004: net profit for the year RMB19,098,000 as restated) and the weighted average number of ordinary shares of 1,012,839,726 (2004: 838,000,000) during the year.

Diluted earnings per share is not presented for the two years ended December 31, 2005 as there were no potential ordinary shares in existence for both years.

Notes to the Financial Statements

For the year ended December 31, 2005

14. Investment properties

	RMB'000
COST	
At January 1, 2004 as originally stated under open market value	23,320
Effect of the application of HKAS 17 and HKAS 40	(7,121)
At January 1, 2004, December 31, 2004 as restated and December 31, 2005	16,199
DEPRECIATION	
At January 1, 2004 as originally stated	–
Effect of the application of HKAS 40	831
At January 1, 2004 as restated	831
Provided for the year	830
At December 31, 2004	1,661
Provided for the year	831
At December 31, 2005	2,492
CARRYING VALUES	
At December 31, 2005	13,707
At December 31, 2004	14,538

The fair value of the Company's investment properties at December 31, 2005 was RMB14,400,000 (December 31, 2004: RMB15,222,000). The fair value has been arrived at based on a valuation carried out by BMI Appraisals Limited, a firm of independent qualified professional valuers not connected with the Company. The valuation, which conforms to International Valuation Standards, was determined by reference to recent market prices for similar properties.

The investment properties of the Company are situated on land lease under medium-term lease in the PRC (Note 16) and are held for rental income under operating leases.

Depreciation is provided to write off the cost of investment properties over their estimated useful life from the date on which they become fully operational at 5% per annum using straight line method.

Notes to the Financial Statements

For the year ended December 31, 2005

15. Property, plant and equipment

	Land use rights RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST/VALUATION							
At January 1, 2004							
as originally stated	10,992	68,965	1,147	187,711	1,511	16,934	287,260
Effect of the application							
of HKAS 17 *(see Note 3)*	(10,992)	–	–	–	–	(9,020)	(20,012)
At January 1, 2004 as restated	–	68,965	1,147	187,711	1,511	7,914	267,248
Additions	–	–	512	4,249	94	46,462	51,317
Transfer	–	24,567	–	–	–	(24,567)	–
At December 31, 2004	–	93,532	1,659	191,960	1,605	29,809	318,565
Additions	–	71	88	850	200	12,054	13,263
Transfer	–	1,065	–	–	–	(1,065)	–
At December 31, 2005	**–**	**94,668**	**1,747**	**192,810**	**1,805**	**40,798**	**331,828**
Comprising:							
At cost	–	36,113	1,747	192,810	1,805	40,798	273,273
At valuation – 2003	–	58,555	–	–	–	–	58,555
	–	94,668	1,747	192,810	1,805	40,798	331,828
DEPRECIATION AND AMORTISATION							
At January 1, 2004	–	537	200	26,249	387	–	27,373
Provided for the year	–	3,575	278	18,997	301	–	23,151
At December 31, 2004	–	4,112	478	45,246	688	–	50,524
Provided for the year	–	4,724	328	19,178	308	–	24,538
At December 31, 2005	**–**	**8,836**	**806**	**64,424**	**996**	**–**	**75,062**
NET BOOK VALUES							
At December 31, 2005	**–**	**85,832**	**941**	**128,386**	**809**	**40,798**	**256,766**
At December 31, 2004 (restated)	–	89,420	1,181	146,714	917	29,809	268,041

Notes to the Financial Statements

For the year ended December 31, 2005

15. Property, plant and equipment (Continued)

The buildings are situated on land leased under medium-term land use rights in the PRC (Note 16).

If buildings had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation at approximately RMB61,679,000 (2004: RMB65,123,000).

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment, other than construction in progress, over their estimated useful lives from the date on which they become fully operational, using the straight-line method, at the following rates per annum:

Buildings	5%
Motor vehicles	20%
Plant and machinery	10%
Furniture, fixture and equipment	20%

16. Prepaid lease payments

	2005 RMB'000	2004 RMB'000
The Company's prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	**12,387**	12,660
Analysed for reporting purposes as:		
Non-current asset	**12,114**	12,387
Current asset	**273**	273
	12,387	12,660

17. Bank deposits/investments held for trading

(a) Bank deposits

The amount of RMB53,135,000 (2004: RMB57,440,000) at the balance sheet date represents a fixed return bank deposits with three years fixed term and fixed interest payment date. The effective interest rate of such bank deposits is 3.46% per annum.

(b) Investments held-for-trading

	2005 RMB'000	2004 RMB'000
Investment fund in the PRC, at fair value	**400**	500

The fair value of the above held for trading investments are determined based on the quoted market price available from the bank.

Notes to the Financial Statements

For the year ended December 31, 2005

18. Inventories

	2005 RMB'000	2004 RMB'000
Raw materials	**6,269**	2,887
Work in progress	**11,956**	4,664
Finished goods	**71,207**	47,914
	89,432	55,465

19. Trade and other receivables

The Company allows an average credit period of 30 days to 120 days to its trade customers. The aged analysis of trade receivables at the respective balance sheet dates is as follows:

	2005 RMB'000	2004 RMB'000
Within 30 days	**46,003**	34,365
31 – 60 days	**24,061**	9,647
61 – 90 days	**8,097**	13,772
91 – 120 days	**2,488**	3,762
121 – 180 days	**1,902**	2,361
181 – 365 days	**5,231**	4,600
Over 365 days	**61**	74
	87,843	68,581
Less: Accumulated impairment	**(69)**	(251)
Trade receivables, net of accumulated impairment	**87,774**	68,330
Other receivables, deposits and prepayments	**30,063**	50,957

The fair value of the Company's trade and other receivables at December 31, 2005 approximates to their carrying amount.

Notes to the Financial Statements

For the year ended December 31, 2005

20. Amounts due from related parties

Details of amounts due from related parties are as follows:

	2005 RMB'000	2004 RMB'000
Sabrina *(Note a)*	**227**	544
Mr. Li Cheng Jun *(Note b)*	**209**	–
	436	544

Notes:

(a) At the balance sheet date, the amount of approximately RMB227,000 (2004: HK$544,000) represents amount receivable from 浙江宏興莎美娜服飾有限公司 (Zhejiang Hongxing Sabrina Garments Co., Ltd.) ("Sabrina"). Sabrina is a subsidiary of 浙江加佰利控股集團有限公司 (Zhejiang Gabriel Holdings Group Company Limited) ("Gabriel"), in which Messrs. Sun Li Yong, Xia Xue Nian, Sun Jian Feng and Ms. Fang Xiao Jian, directors of the Company, have 51%, 8.87%, 5.13% and 25% beneficial interests respectively. The amount is interest-free (2004: interest bearing at prevailing market rate), unsecured and repayable on demand. The maximum balance outstanding during the year amounted to approximately RMB577,000.

(b) Mr. Li Cheng Jun is a director of the Company. The amount is unsecured, interest-free and repayable on demand. The maximum balance outstanding during the year amounted to approximately RMB392,000.

The fair value of the amounts due from related parties at December 31, 2005 approximates to their carrying amount.

21. Restricted cash

At the balance sheet date, the Company had placed deposits to banks to secure banking facilities granted to the Company. Deposits has been pledged to secure short-term bank loans and are therefore classified as current assets.

The deposits carry interest rate at a range of 0.72% to 1.98%. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

The fair value of bank deposits at December 31, 2005 approximates to their carrying amount.

Notes to the Financial Statements

For the year ended December 31, 2005

22. Trade and other payables

The aged analysis of trade payables at the respective balance sheet dates is as follows:

	2005 RMB'000	2004 RMB'000
Within 30 days	**18,750**	27,577
31 – 60 days	**7,440**	13,064
61 – 90 days	**1,890**	5,372
91 – 120 days	**567**	2,348
121 – 180 days	**1,128**	3,258
181 – 365 days	**1,370**	1,718
1 – 2 years	**179**	816
Trade payables	**31,324**	54,153
Other payables and accruals	**16,637**	15,994

The fair value of the Company's trade and other payables at December 31, 2005 approximates to their carrying amount.

23. Deposit received in respect of issue of shares

Pursuant to an agreement entered by the Company, the substantial shareholder of the Company and an independent third party on November 30, 2004 (the "Subscription Agreement"), the Company proposed to issue 209,500,000 new H shares to that independent third party at an issue price of HK$0.24 per subscription share ("Subscription Shares"). The Subscription Shares represent approximately 25% of the existing total issued share capital of the Company and approximately 19.7% of the enlarged total issued share capital of the Company.

The deposit of RMB2,675,000 (equivalent to approximately HK$2,514,000) at December 31, 2004 represented deposits received from the independent third party.

In March 2005, the Subscription Agreement was completed. Details of the shares issued by the Company are set out in note 26.

Notes to the Financial Statements

For the year ended December 31, 2005

24. Borrowings

	2005 RMB'000	2004 RMB'000
Borrowings comprise:		
Bank loans	**450,458**	508,776
Other loans	**–**	28,230
	450,458	537,006
Analysed as:		
Secured *(Note 29)*	**116,630**	212,976
Unsecured	**333,828**	324,030
	450,458	537,006
Denominated in RMB	**450,458**	479,837
Denominated in Euro	**–**	57,169
	450,458	537,006
The bank and other borrowings carry interest at fixed rate and are repayable as follows:		
Within one year or on demand	**352,458**	459,006
More than one year, but not exceeding two years	**98,000**	78,000
	450,458	537,006
Less: Amount due within one year shown under current liabilities	**(352,458)**	(459,006)
Amount due after one year	**98,000**	78,000

The bank and other borrowings carry interests ranging from 4.92% to 7.32% per annum (2004: from 3.50% to 7.06% per annum).

Notes to the Financial Statements

For the year ended December 31, 2005

24. Borrowings (Continued)

	2005 RMB'000	2004 RMB'000
The borrowings were guaranteed by:		
Gabriel, directors of the Company and independent third parties	**49,128**	–
Gabriel and directors of the Company	**29,600**	14,000
Gabriel and Mr. Sun Li Yong and an independent third party	**20,000**	–
Gabriel, Sabrina and independent third parties	**–**	50,000
Directors of the Company and independent third parties	**96,000**	5,000
Zhejiang Zhiye, Mr. Sun Li Yong and independent third party *(Note i)*	**28,000**	30,000
Independent third parties and secured by certain assets owned by Gabriel	**–**	58,000
An independent third party and secured by certain assets owned by directors of the Company	**–**	1,000
Sabrina, directors of the Company and an independent third party	**–**	13,230
Mr. Sun Li Yong and independent third parties	**–**	65,000
Gabriel and domestic shareholders of the Company *(Note ii)*	**–**	15,000
Gabriel	**–**	11,000
Independent third parties	**105,100**	75,200
	327,828	337,430

Notes:

(i) 浙江置業房地產開發有限公司 (Zhejiang Zhiye Real Estate Development Co., Ltd.) ("Zhejiang Zhiye"), a company in which Gabriel has 32% of controlling interest and Mr. Sun Li Yong is also a director of Zhejiang Zhiye.

(ii) The domestic shareholders of the Company include Messrs. Sun Li Yong, Xia Xue Nian and Sun Jian Feng and Ms. Fang Xiao Jian, directors of the Company.

During the year, the Company obtained new bank and other loans in the amount of approximately RMB1,031 million. The loans bear fixed interest at prevailing market rates and repayable in instalments over a period of three months to two years. The proceeds were used to finance the acquisition of property, plant and equipment, and for general working capital of the Company.

The directors consider that the carrying amount of bank and other borrowings approximates their fair value as the weighted average interest rates approximate the market rate.

Notes to the Financial Statements

For the year ended December 31, 2005

25. Deferred tax liabilities

The major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years are summarised below:

	Tax losses RMB'000	Impairment loss recognised in respect of trade receivables RMB'000	Fixed return bank deposits RMB'000	Write down of inventories RMB'000	Revaluation of buildings RMB'000	Total RMB'000
At January 1, 2004 as originally stated	–	–	–	–	12,392	12,392
Effect on adoption of HKAS 17	–	–	–	–	(4,532)	(4,532)
At January 1, 2004 as restated	–	–	–	–	7,860	7,860
Credited to income statement for the year	–	–	–	(990)	–	(990)
At December 31, 2004	–	–	–	(990)	7,860	6,870
(Credited) charged to income statement for the year	(89)	(237)	(824)	132	–	(1,018)
At December 31, 2005	**(89)**	**(237)**	**(824)**	**(858)**	**7,860**	**5,852**

For the purpose of balance sheet presentation, the above deferred tax assets and liabilities have been offset.

Notes to the Financial Statements

For the year ended December 31, 2005

26. Share capital and reserves

(a) Share capital

Details of the issued share capital of the Company of RMB0.10 each are as follows:

	Number of shares	Value RMB'000
Domestic shares as at January 1, 2001, December 31, 2004 and December 31, 2005	588,000,000	58,800
H shares		
– as at January 1, 2004 and December 31, 2004	250,000,000	25,000
– Issue of share by subscription *(note b)*	209,500,000	20,950
– Issue of shares by placement *(note b)*	16,000,000	1,600
– as at December 31, 2005	475,500,000	47,550
Total share capital of RMB0.10 each as at December 31, 2005	1,063,500,000	106,350
Total share capital of RMB0.10 each as at December 31, 2004	838,000,000	83,800

During the year, the following changes in the share capital of the Company took place:

(a) In January 2005, a special resolution was approved in an extraordinary general meeting held by the Company to increase the authorised H share capital of the Company from RMB25,000,000 to RMB47,550,000 by the creation of an additional 225,500,000 shares of RMB0.10 each.

(b) In March 2005, the Company issued 16,000,000 H shares and 209,500,000 H shares of RMB0.10 each in the Company to a placing agent and Miroglio at a price of HK$0.24 per share, representing a discount of approximately 9.43% to the closing price of HK$0.265 per share as quoted on the Stock Exchange on March 4, 2005, being the last trading day of the H Shares immediately preceding the date of the placing announcement. The net proceeds from the issue of shares by placement and subscription will be used as to 60% for the establishment or acquisition of a dyeing factory in the PRC and as to 20% for research and development of technology of the Company and as to 20% for the general working capital of the Company.

The domestic shares and H shares carry same rights to dividends, receive notice of attender vote at any general meeting of the Company or to participate in any distribution on winding up.

Notes to the Financial Statements

For the year ended December 31, 2005

26. Share capital and reserves (Continued)

(b) Reserves

Other reserve

The balance of other reserve represents dividends waived by holders of domestic shares, net of tax effect.

Statutory surplus reserve

As stipulated by the relevant PRC laws and regulations, when distributing the net profit for each year, the Company (after conversion to a limited liability company) shall set aside 10% of its net profit after taxation (based on the Company's PRC statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's share capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

Statutory welfare fund

As stipulated by the relevant PRC laws and regulations, the Company (after conversion to a limited liability company) shall appropriate 5% to 10% of its net profit after taxation (based on the Company's PRC statutory accounts) as the statutory welfare fund. The directors shall have discretion in determining the percentage within the range specified by the relevant PRC laws and regulations.

Accumulated profits

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 accounting principles generally accepted in the PRC and the amount determined under accounting principles generally accepted in Hong Kong. As at December 31, 2005, the amount of reserve available for distribution was approximately RMB50,467,000 (2004: RMB53,575,000).

27. Operating leases

(a) Operating lease commitments

The Company made approximately RMB433,000 (2004: RMB284,000) minimum lease payments under operating leases during the year in respect of land and buildings.

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2005 RMB'000	2004 RMB'000
Within one year	**273**	627

Operating lease payments represent rentals payable by the Company for its office premises. Leases are negotiated for a term of three years and rentals are fixed for the lease term.

Notes to the Financial Statements

For the year ended December 31, 2005

27. Operating leases (Continued)

(b) Operating lease arrangements

Property rental income earned during the year was RMB1,164,000 (2004: RMB1,164,000). The properties are expected to generate rental yields of 8%.

At the balance sheet date, the Company had no operating lease arrangement.

28. Capital commitments

At the balance sheet date, the Company had commitments of approximately RMB10,840,000 (2004: RMB12,547,000) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

29. Pledge of assets

At the balance sheet date, certain assets of the Company with the following carrying values had been pledged to secure borrowings granted to the Company:

	2005 RMB'000	2004 RMB'000
Restricted cash	47,408	100,950
Investment properties	13,707	14,538
Prepaid lease payments	10,535	12,660
Buildings	43,718	46,122
Plant and machinery	12,867	99,199
Construction in progress	40,798	29,787
	169,033	303,256

30. Retirement benefit scheme

The Company contributed to a local municipal government retirement scheme for all qualified employees in the PRC. The employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Company with respect to the retirement scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The total cost charged to income statement of approximately RMB985,000 (2004: RMB844,000) represents contributions payable to the scheme by the Company during the year.

Notes to the Financial Statements

For the year ended December 31, 2005

31. Connected and related party transactions

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

Name of related company	Nature	**2005 RMB'000**	2004 RMB'000
Sabrina	Sales of goods	**364**	–
	Rental income	**181**	181
	Interest income	**–**	40
	Interest expenses	**–**	128
	Electricity cost reimbursement	**12**	–
Gabriel	Interest income	**–**	3
	Interest expenses	**–**	361
Miroglio S.p.A. and its subsidiaries ("Miroglio S.p.A. Group") *(Note a)*	Sales of goods *(Note b)*	**23,541**	–
Shaoxing County Gabriel *(Note c)*	Sales of good	**–**	6,348

Notes:

(a) Miroglio S.p.A. is a shareholder of the Company since March 24, 2005.

(b) The sales order placed by Miroglio S.p.A. Group to the Company from March 24, 2005 to December 31, 2005 was approximately RMB25,316,000. Sales recognised by the Company from March 24, 2005 to December 31, 2005 was approximately RMB23,541,000, which represented certain orders placed by Miroglio S.p.A. Group since March 24, 2005. As at December 31, 2005, the amounts due from Miroglio S.p.A. Group (included in trade receivables) amounted to approximately RMB9,846,000.

(c) 紹興縣加佰利貿易有限公司 (Shaoxing County Gabriel Trading Co. Ltd.) ("Shaoxing County Gabriel") was a former investment of the Company.

Details of the guarantee given by related parties to the financial institutions in respect of the loans granted to the Company as at December 31, 2004 and 2005 are set out in note 24.

In addition to the above, balances with related parties as at December 31, 2005 are set out in note 20.

The compensation of directors and supervisors during the year are set out in note 9.

Notes to the Financial Statements

For the year ended December 31, 2005

32. Government grants

Government grants of approximately RMB1,096,000 (2004: RMB771,000) have been received during the year for the encouragement of the development of business in Zhejiang Province. The amounts have been included in other operating income for the year.

Financial Summary

RESULTS

	THE COMPANY (Note 1) For the year ended December 31,					THE GROUP (Note 2) For the year ended December 31,		
	2005	2004	2003	2002	2001	2002	2001	2000
	RMB'000	RMB'000 (restated)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER	**415,366**	449,766	466,669	405,883	195,086	405,883	237,965	101,055
(LOSS) PROFIT BEFORE TAXATION	**(8,073)**	29,202	48,397	60,233	12,958	63,905	11,056	2,309
TAXATION	**4,413**	(10,104)	(14,243)	(17,542)	(4,490)	(17,542)	(4,490)	–
(LOSS) PROFIT BEFORE MINORITY INTERESTS	**(3,660)**	19,098	34,154	42,691	8,468	46,363	6,566	2,309
MINORITY INTEREST	**–**	–	–	–	–	–	28	40
(LOSS) PROFIT FOR THE YEAR	**(3,660)**	19,098	34,154	42,691	8,468	46,363	6,594	2,349

ASSETS AND LIABILITIES

	At December 31,					At December 31,		
	2005	2004	2003	2002	2001	2002	2001	2000
	RMB'000	RMB'000 (restated)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**781,950**	852,341	853,555	503,231	132,946	503,231	167,469	60,864
TOTAL LIABILITIES	**(519,440)**	(641,433)	(646,740)	(336,492)	(120,193)	(329,205)	(154,678)	(54,639)
MINORITY INTEREST	**–**	–	–	–	–	–	(4,317)	(4,345)
SHAREHOLDERS' FUNDS	**262,510**	210,908	206,815	166,739	12,753	174,026	8,474	1,880

Note:

(1) The summary of the results and the assets and liabilities of the Company for the year ended December 31, 2001, 2002, 2003, 2004 and 2005 are extracted from the audited financial statements.

(2) During the year ended December 31, 2002, the Company disposed of its entire interest in a subsidiary, Zhejiang Hongxing Sabrina Garments Co., Ltd. and its entire interest in an associate, Shaoxing Zhiye Real Estate Development Co., Ltd.. The summary of the consolidated results and the assets and liabilities of the Company for the two years ended December 31, 2000 and 2001 are extracted from the Accountants' Report included in the Prospectus of the Company dated October 31, 2002. The summary of the combined results of the Company and its former subsidiary and associate up to the date of disposal for the year ended December 31, 2002 are extracted from the management accounts of the Company and is prepared for information purposes only.