永隆實業 ENTERPRISES Onglong

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)

2006 Annual Report

Stock Code: 8211

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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

Room 620, 6/F., Chevalier Commercial Centre,
8 Wang Hoi Road,
Kowloon Bay, 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

SHINEWING (HK) CPA Limited
Suite 09-18, 20/F., Shui On Centre,
6-8 Harbour Road, Hong Kong

DOMESTIC AUDITORS

Shulu Pan Certified Public Accountants Co., Ltd.
Hangzhou Branch
Flat A, 20/F, Wang Zuo Centre,
Yuan Hua Commercial Building,
Xin Tang Road, Jiang Gan Qu,
Hangzhou, Zhejiang Province, PRC

H SHARE SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Room 1803 Fook Lee Commercial Centre
Town Place, 33 Lockhart Road,
Wanchai, Hong Kong

LEGAL ADVISERS

As to Hong Kong law
Tung & Co
19th Floor, 8 Wyndham Street,
Central, Hong Kong

STOCK CODE

8211

Highlights

For the year ended 31st December 2006,

– turnover of the Company increased from approximately RMB415.4 million in year 2005 to approximately RMB416.6 million in year 2006, representing a slight increase of approximately 0.3% when compared to the year ended 31st December 2005;

– Profit for the year was approximately RMB4.5 million, and

– The Directors do not recommend the payment of a final dividend for the year ended 31st December 2006.

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 31st December 2006.

FINANCIAL PERFORMANCE

For the year ended 31st December 2006, the Company recorded a turnover of approximately RMB416.6 million, representing a slight increase of approximately 0.3% as compared with that of the same period in 2005. The sales volume dropped by approximately 3.9% while the overall selling price increased by approximately 4.2%, as the Company concentrated on sales of high value product during the year. The gross profit for the year was approximately RMB28.6 million, representing a gross profit margin of approximately 6.9%, which was approximately 2.3% lower than that of the corresponding period in 2005. It was mainly due to increase of cost of raw materials, wages and electricity charges. Fiber was the major materials of the fabric produced by the Company. The major raw material of fiber was by product of oil. Since 2005, the oil price had been continuing increase, which led to increase in the cost of raw materials of the Company. However, the selling price could not be increased in line with the raised of raw material cost. In additions, the increase of fixed cost such as depreciation was due to decrease of production volume. In 2006, the administrative expenses increased slightly of approximately 3.5% while the selling expenses decreased sharply by approximately 59.1% mainly resulted from effective cost control. Finance cost decreased by approximately of 28.7% mainly due to decrease of bank loans. Earnings per share for the year ended 31st December 2006 amounted to approximately RMB0.4 cents as compared with loss per share of approximately RMB0.4 cents for the corresponding period in 2005.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31st December 2006.

OUR STRATEGY GOING FORWARD

A. Globalisation

During the year under review, sales to the market in Europe were stable. In accordance with doctrine of globalisation, the Company continues to develop and expand other markets such as the Asia and U.S market. In view of the keen competition and continue increase of cost, the Directors believe that the progress of globalisation should be speed up in order to minimise the impacts to the Company and increase profit of the Company.

B. Streamline the operation

During the year under review, the Company had reorganized production management and implemented cost saving proposal and tightened administrative expenses and selling expenses. The Company will continue the cost saving proposal and closely supervise the efficiency of the operation so as to streamline the operation.

C. **Product innovation**

The company continues to develop new product so as to fulfill the international sales requirement. During the year under review, the Company spent approximately RMB435,000 on product innovation, which was approximately 25.6% higher than that in 2005.

PROSPECTS

During the year of 2006, the continuance rising of oil price and electricity shortage in China continued impact many domestic enterprises. 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. Hence, the fellow textile manufacturers were competing for the cost saving and market share. In view of the impact, the Company had reorganised its sales structure and marketing strategy so as to develop high profile market, high value ended product and higher return customers. Currently, sales of the Company to the Europe remains stable. It is the Company's strategy to keep the strong position in the Europe market and on the other hand to develop and expand other high profile market such as Asia and U.S. In additions, the Company will continue the strategy and target of 60% and 40% respectively for domestic sales and direct export sales so as to balance the market share. During the year under review, domestic sales and direct export sales were approximately 70.6% and approximately 29.4% respectively. In 2005, the respective domestic sales and direct export sales were approximately 65% and approximately 35%. The increase in the proportion of domestic sales in 2006 was mainly due to certain overseas customers that made sales orders through their subsidiaries established in the PRC. Except for end user customers, the Company's customers also comprise trading companies, import and export companies and agency companies. In order to maximise profit of the Company, the Company will concentrate on and strengthening in searching for the ultimate end user customers like Zara, Mango, H&M, Next, Marks & Spencer in Europe and like Target, NYC, Sears, Fishman Toblin, JC Penny etc in USA and reduce the portion of customers that are trading companies, import and export companies and agency companies. Hence, the Company will continue to develop new and high value ended product so as to fulfill the customers' requirements. In additions, in the second half-year of 2006, the Company re-allocated certain resources for producing cotton fabrics in order to diversify the product and minimise the risk. Under theses policies, the Directors expect that the result of the Company in year 2007 will be improved and better than year 2006.

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, 20th April 2007

Management Discussion and Analysis

BUSINESS AND OPERATION REVIEW

In view of the keen competition and continue rising of cost, the Company reorganised its sales structure and marketing strategy by concentrating on developing high profit market such as Europe and U.S.A. In order to fulfill customers' requirements and to comply with the development of high profile marke, the Company increased product innovation. During the year under review, the expenditure on research and development increased by approximately 25.6%. In additions, the Company received more orders on high value product in the second half year of 2006. However, the continuance increase of oil price since 2005 led to rising of raw material cost. The production overhead such as electricity charges and wages also increased. Hence, compared with the year ended 31st December 2005, the gross profit margin for the year ended 31st December 2006 dropped by approximately 2.3% which represented decrease of approximately RMB9.7 million of gross profit. Currently, sales of the Company to Europe remains stable. It is the Company's policies to keep the strong position in the Europe market. During the year under review, domestic sales and direct export sales were approximately 70.6% and approximately 29.4% respectively. In 2005, domestic sales and direct export sales were approximately 65% and approximately 35% respectively. The increase in the proportion of domestic sales in 2006 was mainly due to certain overseas customers that made sales orders through their subsidiaries established in the PRC. It was also the reasons that direct sales to Europe decreased by approximately RMB4 million which represents approximately 3.9% when compared with the correspondence period in 2005. Furthermore, since the second quarter in 2006, the Company had successfully implemented cost saving proposal and tightened administrative expenses and selling expenses. The Company will closely supervise the efficiency of the operation.

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.

PRODUCTION FACILITIES

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

SALES AND MARKETING

During the year ended 31st December 2006, the Company actively participated in various trade fairs held in PRC and overseas so as to gain exposure in the fabrics market and to popularise the Company's new products. The marketing strategy for year 2007 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 31st December 2006, the Company had net current assets of approximately RMB76.8 million (2005: RMB30.6 million).

As at 31st December 2006, the current assets comprised inventories of approximately, RMB106.7 million (2005: RMB89.4 million), prepaid lease payments of approximately RMB0.3 million (2005: RMB0.3 million), trade receivables of approximately RMB115.4 million (2005: RMB87.8 million), other receivables, deposits and prepayments of approximately RMB16.0 million (2005: RMB30.1 million), amounts due from related parties of approximately RMB0.01 million (2005: RMB0.4 million), investments held-for-trading RMBnil (2005: RMB0.4 million), pledged bank deposits of approximately RMB41.6 million (2005: RMB47.4 million), fixed bank deposits of approximately RMB102.1 million (2005: RMB167.8 million), and bank balances and cash of approximately RMB47.5 million (2005: RMB22.6 million).

As at 31st December 2006, the current liabilities comprised trade payables of approximately RMB66.1 million (2005: RMB80.3 million), other payables and accruals of approximately RMB17.4 million (2005: RMB16.6 million), amount due to a related company of approximately RMB0.3 million (2005: RMBnil), tax liabilities of approximately RMB9.5 million (2005: RMB15.2 million) and borrowings due within one year of approximately RMB259.5 million (2005: RMB303.5 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.

As at 31st December 2006, the Company had bank loans due within one year and bank loans due after one year of approximately RMB259.5 million (2005: RMB303.5 million) and RMB70.0 million (2005: RMB98.0 million) respectively. The loans bear interest at prevailing market rates range from approximately 5.02% per annum to 7.32% per annum (2005: 4.92% 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, Mr. Li Cheng Jun and Mr. Xia Xue Nian are also directors and shareholders of this company, another related 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 pledged bank deposits of approximately RMB41.6 million, construction in progress of approximately RMB46.6 million, prepaid lease payments of approximately RMB4.9 million, buildings, and plant and machinery situated in the PRC of carrying values as at 31st December 2006 of approximately RMB18.8 million and RMB10.8 million respectively.

Management Discussion and Analysis

CAPITAL STRUCTURE

As at 31st December 2005 and 2006, the Company has 1,063,500,000 shares in issued of which 588,000,000 shares and 475,520,000 shares respectively are Domestic Shares and H Shares. The par value of the Domestic Shares and H Shares is RMB0.1 each.

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

As at 31st December 2006, the Company had commitments of approximately RMB2.77 million (2005: RMB10.84 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 31st December 2006, the Company did not have any material acquisitions/disposals.

SEGMENTAL INFORMATION

Segmental information of the Company is set out in Note 6 to the financial statements.

EMPLOYEE AND EMOLUMENT POLICIES

As at 31st December 2006, the Company had 1,560 employees (2005: 1,795), comprising 12 (2005: 22) in research and development, 44 (2005: 43) in Sales and marketing, 1,254 (2005: 1,375) in Production, 228 (2005: 332) in Quality control, 10 (2005: 10) in Management, and 12 (2005: 13) 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

On 24th March 2005, the Company issued 205,000,000 of H shares to its customer, Miroglio S.p.A. ("Miroglio") and placed 16,000,000 of 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 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 approximately RMB33.48 million) will be used for the acquisition of a dying factory in the PRC, 20% (equivalent approximately RMB11.16 million) will be used for research and development of technology of the Company and 20% (equivalent approximately RMB11.16 million) will be used as the general working capital of the Company.

For the period from 24th March 2005 to 31st December 2006, the Company has used approximately RMB711,000 (For the year ended 31st December 2006: approximately RMB435,000) in research and development. The Company is in progress of searching for appropriate dying factory in the PRC as at 31st December 2006.

GEARING RATIO

The gearing ratio (total debts over total assets) of the Company as at 31st December 2006 was 61.6% (2005: 66.4%).

FOREIGN EXCHANGE EXPOSURE

The Company operates in the PRC with most of the transactions denominated and settled in 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 plant and equipment while sales transactions are 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.

CONTINGENT LIABILITIES

As at 31st December 2006, 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 36, 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. He joined the Company in April 2002.

Ms. Fang Xiao Jian (方曉健), aged 34, 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 10 years of experience in the textile industry. She joined the Company in April 2002.

Mr. Sun Jian Feng (孫建鋒), aged 36, 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. He joined the Company in April 2002.

Mr. Xia Xue Nian (夏雪年), aged 42, 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. He joined the Company in April 2002.

Mr. Li Cheng Jun (李成軍), aged 41, is an executive Director of the Company. He is the brother-in-law of Mr. Sun Li Yong, the Chairman 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 for 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 for 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. He has about 18 years of experience in the project and production management. He joined the Company in June 2002.

Mr. Marco Borio, aged 36, is an executive Director of the Company. He holds a degree major in international business. He has been working for Miroglio group since 1994 and was promoted to 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 42, 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 (Zhejiang Guo Da Law Firm*). He was re-appointed as an independent non-executive Director of the Company in May 2005.

Mr. Zhu Yuk Lin (竺玉林), aged 47, 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 (中國註冊稅務師). 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). He was appointed as an independent non-executive Director of the Company in September 2004.

Mr. Zong Pei Min (宗佩民), aged 43, is 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.*). He was appointed as an independent non-executive Director of the Company in May 2005.

INDEPENDENT SUPERVISORS

Mr. Hu Jin Huan (胡金煥), aged 42, 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 (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 45, 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 (紹興宏泰會計師事務所). He was re-appointed as an independent Supervisor of the Company in May 2005.

Directors and Senior Management's Profile

SUPERVISORS

Mr. Shao Bao Hua (邵寶華), aged 41, 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 37, 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 was at 湖北黃石下鋼總廠電氣分廠 (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 was at 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 was at 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. He was re-appointed as Supervisor of the Company in May 2006.

Mr. Fan Zhi Gang (樊芝剛), aged 31, is the Supervisor of the Company who joined the Company in October 2000. He is working in the administrative 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 35, 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, she was a director of BMI Consultants Limited, a business consultancy services company in Hong Kong. She joined the Company in June 2002.

Directors and Senior Management's Profile

Mr. Ding Zhong Xin (丁忠心), aged 36, 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, he 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. Sun Yan (孫燕), aged 27, is the manager of sales and marketing department of the Company. She graduated from Ningbo University (寧波大學) and obtained a bachelor degree in English. Ms. Sun joined the Company in September 2003.

Ms. Wong Ai Feng (王愛鳳), aged 70, 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.

* *for identification purposes only*

Directors' Report

The directors of the Company present their annual report and the audited financial statements of the Company for the year ended 31st December 2006.

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 31st December 2006 are set out in the income statement on page 31 of the annual report.

The directors do not recommend the payment of a dividend for the year ended 31st December 2006.

INVESTMENT PROPERTIES

Details of these movements during the year in the investment properties of the Company are set out in Note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately RMB9.7 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 14 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 25 to the financial statements.

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

Independent Non-Executive Directors:
Mr. Luk Guo Qing
Mr. Zhu Yu Lin
Mr. Zhong Pei Min

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

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', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SECURITIES

At 31st December 2006, 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 31st December 2006, 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.

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 30 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 19, 22 and 30 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 19, 22 and 30 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 31st December 2006, 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', Chief Executives' 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 31st December 2006.

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 57.30% and 35.04% of the Company's purchases and turnover, respectively. The largest supplier accounted for approximately 20.40% 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 31st December 2006.

AUDIT COMMITTEE

The Company has established an audit committee in May 2002 and the primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The audit committee has three members comprising the three independent non-executive Directors, Mr. Luk Guo Qing, Mr. Zhong 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 31st March 2006, 30th June 2006, 30th September 2006 of the Company and the financial statements of the Company for the year ended 31st December 2006 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.

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 31st December 2006.

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 that 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.

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 report, the Company has maintained a sufficient public float throughout the year ended 31st December 2006.

AUDITORS

During the year, Messrs. Deloitte Touche Tohmatsu resigned and Messrs. SHINEWING (HK) CPA Limited appointed as international auditors of the Company.

The financial statements for the year ended 31st December 2006 were audited by Messrs. SHINEWING (HK) CPA Limited.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. SHINEWING (HK) CPA Limited as international auditors of the Company.

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

Sun Li Yong
CHAIRMAN

Zhejiang, the PRC, 20th April 2007

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 31st December 2006, 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 8th March 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, audited by the auditors, SHINEWING (HK) CPA Limited, 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 of Supervisors
Zhejiang Yonglong Enterprises Co., Ltd.

He Dong Hui
Chairman of the Supervisory Committee

Shaoxing, Zhejiang Province, the PRC
20th April 2007

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 maximise 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 management 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 management 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 10 to 13 of this Annual Report. Please refer to the Directors Report on page 15 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 persons 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. During the year under review, all board meetings were given at least 14 days in advance to the Directors according to the Articles of Association of the Company. 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 open for inspection at any reasonable notice by any Director.

There were eight Board meetings held in the financial year ended 31st December 2006. 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)*	7/8
Ms Fang Xiao Jian	8/8
Mr. Li Cheng Jun	8/8
Mr. Sun Jian Feng	8/8
Mr. Xia Xue Nian	8/8
Mr. Marco Borio	3/8
Independent Non-executive Directors	
Mr. Luk Guo Qing	5/8
Mr. Zhu Yu Lin	5/8
Mr. Zong Pei Min	5/8

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.

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 31st March 2006, 30th June 2006, 30th September 2006 of the Company. It also has reviewed the audited financial statements for the year ended 31st December 2006 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. Luk Guo Qing	4/4
Mr. Zhu Yu Lin	4/4
Mr. Zong Pei Min	4/4

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

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

Deloitte Touche Tohmatsu ("Deloitte") and Deloitte Touche Tohmatsu CPA Ltd ("Shanghai Deloitte"). had resigned as international auditor and domestic auditor of the Company respectively with effect from 19th March 2007. SHINEWING (HK) CPA Limited ("SHINEWING") and Shulu Pan Certified Public Accounts Co., Ltd. has been appointed as the international auditors and domestic auditors respectively of the Company that will be rectified by shareholders at the annual general meeting to be held on 12th June 2007. and shall hold office until the conclusion of the forthcoming annual general meeting of the Company. SHINEWING has audited the financial statements for the year ended 31st December 2006.

The audit committee holds meetings with the external auditors each year to discuss the operating results, statements of the Company and listed of advices provided by the auditors.

The remuneration in respect of services provided by the external international auditors and external domestic auditors for the years ended 31st December 2006 and 2005 is analysed as follows:

	For the year ended 31st December	
	2006	2005
	RMB'000	RMB'000
Audit service	**700**	850
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	**50**	23
Performed agreed-upon procedures regarding preliminary announcement of the Company's result	**50**	–
	800	883

The audit services fee and other services fee for the year ended 31st December 2005 representing services provided by the external international auditors, Deloitte and the domestic auditors, Shanghai Deloitte. The audit services fee and other services fee for the year ended 31st December 2006 representing services provided by SHINEWING.

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 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 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 executive Director of the Company. Mr. Luk Guo Qing 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.

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.

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 Independent Auditor's Report on page 29 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 7 to the financial statements on pages 51 to 53 and Directors Report on page 15 respectively 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 share registrar in Hong Kong serves the shareholders regarding all H Share share registration matters.

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.

SHINEWING (HK) CPA Limited
Suite 09-18,
20/F., Shui On Centre,
6-8 Harbour Road,
Hong K ong.

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 of Zhejiang Yonglong Enterprises Co., Ltd. (the "Company") set out on pages 31 to 71, which comprise the balance sheet as at 31st December 2006, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibilities for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31st December 2006 and of the Company's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants

Lo Wa Kei
Practising Certificate Number: P03427
Hong Kong
20th April 2007

Income Statement

For the year ended 31st December 2006

	NOTES	2006 RMB'000	2005 RMB'000
Turnover	6	**416,572**	415,366
Cost of sales		**(387,991)**	(377,080)
Gross profit		**28,581**	38,286
Other operating income		**11,687**	8,496
Selling expenses		**(4,412)**	(10,789)
Administrative and operating expenses		**(16,637)**	(16,069)
Finance costs	8	**(19,955)**	(27,997)
Loss before taxation		**(736)**	(8,073)
Taxation	9	**5,219**	4,413
Profit (loss) for the year	10	**4,483**	(3,660)
Dividend	11	**–**	–
Earnings (loss) per share – basic	12	**RMB 0.4 cents**	RMB (0.4) cents

Balance Sheet

At 31st December 2006

	NOTES	2006 RMB'000	2005 RMB'000 (restated)
Non-current assets			
Investment properties	13	**12,876**	13,707
Property, plant and equipment	14	**241,786**	256,766
Prepaid lease payments	15	**11,841**	12,114
Bank deposits		**–**	53,135
		266,503	335,722
Current assets			
Inventories	17	**106,671**	89,432
Prepaid lease payments	15	**273**	273
Trade receivables	18	**115,378**	87,774
Other receivables, deposits and prepayments	18	**16,028**	30,063
Amounts due from related parties	19	**11**	436
Investments held-for-trading	16(a)	**–**	400
Pledged bank deposits	20	**41,617**	47,408
Fixed bank deposits	16(b)	**102,132**	167,840
Bank balances and cash		**47,514**	22,602
		429,624	446,228
Current liabilities			
Trade payables	21	**66,101**	80,324
Other payables and accruals	21	**17,466**	16,637
Amount due to a related company	22	**275**	–
Tax liabilities		**9,493**	15,169
Borrowings – due within one year	23	**259,490**	303,458
		352,825	415,588
Net current assets		**76,799**	30,640
Total assets less current liabilities		**343,302**	366,362
Non-current liabilities			
Borrowings – due after one year	23	**70,000**	98,000
Deferred tax liabilities	24	**6,309**	5,852
		76,309	103,852
NET ASSETS		**266,993**	262,510

Balance Sheet

At 31st December 2006

	NOTES	2006 RMB'000	2005 RMB'000 (restated)
Capital and reserves			
Share capital	25(a)	**106,350**	106,350
Reserves	25(b)	**160,643**	156,160
SHAREHOLDERS' FUNDS		**266,993**	262,510

The financial statements on pages 31 to 71 were approved and authorised for issue by the Board of Directors on 20th April 2007 and are signed on its behalf by:

SUN LI YONG
DIRECTOR

LI CHENG JUN
DIRECTOR

Statement of Changes in Equity

For the year ended 31st December 2006

	Share capital RMB'000 (Note 25(a))	Share premium RMB'000	Other reserve RMB'000 (Note 25(b))	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (Note 25(b))	Statutory welfare fund RMB'000 (Note 25(b))	Retained profits RMB'000 (Note 25(b))	Total RMB'000
At 1st January 2005	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 31st December 2005 and 1st January 2006	106,350	69,637	7,880	15,959	8,144	4,073	50,467	262,510
Transfer	–	–	–	–	279	–	(279)	–
Profit for the year	–	–	–	–	–	–	4,483	4,483
At 31st December 2006	106,350	69,637	7,880	15,959	8,423	4,073	54,671	266,993

Cash Flow Statement

For the year ended 31st December 2006

	2006 RMB'000	2005 RMB'000 (restated)
OPERATING ACTIVITIES		
Loss before taxation	**(736)**	(8,073)
Adjustments for:		
Government grant recognised as income	**(113)**	(1,096)
Interest income	**(5,967)**	(5,265)
Gain on disposal of investments held-for-trading	**(193)**	(19)
Reversal of impairment loss recognised in respect of trade receivables	**69**	(182)
Reversal of allowance for obsolete inventories	**(4,064)**	(400)
Finance costs	**19,955**	27,997
Exchange loss recognised to income statement in respect of non-current bank deposits	**1,924**	1,264
Bad debts written off	**–**	900
Depreciation of investment properties	**831**	831
Depreciation and amortisation of property, plant and equipment	**24,669**	24,538
Amortisation of prepaid lease payments	**273**	273
Operating cash flows before movements in working capital	**36,648**	40,768
Increase in inventories	**(13,175)**	(33,567)
Increase in trade receivables	**(27,673)**	(20,162)
Decrease in other receivables, deposits and prepayments	**14,035**	20,894
Decrease in amounts due from related parties	**425**	108
Decrease in trade payables	**(14,223)**	(27,977)
Increase in other payables and accruals	**829**	643
Increase in amount due to a related company	**275**	–
Cash used in operations	**(2,859)**	(19,293)
Interest paid	**(22,507)**	(30,006)
Government grant received	**113**	1,096
People's Republic of China enterprise income tax paid	**–**	(6,171)
NET CASH USED IN OPERATING ACTIVITIES	**(25,253)**	(54,374)
INVESTING ACTIVITIES		
Decrease in fixed bank deposits	**118,728**	7,160
Purchase of property, plant and equipment	**(7,137)**	(11,254)
Decrease in pledged bank deposits	**5,791**	53,542
Interest received	**4,158**	7,762
Proceeds from disposal of investments held-for-trading	**593**	119
NET CASH GENERATED FROM INVESTING ACTIVITIES	**122,133**	57,329

Cash Flow Statement

For the year ended 31st December 2006

	2006 RMB'000	2005 RMB'000 (restated)
FINANCING ACTIVITIES		
Repayment of borrowings	**(965,862)**	(1,004,000)
New borrowings raised	**893,894**	922,600
Proceeds from issue of new shares	**–**	54,730
Transaction costs attributable to issue of the new shares	**–**	(1,599)
NET CASH USED IN FINANCING ACTIVITIES	**(71,968)**	(28,269)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**24,912**	(25,314)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**22,602**	47,916
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**47,514**	22,602

1. GENERAL

Zhejiang Yonglong Enterprises Co., Ltd. (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 section of "Corporate Information" 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. APPLICATION OF NEWS AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Company has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Company has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective as at 31st December 2006. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and financial position of the Company.

2. APPLICATION OF NEWS AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)–Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)–Int 8	Scope of HKFRS 2[4]
HK(IFRIC)–Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)–Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)–Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC)–Int 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1st January 2007.
[2] Effective for annual periods beginning on or after 1st January 2009.
[3] Effective for annual periods beginning on or after 1st March 2006.
[4] Effective for annual periods beginning on or after 1st May 2006.
[5] Effective for annual periods beginning on or after 1st June 2006.
[6] Effective for annual periods beginning on or after 1st November 2006.
[7] Effective for annual periods beginning on or after 1st March 2007.
[8] Effective for annual periods beginning on or after 1st January 2008.

3. 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 HKFRSs issued by the 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the 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 asset's net carrying amount.

Rental income is recognised on a straight-line basis over the term of the relevant lease.

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 accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the 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.

The Company as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Company as lessee

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated at cost or valuation less subsequent accumulated depreciation 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 assets 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 assets 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 retained profits.

Depreciation is provided 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.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 derecognised.

Prepaid lease payments

Prepaid lease payments represent lease prepayments paid or payable for the right to use the land on which various plants and buildings are situated for a definite period, are carried at cost less accumulated amortisation. Amortisation of prepaid lease payments is calculated on a straight-line basis over the expected period of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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 under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those 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.

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 depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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 items that are never taxable or 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 recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 Company 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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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 two 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables 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 (including trade receivables, other receivables, deposits, amounts due from related parties and bank deposits) 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 borrowings, trade payables, other payables and amount due to a related company 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.

3. 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 receivables and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised 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 paid and payable 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Company's accounting policies which are described in Note 3, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Allowances for inventories

The management of the Company reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales or use in production. The management estimates the net realisable value for such finished goods and raw materials based primarily on the latest invoice prices and current market conditions. The Company carries out an inventory review on a product-by-product basis at each balance sheet date. During the year ended 31st December 2006, the Company reverse the inventory provision amounting to approximately RMB4,064,000 (2005: RMB400,000).

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include borrowings, trade receivables, other receivables, deposits and trade payables and other 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.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2006 is the carrying amount of trade receivables as stated in the balance sheet. 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 rating 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.

Foreign exchange risk

The Company operates in the PRC with most of the transactions denominated and settled in 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 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 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 borrowings. The Company has not entered into any interest rate hedging contacts.

6. TURNOVER AND 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:

For the year ended 31st December 2006

	PRC	Europe	Asia other than PRC	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER – external	294,173	97,434	23,752	1,213	416,572
SEGMENT RESULT	3,425	7,970	2,566	(23)	13,938
Unallocated corporate income					11,687
Unallocated corporate expenses					(6,406)
Finance costs					(19,955)
Loss before taxation					(736)
Taxation					5,219
Profit for the year					4,483

6. TURNOVER AND SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

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

Balance sheet as at 31st December 2006

	PRC	Europe	Asia other than PRC	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Segment assets	63,929	48,156	3,293	–	115,378
Unallocated corporate assets					580,749
Total assets					696,127

The liabilities of the Company are all unallocated

For the year ended 31st December 2006

	PRC	Europe	Asia other than PRC	Others	Total
OTHER INFORMATION					
Capital additions	9,689	–	–	–	9,689
Reversal of impairment loss recognised in respect of trade receivables	(69)	–	–	–	(69)
Amortisation of prepaid lease payments	273	–	–	–	273
Reversal of allowance for obsolete inventories	(4,064)	–	–	–	(4,064)
Depreciation and amortisation	25,500	–	–	–	25,500

6. TURNOVER AND SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

For the year ended 31st December 2005

	PRC	The Middle East	Europe	Asia other than PRC	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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)

6. TURNOVER AND SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

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

Balance sheet as at 31st December 2005

	PRC	The Middle East	Europe	Asia other than PRC	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

For the year ended 31st December 2005

	PRC	The Middle East	Europe	Asia other than PRC	Others	Total
OTHER INFORMATION						
Capital addition	13,263	–	–	–	–	13,263
Bad debts written off	900	–	–	–	–	900
Reversal of impairment loss recognised in respect of trade receivables	(182)	–	–	–	–	(182)
Amortisation of prepaid lease payments	273	–	–	–	–	273
Reversal of allowance for obsolete inventories	(400)	–	–	–	–	(400)
Depreciation and amortisation	25,369	–	–	–	–	25,369

In addition to the analysis by the geographical location of its customers, the carrying amounts 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 principally engaged in the research and development, manufacture and sale of woven fabrics.

7. 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 nine (2005: ten) directors were as follows:

For the year ended 31st December 2006

	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. Zhu Yu Lin RMB'000	Mr. Zhong Pei Min RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	36	36	36	108
Other emoluments:										
Salaries and other benefits	60	60	60	60	60	60	–	–	–	360
Bonus	–	–	–	–	–	–	–	–	–	–
Retirement benefits scheme contributions	1	1	1	1	1	–	–	–	–	5
Less: amount waived	(24)	(29)	(29)	(29)	(29)	–	–	–	–	(140)
Total emoluments	37	32	32	32	32	60	36	36	36	333

For the year ended 31st December 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 (Note 1)	Mr. Luk Guo Qing RMB'000	Mr. Lui Tin Nang RMB'000 (Note 2)	Mr. Zhu Yu Lin RMB'000	Mr. Zhong Pei Min RMB'000 (Note 3)	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

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS *(continued)*

(a) Directors' emoluments *(continued)*

Note 1: Appointed on 24th March 2005.

Note 2: Retired on 18th May 2005.

Note 3: Appointed on 18th May 2005.

During the years ended 31st December 2006 and 2005, no emoluments were paid by the Company to the directors as inducement to join or upon joining the Company or as compensation for loss of office.

(b) Supervisors' emoluments

The emoluments paid or payable to each of the five (2005: six) supervisors were as follows:

For the year ended 31st December 2006

	Mr. Fan Zhi Gang RMB'000	Mr. Shao Bao Hua 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	–	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–	–
Less: amount waived	(36)	(36)	(36)	–	–	(108)
Total emoluments	–	–	–	12	12	24

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS *(continued)*

(b) Supervisors' emoluments *(continued)*

For the year ended 31st December 2005

	Mr. Fan Zhi Gang RMB'000 (Note 1)	Mr. Shao Bao Hua RMB'000	Mr. Luo Teng Fa RMB'000 (Note 2)	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

Note 1: Appointed on 24th May 2005.

Note 2: Retired on 18th May 2005.

(c) Employees' emoluments

Of the five individuals with the highest emoluments in the Company, five (2005: three) were directors of the Company whose emoluments are included in note (a) above. The emoluments of the remaining two individuals for the year ended 31st December 2005 were as follows:

	2006 RMB'000	2005 RMB'000
Salaries and allowances	**–**	98
Bonus	**–**	–
Retirement benefits scheme contributions	**–**	2
	–	100

The emoluments of each of the five highest paid individuals are less than HK$1,000,000 (equivalent to approximately RMB1,004,670) for the year ended 31st December 2005.

8. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on:		
– bank borrowings wholly repayable within five years	22,507	29,830
– other borrowings wholly repayable within five years	–	176
	22,507	30,006
Less: amounts capitalised in construction in progress	(2,552)	(2,009)
	19,955	27,997

Borrowing costs capitalised during the year arose on general borrowing pool and are calculated by applying a capitalisation rate of 6.02% (2005: 5.86%) to expenditure on qualifying assets.

9. TAXATION

	2006 RMB'000	2005 RMB'000
The (credit) charge comprises:		
PRC enterprise income tax for the year	–	–
Overprovision in previous years	(5,676)	(3,395)
	(5,676)	(3,395)
Deferred tax (Note 24)	457	(1,018)
	(5,219)	(4,413)

No provision for PRC enterprise income tax for both years as there is no assessable profit for the two years ended 31st December 2006 and 2005.

9. TAXATION *(continued)*

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

	2006 **RMB'000**	2005 RMB'000
Loss before taxation	**(736)**	(8,073)
Tax at the domestic income tax rate of 33% (2005: 33%)	**(243)**	(2,664)
Tax effect of expenses that are not deductible in determining taxable profit	**700**	1,646
Overprovision in previous year	**(5,676)**	(3,395)
Tax credit for the year	**(5,219)**	(4,413)

10. PROFIT (LOSS) FOR THE YEAR

	2006 RMB'000	2005 RMB'000
Profit (loss) for the year has been arrived at after charging:		
Auditors' remuneration	**700**	850
Amortisation of the prepaid lease payments	**273**	273
Bad debts written off	**–**	900
Cost of inventories recognised as expenses	**387,991**	377,080
Depreciation and amortisation		
– property, plant and equipment	**24,669**	24,538
– investment properties	**831**	831
	25,500	25,369
Employee benefits expenses, including directors' and supervisors' remuneration	**24,669**	24,162
Net exchange loss	**5,204**	3,061
Research and development costs	**435**	347
and after crediting:		
Gain on disposal of investments held-for-trading	**193**	19
Government grants (Note 31)	**113**	1,096
Interest income	**5,967**	5,265
Rental income from investment properties, net of outgoings of approximately RMB58,000 (2005: RMB58,000)	**1,106**	1,106
Reversal of impairment loss recognised in respect of trade receivables	**69**	182
Reversal of allowance of obsolete inventories (Note 17)	**4,064**	400

11. DIVIDEND

No dividend was paid or proposed during the year ended 31st December 2006, nor has any dividend been proposed since the balance sheet date (2005: Nil).

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share for the year is based on the profit (loss) for the year of approximately RMB4,483,000 (2005: Loss for the year of RMB3,660,000) and the weighted average of 1,063,500,000 (2005: 1,012,839,726) ordinary shares in issue during the year.

No diluted earnings (loss) per share have been presented for the two years ended 31st December 2006 and 2005 as there were no diluting events existed during those years.

13. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1st January 2005, 31st December 2005 and 31st December 2006	16,199
DEPRECIATION	
At 1st January 2005	1,661
Provided for the year	831
At 31st December 2005 and 1st January 2006	2,492
Provided for the year	831
At 31st December 2006	3,323
CARRYING VALUES	
At 31st December 2006	12,876
At 31st December 2005	13,707

The fair value of the Company's investment properties at 31st December 2006 was approximately RMB14,200,000 (2005: RMB14,400,000). The fair value has been arrived at based on a valuation carried out by BMI Appraisals Limited, 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 located in the PRC under medium-term lease (Note 15) 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.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Plant and machinery	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST OR VALUATION						
At 1st January 2005	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 31st December 2005 and 1st January 2006	94,668	1,747	192,810	1,805	40,798	331,828
Additions	12	5	3,782	76	5,814	9,689
At 31st December 2006	94,680	1,752	196,592	1,881	46,612	341,517
Comprising:						
At cost	36,125	1,752	196,592	1,881	46,612	282,962
At valuation – 2003	58,555	–	–	–	–	58,555
	94,680	1,752	196,592	1,881	46,612	341,517
DEPRECIATION AND AMORTISATION						
At 1st January 2005	4,112	478	45,246	688	–	50,524
Provided for the year	4,724	328	19,178	308	–	24,538
At 31st December 2005 and 1st January 2006	8,836	806	64,424	996	–	75,062
Provided for the year	4,734	338	19,261	336	–	24,669
At 31st December 2006	13,570	1,144	83,685	1,332	–	99,731
CARRYING VALUES						
At 31st December 2006	81,110	608	112,907	549	46,612	241,786
At 31st December 2005	85,832	941	128,386	809	40,798	256,766

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The buildings are situated on land leased under medium-term land use rights in the PRC (Note 15).

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 RMB58,224,000 (2005: RMB61,679,000).

Depreciation 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%

15. PREPAID LEASE PAYMENTS

	2006 RMB'000	2005 RMB'000
The Company's prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	**12,114**	12,387
Analysed for reporting purposes as:		
Non-current asset	**11,841**	12,114
Current asset	**273**	273
	12,114	12,387

16. BANK DEPOSITS AND INVESTMENTS HELD-FOR-TRADING

(a) Investments held-for-trading

	2006 RMB'000	2005 RMB'000
Investments fund in the PRC, at fair value	–	400

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

(b) Fixed bank deposits

The amount of RMB53,019,000 (2005: RMB53,135,000) 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 and will be expired in 2007.

The deposits carry fixed interest rate ranged from 2.25% to 3.46% (2005: 1.98% to 3.46%) per annum.

17. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	12,058	6,269
Work in progress	18,826	11,956
Finished goods	75,787	71,207
	106,671	89,432

During the year, there was a significant increase in the net realisable value of finished goods due to market shortage of woven fabrics. As a result, a reversal of write-down of finished goods of approximately RMB4,064,000 (2005: RMB400,000) has been recognised and included in cost of sales in the current year.

18. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2006 RMB'000	2005 RMB'000
Trade receivables	**115,378**	87,843
Less: accumulated impairment	**–**	(69)
	115,378	87,774

The Company allows an average credit period of 30 days to 120 days to its trade customers. The aged analysis of trade receivables net of impairment losses at the reporting date is as follows:

	2006 RMB'000	2005 RMB'000
Within 30 days	**54,142**	46,003
31 – 60 days	**25,242**	24,061
61 – 90 days	**12,672**	8,097
91 – 120 days	**5,444**	2,488
121 – 180 days	**12,536**	1,902
181 – 365 days	**5,299**	5,214
Over 365 days	**43**	9
	115,378	87,774
Other receivables, deposits and prepayments	**16,028**	30,063

The fair value of the Company's trade receivables, other receivables, deposits and prepayments as at 31st December 2006 approximates to the corresponding carrying amount due to their short-term maturities.

19. AMOUNTS DUE FROM RELATED PARTIES

Details of amounts due from related parties are as follows:

	2006 RMB'000	2005 RMB'000
Sabrina (Note a)	11	227
Mr. Li Cheng Jun (Note b)	–	209
	11	436

Notes:

(a) At the balance sheet date, the amount of approximately RMB11,000 (2005: RMB227,000) represents balance due by 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 Co., Ltd.) ("Gabriel"), in which Messrs. Sun Li Yong, Xia Xue Nian, Sun Jian Feng, Li Cheng Jun and Ms. Fang Xiao Jian, directors of the Company, have beneficial interests. The amount is interest-free, unsecured and repayable on demand. The maximum balance outstanding during the year ended 31st December 2006 amounted to approximately RMB1,144,000 (2005: RMB577,000).

(b) Mr. Li Cheng Jun is a director of the Company. The amount is unsecured, interest-free and repayable on demand and have been fully repaid during the year ended 31st December 2006. The maximum balance outstanding during the year ended 31st December 2006 amounted to approximately RMB227,000 (2005: RMB392,000).

The fair value of the amounts due from related parties at 31st December 2006 approximates to their carrying amount due to the short-term maturities.

20. PLEDGED BANK DEPOSITS

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

The deposits carry interest rate at a range from 2.07% to 2.625% (2005: 0.72% to 1.98%). The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

The fair value of pledged bank deposits at 31st December 2006 approximates to their carrying amount due to the short-term maturities.

21. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

	2006 RMB'000	2005 RMB'000 (restated)
Within 30 days	23,781	24,750
31 – 60 days	20,521	23,940
61 – 90 days	8,608	6,890
91 – 120 days	2,984	10,767
121 – 180 days	6,342	12,428
181 – 365 days	2,099	1,370
1 – 2 years	1,766	179
Trade payables	66,101	80,324
Other payables and accruals	17,466	16,637

The fair value of the Company's trade payables and other payables as at 31st December 2006 approximates to their carrying amount due to the short-term maturities.

22. AMOUNT DUE TO A RELATED COMPANY

Details of amount due to a related company are as follows:

	2006 RMB'000	2005 RMB'000
Hongxing (Note)	275	–

Note: At the balance sheet date, the amount represented balance due by the Company to 浙江宏興紡織有限公司 (Zhejiang Hongxing Textiles Co., Ltd.) ("Hongxing"). Hongxing is a subsidiary of Gabriel. The amount is interest-free, unsecured and repayable on demand.

The fair value of the amount due to a related company as at 31st December 2006 approximates to its carrying amount due to the short-term maturities.

23. BORROWINGS

	2006 RMB'000	2005 RMB'000 (restated)
Borrowings comprise:		
Bank loans	**329,490**	401,458
Analysed as:		
Secured (Note 28)	**109,730**	67,630
Unsecured	**219,760**	333,828
	329,490	401,458
Denominated in RMB	**329,490**	401,458
The bank borrowings carry interest at fixed rate and are repayable as follows:		
Within one year or on demand	**259,490**	303,458
More than one year, but not exceeding two years	**70,000**	98,000
	329,490	401,458
Less: Amount due within one year shown under current liabilities	**(259,490)**	(303,458)
Amount due after one year	**70,000**	98,000

The bank borrowings carry interests ranging from 5.02% to 7.32%. (2005: from 4.92% to 7.32%) per annum.

	2006 RMB'000	2005 RMB'000
The borrowings were guaranteed by:		
Gabriel and independent third parties	**40,000**	–
Gabriel, directors of the Company and independent third parties	**–**	49,128
Gabriel and directors of the Company	**10,000**	29,600
Gabriel and Mr. Sun Li Yong and an independent third party	**–**	20,000
Directors of the Company and independent third parties	**–**	96,000
Zhejiang Zhiye, Mr. Sun Li Yong and independent third party (Note)	**25,000**	28,000
Mr. Sun Li Yong, Ms. Fang Xiao Jian and independent third parties	**57,000**	–
Independent third parties	**130,760**	105,100
	262,760	327,828

23. BORROWINGS *(continued)*

Notes: 浙江市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.

During the year, the Company obtained new bank loans in the amount of approximately RMB893,894,000 (2005: RMB922,600,000). 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 borrowings approximates their fair value as the weighted average interest rates approximate the market rate.

24. DEFERRED TAX LIABILITIES

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

	Tax losses	Impairment loss recognised in respect of trade receivables	Fixed return bank deposits	Write down of inventories	Revaluation of buildings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2005	–	–	–	(990)	7,860	6,870
(Credited) charged to income statement for the year	(89)	(237)	(824)	132	–	(1,018)
At 31st December 2005 and 1st January 2006	(89)	(237)	(824)	(858)	7,860	5,852
(Credited) charged to income statement for the year	(1,235)	237	597	858	–	457
At 31st December 2006	(1,324)	–	(227)	–	7,860	6,309

At 31st December 2006, the Company has unused tax losses of approximately RMB4,011,000 (2005: RMB8,023,000) available to offset against future profits. The unused tax losses will be expired in 2010.

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

25. SHARE CAPITAL AND RESERVES

(a) Share capital

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

	Number of shares	Value
		RMB'000
Domestic shares as at 1st January 2005, 31st December 2005 and 31st December 2006	588,000,000	58,800
H shares		
– as at 1st January 2005	250,000,000	25,000
– issue of shares by subscription (Note ii)	209,500,000	20,950
– issue of shares by placement (Note ii)	16,000,000	1,600
– as at 31st December 2005 and 31st December 2006	475,500,000	47,550
Total share capital of RMB0.10 each as at 31st December 2005 and 31st December 2006	1,063,500,000	106,350

Notes:

(i) 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.

(ii) 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 S.p.A. 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 4th March 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.

25. 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

Prior to 1st January 2006, the Company is required in each year to transfer 5% to 10% of the profit after taxation (based on the Company's PRC statutory accounts) to the statutory welfare fund. Starting from 1st January 2006, the Company is not required to transfer any profit after taxation to statutory welfare fund in accordance with the amendment in the PRC Companies Ordinance.

Retained 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 31st December 2006, the amount of reserve available for distribution was approximately RMB54,671,000 (2005: RMB50,467,000).

26. OPERATING LEASES COMMITMENTS

(a) The Company as leasee

The Company made approximately RMB81,000 (2005: RMB433,000) 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:

	2006	2005
	RMB'000	RMB'000
Within one year	**273**	273

Operating lease payments represent rentals payable by the Company for its office premises. Leases are negotiated and rentals are fixed for one year.

(b) The Company as lessor

Property rental income earned during the year was approximately RMB1,164,000 (2005: RMB1,164,000). The properties are expected to generate rental yields of 9% (2005: 8%) on an ongoing basis.

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

27. CAPITAL COMMITMENTS

At the balance sheet date, the Company had commitments of approximately RMB2,773,000 (2005: RMB10,840,000) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

28. 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:

	2006	2005
	RMB'000	RMB'000
Pledged bank deposits	**41,617**	47,408
Investment properties	**–**	13,707
Prepaid lease payments	**4,899**	10,535
Buildings	**18,805**	43,718
Plant and machinery	**10,833**	12,867
Construction in progress	**46,612**	40,798
	122,766	169,033

29. 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 RMB638,000 (2005: RMB985,000) represents contributions payable to the scheme by the Company during the year.

30. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006 RMB'000	2005 RMB'000
Short-term benefits	**352**	411
Post-employment benefits	**5**	7
	357	418

The remuneration of directors and key executives is determined by the Board of Director having regard to the performance of individuals and market trends.

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

Name of related company	Nature	2006 RMB'000	2005 RMB'000
Sabrina	Sales of goods	**17**	364
	Rental income	**181**	181
	Electricity cost reimbursement	**9**	12
	Purchase of goods	**4**	–
Hongxing (Note a)	Sales of goods	**3**	–
	Rental income	**328**	–
	Electricity cost reimbursement	**8**	–
	Purchase of goods	**8**	–
Miroglio S.p.A. and its subsidiaries ("Miroglio S.p.A. Group") (Note b)	Sales of goods	**43,338**	23,541
Miroglio Fulida (Note c)	Subcontracting fee	**8,796**	–
	Sales of goods	**62**	–

30. CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

Notes:

a. Hongxing was being acquired by Gabriel on 30th August 2006. The above transactions represented transactions incurred with the Company for the period from 1st September 2006 to 31st December 2006.

b. Since 24th March 2005, Miroglio S.p.A. became a substantial shareholder of the Company. The sales order placed by Miroglio S.p.A. Group to the Company for the year ended 31st December 2006 was approximately RMB65,684,000 (2005: RMB25,316,000). Sales recognised by the Company for the year ended 31st December 2006 was approximately RMB43,338,000 (2005: RMB23,541,000). As at 31st December 2006, the amounts due from Miroglio S.p.A. Group (included in trade receivables) were amounted to approximately RMB12,385,000 (2005: RMB9,846,000).

c. Zhejiang Miroglio Fulida Dyeing Co., Ltd. (浙江米羅利奧富麗達紡織有限公司) ("Miroglio Fulida") a company established in the PRC, the registered capital of which is owned as to 50% by Miroglio S.p.A. As at 31st December 2006, the amount due to Miroglio Fulida (included in trade payables) was amounted to approximately RMB2,000,000 (2005: nil).

Details of the guarantee given by related parties to the banks in respect of the loans granted to the Company as at 31st December 2005 and 2006 are set out in Note 23.

In addition to the above, balances with related parties as at 31st December 2006 are set out in Notes 19 and 22.

31. GOVERNMENT GRANTS

Government grants of approximately RMB113,000 (2005: RMB1,096,000) 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 31st December				THE GROUP (Note 2) For the year ended 31st December			
	2006	2005	2004	2003	2002	2003	2002	2001	2000
	RMB'000	RMB'000 (restated)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER	**415,572**	415,366	449,766	466,669	405,883	195,086	405,883	237,965	101,055
(LOSS) PROFIT BEFORE TAXATION	**(736)**	(8,073)	29,202	48,397	60,233	12,958	63,905	11,056	2,309
TAXATION	**5,219**	4,413	(10,104)	(14,243)	(17,542)	(4,490)	(17,542)	(4,490)	–
PROFIT (LOSS) BEFORE MINORITY INTERESTS	**4,483**	(3,660)	19,098	34,154	42,691	8,468	46,363	6,566	2,309
MINORITY INTEREST	**–**	–	–	–	–	–	–	28	40
PROFIT (LOSS) FOR THE YEAR	**4,483**	(3,660)	19,098	34,154	42,691	8,468	46,363	6,594	2,349

ASSETS AND LIABILITIES

		At 31st December				At 31st December			
	2006	2005	2004	2003	2002	2003	2002	2001	2000
	RMB'000	RMB'000 (restated)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**696,127**	781,950	852,341	853,555	503,231	132,946	503,231	167,469	60,864
TOTAL LIABILITIES	**(429,134)**	(519,440)	(641,433)	(646,740)	(336,492)	(120,193)	(329,205)	(154,678)	(54,639)
MINORITY INTEREST	**–**	–	–	–	–	–	–	(4,317)	(4,345)
SHAREHOLDERS' FUNDS	**266,993**	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 31st December 2001, 2002, 2003, 2004, 2005 and 2006 are extracted from the audited financial statements.

(2) During the year ended 31st December 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 31st December 2000 and 2001 ar e extracted from the Accountants' Report included in the Prospectus of the Company dated 31st October 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 31st December 2002 are extracted from the management accounts of the Company and is prepared for information purposes only.