浙江永隆實業股份有限公司

ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*

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

(Stock Code: 8211)

ANNUAL REPORT 2008

* for identification purpose only

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GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This document, for which the directors of Zhejiang Yonglong Enterprises Co., Ltd. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (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 the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

Executive directors
Mr. Ru Guan Jun *(Chairman)*
Mr. Xia Xian Fu *(Chief Executive Officer)*
Mr. Sun Jian Feng
Mr. Xia Xue Nian

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

Supervisors
Mr. Liu Guang Wei
Ms. Wang Ai Yu
Mr. Hu Hua Jun

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. Lu Guo Qing *(Chairman)*
Mr. Zong Pei Min
Mr. Zhu Yu Lin

Remuneration committee
Mr. Lu Guo Qing *(Chariman)*
Mr. Ru Guan Jun
Mr. Zong Pei Min
Mr. Zhu Yu Lin

Legal address
Yangxun Qiao Town
Shaoxing County
Zhejiang Province
PRC

Head office and principal place of business in Hong Kong
Suites 3306-12, 33/F., Shui On Centre
6-8 Harbour Road, Wanchai, Hong Kong

Compliance officer
Mr. Xia Xue Nian

Authorised representatives
Mr. Xia Xian Fu
Mr. Sun Jian Feng

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

International auditor
SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

Domestic auditor
Zhejiang Zhongxing CPA Company Limited*
浙江中興會計師事務所有限公司
7/F., Kaifawei Chengnan, Shaoxing
Zhejiang Province, PRC

H Share share registrar and transfer office
Union Registrars Limited
18/F., Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

Legal advisers
As to Hong Kong law
Tung & Co
Office 1601, 16/F., LHT Tower
31 Queen's Road, Central, Hong Kong

Stock code
8211

** English name is for identification only*

For the year ended 31 December 2008,

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

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

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

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 31 December 2008.

FINANCIAL PERFORMANCE

For the year ended 31 December 2008, the Company recorded a turnover of approximately RMB324.99 million, representing a decrease of approximately 17.32% as compared with that of the same period in 2007. The sales volume increased by approximately 17.54% while on the other hand, the average selling price dropped by approximately 10.06%. It was mainly because the global financial crisis which led to poor consumer consumption sentiments globally. Hence the export sales for the year ended 31 December 2008 dropped by approximately 16.89%. During the year ended 31 December 2008, the Company incurred significant gross loss in the amount of approximately RMB103.02 million, which mainly due to average selling price and export sales dropped and cost of sales increase significantly. In order to minimise the loss from dropping of export sales, the Company has to shift the market from the overseas to the local. The local sales during the year ended 31 December 2008 increased by approximately 4.71% which involved sales of some obsolete stock that has lower selling price. In addition, under the new People's Republic of China (the "PRC") labour ordinance that implemented in early 2008 (the "New Labour Ordinance"), the cost of wages in 2008 increased significantly by approximately 36.74% when compared with the same period in 2007. Due to misconduct of some former Directors as set out in Note 13 to the financial statements, the operation was affected and the production volume decreased significantly since the end of 2008 which led to an increase of average fixed production overheads. Furthermore, the Directors conducted a review of various assets of the Company and determined that a significant amount of inventories amounting RMB28.62 million representing approximately 6.69% of cost of sales, were impaired. In addition, provision on impairment of various assets of approximately RMB22.26 million and loss on misconducts of directors of approximately RMB342.47 million were made. Selling expenses increased by approximately 34.44% mainly due to an increase of sales commission from approximately RMB0.1 million in 2007 to RMB1.52 million in 2008 and this was in line with the rising of sales volume from 2007 to the first half year of 2008. Administrative expenses increased by approximately 48.73%, which mainly due to increase of staff salary and benefits of approximately RMB3.3 million under the New Labour Ordinance. Finance costs increased by approximately 47.81%, which mainly due to bank borrowing interest rates increased during the year. Loss per share for the year ended 31 December 2008 amounted to RMB48.69 cents, while earnings per share for the year ended 31 December 2007 was RMB0.48 cent.

DIVIDEND

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

OUR STRATEGY GOING FORWARD

After the Company has entered into the debt agreements with the five Guarantors in the third quarter of 2011 as set out in Note 39 to the financial statements, the financial crisis of the Company has been resolved. The Directors will then focus on the following strategies in order to enhance the benefits to the shareholders of the Company:

A. OPENING UP THE MARKET AND EXPANDING DOMESTIC SALES

After the financial turmoil in 2008, the foreign markets, especially in Europe and U.S, have been shrinking. However, the local demand has been increasing. To survive in this scenario, the Company will focus on the domestic market and sales efforts will be placed in expanding domestic market shares and continuing to consolidate the military fabric production, so that full capacity of production and sales of the Company will be achieved.

B. INNOVATIVE PRODUCTS, ENHANCE THE VALUE

The Company will continue to cooperate with professional colleges, universities, national research centers and commercial corporations to carry out joint scientific research and development for the exploration of new raw materials and technologies. The aim of such is to create new products with added values, and the Company's benefits can hence be enhanced. With reference to the announcement dated 18 October 2011, the Company entered into Technology Development Agreement with China Textiles Development Center ("CTDC") (紡織產品開發中心) on 15 June 2011, whereby both parties agreed to develop new types of woven fabric material through long term cooperation in areas including the application of raw materials, fabric manufacturing art craft and product design. CTDC is a national enterprise and a national grade textile product development and promotion institute. Cooperation with CTDC will strengthen the Company's position and capability in research and development and increase the Company's technology component. The Company will also obtain long term research and development support from CTDC to develop new technology and accelerate the development and application of new technology. Through the Technology Development Agreement with CTDC, the market competitiveness of the Company will be increased.

C. STREAMLINING OPERATIONS, SAVING COST

In early January 2011, in view of sufficiency of production capacity, the Company consolidated the production, plant and machinery and manpower from the old factory site to the existing factory site in order to streamline operations, optimise personnel and assets, enhance cost control and achieve the purpose of cost saving. In addition, since February 2011, in order to further reduce the production cost, the Company commenced to cooperate with Zhejiang Yongli Industry Group Co., Ltd. * 浙江永利集團有限公司 ("Zhejiang Yongli") for the provision of electricity and gas.

PROSPECTS

Due to the misconduct of some of the former directors as set out in Note 13 to the financial statements, the Company encountered a financial crisis which led to a shortage of cash flow for settlement of trade debts and bank borrowings. As a result, there were several litigations against the Company as set out in Note 39 to the financial statements and for management purpose, the operation of the Company has to be reorganised into two divisions, that is, sale of woven fabric and provision of subcontracting services.

With reference to the announcement of the Company dated 29 December 2010, the Company, Zhejiang Yongli and the Local Government entered into a letter of intent on 6 December 2010 for the proposed reorganisation of the Company by Zhejiang Yongli with the support from the Local Government (the "Restructuring Proposal"). Zhejiang Yongli is a company established in the PRC. The principal terms of the letter of intents are set out in Note 39 to the financial statements.

Subsequent to the letter of intent signed for the Restructuring Proposal as set out in Note 39 to the financial statements. Zhejiang Yongli has become a controlling shareholder of the Company since 24 December 2010. Thereafter, Zhejiang Yongli recommended Mr. Ru Guan Jun and Mr. Xia Xian Fu to be executive directors of the Company and Mr. Ru Guan Jun to be Chairman of the Board of Directors and they were appointed accordingly at the extraordinary general meeting held on 11 March 2011. From 20 July 2011 to 13 September 2011, the Company has signed debt agreements with each of five Guarantors of the Company as set out in Note 39 to the financial statements. After that, each of the five Guarantors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies.

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

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.

Ru Guan Jun
Chairman

Zhejiang, the PRC, 3 November 2011

BUSINESS AND OPERATION REVIEW

In prior years, the Company mainly focused on the manufacturing and sales of woven fabrics. During the year ended 31 December 2008, due to the misconduct of some former directors of the Company as set out in Note 13 to the financial statements. the Company encountered cash flow problems. In order to solve the cash flow problems and maintain a stable production capacity and operations, the Company accepted more existing and new customers to provide their raw materials to the Company for further processing so as to minimise the trade payables balance by providing such sub-contracting services. Accordingly, for management purposes, the Company is currently organised into two operating divisions – sales of woven fabric and provision of subcontracting services. During the year under review, sales of woven fabric was approximately RMB319.13 million representing a drop of approximately 16.89% when compared with that in 2007. Due to global financial turmoil in 2008, export sales decreased significantly by approximately 49.67%. In addition, due to the financial crisis of the Company, the export sales market has to be temporarily suspended as the Company has insufficient cash flow to purchase raw materials for manufacturing. Turnovers from provision of subcontracting services for the two years ended 2008 and 2007 were approximately RMB5.86 million and RMB9.07 million respectively. During the year ended 31 December 2008, the sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB46.65 million, which represented approximately 18.79% of the total domestic sales. Compared with the operation status of fellow manufacturers in the local region, the Company is at a normal status. Provided that the external environment will not continue to worsen, under realistic estimation, the Company should be able to maintain its production and operation normally.

PRODUCTION FACILITIES

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

PRODUCT RESEARCH AND DEVELOPMENT

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

SALES AND MARKETING

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

(i) the debt restructuring of the Company' s liabilities, details of which are set out in Note 39 to the financial statements;

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

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

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

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

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

Fund Raising Activities

On 19 September 2007, a placing agreement (the "Placing Agreement") was entered into between the Company and OSK Asia Securities Limited (the "Placing Agent"), pursuant to which, the Company agreed to appoint the Placing Agent and the Placing Agent agreed to act as placing agent for the purpose of procuring, as agent for the Company, subscribers for up to 880,000,000 new H shares of the Company at a price of HK$ 0.55 per share, on a best effort basis by 31 March 2008 (the "Placing"). As amended and supplemented by a supplemental agreement on 28 March 2008 (the "Supplemental Agreement") entered into between the Company and the Placing Agent, the Company and the Placing Agent agreed to extend the Long Stop Day, being the last day on which conditions precedent for the Placing Agreement are fulfilled, to 31 July 2008.

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

MATERIAL ACQUISITIONS/ DISPOSALS

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

SEGMENTAL INFORMATION

Segmental information of the Company are set out in Note 11 to the financial statements.

CHARGES ON COMPANY ASSETS

The details of pledge of assets of the Company are set out in Note 36 to the financial statements.

EMPLOYEE AND EMOLUMENT POLICIES

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

FOREIGN EXCHANGE EXPOSURE

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

EXECUTIVE DIRECTORS

Mr. Ru Guan Jun (茹關筠先生), aged 63, is currently the Chairman and executive Director of the Company and is responsible for the strategic planning of the Company. He was a vice director and a director of 供銷社 (Supply and Market Co-operative Societies*) in Fucheng, Taoyan and Gaobu, Shaoxing County from October 1968 to November 1984; a vice director of 供銷社 (Supply and Market Co-operative Societies*) in Shaoxing County from December 1984 to January 1986; a deputy director and director of Finance and Tax Bureau in Shaoxing County from February 1986 to May 1990; a deputy magistrate and a magistrate of Municipal People's Government in Shaoxing County from June 1990 to January 1998; a Deputy Mayor of Shaoxing Municipal People's Government and serving as a member of Standing Committee of Shaoxing Municipal Committee from February 1998 to July 2003; a chairman of 中國輕紡城集團股份有限公司 (China Qing Fang City Group Limited*) from August 2003 to March 2007. He has worked as a deputy general manager of Zhejiang Yongli since January 2008. Mr. Ru graduated from Zhejiang University of Finance and Economics. He has over 40 years of experience in corporate management in the PRC. He joined the Company in December 2010 and has been appointed as an executive Director of the Company by an extraordinary general meeting ("EGM") held on 11 March 2011 and elected as a Chairman of the Board on the same day.

Mr. Xia Xian Fu (夏先夫先生), aged 55, is currently an executive Director and Chief Executive Officer (General Manager) of the Company. He is responsible for the overall management, sales and production of the Company. Prior to joining the Company, he was a factory director of 楊汛橋鎮新五紡織廠 (Yangxunqiao Xinwu Textiles Factory*) from March 1983 to February 1987; a workshop director and a planning department head of 紹興天橋紡織廠 (Shaoxing County Tianqiao Textiles Factory*) from February 1989 to December 1991; a factory director of 紹興縣整理廠 (Shaoxing County Zhengli Factory*) from January 1992 to January 1993; a factory director of 浙江永利集團滌綸廠 ((Zhejiang Yongli Group Polyester Factory*) from February 1993 to January 1998; a vice party secretary and a factory director of Zhejiang Yongli as well as a general manager of 浙江永利熱電有限公司 (Zhejiang Yongli Thermoelectricity Limited*) from February 1998 to February 2010 and a general manager of the audit department of Zhejiang Yongli from March 2010 to December 2010. Mr. Xia graduated in December 1998 from Zhejiang University of Technology and major in Economics Management. He has over 28 years of experience in corporate management in the textile industry in the PRC. He joined the Company in December 2010 and was recommended by the Board as a Chief Executive Officer (General Manager) of the Company on 29 December 2010. He has been appointed as an executive director of the Company by the EGM held on 11 March 2011.

Mr. Sun Jian Feng (孫建鋒先生), aged 40, 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 20 years of experience in finance and accounting. He joined the Company in April 2002.

Mr. Xia Xue Nian (夏雪年先生), aged 46, 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 25 years of experience in the corporate management. He joined the Company in April 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lu Guo Qing (陸國慶先生), aged 46, is an independent non-executive Director of the Company Mr. Lu 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 Guoda Law Firm*). He is currently an independent non-executive director of 浙江展望股份有限公司 (Zhejiang Prospect Company Limited*) (Stock code: 8273), whose shares are listed on the GEM of the Stock Exchange. He was re-appointed as an independent non-executive Director of the Company in May 2008.

Mr. Zhu Yu Lin (竺玉林先生), aged 51, is an independent non-executive Director of the Company. Mr. Zhu graduated from Zhejiang University of Finance & Economics (浙江財經學院) in 1982 and holds a degree in commerce. He is a PRC Certified Public Accountant (中國註冊會計師), a PRC Certified Assets Appraiser (中國註冊資產評估師) and a PRC Certified Tax Appraiser (中國註冊税務師). During the period from July 1982 to August 1999, he worked as administrative accountant in Zhejiang University of Finance & Economics (浙江財務學院). He has been practicing in 浙江之江會計師事務所 (Zhejiang Zhijiang Certified Public Accountants*) which was formerly named as 浙江周財會計師事務所 (Zhejiang Zhoucai Certified Public Accountants*), a certified public accounting firm in Zhejiang Province, the PRC since August 1999 and he is also a director of 浙江之江會計師事務所 (Zhejiang Zhijiang Certified Public Accountants*). He was re-appointed as an independent nonexecutive Director of the Company in September 2004.

Mr. Zong Pei Min (宗佩民先生), aged 47, 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.*). Mr. Zong was re-appointed as an independent nonexecutive Director of the Company in May 2008.

INDEPENDENT SUPERVISORS

Mr. Hu Jin Huan (胡金煥先生), aged 46, is an independent Supervisor of the Company. He is responsible for performing the supervisory function in relation to the Board of Directors, manager and other officers of the Company 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 紹興興業會計師事務所 (Shaoxing Xingye Certified Public Accountants*). He was re-appointed as an independent Supervisor of the Company in May 2008.

Mr. Wang He Rong (王和榮先生), aged 49, is an independent Supervisor of the Company. He is responsible for performing the supervisory function in relation to the Board of Directors, manager and other officers of the Company 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 紹興宏泰會計師事務所 (Shaoxing Hongtai Certified Public Accountants*). He was re-appointed as an independent Supervisor of the Company in May 2008.

SUPERVISORS

Ms. Wang Ai Yu (王愛玉女士) (Please refer to the following section of senior management for profile)

Mr. Liu Guang Wei (劉光偉先生) (Please refer to the following section of senior management for profile)

Mr. Hu Hua Jun (胡華軍先生) aged 25, is currently an assistant to the Chairman of the Company and is responsible for all secretarial work of the Chairman. Prior to joining the Company, Mr. Hu worked in finance department of Zhejiang Yongli from July 2008 to May 2010 and then in the general manager's office of Zhejiang Yongli from May 2010 to December 2010. He received a bachelor degree in Accounting at Economics and Management Faculty, The University of South China, Hunan. He joined the Company in December 2010 and also has been appointed as a Supervisor of the Company by the EGM held on 11 March 2011.

SENIOR MANAGEMENT

Ms. Chen Yen Yung (陳燕雲女士), aged 39, is a 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 18 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.

Ms. Wang Ai Yu (王愛玉女士), aged 47, is currently a manager of the finance and accounting department of the Company and is responsible for the management of daily operation of the finance department of the Company. She graduated from Chong Qing University. Ms. Wang was a teacher of 楊汛橋中心小學 (Yangxuqiao Zhongxin Primary School*) in Shaoxing County from February 1979 to January 1980 and working in the accounting department of 紹興縣蜜餞廠 (Shaoxing County Mijian Factory*) from February 1980 to February 1987. She has acted as a finance manager of Zhejiang Yongli since February 1987. Ms. Wang has an extensive experience in finance and is well versed of the national taxation law, the accounting rules and the relevant finance, taxation, audit rules and policies. She is good at analysis and has accumulated substantial experience in data analysis, capital operation from different finance projects. She has established a set of comprehensive rules and regulations for internal control for Zhejiang Yongli in order to reduce the investment risk of the enterprises. She also has standardised the audit method for the corporate finance of and enhanced the quality of financial information, thereby enhancing the supervision in finance services within Zhejiang Yongli. Ms. Wang has over 31 years of experience in finance and accounting. She joined the Company in December 2010 and also has been appointed as a Supervisor of the Company by the EGM held on 11 March 2011.

Mr. Liu Guang Wei (劉光偉先生), aged 47, currently works as an officer of the Company's general manager's office and is responsible for the management of the daily operation of administrative department. He received a bachelor degree in Economics from Zhongnan University of Economics and Law in 1989, a bachelor degree in Business Administration from Party School of The Zhejiang Committee of the CCP Zhejiang School of Administration in 2003. Mr. Liu also studied post graduated course in Business Administration in Zhejiang Gongshang University between July 2004 to June 2006. He was recognised as an economist by the National Human Resources Department in April 1994, as a senior economist by Shaoxing County Human Resources Office in December 2005, as a management consultant by China Enterprise Confederation and Zhejiang Province Human Resources Office in November 2007 and as a senior human resources manager by Shaoxing County Human Resources Office in July 2008.

Mr. Liu has an extensive working experience in personnel management. Prior to joining the Company, he was a technician of Huanggang City Silk Factory in Hubei Province in September 1981; a general manager of 黃崗亞泰化工有限公司 (Huanggang Ya Tai Chemical Limited*) in Hubei Province in January 1993, a chairman of 天浠製絲有限公司 (Tianxi Silk Production Limited*) in Huanggang, Xishui County of Hubei Province in June 1995; an officer to the general manager's office of 浙江慶盛紡織集團 (Zhejiang Qing Cheng Textiles Group*) in July 1997; a secretary to the board of directors of 浙江綠州農業股份有限公司 (Zhejiang Oasis Agricultural Company Limited*) in June 2001; a manager of corporate management department in 浙江加佰利控股集團有限公司 (Zhejiang Gabriel Holdings Group Company Ltd.*) in February 2002; an assistant to the general manager, an officer of listing office and a supervisor of personnel management department of 紹興縣稽山集團 (Shaoxing Jishan Group*) in January 2003. Mr. Liu joined the Company in February 2006 and has been elected as a Supervisor of the Company by the work union of the Company on 11 March 2011.

Mr. Chen Jian Jiang (陳建江先生), aged 38, is currently a manager of the production, research and development department of the Company and is responsible for the management of daily operation of the production, research and development department of the Company. Prior to joining the Company, he was a factory director of the production department of 中發紡織有限公司 (Zhongfa Textiles Company Limited*) from February 1996 to January 2000 and a deputy general manager of the production department of 紹興縣偉創紡織有限公司 (Shoxing County Weichuang Textile Company Limited*) from January 2000 to February 2002. He has over 18 years of experience in textile production management in the PRC. He joined the Company in March 2002.

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2008.

PRINCIPAL ACTIVITY

The Company is principally engaged in (i) the manufacture and sale of woven fabrics, and (ii) provision of subcontracting services.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2008 are set out in the statement of comprehensive income on page 32 of this annual report.

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

PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2008, the Company spent approximately RMB17.62 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 ended 31 December 2008 in the property, plant and equipment of the Company are set out in Note 21 to the financial statements.

INVESTMENT PROPERTIES

Details of movements of the investment properties of the Company during the year ended 31 December 2008 are set out in Note 22 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 34 to the financial statements.

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the year ended 31 December 2008 and up to the date of this report were:

Executive Directors:
Mr. Ru Guan Jun (appointed on 11 March 2011) *(Chairman)*
Mr. Xia Xian Fu (appointed on 11 March 2011) *(Chief Executive Officer)*
Mr. Sun Jian Feng
Mr. Xia Xue Nian
Mr. Li Cheng Jun (retired on 17 May 2009)
Mr. Sun Li Yong (resigned on 27 July 2009)
Ms. Fang Xiao Jian (resigned on 27 July 2009)
Mr. Marco Borio (resigned on 23 February 2010)

Independent Non-Executive Directors:
Mr. Zhu Yu Lin
Mr. Zong Pei Min
Mr. Lu Guo Qing

Supervisors:
Mr. Hu Hua Jun (appointed on 11 March 2011)
Ms. Wang Ai Yu (appointed on 11 March 2011)
Mr. Liu Guang Wei (appointed on 11 March 2011)
Mr. He Dong Hui (retired on 17 May 2009)
Mr. Shao Bao Hua (resigned on 21 December 2010)
Mr. Fan Zhi Gang (resigned on 21 December 2010)

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 a 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 acting for the shareholders are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment. None of the Directors who are proposed for re-election at the forthcoming annual general meeting to be held on 4 January 2012 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.

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SECURITIES

At 31 December 2008, the interests and short positions of the directors, chief executives and supervisors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange 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 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions

Name of directors	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%

Notes:

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

3. With reference to the announcement of the Company dated 31 August 2009, all the domestic shares of 564,480,000 held by Mr. Sun Li Yong and Ms. Fang Xiao Jian which represent 53.08% of the total issued shares of the Company had been impound by the relevant court in the PRC in accordance with a judgment made and had been effective since 10 August 2009.

4. With reference to the announcement of the Company dated 29 December 2010, the Company received a copy of the Judgement, which indicated among other things that the Court appointed an auction house for auction of 310,000,000 domestic shares held by Mr. Sun Li Yong (representing approximately 29.15% of the total issued shares of the Company) on 10 December 2010, and Zhejiang Yongli won the bid at the highest price of RMB29,760,000.00 (representing RMB0.096 per share). It was ordered that the 310,000,000 domestic shares held by Mr. Sun Li Yong would belong to Zhejiang Yongli, and this would come into effect immediately after service of the judgment. On 25 December 2010, the Company received confirmation from 中國證券登記結算有限責任公司 (China Securities Depository and Clearing Corporation Ltd.*) that the 310,000,000 domestic shares held by Mr. Sun Li Yong were transferred to Zhejiang Yongli with effect from 24 December 2010.

Save as disclosed above, as at 31 December 2008, none of the directors, chief executives or supervisors of the Company 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 5.68 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 ended 31 December 2008 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 38 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 ended 31 December 2008.

CONNECTED TRANSACTIONS

Save as disclosed in Note 38 to the financial statements, there were no other transactions which need to be disclosed as connected transactions or continuing 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 Note 38 to the financial statements and in their opinion, these transactions entered into by the Company were:

(i) in the ordinary and usual 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) carried out 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.

Details of the continuing connected transactions had been published in the Company's announcement dated 16 January 2008 and the Company's circular dated 30 January 2008.

The auditors of the Company have reviewed the aforesaid continuing connected transactions of the Company and confirmed that the continuing connected transactions:

1 have received the approval of the Directors;

2 are in accordance with the pricing policies of the Company;

3 have been entered into in accordance with the relevant agreements governing the transactions; and

4 the aggregate amounts of the continuing connected transactions for the year ended 31 December 2008 did not exceed the annual cap amounts as disclosed in the relevant announcements and circular disclosing the relevant transactions.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, so far it is known to the Directors or chief executive or supervisors of the Company, the interests and short positions of person in the shares or underlying shares of the Company, other than the interest of the Directors or supervisors, which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or who is interested directly or indirectly in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company were as follows:

Long positions

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	209,170,000 (Note)	43.99%	19.67%

Note:

With reference to the announcement of the Company dated 24 February 2010, on 23 February 2010, both Miroglio S.p.A.("Miroglio") and Wing Hing (HK) Holdings Investment Limited("Wing Hing") notified the Company that a total number of 208,540,000 H Shares representing approximately 19.60% of the existing issued share capital of the Company as held by Miroglio had been disposed to Wing Hing over-the-counter in the consideration of HK$13,200,000 representing approximately HK$0.0633 per share with effect from 23 February 2010.

So far as the Directors are aware, Wing Hing and its ultimate beneficial owners are independent third parties not connected with the Company, its directors, supervisors, chief executive, substantial shareholders and management shareholders of the Company and any of its subsidiaries and their respective associates.

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

COMPETING INTERESTS

None of the Directors or the management shareholders (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 ended 31 December 2008, the five largest suppliers and customers of the Company accounted for approximately 27.32% and 24.00% of the Company's purchases and turnover respectively. The largest supplier accounted for approximately 6.17% of the purchases of the Company.

Except for Miroglio (Jiaxing) Trading Co., Ltd ("Miroglio Jiaxing") (米羅利奧(嘉興)貿易有限公司) the subsidiary of a substantial shareholder of the Company, Miroglio S.p.A., was one of the five largest customers of the Company during the year, at no time during the year ended 31 December 2008 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 Jiaxing 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 31 December 2008.

AUDIT COMMITTEE

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

The first quarterly results for the three months ended 31 March 2008, the interim results for the six months ended 30 June 2008, the third quarterly results for the nine months ended 30 September 2008 and the annual results of the Company for the year ended 31 December 2008 have been reviewed by the Audit Committee.

EMOLUMENT POLICY

The Company has established a remuneration committee (the "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 former Chairman and executive Director of the Company, who resigned on 27 July 2009.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The financial statements of the Company for the years ended 31 December 2006 to 2008 were audited by SHINEWING (HK) CPA Limited ("SHINEWING").

A resolution will be submitted to the forthcoming annual general meeting of the Company to be held on 4 January 2012 to re-appoint SHINEWING as international auditor of the Company.

The domestic auditor of the Company, Shulun Pan Certified Public Accountants Co., Ltd. has resigned on 28 February 2009 and 浙江中興會計師事務所有限公司(Zhejiang Zhongxing CPA Company Limited*) ("Zhejiang Zhongxing"), was appointed by the Board on 28 February 2009 as domestic auditor of the Company. A resolution will be submitted to the forthcoming annual general meeting to be held on 4 January 2012 to ratify the appointment of Zhejiang Zhongxing and it is eligible for re-election as domestic auditor of the Company thereon.

On behalf of the Board of
Zhejiang Yonglong Enterprises Co., Ltd.*
Ru Guan Jun
CHAIRMAN

Zhejiang, the PRC, 3 November 2011

To: All Shareholders

Except for the existing external supervisors, all the internal supervisors have been recommended and appointed as a member of Supervisory Committee of Zhejiang Yonglong Enterprises Co., Ltd., (the "Company") since 11 March 2011. The Supervisory Committee has complied 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") and has 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.

Due to the misconducts of certain former Directors during the year ended 31 December 2008, the Company appointed an independent auditor on 1 September 2009 to carry out an investigation for the internal control of the Company and has been completed on 30 October 2009. In order to ensure the Company has adequate internal control procedures, the Company has appointed another independent auditor on 17 January 2011 to review the internal control system of the Company and the relevant report is expected to be completed by the year ended 2011.

In view of the misconducts of certain former Directors during the year ended 31 December 2008, the Supervisory Committee followed strictly the relevant regulations and carried out its duties hontestly, including strengthening internal management and control of the Company, enforcing strict execution of various approval procedures, hiring professional consultation bodies, if necessary, standardising different aspect of management, conducting strict and effective monitoring of various significant decision making processes and concrete decisions as to whether or not they comply with state laws and regulations and the Company's articles of association, whether or not shareholders' interests are protected etc, preventing abuse of authority by our senior management.

After review, we consider that the financial statements of the Company for the year ended 31 December 2008, audited by the auditor, SHINEWING, truly and sufficiently reflects the operating results and asset positions of the Company. The Committee also reviewed the Directors' Report and considers that the report meets the requirements of the relevant regulations and Articles of Association.

Save as disclosed in the Corporate Governance Report in relation to the breach of certain GEM listing rules and code provisions of the Code on Corporate Governance Practices due to the misconducts of certain former Directors, we consider that the members of the Board, the general manager and other officers have strictly complied with the principle of honesty and trustworthiness, working diligently and acting sincerely in the best interest of the Company. Except for the misconducts of certain former Directors, up to now, none of the directors, general manager and the officers have abused their powers, caused damage to 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.

By order of the Supervisory Committee of
Zhejiang Yonglong Enterprises Co., Ltd.*
Liu Guang Wei
Chairman of the Supervisory Committee

Zhejiang, the PRC, 3 November 2011

CORPORATE GOVERNANCE PRACTICES

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

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

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

3. Due to the misconduct of some of the former Directors as set out in Note 13 to the financial statements, the Company encountered financial crisis that led to delay in publishing results and dispatching reports for the year ended 31 December 2008. This constitutes the breach of Rules 18.03, 18.49, 18.66, 18.67 and 18.79 of the GEM Listing Rules and the Code Provision C.1. Accordingly, the members of Audit Committee has not liaised with the Board and senior management and the Audit Committee have not met the auditor of the Company during the year ended 31 December 2008 to monitor the integrity of financial statements of the Company's annual reports and accounts, which does not comply with the Code Provision C.3.3.

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

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

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

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

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 except for Mr. Sun Li Yong and Ms. Fang Xiao Jian, who left the PRC on 14 September 2008 and have not returned since then and the directors of the Company have had difficulties in contacting them, and supervisors, all directors, except for Mr. Sun Li Yong and Ms. Fang Xiao Jian and supervisors of the Company confirmed that they had complied with the required standard and the code of conduct regarding securities transactions by directors and supervisors adopted by the Company.

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

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 four executive Directors and 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, Moreover, one of the independent non-executive Director, Mr. Zhu Yu Lin has appropriate professional qualifications, accounting or related financial management expertise so that he has sufficient caliber and views to carry weight.

Save as Mr. Sun Li Yong is the spouse of Ms. Fang Xiao Jian, both of them have resigned on 29 July 2009, none of the Directors has any other financial, business, family or other material or relevant relationships among members of the Board. 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 Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

During the year ended 31 December 2008, only three regular meetings were held to approve the financial results for the year ended 31 December 2007, the three months ended 31 March 2008 and the six months ended 30 June 2008. 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 five Board meetings held in the financial year ended 31 December 2008. Individual attendance of each Board member at these meetings is as follows:

Name of Directors	Attended/eligible to attend
Executive Directors	
Mr. Sun Jian Feng	5/5
Mr. Xia Xue Nian	5/5
Mr. Li Cheng Jun *(retired on 17 May 2009)*	5/5
Mr. Sun Li Yong *(Chairman & Chief Executive Officer)* *(resigned on 27 July 2009)*	5/5
Ms. Fang Xiao Jian *(resigned on 27 July 2009)*	5/5
Mr. Marco Borio *(resigned on 23 February 2010)*	2/5
Independent Non-executive Directors	
Mr. Lu Guo Qing	5/5
Mr. Zhu Yu Lin	5/5
Mr. Zong Pei Min	5/5

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

During the year ended 31 December 2008, the Audit Committee has reviewed the quarterly results for the three months ended 31 March 2008, six months ended 30 June 2008 of the Company. It also has reviewed the audited financial statements for the year ended 31 December 2007 with management and the Company's external auditors and recommended its adoption by the Board. The Audit Committee had held three meetings during the financial year. Individual attendance of each committee member at these meetings is as follows:

Name of Directors	**Attended/eligible to attend**
Independent Non-executive Directors	
Mr. Lu Guo Qing	3/3
Mr. Zhu Yu Lin	3/3
Mr. Zong Pei Min	3/3

The authorities of the Audit Committee include (1) investigation of any activity within its terms of reference; (2) seeking any information from any employee when required; 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 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 effect to the Company.

The remuneration in respect of services provided by the external international auditor and external domestic auditor for the years ended 31 December 2008 and 2007 is analysed as follows:

	For the year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Audit services	**676**	655
Performed agreed-upon procedures regarding information on preliminary annual result announcement of the Company	**44**	47
Performed agreed-upon procedures regarding financial information on connected transactions between the Company and Miroglio and its subsidiaries	**44**	47
	764	749

The audit services fee for the year ended 31 December 2007 represent services provided by the external international auditor, SHINEWING. The audit services fee for the year ended 31 December 2008 represent services provided by SHINEWING and the domestic auditor, Zhejiang Zhongxing. The other services fee for the years ended 31 December 2007 and 2008 represent the 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 of the Company (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. During the year ended 31 December 2008, the remuneration committee comprises three independent non-executive Directors namely Mr. Zong Pei Min, Mr. Lu Guo Qing and Mr. Zhu Yu Lin and Mr. Sun Li Yong, the former Chairman and executive Director of the Compan who resigned on 27 July 2009. Mr. Lu Guo Qing was elected as chairman of the Remuneration Committee and Mr. Ru Guan Jun has been appointed as a member of Remuneration Comittee on 11 March 2011. It is scheduled to meet at least once a year and the quorum necessary for the transaction of business is two.

Individual attendance of each committee member at the meeting is as follow:

Name of Directors	**Attended/eligible to attend**
Independent Non-executive Directors	
Mr. Lu Guo Qing	1/1
Mr. Zhu Yu Lin	1/1
Mr. Zong Pei Min	1/1

During the year ended 31 December 2008, the Remuneration Committee 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 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 mainly responsible for identify suitable candidates for members of the Board when there is a vacancy or an additional Director is considered necessary. He would propose the appointment of such candidates to each member of the Board for consideration and each member of the Board would 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 by the members of the Board and make recommendation to the shareholders' meeting for approval.

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. However, the service contract of Mr. Zhu Yu Lin has been expired on 12 June 2010 and all of the service contracts of Mr. Sun Jian Feng, Mr. Xia Xue Nian, Mr. Lu Guo Qing and Mr. Zong Pei Min have been expired on 18 May 2011, and all of the above Directors are eligible for election at the forthcoming annual general meeting to be held on 4 January 2012 and ratify their service contracts thereon.

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 auditor's responsibilities are set out in the Independent Auditor's Report on pages 29 to 31 of this annual report.

DIRECTORS AND SENIOR MANAGEMENT – REMUNERATION

Details of the remuneration of the Directors and senior management are contained in Note 20 to the financial statements.

INTERNAL CONTROL

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

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

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 Company replying to the enquiries from shareholders timely; (ii) updated and key information of the Company available on website of the Company; (iii) the Company's website offering communication channel between the Company and its shareholders and investors; and (iv) the Company's H Share share registrar in Hong Kong serves the shareholders regarding all H Shares share registration matters.

Due to the misconduct of certain former Directors as set out in Note 13 to the financial statements, the Company encountered financial crisis that led to delay in publishing results and dispatching reports for the year ended 31 December 2008. The Board has arranged the results and the reports as earliest as possible for disclosing Company's information to the shareholders of the Company.

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 Code Provisions.

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF ZHEJIANG YONGLONG ENTERPRISES CO., LTD.
(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 32 to 97 which comprise the statement of financial position as at 31 December 2008, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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.

Except for the limitation in the scope of work as explained below, 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 about 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 entity's preparation of the financial statements that give a true and fair view 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 entity'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.

BASIS FOR QUALIFIED OPINION

LIMITATION OF SCOPE

1. FINANCIAL GUARANTEE LIABILITIES

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

2. OTHER RECEIVABLES

As disclosed in Note 25 to the financial statements, the carrying amounts of other receivables amounting to approximately RMB7,949,000 as at 31 December 2008, after netting off provision for impairment loss of approximately RMB80,242,000. We were unable to obtain direct confirmations from a receivable balance of approximately RMB18,500,000 due to the debtor being struck off. The amount was written off during the year. There were no other alternative audit procedures that we could adopt to satisfy ourselves on the existence, accuracy and completeness of the balance stated in the statement of financial position as at 31 December 2008, or the appropriateness of the amount written off in respect thereof.

3. CONSIGNMENT STOCKS

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

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

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

QUALIFIED OPINION ARISING FROM LIMITATION OF SCOPE

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

EMPHASIS OF MATTER

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

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chong Kwok Shing
Practising Certificate Number: P05139

Hong Kong
3 November 2011

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
Turnover	10	**324,992**	393,077
Cost of sales		**(428,012)**	(354,041)
Gross (loss) profit		**(103,020)**	39,036
Other operating income	10	**5,047**	7,498
Selling and distribution costs		**(8,490)**	(6,315)
Administrative expenses		**(30,433)**	(20,462)
Impairment loss recognised in respect of various assets	12	**(22,262)**	(341)
Loss on misconducts of directors	13	**(342,471)**	-
Finance costs	15	**(27,464)**	(18,581)
(Loss) profit before taxation		**(529,093)**	835
Income tax credit	16	**11,303**	4,326
(Loss) profit for the year	17	**(517,790)**	5,161
Other comprehensive income for the year			
Gain on revaluation of properties		**1,804**	-
Income tax relating to revaluation of properties		**(451)**	-
Other comprehensive income for the year, net of tax		**1,353**	-
Total comprehensive (expenses) income for the year		**(516,437)**	5,161
(Loss) earnings per share			
Basic and diluted	18	**RMB(48.69) cents**	RMB0.48 cents

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	21	**217,242**	229,890
Investment properties	22	**9,046**	12,045
Prepaid lease payments	23	**11,295**	11,568
		237,583	253,503
Current assets			
Inventories	24	**59,868**	168,362
Trade and other receivables	25	**70,203**	137,425
Prepaid lease payments	23	**273**	273
Amounts due from related companies	26	**1,210**	20
Fixed bank deposits	27	**-**	60,565
Bank balances and cash	28		
-pledged		**42,552**	65,192
-unpledged		**6,212**	10,182
		180,318	442,019
Current liabilities			
Trade and other payables	29	**213,048**	116,942
Amount due to a guarantor	30	**27,603**	-
Provision	31	**27,883**	-
Income tax payable		**-**	6,040
Bank borrowings	32	**393,650**	254,950
		662,184	377,932
Net current (liabilities) assets		**(481,866)**	64,087
		(244,283)	317,590
Non-current liabilities			
Bank borrowings	32	**-**	40,000
Deferred taxation	33	**-**	5,436
		-	45,436
		(244,283)	272,154

	Notes	2008 RMB'000	2007 RMB'000
Capital and reserves			
Share capital	34	**106,350**	106,350
Reserves		**(350,633)**	165,804
		(244,283)	272,154

The financial statements on pages 32 to 97 were approved and authorised for issue by the board of directors on 3 November 2011 and are signed on its behalf by:

Ru Guan Jun	Sun Jian Feng
Director	Director

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

Notes:

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

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

(c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 31 December 2008, no reserves were available for distribution due to accumulated losses being noted (2007: retained profits of approximately RMB59,832,000).

	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(529,093)**	835
Adjustments for:		
Allowance for inventories	**28,620**	385
Amortisation of prepaid lease payments	**273**	273
Bad debts written off	**6,830**	-
Depreciation of property, plant and equipment	**28,494**	25,517
Depreciation of investment properties	**831**	831
Finance costs	**27,464**	18,581
Impairment loss recognised in respect of trade receivables	**16,385**	170
Impairment loss recognised in respect of other receivables	**220**	171
Interest income	**(2,301)**	(4,062)
Impairment loss recognised in respect of property, plant and equipment	**3,489**	-
Impairment loss recognised in respect of investment properties	**2,168**	-
Loss on disposal of property, plant and equipment	**32**	41
Loss on misconducts of directors	**342,471**	-
Reversal of impairment loss recognised in respect of trade receivables	**(58)**	-
Operating cash flows before movements in working capital	**(74,175)**	42,742
Decrease (increase) in inventories	**79,874**	(62,076)
Decrease (increase) in trade and other receivables	**46,299**	(6,360)
Increase in trade and other payables	**95,469**	33,375
Cash from operations	**147,467**	7,681
Income tax paid	**(624)**	-
NET CASH FROM OPERATING ACTIVITIES	**146,843**	7,681
INVESTING ACTIVITIES		
Advance to related companies	**(227,085)**	(284)
Advance to other receivables	**(100,805)**	-
Purchase of property, plant and equipment	**(17,051)**	(10,577)
Decrease in fixed bank deposits	**60,565**	41,567
Decrease (increase) in pledged bank deposits	**22,640**	(23,575)
Repayment from related companies	**9,658**	-
Interest received	**2,301**	4,062
Proceeds from sales of property, plant and equipment	**60**	60
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(249,717)**	11,253

	2008 RMB'000	2007 RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**518,320**	545,356
Advance from a guarantor	**27,500**	-
Repayment of bank borrowings	**(419,620)**	(579,896)
Interest paid	**(27,296)**	(21,726)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**98,904**	(56,266)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(3,970)**	(37,332)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**10,182**	47,514
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**6,212**	10,182

1. GENERAL

Zhejiang Yonglong Enterprises Co., Ltd. (the "Company") is a joint stock limited company established in the PRC and the H shares of the Company are listed on the GEM of the Stock Exchange.

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

The Company is principally engaged in (i) the manufacture and sale of woven fabrics, and (ii) provision of subcontracting services.

2. BASIS OF PREPARATION

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

(i) debt restructuring of the Company's liabilities, details of which are set out in Note 39;

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

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

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

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

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

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

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

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

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

HKFRS 8 "Operating Segments"

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Company's reportable segments (See Note 11) and changes in the basis of measurement of the Company's segment profit or loss, segment assets and segment liabilities.

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

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

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[8]
HKFRS 10	Consolidated Financial Statements[8]
HKFRS 11	Joint Arrangements[8]
HKFRS 12	Disclosure of Interests in Other Entities[8]
HKFRS 13	Fair Value Measurement[8]
HKAS 1 (Revised)	Presentation of Financial Statements[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 19 (as revised in 2011)	Employee Benefits[8]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[8]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[8]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

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

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

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

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

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

The directors of the Company anticipate that the application of other new and revised HKFRSs, amendments or interpretations will have no material impact on the results and the financial position of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The financial statements have been prepared on the historical cost basis, except for certain buildings and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

(a) Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses, if any.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, 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 value at the end of the reporting period.

Any revaluation increase arising on revaluation of buildings is recognised in other comprehensive income and accumulated in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss 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 / accumulated losses.

Depreciation is recognised so as to write off the cost or fair values of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress for production, supply or administrative purposes is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Property, plant and equipment *(Continued)*

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(b) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially 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 recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and 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 profit or loss in the period in which the item is derecognised.

(c) Prepaid lease payments

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the statement of comprehensive income over the period of the rights using the straight-line method.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(e) Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

Financial assets

The Company's financial assets are classified as 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, fixed bank deposits and pledged and unpledged bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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 instruments

Financial liabilities and equity instruments issued by the 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 classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a guarantor and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of : (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation in accordance with HKAS 18 Revenue.

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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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.

(f) Cash and cash equivalents

Bank balances and cash in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

(g) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

(h) Impairment losses

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Revenue recognition

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

i) Sales of goods

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title has passed.

ii) Subcontracting fee income

Income from subcontracting work is recognised when services are rendered.

iii) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. 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 on initial recognition.

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets until such time as the assets are substantially ready for their intended use or sale.

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

(k) 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 statement of comprehensive income 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 for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Taxation *(Continued)*

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

(l) Foreign currencies

In preparing the financial statements of the entity, transactions in currencies other than the functional currency of the entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 retranslation 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.

(m) Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Research and development expenditure

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

(o) 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 assets are classified as operating leases.

The Company as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When a lease includes both land and building elements, the Company assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Company. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Government grants

Government grants are not recognised until there is reasonable assurance that the Comapny will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss over the useful live of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgment in applying the entity's accounting policies

The following is the critical judgment, apart from those involving estimations, that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Going concern basis

Although the Company had net current liabilities and a capital deficiency at the end of the reporting period, the Company manages its liquidity risk by monitoring its current and expected liquidity requirements regularly and ensuring sufficient liquid cash to meet the Company's liquidity requirements in the short and long term. Details of liquidity risk are disclosed in Note 8.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment and investment properties

Property, plant and equipment and investment properties are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Company assesses annually the residual value and the useful life of the property, plant and equipment and investment properties and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Impairment loss recognised in respect of property, plant and equipment and investment properties

The impairment loss for property, plant and equipment and investment properties are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Company's accounting policy. The recoverable amounts of property, plant and equipment and investment properties have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue with a stable growth rate and a suitable discount rate.

At 31 December 2008, the carrying amount of property, plant and equipment was approximately RMB217,242,000 (2007: RMB229,890,000), net of impairment loss of approximately RMB3,489,000 (2007: Nil).

At 31 December 2008, the carrying amount of investment properties was approximately RMB9,046,000 (2007: RMB12,045,000), net of impairment loss of approximately RMB2,168,000 (2007: Nil).

Impairment loss recognised in respect of trade receivables

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Company's expectations and the Company will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. At 31 December 2008, the carrying amount of trade receivables was approximately RMB62,254,000 (2007: RMB128,336,000), net of impairment loss of approximately RMB16,497,000 (2007: RMB170,000).

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Impairment loss recognised in respect of other receivables and amounts due from related companies

The policy for provision of impairment loss of other receivables and amounts due from related companies is determined by the management based on the evaluation of collectability and aging analysis of accounts and management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each receivables.

At 31 December 2008, the carrying amount of other receivables was approximately RMB7,949,000 (2007: RMB9,089,000) (net of impairment loss of approximately RMB80,242,000 (2007: RMB171,000)).

At 31 December 2008, the carrying amount of amounts due from related companies was RMB1,210,000 (2007: RMB20,000) (net of impairment loss of approximately RMB216,237,000 (2007: Nil)) .

Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated selling prices. The cost of inventories is written down to the net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The amount written off to the statement of comprehensive income is the difference between the carrying value and net realisable value of inventories. In determining whether the cost of inventories can be recovered, significant judgment is required. In making this judgment, the Company evaluates, amongst other factors, the duration and extent and the means by which the amount will be recovered. These estimates are based on the current market conditions and past experience in sales of similar products. It could change significantly as a result of changes in customer preferences and competitor actions in response to changes in market condition. At 31 December 2008, the carrying amount of inventories is approximately RMB59,868,000 (net of allowance for inventories of approximately RMB28,620,000) (2007: RMB168,362,000 (net of allowance of approximately RMB385,000).

Valuation of buildings

The Company estimates the valuation of buildings with reference to the valuation conducted by an independent firm of professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Company's buildings and corresponding adjustments to the amount of gain or loss reported in the statement of changes in equity.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Provision

During the current and prior years, the Company had been involved in two litigations for claims in respect of two financial guarantees given by the Company (see Notes 13 and 31). The directors determine the provision and guarantees is based on their best estimates according to their understanding of the legal advice. Where the final outcome of the claim and negotiation with the respective creditors is different from the estimation made by the directors, such difference will impact the provision in the year in which such determination is finalised.

6. CAPITAL RISK MANAGEMENT

The management manages the Company's capital to ensure that the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt which includes bank borrowings as disclosed in Note 32, net of fixed bank deposits as disclosed in Note 27, bank balances and cash as disclosed in Note 28 and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses. The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the associated risks, and take appropriate actions to adjust the Company's capital structure. The Company's overall strategy remains unchanged from prior year.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008 **RMB'000**	2007 RMB'000
Loans and receivables (including bank balances and cash)	**116,256**	266,172
Financial liabilities at amortised cost	**617,603**	400,789

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include trade and other receivables, amounts due from related companies, fixed bank deposits, pledged and unpledged bank balances and cash, trade and other payables, amount due to a guarantor and bank borrowings are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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.

Currency risk

The Company has foreign currency sales which expose the Company to foreign currency risk. Approximately 23% (2007: 39%) of the Company' sales are denominated in currencies other than the functional currency of the Company.

The Company operates in the PRC with most of the transactions denominated and settled in RMB. The Company's foreign currencies are mainly United States Dollars ("US$"), Euro ("EUR") and Hong Kong Dollars ("HK$"). The Company has bank deposits denominated in HK$ and US$ while there are certain sales transactions denominated in US$ and EUR.

The Company has no monetary liabilities denominated in foreign currency. The carrying amounts of the Company's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	US$		**EUR**		**HK$**	
	2008	2007	**2008**	2007	**2008**	2007
	'000	'000	**'000**	'000	**'000**	'000
Assets	**1,079**	7,311	**1,745**	-	**103**	54,646

The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Company is mainly exposed to the currency of US$, EUR and HK$.

The following table details the Company's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A negative number below indicates an increase in post-tax loss (2007: decrease in post-tax profit) where RMB strengthen 5% against the relevant currencies. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss/profit, and the balances below would be positive. The analysis is performed on the same basis for the year ended 31 December 2007.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Currency risk *(Continued)*

	US$		EUR		HK$	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Impact on (loss) profit for the year *	**(276)**	(2,007)	**(576)**	-	**(3)**	(2,049)

* This is mainly attributable to the exposure on outstanding trade and other receivables, fixed bank deposits and bank balances denominated in US$, EUR and HK$.

Interest rate risk

The interest income is derived from the Company's current and fixed deposits that carry interest at the respective bank deposit rate of the banks located in the PRC and Hong Kong.

The Company is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 32 for details of these borrowings) and fixed-rate bank deposits (see Note 27 for details of these deposits) for the year ended 31 December 2008. The Company currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Company's cash flow interest rate risk relates primarily to variable-rate bank deposits (see Note 28 for details of these deposits) and variable-rate bank borrowings (see Note 32 for details of these borrowings). It is the Company's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Company's bank deposits are short-term in nature and the exposure of the interest rate risk is minimal and no sensitivity to interest rate risk is presented.

The Company's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note. The Company's cash flow interest rate risk is mainly concentrated on the fluctuation of the base lending rate published by the People's Bank of China.

Sensitivity analysis

As of 31 December 2008, it is estimated that a general 100 basis point increase or decrease in interest rates, with all other variables held constant, would increase or decrease the Company's loss for the year ended 31 December 2008 and accumulated losses by approximately RMB791,000 (2007: RMB148,000).

The above sensitivity analysis has been determined assuming that a change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents directors' assessment of a reasonably possible change in interest rates over the period until the next reporting period. The analysis was performed on the same basis for the year ended 31 December 2007.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

At 31 December 2008, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to the failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2008 is the carrying amount of trade and other receivables and amounts due from related companies as stated in the statement of financial position. 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 and other receivables and amounts due from related companies at the end of each reporting period 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 Company does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

The Company's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 64% (2007: 63%) of the total trade receivables as at 31 December 2008.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies and authorised banks in the PRC with high-credit ratings.

Liquidity risk

In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Company is exposed to liquidity risk as at 31 December 2008 as the Company had net current liabilities and a capital deficiency of approximately RMB481,866,000 and RMB244,283,000 respectively. The directors of the Company are of the opinion that the Company will have sufficient working capital to meet its financial obligations and the details of which are set out in Note 2.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	At 31 December 2008			
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**Total undiscounted cash flow**	**Carrying amounts**
	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities				
Trade and other payables	196,350	-	196,350	196,350
Amount due to a guarantor	27,603	-	27,603	27,603
Bank borrowings	420,526	-	420,526	393,650
	644,479	-	644,479	617,603

	At 31 December 2007			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total undiscounted cash flow	Carrying amounts
	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities				
Trade and other payables	105,839	-	105,839	105,839
Bank borrowings	264,352	41,178	305,530	294,950
	370,191	41,178	411,369	400,789

9. FAIR VALUE

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values due to their short-term maturities.

The directors of the Company also consider that the fair value of the long-term portion of liabilities approximates to their carrying amount as they are carried at amortised cost using the effective interest rate method.

10. TURNOVER AND OTHER OPERATING INCOME

Turnover represents the net amounts received and receivable for goods sold by the Company to outside customers, net of sales related taxes.

An analysis of the Company's turnover for the year is as follows:

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

Notes:

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

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

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

11. SEGMENT INFORMATION

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

In prior years, no business segment was presented as the Company only focuses on the woven fabric segment. During the year ended 31 December 2008, due to the misconducts of certain former directors of the Company as set out in Note 13, the Company encountered cash flow problems. In order to solve the cash flow problems and maintain a stable production capacity and operations, the Company accepted more customers to provide their raw materials to the Company for further processing so as to minimise the trade payables balance by providing such sub-contracting services. Accordingly, for management purposes, the Company is currently organised into two operating divisions – woven fabric and subcontracting services.

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

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

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

Woven fabric	-	Manufacture and sale of woven fabrics
Subcontracting services	-	Provision of subcontracting services

11. SEGMENT INFORMATION *(Continued)*

(a) Segment revenues and results

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

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

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 4. Segment results represents the results of each segment without allocation of interest income, government grants, gross rental income from investment properties, loss on misconducts of directors, impairment loss recognised in respect of other receivables, impairment loss recognised in respect of property, plant and equipment, impairment loss recognised in respect of investment properties, depreciation of investment properties, directors' remuneration, central administration costs and finance costs. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

11. SEGMENT INFORMATION *(Continued)*

(b) Segment assets and liabilities

The following is an analysis of the Company's assets and liabilities by reportable segment:

	At 31 December					
	Woven fabric		**Subcontracting services**		**Total**	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Segment assets	**348,702**	536,144	**5,303**	8,686	**354,005**	544,830
Unallocated corporate assets						
-Investment properties					**9,046**	12,045
-Other receivables					**2,454**	-
-Amounts due from related companies					**1,210**	20
-Fixed bank deposits					**-**	60,565
-Bank balances and cash						
- pledged					**42,552**	65,192
- unpledged					**6,212**	10,182
-Others					**2,422**	2,688
Total assets					**417,901**	695,522
Segment liabilities	**(195,648)**	(112,112)	**(3,592)**	(2,648)	**(199,240)**	(114,760)
Unallocated corporate liabilities						
-Other payables					**(13,061)**	(1,603)
-Accrued interests					**(747)**	(579)
-Income tax payable					**-**	(6,040)
-Provision					**(27,883)**	-
-Amount due to a guarantor					**(27,603)**	-
-Bank borrowings					**(393,650)**	(294,950)
-Deferred taxation					**-**	(5,436)
Total liabilities					**(662,184)**	(423,368)

11. SEGMENT INFORMATION *(Continued)*

(b) Segment assets and liabilities *(Continued)*

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than investment properties, other receivables, amounts due from related companies, fixed bank deposits and pledged and unpledged bank balances and cash ; and
- all liabilities are allocated to reportable segments other than other payables, accrued interests, income tax payable, provision, amount due to a gurarantor, bank borrowings and deferred taxation.

(c) Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

	Woven fabric		Subcontracting services		Total	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Other segment information:						
– Addition to non-current assets	**17,305**	13,405	**318**	317	**17,623**	13,722
– Allowance for inventories	**28,620**	385	**-**	-	**28,620**	385
– Amortisation of prepaid lease payment	**267**	267	**6**	6	**273**	273
– Depreciation of property, plant and equipment	**27,980**	24,928	**514**	589	**28,494**	25,517
– Loss on disposal of property, plant and equipment	**32**	41	**-**	-	**32**	41
– Impairment loss recognised in respect of trade receivables	**16,090**	166	**295**	4	**16,385**	170
– Reversal of impairment loss recognised in respect of trade receivables	**(58)**	-	**-**	-	**(58)**	-
– Research and development costs	**537**	479	**-**	-	**537**	479

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results:

Interest income	**2,260**	3,968	**41**	94	**2,301**	4,062
Finance costs	**(26,969)**	(18,152)	**(495)**	(429)	**(27,464)**	(18,581)

11. SEGMENT INFORMATION *(Continued)*

(d) Geographical information

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

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

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

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

(e) Information about major customers

During the years ended 31 December 2008 and 2007, no revenues from transactions with any single external customer amounted to 10% or more of the Company's revenue.

12. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF VARIOUS ASSETS

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

12. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF VARIOUS ASSETS *(Continued)*

Due to misconducts of certain former directors of the Company as set out in Note 13, the Company encountered cash flow problems which resulted in a decrease in sales order and operations as compared with previous years. The directors of the Company conducted a review of various assets of the Company and determined that a number of those assets were impaired:

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

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

iii) For the year ended 31 December 2008, an impairment loss of approximately RMB3,489,000 was recognised in respect of property, plant and equipment (2007: Nil). Details are set out in Note 21.

iv) For the year ended 31 December 2008, an impairment loss of approximately RMB2,168,000 was recognised in respect of investment properties (2007: Nil). Details are set out in Note 22.

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

13. LOSS ON MISCONDUCTS OF DIRECTORS

	2008 **RMB'000**	2007 RMB'000
Losses comprised:		
- impairment loss recognised in respect of amounts due from related companies (Note 26) (Note a)	**216,237**	-
- impairment loss recognised in respect of other receivables (Note 25) (Note a)	**79,851**	-
- direct written off of other receivable (Note a)	**18,500**	-
- provision (Note 31) (Note b)	**27,883**	-
	342,471	-

13. LOSS ON MISCONDUCTS OF DIRECTORS *(Continued)*

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

a) Misappropriation of the Company's funds

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

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

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

The Cash Advances were unsecured, non-interest bearing and repayable on demand.

13. LOSS ON MISCONDUCTS OF DIRECTORS *(Continued)*

a) Misappropriation of the Company's funds *(Continued)*

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

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

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

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

b) Guarantees provided by the Company to secure loans granted to a related company

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

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

13. LOSS ON MISCONDUCTS OF DIRECTORS *(Continued)*

b) Guarantees provided by the Company to secure loans granted to a related company *(Continued)*

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

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

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

At date of the issuance of these financial statements, the Yatai Loan has yet to be settled.

** English name is for identification only*

14. DIVIDEND

Neither dividend was paid or proposed during the year, nor has any dividend been proposed since the end of each of the reporting periods.

15. FINANCE COSTS

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

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

16. INCOME TAX CREDIT

	2008 RMB'000	2007 RMB'000
PRC Enterprise Income Tax		
Overprovision in previous years	**(5,416)**	(3,453)
Deferred taxation (Note 33)		
Current year	**(5,887)**	656
Effect of a change in tax rate	**-**	(1,529)
	(5,887)	(873)
	(11,303)	(4,326)

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

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

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

16. INCOME TAX CREDIT *(Continued)*

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

	2008 RMB'000	2007 RMB'000
(Loss) profit before taxation	**(529,093)**	835
Tax at the domestic rates at 25% (2007: 33%)	**(132,273)**	276
Effect of changes in tax rates on deferred tax	**-**	(1,529)
Tax effect of expense not deductible for tax purposes	**24,716**	380
Tax effect of tax losses not recognised	**16,746**	-
Tax effect of deductible temporary differences not recognised	**84,924**	-
Overprovision in previous years	**(5,416)**	(3,453)
Income tax credit	**(11,303)**	(4,326)

Details of the deferred taxation are set out in Note 33.

17. (LOSS) PROFIT FOR THE YEAR

	2008 RMB'000	2007 RMB'000
(Loss) profit for the year has been arrived at after charging:		
Staff cost (including directors' and supervisors' emoluments):		
Salaries, wages and other benefits in kind	**30,837**	22,557
Retirement benefit scheme contributions	**727**	527
	31,564	23,084
Amortisation of prepaid lease payments	**273**	273
Auditors' remuneration	**661**	655
Bad debts written off	**6,830**	-
Cost of inventories recognised as expenses	**367,200**	345,361
Deprecation of investment properties	**831**	831
Depreciation of property, plant and equipment	**28,494**	25,517
Loss on disposal of property, plant and equipment	**32**	41
Net exchange loss	**8,522**	7,996
Research and development cost	**537**	479

18. (LOSS) EARNINGS PER SHARE

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

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

19. STAFF COSTS (EXCLUDING DIRECTORS' AND SUPERVISORS' EMOLUMENTS)

	2008	2007
	RMB'000	RMB'000
Salaries, wages and other benefits in kind	**30,545**	22,205
Retirement benefit scheme contributions	**702**	517
	31,247	22,722

As stipulated by rules and regulations in the PRC, the Company is required to contribute to a state-sponsored retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Company has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. During the year ended 31 December 2008, a total contribution of approximately RMB727,000 (2007: RMB527,000) was made by the Company in respect of this scheme.

20. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and supervisors emoluments

The emoluments paid or payable to every directors and supervisors for the year ended 31 December 2008 were as follow:

	Fees	Salaries, allowances and other benefits in kind	Retirement benefits scheme contributions	Amount waived	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Note d)	
Executive directors					
Mr. Sun Li Yong	-	60	5	(24)	41
Ms. Fang Xiao Jian	-	60	5	(29)	36
Mr. Sun Jian Feng	-	60	5	(29)	36
Mr. Xia Xue Nian	-	60	5	(29)	36
Mr. Li Cheng Jun	-	60	5	(29)	36
Mr. Marco Borio	-	60	-	(60)	-
Independent non-executive directors					
Mr. Zong Pei Min	36	-	-	-	36
Mr. Luk Guo Qing	36	-	-	-	36
Mr. Zhu Yu Lin	36	-	-	-	36
Supervisors					
Mr. Fan Zhi Gang	-	36	-	(36)	-
Mr. Shao Bao Hua	-	36	-	(36)	-
Mr. He Dong Hui	-	36	-	(36)	-
Mr. Hu Jin Huan	12	-	-	-	12
Mr. Wang He Rong	12	-	-	-	12
	132	468	25	(308)	317

20. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' and supervisors emoluments *(Continued)*

The emoluments paid or payable to every directors and supervisors for the year ended 31 December 2007 were as follow:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement benefits scheme contributions RMB'000	Amount waived RMB'000 (Note d)	Total RMB'000
Executive directors					
Mr. Sun Li Yong	-	60	2	(24)	38
Ms. Fang Xiao Jian	-	60	2	(29)	33
Mr. Sun Jian Feng	-	60	2	(29)	33
Mr. Xia Xue Nian	-	60	2	(29)	33
Mr. Li Cheng Jun	-	60	2	(29)	33
Mr. Marco Borio	-	60	-	-	60
Independent non-executive directors					
Mr. Zong Pei Min	36	-	-	-	36
Mr. Luk Guo Qing	36	-	-	-	36
Mr. Zhu Yu Lin	36	-	-	-	36
Supervisors					
Mr. Fan Zhi Gang	-	36	-	(36)	-
Mr. Shao Bao Hua	-	36	-	(36)	-
Mr. He Dong Hui	-	36	-	(36)	-
Mr. Hu Jin Huan	12	-	-	-	12
Mr. Wang He Rong	12	-	-	-	12
	132	468	10	(248)	362

20. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Senior management's emoluments

Of the five individuals with highest emoluments, one (2007: two) were directors of the Company whose emoluments are set out in the above. The emoluments of the remaining four (2007: three) highest paid individuals were as follows:

	2008	2007
	RMB'000	RMB'000
Salaries, allowances and other benefits in kind	**144**	108
Retirement benefits schemes contributions	**19**	6
	163	114

Their emoluments were within the following bands:

	No.of individuals	
	2008	2007
Nil to HK$1,000,000 (equivalent to Nil to RMB879,573) (2007: equivalent to Nil to RMB936,400)	**4**	3

(c) No emolument have been paid by the Company to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Company, or as compensation for loss of office during the two years ended 31 December 2008 and 2007.

(d) During the two years ended 31 December 2008 and 2007, six (2007: five) directors and three (2007: three) supervisors waived emoluments of approximately RMB308,000 and RMB248,000 respectively.

21. PROPERTY, PLANT AND EQUIPMENT

	Buildings at revalued amounts RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST/ VALUATION						
At 1 January 2007	94,680	1,752	196,592	1,881	46,612	341,517
Additions	-	-	5,420	16	8,286	13,722
Transfer	54,886	-	-	12	(54,898)	-
Disposals	-	-	(205)	-	-	(205)
At 31 December 2007	149,566	1,752	201,807	1,909	-	355,034
Additions	6,792	-	1,027	104	9,700	17,623
Transfer	3,000	-	-	12	(3,012)	-
Adjustment arising on revaluation	(24,613)	-	-	-	-	(24,613)
Disposals	-	-	(205)	-	-	(205)
At 31 December 2008	134,745	1,752	202,629	2,025	6,688	347,839
At 31 December 2008						
At cost	-	1,752	202,629	2,025	6,688	213,094
At valuation	134,745	-	-	-	-	134,745
	134,745	1,752	202,629	2,025	6,688	347,839
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2007	13,570	1,144	83,685	1,332	-	99,731
Provided for the year	4,963	314	19,936	304	-	25,517
Eliminated on disposals	-	-	(104)	-	-	(104)
At 31 December 2007	18,533	1,458	103,517	1,636	-	125,144
Provided for the year	7,884	165	20,285	160	-	28,494
Eliminated on revaluation	(26,417)	-	-	-	-	(26,417)
Impairment loss recognised	-	-	-	-	3,489	3,489
Eliminated on disposals	-	-	(113)	-	-	(113)
At 31 December 2008	-	1,623	123,689	1,796	3,489	130,597
CARRYING VALUES						
At 31 December 2008	134,745	129	78,940	229	3,199	217,242
At 31 December 2007	131,033	294	98,290	273	-	229,890

21. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives less their residual values as follows:

Buildings	Over the shorter of the term of the lease or 20 years
Motor vehicles	20 %
Plant and machinery	10 %
Furniture, fixtures and equipment	20 %

(b) The leasehold buildings of the Company were revalued on 31 December 2008 by Avista Valuation Advisory Limited ("Avista"), independent qualified professional valuers not connected with the Company. Avista has appropriate qualifications and has recent experiences in the valuation of similar properties in the relevant locations. The valuations have been arrived at replacement cost approach.

(c) The buildings are held in the PRC under medium-term lease.

(d) If the leasehold buildings had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation of approximate RMB60,819,000 (2007:RMB54,769,000).

(e) During the year ended 31 December 2008, an impairment loss of approximately RMB3,489,000 was recognised in respect of the Company's construction in progress due to the suspension of the construction work as a result the misconducts of certain former directors set out in Note 13.

22. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2007, 31 December 2007 and 31 December 2008	16,199
DEPRECIATION AND IMPAIRMENT	
At 1 January 2007	3,323
Provided for the year	831
At 31 December 2007	4,154
Provided for the year	831
Impairment loss recognised	2,168
At 31 December 2008	7,153
CARRYING VALUES	
At 31 December 2008	9,046
At 31 December 2007	12,045

22. INVESTMENT PROPERTIES *(Continued)*

(a) The fair values of the Company's investment properties at 31 December 2008 was approximately RMB9,786,000 (2007: RMB14,400,000). The fair value has been arrived based on a valuation carried out by Avista, independent qualified professional valuers not connected with the Company. Avista have appropriate qualifications and have recent experiences in the valuation of similar properties in the relevant locations. The valuations have been arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

(b) The investment properties of the Company are located in the PRC under medium-term leases and are held to earn rentals or for capital appreciation. The investment properties have been vacant since late 2007 and it is the intention of the directors of the Company to hold the investment properties for capital appreciation purpose.

(c) The above investment properties are depreciated on a straight-line basis over the shorter of the term of lease or 20 years.

(d) During the year ended 31 December 2008, an impairment loss of approximately RMB2,168,000 was recognised in respect of the Company's investment properties which was attributed to a general fall in the value of properties in the PRC.

23. PREPAID LEASE PAYMENTS

	2008	2007
	RMB'000	RMB'000
The Company's prepaid lease payments on land use rights are held under medium lease-term in the PRC and analysed for reporting purposes as:		
Non-current assets	**11,295**	11,568
Current assets	**273**	273
	11,568	11,841

24. INVENTORIES

	2008	2007
	RMB'000	RMB'000
Raw materials	**10,882**	22,447
Work in progress	**7,686**	45,340
Finished goods	**41,300**	100,575
	59,868	168,362

24. INVENTORIES *(Continued)*

At 31 December 2008, inventories to the amount of approximately RMB50,378,000 was stated at net realisable value (2007: Nil).

25. TRADE AND OTHER RECEIVABLES

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

At 31 December 2008, other receivables included Cash Advances to Zhejiang Yonghe with balance of approximately RMB82,305,000 (2007: Nil). Details of the Cash Advances are set out in Note 13.

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

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

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

25. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) The movements in impairment losses recognised in respect of trade receivables are as follows:

	2008 **RMB'000**	2007 RMB'000
At the beginning of the year	**170**	-
Recognised during the year	**16,385**	170
Reversal during the year	**(58)**	-
At the end of the year	**16,497**	170

At 31 December 2008, included in the impairment loss are individually impaired trade receivables with an aggregate balance of approximately RMB16,497,000 (2007: RMB170,000) which are long outstanding. The Company does not hold any collateral over these balances.

(c) The movements in impairment losses recognised in respect of other receivables are as follows:

	2008 **RMB'000**	2007 RMB'000
At the beginning of the year	**171**	-
Recognised during the year	**80,071**	171
At the end of the year	**80,242**	171

At 31 December 2008, included in the impairment loss of other receivables are individually impaired other receivables with an aggregate balance of approximately RMB391,000 (2007: RMB171,000) which are due to long outstanding. The remaining balance of impairment loss of approximately RMB79,851,000 (2007: Nil) has been recognised due to the misconducts of certain former directors of the Company. The Company does not hold any collateral over these balances. Details are set out in Note 13.

25. TRADE AND OTHER RECEIVABLES *(Continued)*

(d) At 31 December 2008 and 2007, the analysis of trade receivables that were past due but not impaired are as follows:

	Total	Neither past due nor impaired	Past due but not impaired			
			Less than 60 days	61-90 days	91-365 days	Over 365 days
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2008	**62,254**	**39,150**	**7,214**	**4,020**	**11,351**	**519**
At 31 December 2007	128,336	97,182	13,532	11,927	5,695	-

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Company does not hold any collateral over these balances.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Company. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Company does not hold any collateral over these balances.

(e) Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the Company:

	2008	2007
	'000	'000
US$	**1,021**	7,251
EUR	**1,745**	-

26. AMOUNTS DUE FROM RELATED COMPANIES

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

	At 31 December 2008			
	Gabriel	**Zhejiang Hongxing**	**Zhejiang Sabrina**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
	(Note i)	(Note ii)	(Note ii)	
Amounts due from related companies	156,178	37,884	23,385	217,447
Less: impairment loss recognised (Note 13)	(156,178)	(37,884)	(22,175)	(216,237)
	-	-	1,210	1,210
Maximum amounts outstanding during the year	156,178	47,517	23,390	

	At 31 December 2007			
	Gabriel	Zhejiang Hongxing	Zhejiang Sabrina	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	(Note i)	(Note ii)	(Note ii)	
Amounts due from related companies	-	20	-	20
Maximum amounts outstanding during the year	-	2,868	210	

26. AMOUNTS DUE FROM RELATED COMPANIES *(Continued)*

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

	2008 **RMB'000**	2007 RMB'000
At the beginning of the year	**-**	-
Recognised during the year (Note 13)	**216,237**	-
At the end of the year	**216,237**	-

Notes:

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

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

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

27. FIXED BANK DEPOSITS

Included in the fixed bank deposits of approximately RMB50,565,000 as at 31 December 2007 represented a fixed return bank deposits with one year fixed term. The effective interest rate is 3.15% per annum.

The remaining deposits represented a fixed return bank deposits with six months fixed term. The effective interest rate was 3.42% per annum.

Included in the fixed bank deposits were the following amounts denominated in a currency other than the function currency of the Company:

	2008 **'000**	2007 '000
HK$	**-**	54,000

28. BANK BALANCES AND CASH

	Notes	2008 RMB'000	2007 RMB'000
Pledged bank deposits			
- Bank deposits	(a)	**42,552**	65,192
Bank balance and cash – unpledged	(b)	**6,212**	10,182
		48,764	75,374

Notes:

(a) The amounts represented short-term deposits with maturity of three months or less and were pledged to banks for banking facilities granted to the Company. The pledged deposits carried interest rating from 1.98% to 3.51% per annum for the year ended 31 December 2008 (2007: 3.42% per annum). The pledged bank deposits will be released upon the settlement of relevant bank borrowings and bills payables.

(b) For the year ended 31 December 2008 and 2007, bank balances are deposits with a maturity of less than 3 months. The interest rate ranged from 0.36 % to 0.72% per annum (2007: 0.72% to 0.81%) per annum.

(c) Included in the pledged bank deposits and unpledged bank balances and cash are the following amounts denominated in a currency other than the functional currency of the Company:

	2008 '000	2007 '000
US$	**58**	60
HK$	**103**	646

29. TRADE AND OTHER PAYABLES

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

(i) The Company normally receives credit periods from suppliers ranging from 30 days to 90 days. The Company has in place financial risk management policies to ensure that all payables are settled within the credit timeframe. Due to the misconducts of certain directors of the Company mentioned in Note 13, the Company were unable to settle all the payables within the credit period and several suppliers took legal action against the Company, details of which can be found in Note 37.

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

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

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

30. AMOUNT DUE TO A GUARANTOR

As disclosed in Note 37, the Company has defaulted on the settlement of certain bank borrowings and the related banks have taken legal actions against the Company and its guarantors, the guarantors, namely Zhejiang Xiongsheng Holding Co., Ltd. * "浙江雄盛實業有限公司" ("Xiongsheng") and Xiongfeng Holding Group Co., Ltd. * "雄峰控股集團有限公司" ("Xiongfeng"), Zhejiang Lingda Industry Co., Ltd. * "浙江凌達實業有限公司" ("Lingda"), Zhejiang Zhiye Real Estate Group Co., Ltd. * "浙江置業房產集團有限公司" ("Zhiye"), Jinggong Group Co., Ltd. * "精功集團有限公司" ("Jinggong") and Zhejiang Yongli Industry Group Co., Ltd.* "浙江永利實業集團有限公司" ("Zhejiang Yongli") (the "Guarantors"). The amount represented the settlement made by the Guarantors on behalf of the Company.

The balance represented the amount due to Jinggong.

The amount is unsecured, interest bearing and repayable on demand. The effective interest rate of the loan from a guarantor is 0.38%.

31. PROVISION

	2008 **RMB'000**	2007 RMB'000
At the beginning of the year	**-**	-
Provided during the year (Note 13)	**27,883**	-
At the end of the year	**27,883**	-

32. BANK BORROWINGS

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

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

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

32. BANK BORROWINGS *(Continued)*

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

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

(iii) The weighted average effective interest rates (per annum) at the respective end of the reporting periods are as follows:

	2008	2007
Fixed-rate bank loans	**5.84%-8.61%**	6.12%-8.42%
Variable-rate bank loans	**6.14%-8.61%**	7.23%-7.45%
Overdue bank loans	**11.33%-12.92%**	N/A
Overdue bills payables	**18%**	N/A

32. BANK BORROWINGS *(Continued)*

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

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

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

(vi) Details of the assets pledged for bank borrowings granted to the Company are set out in Note 36.

33. DEFERRED TAXATION

For the purpose of presentation in the statement of financial position, certain deferred tax assets and liabilities have been offset. The following analysis of the deferred tax balances for financial reporting purposes:

	2008 RMB'000	2007 RMB'000
Deferred tax assets	5,436	519
Deferred tax liabilities	(5,436)	(5,955)
	-	(5,436)

33. DEFERRED TAXATION *(Continued)*

The following are the major deferred tax (liabilities) assets recognised and movement thereof during the current and prior reporting periods:

	Revaluation of buildings RMB'000	Impairment loss recognised in respect of trade and other receivables RMB'000	Allownace of inventories RMB'000	Fixed return bank deposits RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2007	(7,860)	-	-	227	1,324	(6,309)
Effect of change in tax rate	1,905	-	-	(55)	(321)	1,529
Credited (charged) to statement of comprehensive income	-	85	96	(172)	(665)	(656)
At 31 December 2007	(5,955)	85	96	-	338	(5,436)
Credited to statement of comprehensive income	-	4,136	1,751	-	-	5,887
Charged to other comprehensive income	(451)	-	-	-	-	(451)
At 31 December 2008	**(6,406)**	**4,221**	**1,847**	**-**	**338**	**-**

At the end of the reporting period, the Company had unused tax losses of approximately RMB47,430,000 (2007: RMB1,350,000) available for offset against future profits. For the year ended 31 December 2008, no deferred tax asset had been recognised in respect of such losses (2007: RMB1,350,000). At 31 December 2008, approximately RMB47,430,000 (2007: Nil) included in the above unused tax losses will expire after five years from the year of assessment to which they relate.

At the end of the reporting period, the Company has deductible temporary differences of approximately RMB363,969,000 (2007: RMB726,000). A deferred tax asset has been recognised in respect of RMB24,274,000 (2007: RMB726,000) in relation to such deductible differences. No deferred tax asset has been recognised in respect of the remaining deductible temporary differences of RMB339,695,000 (2007: Nil) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

34. SHARE CAPITAL

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

	Number of shares '000	RMB'000
Domestic shares at 1 January 2007, 31 December 2007 and 31 December 2008	588,000	58,800
H shares at 1 January 2007, 31 December 2007 and 31 December 2008	475,500	47,550
Total share capital of RMB0.10 each at 1 January 2007, 31 December 2007 and 31 December 2008	**1,063,500**	**106,350**

The domestic shares and H shares carrying the 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.

35. COMMITMENTS

At the end of the reporting period, the Company had the following commitments for acquisition of property, plant and equipment:

	2008 **RMB'000**	2007 RMB'000
Contracted but not provided for	**-**	747

36. PLEDGE OF ASSETS

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

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

37. LITIGATION

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

(i) Legal action of banks

(a) At 31 December 2008, the total amount of bank loans was RMB393,650,000, in which loans in an aggregate amount of RMB93,861,000 from four relevant banks could not be renewed as usual upon their maturity due to the reason that guarantors (including Gabriel, Mr. and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee; and (b) At 31 December 2008, total bills payable amounting to RMB42,500,000 could not be renewed as usual upon their maturity due to the same reason as mentioned above. In addition, due to financial problems encountered by the Company, the Company could not repay the above bank loans and bills upon maturity. In view of the above, the relevant banks have taken legal actions against the Company. At the date of this report, the amounts have been fully settled by the Guarantors on behalf of the Company. Details are set out in Notes 30 and 39.

(ii) Overdue trade creditors

Due to the cash flow problem of the Company, the Company was facing with short term financing problems and as such was unable to meet payments of certain suppliers. Legal action was taken by six suppliers against the Company for a total amount of approximately RMB734,000. All cases were completed following the subsequent settlement in 2011.

(iii) Outstanding construction fees

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

(iv) Staff quarters

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

38. RELATED PARTY AND CONNECTED PARTY TRANSACTIONS

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

(b) Details of the funds advance to related parties are set out in Note 26.

Details of the guarantee given by related parties to the banks in respect of the loans granted to the Company as at 31 December 2008 set out in Note 32.

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

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

38. RELATED PARTY AND CONNECTED PARTY TRANSACTIONS *(Continued)*

Notes:

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

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

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

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

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

39. EVENTS AFTER THE REPORTING PERIOD

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

39. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

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

(i) Shareholding reorganisation

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

(ii) Debt restructuring

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

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

(iii) Business reorganisation

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

(iv) Reorganisation support

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

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

39. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

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

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

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

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

(d) The Company has signed debt agreements with each of the Company's five Guarantors, namely (1) Xiongsheng and Xiongfeng, (2) Lingda, (3) Zhiye, (4) Jinggong and (5) Zhejiang Yongli on 20 July 2011, 15 August 2011, 17 August 2011, 13 September 2011 and 15 August 2011 respectively to settle the Company's debts owed to the Guarantors. Each of the five Guarantors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies. The breakdown of these debt settlements are summarised in the table below:

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

39. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

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

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

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

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

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

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

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

40. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), Presentation of Financial Statements and HKFRS 8, Operating Segments, certain comparative figures of subcontracting fee income and its related cost have been reclassified to subcontracting services segment to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2008. Further details of these developments are disclosed in Note 3.

RESULTS

	For the year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(restated)		(restated)	(restated)
TURNOVER	**324,992**	393,077	415,572	415,366	449,766
(LOSS) PROFIT BEFORE TAXATION	**(529,093)**	835	(736)	(8,073)	29,202
TAXATION	**11,303**	4,326	5,219	4,413	(10,104)
(LOSS) PROFIT FOR THE YEAR	**(517,790)**	5,161	4,483	(3,660)	19,098

ASSETS AND LIABILITIES

	At 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**417,901**	695,522	696,127	781,950	852,341
TOTAL LIABILITIES	**(662,184)**	(423,368)	(429,134)	(519,440)	(641,433)
(DEFICIENCY OF) SHAREHOLDERS' FUND	**(244,283)**	272,154	266,993	262,510	210,908

The summary of the results and the assets and liabilities of the Company for the years ended 31 December 2004, 2005, 2006, 2007 and 2008 are extracted from the audited financial statements.