永隆實業
ENTERPRISES
Yonglong

浙江永隆實業股份有限公司
ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*

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

(Stock Code: 8211)

2009 FIRST QUARTERLY REPORT

* for identification purpose only

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

HIGHLIGHT

For the three months ended 31 March 2009,

- turnover of the Company for the three months ended 31 March 2009 decrease from approximately RMB57.66 million to approximately RMB16.28 million, representing a drop of approximately 71.76% when compared to the corresponding period in 2008;
- loss for the three months ended 31 March 2009 was approximately RMB24.75 million; and
- the Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2009.

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2009

The board of directors (the "Board" or the "Directors") of 浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd.*) (the "Company") is pleased to announce the unaudited results of the Company for the three months ended 31 March 2009 together with the comparative results for the corresponding periods in 2008 as follows:

		Three months ended 31 March	
		2009	2008
	Notes	***RMB'000***	*RMB'000*
Turnover	*3*	**16,283**	57,656
Cost of sales		**(20,483)**	(56,367)
Gross (loss) profit		**(4,200)**	1,289
Other operating income	*3*	**119**	2,242
Selling and distribution costs		**(1,186)**	(1,435)
Administrative expenses		**(2,260)**	(4,327)
Impairment loss recognised in respect of various assets		**(3,673)**	-
Loss on misconducts of directors	*4*	**(881)**	-
Finance costs	*5*	**(12,665)**	(4,576)
Loss before taxation		**(24,746)**	(6,807)
Income tax credit	*6*	**-**	4,413
Loss and total comprehensive expenses for the period	*7*	**(24,746)**	(2,394)
		RMB	RMB
Loss per share — basic and diluted	*9*	**2.32 cents**	0.23cent

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital	Share premium	Other reserve	Assets revaluation reserve	Statutory surplus reserve	Retained profits (Accumulated loses)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Note (a))		(Note (b))	(Note (c))	
At 1 January 2008	106,350	69,637	7,880	15,959	12,496	59,832	272,154
Total comprehensive expenses for the period	-	-	-	-	-	(2,394)	(2,394)
At 31 March 2008	106,350	69,637	7,880	15,959	12,496	57,438	269,760
At 1 January 2009	106,350	69,637	7,880	17,312	12,496	(457,958)	(244,283)
Total comprehensive expenses for the period	-	-	-	-	-	(24,746)	(24,746)
At 31 March 2009	106,350	69,637	7,880	17,312	12,496	(482,704)	(269,029)

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 Company's PRC statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's share capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset 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 March 2009 and 2008, no reserves were available for distribution due to accumulated losses being noted.

Notes:

1. BASIS OF PREPARATION

The Company is a joint stock limited company established in the PRC and the H Shares of the Company are listed on the GEM of the Stock Exchange.

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

The Company's books and records are maintained in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2008. The unaudited results of the Company are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and disclosure requirement of the GEM Listing Rules.

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

The financial statements has been prepared in accordance with new and revised standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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]
Hong Kong Accounting Standard ("HKAS") 1 (Revised)	Presentation of Financial Statements[7]
HKAS 12 (Amendment)	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) – Interpretation ("Int") 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

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

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

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

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

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

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

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

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

3. TURNOVER AND OTHER OPERATING INCOME

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

An analysis of the Company's turnover and other operating income for the period are as follows:

	Three months ended 31 March	
	2009	2008
	RMB'000	*RMB'000*
Turnover		
Sales of woven fabrics	**12,390**	56,642
Subcontracting fee income	**3,893**	1,014
	16,283	57,656
Other operating income		
Interest income	**12**	512
Government grants (Note)	**10**	-
Sales of scrap materials	**97**	1,730
	119	2,242
Total revenues	**16,402**	59,898

Note:

Government grants of approximately RMB10,000 (2008: nil) were awarded to the Company for the three months ended 31 March 2009 for encouraging business development in overseas market.

4. LOSS ON MISCONDUCTS OF DIRECTORS

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") to provide fund advances and provision of financial guarantees to some related companies.

a) Misappropriation of the Company's funds

It was found that during the year ended 31 December 2008, an amount of approximately RMB156,178,000, RMB47,517,000, RMB23,390,000, RMB82,305,000, and RMB18,500,000 were advanced to Zhejiang Gabriel Holding 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") and Zhejiang Hongxing Sabrina Garments Ltd.* "浙江宏興莎美娜服飾有限公司" ("Zhejiang Sabrina") and independent third parties, 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 Advance").

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

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

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

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

Since Shaoxing Gabriel had been struck off, the balance of approximately RMB18,500,00 has been directly written off during the year ended 31 December 2008.

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

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

(i) On 21 September 2008, the Zhu Loan has been expired and Gabriel was unable to repay the loan to Ms. Zhu. On 19 June 2009, the Company received a writ from Hangzhou Xiacheng District People's Court 杭州市下城區人民法院 in relation to a claim of the outstanding Zhu Loan by Ms. Zhu against Gabriel, the Company and Mr. Sun for the outstanding overdue borrowings principal plus the interest and liquidated damages 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 2009, provision has been made in respect of the default payment for the amount of approximately RMB21,407,000 (2008: RMB17,883,000), which including interest and liquidated damages of approximately RMB4,707,000 (2008: RMB1,183,000) together with the outstanding principal of RMB16,700,000.

On 10 June 2011, the Company signed a settlement agreement with Ms. Zhu, according to the agreement, Ms. Zhu conditionally waived the interest and liquidated damages from the Company, as long as the Company can settle the outstanding principal before 20 June 2011. The amount approximately of RMB546,000 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 the writ from Shaoxing Intermediate People's Court (紹興市中級人民法院) in relation to a claim of the outstanding Yatai Loan by Yatai against Gabriel and the Company for the outstanding overdue borrowings principal plus the interest and legal fees amount of approximately RMB30,280,000. On 9 October 2009, a civil mediation was issued by the Shaoxing Intermediate People's Court, pursuant to which Gabriel is liable to repay the sum of outstanding principal of RMB20,000,000, the interest for the period between 18 September 2008 to 20 October 2009 and legal fees amount of RMB200,000, as a guarantor, the Company is jointly and severally liable to a sum of RMB10,000,000.

At the date of publication of this document, the Yatai Loan has not yet been settled.

** English name is for identification only*

5. FINANCE COSTS

	Three months ended 31 March	
	2009	2008
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	**11,491**	4,576
Add: interest paid for the loan from a guarantor	**1,174**	-
	12,665	4,576

6. INCOME TAX CREDIT

	Three months ended 31 March	
	2009	2008
	RMB'000	*RMB'000*
PRC Enterprise Income Tax		
- Overprovision in previous years	**-**	2,547
Deferred taxation	**-**	(1,866)
	-	4,413

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Company is 25% from 1 January 2008 onwards.

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

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

7. LOSS FOR THE PERIOD

	Three months ended 31 March	
	2009	2008
	RMB'000	*RMB'000*
Loss for the period has been arrived at after charging:		
Depreciation and amortisation	**7,318**	5,320

8. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2009.

9. LOSS PER SHARE

The calculation of the basic loss per share for the three months ended 31 March 2009 is based on the loss for the period of approximately RMB24,746,000 (2008: approximately RMB2,394,000) and the weighted average of 1,063,500,000 (2008:1,063,500,000) ordinary shares in issue during the period.

No diluted loss per share have been presented for the two periods ended 31 March 2009 and 2008, as there was no diluting events existed during those periods.

10. LITIGATION

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

(i) Legal action of banks

Due to the cash flow problem of the Company, (i) as at 31 March 2009, the total amount of bank loans was approximately RMB374,035,000, in which loans in an aggregate amount of RMB108,000,000 from the 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 (ii) as at 31 March 2009, total bills payable amounting to approximately RMB80,000,000 could not be renewed as usual upon their maturity due to the same reason as mentioned above. In addition, due to financial problems encountered by the Company, the Company could not repay the above bank loans and bills upon maturity. In view of the above, the relevant banks have taken legal actions against the Company. At the date of this document, the amounts have been fully settled by the Guarantors on behalf of the Company. Details are set out in Note 11.

(ii) Overdue trade creditors

Following the misappropriation of funds by certain directors of the Company, the Company was facing with short term financing problems and as such was unable to meet payments to certain suppliers. Legal action was taken by six suppliers against the Company for a total amount of approximately RMB1,048,000. All cases were settled following the subsequent settlement in 2011 by the Company.

(iii) Outstanding construction fees

On 15 January 2008, the Company entered into a construction contract with the relevant party for 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 as a result of the misappropriation of funds. In October 2008, both parties agreed that the total cost would be approximately RMB63,315,000 which was based on the percentage of completion of the project and approximately RMB3,961,000 should be paid by the Company. Legal action was taken against the Company following the amount being unsettled and in accordance with the judgment dated 21 October 2009, the Company was liable to the outstanding construction fee of RMB3,961,000 plus court related expenses. At the date of this document, the 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 for the outstanding construction costs plus interest and court related expenses. At the date of this document, the amounts have been fully settled.

(v) The Company acted as guarantor granted by Ms. Zhu to Gabriel in the principal amount of approximately RMB20,000,000. Following the default on repayment from Gabriel, a court order received by the Company in June 2009 from Hangzhou Xiacheng District People's Court (杭州下城區人民法院) ruled that certain land and buildings of the Company would be frozen. The frozen assets were released following the subsequent settlement of the amount.

11. EVENTS AFTER THE REPORTING PERIOD

With reference to the announcement of the Company dated 29 December 2010, the Company, Zhejiang Yongli Industry Group Co., Ltd.* 浙江永利實業集團有限公司 ("Zhejiang Yongli") and the 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 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 creditors to waive, and to abandon any claim against the Company for, 35% of the indebtedness owing by the Company to each of them, Zhejiang Yongli agreed, upon the change of the controlling shareholder, to undertake and warrant repayment on behalf of the Company of the remaining 65% to its creditors (together with any incidental liabilities) within 2 years from the date on which the Company's indebtedness becomes due.

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

(iii) Business reorganisation

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

(iv) Reorganisation support

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

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

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

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

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

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

(d) The Company has entered into debt restructuring agreements with each of the Company's five creditors, namely (1) Zhejiang Xiongsheng Holding Co., Ltd. * "浙江雄盛實業有限公司" ("Xiongsheng") and Xiongfeng Holding Group Co., Ltd. * "雄峰控股集團有限公司" ("Xiongfeng"), (2) Zhejiang Lingda Industry Co., Ltd. * "浙江淩達實業有限公司" ("Lingda"), (3) Zhejiang Zhiye Real Estate Group Co., Ltd. * "浙江置業房產集團有限公司" ("Zhiye"), (4) Jinggong Group Co., Ltd. * "精功集團有限公司" ("Jinggong") and (5) Zhejiang Yongli on 20 July 2011, 15 August 2011, 17 August 2011, 13 September 2011 and 15 August 2011 respectively to settle the Company's debts owed to these creditors. Each of the five creditors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of such portion 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 breakdowns of these debt restructuring agreements are summarized in the table below:

			Debts settlement according to Debt Agreements			
	Creditor	Total amount to be settled *RMB'000*	Waived by the creditor *RMB'000*	Released as a result of government support *RMB'000*	Settled by Zhejiang Yongli *RMB'000*	Debt owed to the creditor after Debt Agreements *RMB'000*
1	Xiongsheng and Xiongfeng	122,753	42,964	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	52,687	33,391	32,554	-
5	Zhejiang Yongli	312,157	58,132	95,963	158,062	239,677
	Total:	595,092	168,325	187,090	239,677	239,677

The Company also entered into a debt restructuring agreement with Zhejiang Yongli 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 RMB187,089,650, which was cleared as a result of government support (as shown in the table above);

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

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

(4) No interest 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the three months ended 31 March 2009, the Company recorded a turnover of approximately RMB16.28 million, representing a decrease of approximately 71.76% as compared with that of the same period in 2008. It is mainly because turnover of sales of woven fabrics sharply decreased from approximately RMB56.64 million in 2008 to approximately RMB12.39 million in 2009. The misconduct of some of the former directors in 2008 caused a shortage of cash flow of the Company for the purchase of raw materials for manufacturing. In order to maintain the operation and reduce the burden of cash flow problem, the Company then focused on another business division - provision of sub-contracting services. The turnover of sub-contracting services for the three months ended 31 March 2009 and 2008 were approximately RMB3.89 million and RMB1.01 million respectively. The profit margin of provision of sub-contracting services was lower. The Company temporarily suspended export sales due to insufficient working capital for the purchase of raw material for manufacturing. Certain obsolete inventories were disposed during the period under review and cost of sales was high during the period under review. The Company incurred gross loss of approximately RMB4.2 million. Cost of sales was high because only about 85% of production capacity was utilized in 2009 which led to an increase in fixed production overhead. Wages and salary and staff benefit were high under the new labour ordinance implemented in the PRC in 2008. Selling expenses for the three months ended 31 March 2009 decreased by approximately 17.34% when compared with that in 2008, which was in line with that of decrease in export sales in 2009. Administrative expenses for the three months ended 31 March 2009 decreased by approximately 47.77% when compared with that the corresponding period in 2008 because there was material foreign exchange losses in 2008 which amounted to approximately RMB1.91 million. Finance cost increased by approximately 176.77% mainly due to penalty payable for bank borrowings overdue during the three months ended 31 March 2009. Loss per share for the three months ended 31 March 2009 and 2008 were approximately RMB2.32 cents and RMB0.23 cent respectively.

Business and operation review

Prior to 2008, the Company mainly focused on the research and development, manufacturing and sales of woven fabrics. Due to the misconducts of some former directors of the Company in 2008, 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 sub-contracting services. During the period under review, sales of woven fabric and provision of sub-contracting services were approximately RMB12.39 million, representing a drop of approximately 78.12% when compared with that in 2008. Due to the financial crisis of the Company, the export sales market has been temporarily suspended as the Company has insufficient cash flow to purchase raw materials for manufacturing. Turnover from the provision of sub-contracting services for the three months ended 31 March 2009 and 2008 were approximately RMB3.89 million and RMB1.01 million respectively. During the three months ended 31 March 2009, the sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB4.5 million, which represents approximately 27.76% of the total turnover.

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 three months ended 31 March 2009 under review, the Company did not have any material acquisition or disposal of production facilities.

Product research and development

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

Sales and marketing

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

Outlook

Due to the misconduct of some of the former Directors in 2008, 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 10 and for management purpose, the operation of the Company has to be reorganized into two divisions, that is, sales of woven fabric and provision of sub-contracting services.

With reference to the announcement of the Company dated 29 December 2010, the Company, Zhejiang Yongli Industry Group Co., Ltd.* 浙江永利實業集團有限公司 ("Zhejiang Yongli") and the 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 11.

Subsequent to the letter of intent signed for the Restructuring Proposal as set out in Note 11, 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 the 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 11. After that, each of the five Guarantors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies.

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

LIQUIDITY AND FINANCIAL RESOURCES

The Company reported a loss of approximately RMB24,746,000 for the year ended 31 December 2008 and net current liabilities of approximately RMB497,496,000 and a capital deficiency of approximately RMB267,298,000 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 the date of publication of this document given that:

(i) the debt restructuring of the Company's liabilities, details of which are set out in Note 11;

(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.

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

As at 31 March 2009, the interests and short positions of the Directors, chief executives, 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 in the shares of the Company

Name	Type of interests	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares	Approximate percentage of interests in the total registered capital
Mr. Sun Li Yong	Personal	Beneficial owner	382,200,000	65%	35.94%
	Family	Held by spouse *(Notes 1&3)*	182,280,000	31%	17.14%
			564,480,000	96%	53.08%
Ms. Fang Xiao Jian	Personal	Beneficial owner	182,280,000	31%	17.14%
	Family	Held by spouse *(Notes 2&3)*	382,200,000	65%	35.94%
			564,480,000	96%	53.08%
Mr. Sun Jian Feng	Personal	Beneficial owner	5,880,000	1%	0.55%
Mr. Xia Xue Nian	Personal	Beneficial owner	5,880,000	1%	0.55%

Notes:

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

2. Ms. Fang Xiao Jian ("Mrs. Sun") 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. and Mrs. Sun, which represents 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 (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 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 were transferred from Mr. Sun to Zhejiang Yongli with effect from 24 December 2010.

Save as disclosed above, as at 31 March 2009, none of the Directors, chief executives or supervisors of the Company had any interest 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 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 relating to securities transactions by directors to be notified to be Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2009, so far as it is known to the Directors, chief executives and supervisors of the Company, the persons (not being a Director, chief executive or supervisor of the Company) who had interests or short positions 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, were as follows:

Long positions in the shares of the Company

H shares of RMB0.1 each of the Company

Name of shareholder	Capacity	Number of H shares held	Approximate percentage of interests in H shares	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 Holdings (HK) 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 March 2009, 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 and their respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company for the period under review and up to the date of this document.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the three months ended 31 March 2009, the Company had the following significant transactions with the related parties:

		Three months ended 31 March	
Name of related company	**Nature**	**2009**	2008
		RMB'000	RMB'000
Sabrina (Note a)	Sales of goods	**-**	45
	Rental income	**-**	3
	Electricity cost reimbursement	**7**	-
	Purchase of goods	**2**	-
Hongxing (Note a)	Purchase of goods	**-**	4
	Rental income	**-**	246
	Electricity cost reimbursement	**17**	9
Miroglio S.p.A. and its subsidiaries ("Miroglio S.p.A. Group") (Note b)	Sales of goods	**1,153**	5,382
Miroglio Fulida (Note c)	Subcontracting fee	**24**	2,971
	Sales of goods	**23**	196

Note:

(a) 浙江宏興莎美娜服飾有限公司(Zhejiang Hongxing Sabrina Garments Co., Ltd.) ("Sabrina") and 浙江宏興紡織有限公司 (Zhejiang Hongxing Textiles Co., Ltd.) ("Hongxing") are subsidiaries of 浙江加佰利控股集團有限公司 (Zhejiang Gabriel Holdings Group Co., Ltd.) ("Gabriel"), in which Messrs. Sun Li Yong, Xia Xue Nian, Sun Jian Feng, Li Cheng Jun and Ms. Fang Xiao Jian, directors of the Company, have beneficial interests.

(b) Miroglio S.p.A. is a shareholder of the Company since 24 March 2005. Sales recognized by the Company for the three months ended 31 March 2009 was approximately RMB1,153,000 (2008: RMB5,382,000).

(c) Zhejiang Miroglio Fulida Dyeing Co., Ltd (浙江米羅利奧富麗達紡織有限公司)("Miroglio Fulida") a company established in the PRC, the registered capital of which is owned as to 50% by Miroglio S.p.A.

AUDIT COMMITTEE

The written terms of reference of the audit committee of the Company (the "Audit Committee") have been updated in accordance with the Code Provisions of the Code on Corporate Governance Practices to Appendix 15 of the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors, Mr. Zong Pei Min, Mr. Lu Guo Qing and Mr. Zhu Yu Lin. Mr. Lu Guo Qing is the chairman of the Audit Committee.

The Audit Committee has reviewed the first quarterly results and the first quarterly report for the three months ended 31 March 2009.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors except for Mr. Sun Li Yong and Ms. Fang Xiao Jian, who left the PRC on 14 September 2008 and have not returned since then and the directors 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 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2009.

SUSPENSION OF TRADING

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

By Order of the Board
Ru Guan Jun
Chairman

Zhejiang, the PRC, 3 November 2011

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

* *For identification purpose only*