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)

2010 ANNUAL REPORT

* for identification purpose only

Contents

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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 *(Chairman)*
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 2010,

- turnover of the Company decreased slightly from approximately RMB92.03 million in year 2009 to approximately RMB85.70 million in year 2010, representing a decrease of approximately 6.88% when compared to the year ended 31 December 2009;

- loss increased from approximately RMB96.55 million in year 2009 to approximately RMB106.47 million in 2010; and

- the directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2010.

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 2010.

FINANCIAL PERFORMANCE

For the year ended 31 December 2010, the Company recorded a turnover of approximately RMB85.70 million, representing a decrease of approximately 6.88% as compared with that of the same period in 2009. It is mainly because turnover for sales of woven fabrics decreased from RMB58.60 million in 2009 to RMB53.52 million in 2010. The misconduct of the former directors in 2008 caused shortage of cash flow of the Company for 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 subcontracting services. The turnover of subcontracting services for the year ended 31 December 2010 and 2009 were approximately RMB32.18 million and RMB33.43 million respectively. The profit margin from provision of subcontracting services was low. The Company temporarily suspended export sales due to insufficient working capital for the purchase of raw materials for manufacturing. During the period under review, certain obsolete inventories were disposed and cost of sales was high. The Company incurred gross loss of approximately RMB36.40 million. Cost of sales was high because only about 85% of production capacity was utilised in 2010 which led to an increase in fixed production overhead. Wages, salary and staff benefit were high under the new labour ordinance implemented in the People's Republic of China (the "PRC") in 2008 (the "New Labour Ordinance"). Selling expenses for the year ended 31 December 2010 decreased by approximately 68.72% when compared with that in 2009, which was in line with the decrease in export sales in 2010. Administrative expenses for the year ended 31 December 2010 increased by approximately 14.17% when compared with that in 2009 because there was about RMB2 million of penalty paid for late payment of various local tax in 2010. Finance costs increased by approximately 21.08% mainly due to penalty payable for bank borrowings over-due in 2010. Loss per share for the two years ended 31 December 2010 and 2009 were RMB10.01 cents and RMB9.08 cents respectively.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010.

OUR STRATEGIES 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 38 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 occurred 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, ENHANCING 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 for the provision of electricity and gas.

PROSPECTS

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 36 to the financial statements and for management purpose, the operation of the Company has to be reorganised into two divisions, that is, sales of woven fabric and provision of subcontracting 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 38 to the financial statements.

Subsequent to the letter of intent signed for the Restructuring Proposal as set out in Note 38 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 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 the five Guarantors of the Company as set out in Note 38 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

Prior to 2008, the Company mainly focused on the manufacturing and sales of woven fabrics. Due to the misconduct of some of the 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 subcontracting 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 RMB53.52 million representing a drop of approximately 8.67% when compared with that in 2009. Due to the financial crisis of the Company, the export sales market had been temporarily suspended as the Company has insufficient cash flow to purchase raw materials for manufacturing. Turnover from provision of subcontracting services for the two years ended 2010 and 2009 were approximately RMB32.18 million and RMB33.43 million respectively. During the year ended 31 December 2010, the sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB7.13 million, which represented approximately 8.32% 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 year ended 31 December 2010 under review, the Company did not have any material acquisition or disposal of production facilities.

On 29 December 2010, a resolution was passed by the board of directors of the Company to dispose of certain buildings, investment properties and prepaid lease payments (the "Disposal"). On 30 August 2011, the Company has entered into a memorandum of understanding with 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") in respect of the Disposal. Pursuant to the agreement, the Disposal will be completed before the end of 2011.

Product research and development

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

Sales and marketing

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Company reported a loss of approximately RMB106,468,000 for the year ended 31 December 2010 and had net current liabilities of approximately RMB588,855,000 and a capital deficiency of approximately RMB440,297,000 as at 31 December 2010. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Company' s ability to continue operation 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 end of the reporting period given that:

(i) the debt restructuring of the Company' s liabilities, details of which are set out in Note 38 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 of the Company anticipate 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 has not been reflected in the financial statements.

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

At 31 December 2010, the Company had no commitments (2009: Nil) for capital expenditure.

MATERIAL ACQUISITIONS/ DISPOSALS

During the year ended 31 December 2010, the Company did not have any material acquisitions/ disposals.

On 29 December 2010, the Company entered into a memorandum of understanding to dispose of certain buildings, investment properties and prepaid lease payments to 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"). Pursuant to the preliminary agreement, the transaction will be completed before the end of 2011.

The non-current assets classified as held for sale represent certain buildings, investment properties and prepaid lease payments held for own use and capital appreciation with carrying values of approximately RMB28,892,000, RMB7,384,000 and RMB3,250,000 respectively. As of the date of this document, the transaction was still in progress.

SEGMENTAL INFORMATION

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

CHARGES ON COMPANY ASSETS

The details of pledge of assets of the Company is set out in Note 35 to the financial statements.

EMPLOYEE AND EMOLUMENT POLICIES

At 31 December 2010, the Company had 759 employees (2009: 886), comprising 6 (2009: 5) in research and development, 7 (2009: 7) in sales and marketing, 688 (2009: 802) in production, 49 (2009: 61) in quality control, 3 (2009: 4) in management, and 6 (2009: 7) 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 (中國註冊稅務師). During the period from July 1982 to August 1999, he worked as administrative accountant in Zhejiang University of Finance & Economics (浙江財務學院). He has been practicing in 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 2010.

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 2010 are set out in the statement of comprehensive income on page 29 of this annual report.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2010.

PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2010, the Company spent approximately RMB187,000 in aggregate on factory premises or other plant and machinery to expend and upgrade its production capacity.

Details of these and other movements during the year in the property, plant and equipment of the Company are set out in Note 20 to the financial statements.

INVESTMENT PROPERTIES

Details of movements of the investment properties of the Company during the year ended 31 December 2010 are set out in Note 21 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 33 to the financial statements.

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the year ended 31 December 2010 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. 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. 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 2010, 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 Jian Feng	Beneficial owner	5,880,000	1%	0.55%
Mr. Xia Xue Nian	Beneficial owner	5,880,000	1%	0.55%

Save as disclosed above, as at 31 December 2010, 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 2010 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 37 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 2010.

CONNECTED TRANSACTIONS

Save as disclosed in Note 37 to the financial statements, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

The independent non-executive Directors have reviewed the connected transactions set out in Note 37 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, so far as 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 or 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

Domestic shares of the Company

Name of shareholders	Capacity	Number of Domestic Shares held	Approximate percentage of interests in Domestic shares	Approximate percentage of interests in total registered capital
Zhejiang Yongli Industry Group Co. Ltd.	Beneficial owner (Note 4)	310,000,000	52.72%	29.15%
Mr. Sun Li Yong	Beneficial owner	72,200,000	12.28%	6.79%
	Held by spouse (Notes 1&3)	182,280,000	31%	17.14%
		254,480,000	43.28%	23.93%
Ms. Fang Xiao Jian	Beneficial owner	182,280,000	31%	17.14%
	Held by spouse (Notes 2&3)	72,200,000	12.28%	6.79%
		254,480,000	43.28%	23.93%

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 72,200,000 shares beneficially owned by Mr. Sun Li Yong.

3. With reference to the announcement of the Company dated 31 August 2009, all the above domestic shares of 254,480,000 held by Mr. and Mrs. Sun, which represent 43.28% 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 (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 held by Mr. Sun were transferred to Zhejiang Yongli with effect from 24 December 2010.

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
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.61%

Save as disclosed above, as at 31 December 2010, 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 2010, the five largest suppliers and customers of the Company accounted for approximately 68.41% and 61.03% of the Company's purchases and turnover, respectively. The largest supplier accounted for approximately 55.52% of the purchases of the Company.

At no time during the year did a director, a supervisor, an associate or a shareholder of the Company, which to the knowledge of the Directors, own more than 5% of the Company's issued share capital, have any interest in the share capital of any of the five largest suppliers or customers of the Company.

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 2010.

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 2010, the interim results for the six months ended 30 June 2010, the third quarterly results for the nine months ended 30 September 2010 and the annual results of the Company for the year ended 31 December 2010 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 formal and transparent procedures for developing policy on such remuneration. The Remuneration Committee comprises three independent non-executive Directors during the year ended 31 December 2010. With the appointment of Mr. Ru Guan Jun as a member of the Remuneration Committee being effective on 11 March 2011, the Remuneration Committee comprises four members as at the reporting date.

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.

AUDITORS

The financial statements for the year eneded 31 December 2006 to 2010 were audited by SHINEWING (HK) CPA Limited ("SHINEWING").

A resolution will be submitted to the forthcoming annual general meeting 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 2010, audited by the auditor, SHINEWING, truly and sufficiently reflects the operating results and asset positions of the Company. The Committee also reviewed the Report of the Board of Directors and considers that the report meet 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 2010, 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. Due to the misconduct of some of the former Directors, the Company encountered financial crisis that led to delay in publishing results and dispatching reports for the year ended 31 December 2008 and 2009 and 2010, three months ended 31 March 2009 and 2010, six months ended 30 June 2009 and 2010, and nine months ended 30 September 2009 and 2010. These constitute 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 have not liaised with the Board and senior management and the Audit Committee has not met the auditor of the Company during the year ended 31 December 2008, 2009 and 2010 to monitor the integrity of financial statements of the Company' s annual reports and accounts, interim reports and quarterly reports, which does not comply with the Code Provision C.3.3.

2. 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 2010, no regular meeting was held. In addition, no annual general meeting of the Company has been held for the year of 2008, 2009 and 2010.

3. 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, 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.

4. 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 and supervisors, all directors and supervisor 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.

Saved as disclosed in this report, 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 pages 14 and 19 for the terms of appointment of each Director.

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

During the year ended 31 December 2010, no regular meeting was held to approve the financial results for the year of 2010. The Board 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. 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 three Board meetings held in the financial year ended 31 December 2010. 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	3/3
Mr. Xia Xue Nian	3/3
Mr. Marco Borio *(resigned on 23 February 2010)*	1/2
Independent Non-executive Directors	
Mr. Lu Guo Qing	3/3
Mr. Zhu Yu Lin	3/3
Mr. Zong Pei Min	3/3

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.

There was no meeting held by the Audit Committee during the year ended 2010 due to the delay in announcing results and dispatching reports of the Company.

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;

– 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 affect to the Company.

The remuneration in respect of services provided by the external international auditor and external domestic auditors for the years ended 31 December 2009 and 2010 is analysed as follows:

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Audit service	**676**	676
Performed agreed-upon procedures regarding information on preliminary annual result announcement of the Company	**44**	44
Performed agreed-upon procedures regarding financial information on connected transactions between the Company and Miroglio and its subsidiaries	**-**	44
	720	764

The audit services fee for the years ended 31 December 2010 and 2009 represent services provided by SHINEWING and Zhejiang Zhongxing. The other services fee for the year ended 31 December 2009 and 2010 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 and a majority of whom should be independent non-executive Directors. During the year ended 31 December 2010, the Remuneration Committee comprises three independent non-executive Directors namely Mr. Zong Pei Min, Mr. Lu Guo Qing and Mr. Zhu Yu Lin. Mr. Lu Guo Qing was elected as the chairman of the Remuneration Committee and Mr. Ru Guan Jun has been appointed as a member of the Remuneration Committee on 11 March 2011.

During the year ended 31 December 2010, no meeting was held by the Remuneration Committee.

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 27 of this annual report.

DIRECTORS AND SENIOR MANAGEMENT – REMUNERATION

Details of the remuneration of the Directors and senior management are contained in Note 19 to the financial statements.

INTERNAL CONTROL

Company did not conduct the internal control 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 on and has been completed 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 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, 2009 and 2010, three months ended 31 March 2009 and 2010, six months ended 30 June 2009 and 2010, and nine months ended 30 September 2009 and 2010. 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 29 to 87, which comprise the statement of financial position as at 31 December 2010, 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. 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.

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2010, 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 RMB588,855,000 and a capital deficiency of approximately RMB440,297,000 as at 31 December 2010. 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	2010 RMB'000	2009 RMB'000
Turnover	10	**85,697**	92,031
Cost of sales		**(122,096)**	(123,594)
Gross loss		**(36,399)**	(31,563)
Other operating income	10	**1,855**	1,375
Selling and distribution costs		**(502)**	(1,605)
Administrative expenses		**(13,128)**	(11,499)
Impairment loss recognised in respect of various assets	12	**(3,914)**	(7,641)
Loss on misconducts of directors	13	**(3,246)**	(3,524)
Finance costs	14	**(52,336)**	(43,224)
Loss before taxation		**(107,670)**	(97,681)
Income tax credit	15	**1,202**	1,132
Loss for the year	16	**(106,468)**	(96,549)
Other comprehensive income for the year			
Gain on revaluation of properties		**4,809**	4,528
Income tax relating to revaluation of properties		**(1,202)**	(1,132)
Other comprehensive income for the year, net of tax		**3,607**	3,396
Total comprehensive expenses for the year		**(102,861)**	(93,153)
Loss per share			
Basic and diluted	17	**RMB(10.01) cents**	RMB(9.08) cents

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	20	**140,974**	193,248
Investment properties	21	**-**	8,215
Prepaid lease payments	22	**7,584**	11,022
		148,558	212,485
Current assets			
Inventories	23	**42,159**	59,077
Trade and other receivables	24	**17,350**	46,093
Prepaid lease payments	22	**188**	273
Amounts due from related companies	25	**-**	1,585
Bank balances and cash	26	**1,706**	4,339
		61,403	111,367
Assets classified as held for sale	27	**39,526**	-
		100,929	111,367
Current liabilities			
Trade and other payables	28	**91,113**	97,037
Amounts due to guarantors	29	**442,338**	166,125
Provision	30	**34,653**	31,407
Bank borrowings	31	**121,680**	366,719
		689,784	661,288
Net current liabilities		**(588,855)**	(549,921)
		(440,297)	(337,436)

	Notes	2010 RMB'000	2009 RMB'000
Capital and reserves			
Share capital	33	**106,350**	106,350
Reserves		**(546,647)**	(443,786)
		(440,297)	(337,436)

The financial statements on pages 29 to 87 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 Director	Sun Jian Feng Director

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note (a))	Asset revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (Note (b))	Accumulated losses RMB'000 (Note (c))	Total RMB'000
At 1 January 2009	106,350	69,637	7,880	17,312	12,496	(457,958)	(244,283)
Loss for the year	-	-	-	-	-	(96,549)	(96,549)
Other comprehensive income for the year	-	-	-	3,396	-	-	3,396
Total comprehensive income (expenses) for the year	-	-	-	3,396	-	(96,549)	(93,153)
At 31 December 2009 and 1 January 2010	106,350	69,637	7,880	20,708	12,496	(554,507)	(337,436)
Loss for the year	-	-	-	-	-	(106,468)	(106,468)
Other comprehensive income for the year	-	-	-	3,607	-	-	3,607
Total comprehensive income (expenses) for the year	-	-	-	3,607	-	(106,468)	(102,861)
At 31 December 2010	106,350	69,637	7,880	24,315	12,496	(660,975)	(440,297)

Notes:

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

(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 2010 and 2009, no reserves were available for distribution due to accumulated losses being noted.

永隆實業 ENTERPRISES Onglong

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Loss before taxation	**(107,670)**	(97,681)
Adjustments for:		
Allowance for inventories	**19**	441
Amortisation of prepaid lease payments	**273**	273
Bad debts written off	**840**	-
Depreciation of property, plant and equipment	**28,378**	28,524
Depreciation of investment properties	**831**	831
Finance costs	**52,336**	43,224
Impairment loss recognised in respect of trade receivables	**3,682**	5,085
Impairment loss recognised in respect of other receivables	**232**	39
Interest income	**(4)**	(333)
Impairment loss recognised in respect of amounts due from related companies	**-**	2,517
Loss on misconducts of directors	**3,246**	3,524
Operating cash flows before movements in working capital	**(17,837)**	(13,556)
Decrease in inventories	**16,899**	350
Decrease in trade and other receivables	**21,675**	18,846
Decrease in trade and other payables	**(18,633)**	(99,821)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**2,104**	(94,181)
INVESTING ACTIVITIES		
Repayment from other receivables	**-**	140
Repayment from (advance to) related companies	**134**	(2,892)
Interest received	**4**	333
Purchase of property, plant and equipment	**(187)**	(2)
Decrease in pledged bank deposits	**-**	27,752
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(49)**	25,331
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(76,644)**	(28,721)
Interest paid	**(26,248)**	(9,770)
Advance from guarantors	**98,204**	52,878
New bank borrowings raised	**-**	52,590
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(4,688)**	66,977
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,633)**	(1,873)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**4,339**	6,212
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**1,706**	4,339

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 RMB106,468,000 for the year ended 31 December 2010 and had net current liabilities of approximately RMB588,855,000 and a capital deficiency of approximately RMB440,297,000 as at 31 December 2010. 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 end of the reporting period given that:

(i) debt restructuring of the Company's liabilities, details of which are set out in Note 38;

(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 has not been reflected in the financial statements.

3. 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").

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]
Hong Kong Accounting Standard ("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]
Hong Kong ("HK")(International Financial Reporting Interpretation Committee ("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.

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 the 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.

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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 and 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

Impairment loss on financial assets (Continued)

- 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.

For certain categories of financial asset, such as trade and other receivables and amounts due from related companies, 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 and amounts due from related companies, 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 or amounts due from related companies 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

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.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to guarantors 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

Derecognition (Continued)

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 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) 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).

(g) 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.

(h) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Non-current assets held for sale *(Continued)*

Non-current assets classified as held for sale are measured at the lower of their previous carrying value and fair value less cost to sell.

(i) 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.

(j) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Borrowing costs

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

(l) 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.

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.

(m) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Foreign currencies *(Continued)*

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.

(n) 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.

(o) Research and development expenditure

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

(p) 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.

(q) Government grants

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Government grants *(Continued)*

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 lives 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.

Ownership of buildings and prepaid lease payments

Despite certain buildings and prepaid lease payments being frozen as detailed in Notes 20, 21 and 22, respectively, a legal opinion provided by the Company's PRC legal advisor confirmed that the ownership of those frozen buildings and prepaid lease payments vested with the Company.

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 lives 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 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 2010, the carrying amount of trade receivables were approximately RMB16,102,000 (2009: RMB40,656,000), net of impairment loss of RMB25,264,000 (2009: RMB21,582,000).

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 are 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 receivable.

At 31 December 2010, the carrying amount of other receivables was approximately RMB1,248,000 (2009: RMB5,437,000), net of impairment loss of approximately RMB80,513,000 (2009: RMB80,281,000).

At 31 December 2010, the carrying amount of amounts due from related companies was nil (2009: RMB1,585,000) net of impairment loss of approximately RMB218,754,000 (2009: RMB218,754,000).

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

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 condition 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 2010, the carrying amount of inventories is approximately RMB42,159,000 (net of allowance for inventories of approximately RMB19,000) (2009: carrying amount of inventories is approximately RMB59,077,000 (net of allowance for inventories of approximately RMB441,000)).

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 Note 30). The directors determine the provision and guarantees is based on their best estimates according to their understanding of 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 31, net of bank balances and cash as disclosed in Note 26 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 period.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010	2009
	RMB'000	RMB'000
Loans and receivables (including bank balances and cash)	**18,073**	49,311
Financial liabilities at amortised cost	**639,424**	615,148

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include trade and other receivables, amounts due from related companies, bank balances and cash, trade and other payables, amounts due to guarantors 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 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$**	
	2010	2009	**2010**	2009	**2010**	2009
	'000	'000	**'000**	'000	**'000**	'000
Assets	**33**	112	**4**	489	**93**	93

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.

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

Currency risk *(Continued)*

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 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, and the balances below would be positive. The analysis is performed on the same basis for the year ended 31 December 2009.

	US$		EUR		HK$	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Impact on loss for the year *	**(8)**	(29)	**(1)**	(180)	**(3)**	(3)

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

Interest rate risk

The interest income is derived from the Company's current 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 its fixed-rate bank borrowings (see Note 31 for details of these borrowings) for the year ended 31 December 2010. 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 its variable-rate bank deposits (see Note 26 for details of these deposits) and its variable-rate bank borrowings (see Note 31 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.

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

Interest rate risk *(continued)*

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 2010, 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 2010 and accumulated losses by approximately RMB13,000 (2009: RMB795,000).

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 2009.

Credit risk

At 31 December 2010, 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 at 31 December 2010 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 debtors 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.

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

Credit risk *(continued)*

The Company's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all (2009: 92%) of the total trade receivables as at 31 December 2010.

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 2010 as the Company had net current liabilities and a capital deficiency of approximately RMB588,855,000 and RMB440,297,000 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 2010	
	Within 1 year or on demand and total undiscounted cash flow	**Carrying amounts**
	RMB'000	RMB'000
Non-derivative financial liabilities		
Trade and other payables	75,406	75,406
Amounts due to guarantors	442,338	442,338
Bank borrowings	128,100	121,680
	645,844	639,424

	At 31 December 2009	
	Within 1 year or on demand and total undiscounted cash flow	Carrying amounts
	RMB'000	RMB'000
Non-derivative financial liabilities		
Trade and other payables	82,304	82,304
Amounts due to guarantors	166,125	166,125
Bank borrowings	387,399	366,719
	635,828	615,148

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.

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:

	2010 **RMB'000**	2009 RMB'000
Turnover		
Sales of woven fabrics	**53,518**	58,598
Subcontracting fee income	**32,179**	33,433
	85,697	92,031
Other operating income		
Exchange gain (net)	**139**	276
Interest income	**4**	333
Government grants (Note)	**-**	10
Sales of scrap materials	**1,712**	756
	1,855	1,375
Total revenues	**87,552**	93,406

Note:

Government grants of approximately RMB10,000 were awarded to the Company during the year ended 31 December 2009 for encouraging business development in the Zhejiang Province.

11. SEGMENT INFORMATION

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

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

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

(a) Segment revenues and results

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

	For the year ended 31 December					
	Woven fabric		Subcontracting services		Total	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Turnover	**53,518**	58,598	**32,179**	33,433	**85,697**	92,031
Segment results	**(25,476)**	(25,082)	**(16,346)**	(14,467)	**(41,822)**	(39,549)
Unallocated corporate income						
- Interest Income					**4**	333
- Government grants					**-**	10
Unallocated corporate expenses						
- Loss on misconducts of directors					**(3,246)**	(3,524)
- Impairment loss recognised in respect of other receivables					**(232)**	(39)
- Impairment loss recognised in respect of amounts due from related companies					**-**	(2,517)
- Depreciation of investment properties					**(831)**	(831)
- Others					**(9,207)**	(8,340)
- Finance costs					**(52,336)**	(43,224)
Loss before taxation					**(107,670)**	(97,681)

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, loss on miscounducts of directors, impairment loss recognised in respect of other receivables, impairment loss recognised in respect of amounts due from related companies, 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	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Segment assets	**145,716**	216,684	**62,267**	89,866	**207,983**	306,550
Unallocated corporate assets						
- Investment properties					**-**	8,215
- Amounts due from related companies					**-**	1,585
- Other receivables					**-**	2,314
- Bank balances and cash					**1,706**	4,339
- Assets classified as held for sale					**39,527**	-
- Others					**271**	849
Total assets					**249,487**	323,852
Segment liabilities	**(17,774)**	(32,029)	**(10,687)**	(18,275)	**(28,461)**	(50,304)
Unallocated corporate liabilities						
- Other payables					**(23,824)**	(13,831)
- Accrued interests					**(38,828)**	(32,902)
- Amounts due to guarantors					**(442,338)**	(166,125)
- Provision					**(34,653)**	(31,407)
- Bank borrowings					**(121,680)**	(366,719)
Total liabilities					**(689,784)**	(661,288)

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

- all assets are allocated to reportable segments other than investment properties, amounts due from related companies, other receivables, bank balances and cash and assets classified as held for sale. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to reportable segments other than other payables, accrued interests, amounts due to guarantors, provision and bank borrowings. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

11. SEGMENT INFORMATION *(Continued)*

(c) Other segment information

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

	For the year ended 31 December					
	Woven fabric		Subcontracting services		Total	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Other segment information:						
Addition to non-current assets	**117**	2	**70**	-	**187**	2
Allowance for inventories	**19**	441	**-**	-	**19**	441
Amortisation of prepaid lease payment	**170**	174	**103**	99	**273**	273
Depreciation of property, plant and equipment	**17,722**	18,162	**10,656**	10,362	**28,378**	28,524
Impairment loss recognised in respect of trade receivables	**2,299**	3,238	**1,383**	1,847	**3,682**	5,085
Research and development costs	**216**	365	**-**	-	**216**	365

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

Interest income	**2**	212	**2**	121	**4**	333
Finance costs	**(32,684)**	(27,521)	**(19,652)**	(15,703)	**(52,336)**	(43,224)

(d) Geographical information

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

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

	Revenue from external customers	
	2010 RMB'000	2009 RMB'000
The PRC (country of domicile)	**85,697**	91,341
Asia other than the PRC	**-**	690
	85,697	92,031

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

11. SEGMENT INFORMATION *(Continued)*

(e) Information about major customers

During the years ended 31 December 2010 and 2009, 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

	2010 RMB'000	2009 RMB'000
Impairment loss recognised in respect of various assets comprised:		
- trade receivables (Note i)	**3,682**	5,085
- other receivables (Note ii)	**232**	39
- amounts due from related companies (Note iii)	**-**	2,517
	3,914	7,641
Allowance for inventories included in cost of sales (Note iv)	**19**	441

Due to misconducts of certain former directors of the Company, 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 2010, an impairment loss recognised in respect of trade receivables of approximately RMB3,682,000 (2009: RMB5,085,000) relates to the 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 2010, an impairment loss of approximately RMB232,000 was recognised in respect of staff advances recorded in trade and other receivables (2009: RMB39,000). 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 2010, no impairment loss was recognised in respect of amounts due from related companies (2009: RMB2,517,000).

iv) For the year ended 31 December 2010, the allowance for inventories of approximately RMB19,000 (2009: RMB441,000) relates to slow moving inventories which are stated at higher than its net realisable value.

13. LOSS ON MISCONDUCTS OF DIRECTORS

	2010 **RMB'000**	2009 RMB'000
Provision (Note 30)	**3,246**	3,524

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 a related company.

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 Zhejiang Gabriel Holdings Group Company Ltd. * 浙江加佰利控股集團有限公司 ("Gabriel") from Ms. Zhu Li Mei ("Ms. Zhu") (the "Zhu Loan") for an amount of RMB20,000,000, an independent third party of the Company.

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 2010, provision has been made in respect of the default payment for the amount of approximately RMB24,653,000 (2009: RMB21,407,000), which including interest and liquidated damages of approximately RMB7,953,000 (2009: RMB4,707,000) 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 of approximately RMB546,000 has been settled through bankruptcy claim from Gabriel and the remaining principal balance amount approximately of RMB16,154,000 has been fully settled by the Company on 16 June 2011.

** English name is for identification only*

14. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest expenses on:		
- bank borrowings wholly repayable within five years	**26,033**	29,726
- overdue trust receipt loans	**17,985**	8,799
- advance from guarantors	**8,318**	4,699
	52,336	43,224

15. INCOME TAX CREDIT

	2010 RMB'000	2009 RMB'000
Deferred taxation (Note 32)		
- Current year	**(1,202)**	(1,132)
	(1,202)	(1,132)

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 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.

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

	2010 RMB'000	2009 RMB'000
Loss before taxation	**(107,670)**	(97,681)
Tax at the domestic rates at 25% (2009:25%)	**(26,918)**	(24,420)
Tax effect of expense not deductible for tax purposes	**1,322**	9,431
Tax effect of tax losses not recognised	**24,613**	12,968
Tax effect of deductible temporary differences not recognised	**-**	889
Recognition of deferred tax assets for previously unrecognised deductible temporary differernces	**(219)**	-
Income tax credit	**(1,202)**	(1,132)

Details of the deferred taxation are set out in Note 32.

16. LOSS FOR THE YEAR

	2010 RMB'000	2009 RMB'000
Loss for the year has been arrived at after charging:		
Staff cost (including directors' and supervisors' emoluments):		
Salaries, wages and other benefits in kind	**19,009**	16,113
Retirement benefit scheme contributions	**333**	507
	19,342	16,620
Amortisation of prepaid lease payments	**273**	273
Auditors' remuneration	**638**	660
Bad debts written off	**840**	-
Cost of inventories recognised as expenses	**120,357**	131,406
Deprecation of investment properties	**831**	831
Depreciation of property, plant and equipment	**28,378**	28,524
Research and development costs	**216**	365

17. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the loss for the year of approximately RMB106,468,000 (2009: approximately RMB96,549,000) and the weighted average of 1,063,500,000 (2009: 1,063,500,000) ordinary shares in issue during the year.

No diluted loss per share have been presented for the two years ended 31 December 2010 and 2009 as there were no diluting events existed during those years.

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

	2010 RMB'000	2009 RMB'000
Salaries, wages and other benefits in kind	**18,815**	15,846
Retirement benefit scheme contributions	**323**	486
	19,138	16,332

As stipulated by the 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 2010, a total contribution of approximately RMB333,000 (2009: RMB507,000) was made by the Company in respect of this scheme.

19. 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 2010 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 Jian Feng	-	60	5	(29)	36
Mr. Xia Xue Nian	-	60	5	(29)	36
Mr.Marco Borio (resigned on 23 February 2010)	-	5	-	(5)	-
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 (retired on 21 February 2010)	-	30	-	(30)	-
Mr. Shao Bao Hua (retired on 21 February 2010)	-	30	-	(30)	-
Mr. Hu Jin Huan	12	-	-	-	12
Mr. Wang He Rong	12	-	-	-	12
	132	185	10	(123)	204

19. 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 2009 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 (Note d)	RMB'000
Executive directors					
Mr. Sun Li Yong (resigned on 29 July 2009)	-	40	3	(19)	24
Ms. Fang Xiao Jian (resigned on 29 July 2009)	-	40	3	(19)	24
Mr. Sun Jian Feng	-	60	5	(29)	36
Mr. Xia Xue Nian	-	60	5	(29)	36
Mr. Li Cheng Jun (retired on 17 May 2009)	-	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 (retired on 17 May 2009)	-	15	-	(15)	-
Mr. Hu Jin Huan	12	-	-	-	12
Mr. Wang He Rong	12	-	-	-	12
	132	407	21	(272)	288

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

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

None of the directors of the Company were included among the five highest paid individuals in the Company during the two years ended 31 December 2010 and 2009. The emoluments of the five highest paid individuals were as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries, allowances and other benefits in kind	**180**	180
Retirement benefits schemes contributions	**11**	17
	191	197

Their emoluments were within the following bands:

	No. of individuals	
	2010	2009
Nil to HK$1,000,000 (equivalent to Nil to RMB850,900) (2009: equivalent to Nil to RMB880,500)	**5**	5

(c) No emoluments 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 2010 and 2009.

(d) During the two years ended 31 December 2010 and 2009, three (2009: six) directors and two (2009: three) supervisors waived emoluments of approximately RMB123,000 and RMB272,000 respectively.

20. 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 2009	134,745	1,752	202,629	2,025	6,688	347,839
Additions	-	-	-	2	-	2
Adjustment on revaluation	(3,481)	-	-	-	-	(3,481)
At 31 December 2009	131,264	1,752	202,629	2,027	6,688	344,360
Additions	-	-	141	30	16	187
Adjustment on revaluation	(3,320)	-	-	-	-	(3,320)
Transferred to assets held for sale (Note 27)	(28,892)	-	-	-	-	(28,892)
Written off	-	(556)	-	-	-	(556)
At 31 December 2010	99,052	1,196	202,770	2,057	6,704	311,779
At 31 December 2010						
At cost	-	1,196	202,770	2,057	6,704	212,727
At valuation - 2010	99,052	-	-	-	-	99,052
	99,052	1,196	202,770	2,057	6,704	311,779
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2009	-	1,623	123,689	1,796	3,489	130,597
Provided for the year	8,009	73	20,347	95	-	28,524
Eliminated on revaluation	(8,009)	-	-	-	-	(8,009)
At 31 December 2009	-	1,696	144,036	1,891	3,489	151,112
Provided for the year	8,129	23	20,158	68	-	28,378
Eliminated on revaluation	(8,129)	-	-	-	-	(8,129)
Eliminated on written off	-	(556)	-	-	-	(556)
At 31 December 2010	-	1,163	164,194	1,959	3,489	170,805
CARRYING VALUES						
At 31 December 2010	99,052	33	38,576	98	3,215	140,974
At 31 December 2009	131,264	56	58,593	136	3,199	193,248

20. 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 2010 and 2009 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 RMB52,929,000 (2009: RMB56,874,000).

(e) At 31 December 2010, certain buildings with carrying values of approximately RMB26,378,000 were transferred to assets held for sale. The details are set out in Note 27.

(f) In June 2009, the Company received a court order from the Hangzhou Xiacheng District People's Court (杭州下城區人民法院) to freeze certain buildings as a result of a litigation against the Company in relation to act as a guarantor and provide a guarantee to secure loans granted to Gabriel by Ms. Zhu Li Mei. At 31 December 2010, the carrying amount of approximately RMB86,766,000 (2009: RMB88,957,000) of buildings has been frozen, which including carrying amount of approximately RMB13,784,000 (2009: Nil) under assets held for sale. The details of guarantee provided by the Company are set out in Note 30.

On 10 June 2011, the Company entered into a settlement agreement in which the outstanding amounts have been settled. The details are set out in Note 30. As of the date of approval of these financial statements, the assets were released by the relevant authorities.

21. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2009 and 31 December 2009	**16,199**
Transferred to assets held for sale (Note 27)	**(16,199)**
At 31 December 2010	**-**
DEPRECIATION AND IMPAIRMENT	
At 1 January 2009	**7,153**
Provided for the year	**831**
At 31 December 2009	**7,984**
Provided for the year	**831**
Transferred to assets held for sale (Note 27)	**(8,815)**
At 31 December 2010	**-**
CARRYING VALUES	
At 31 December 2010	**-**
At 31 December 2009	**8,215**

(a) The fair values of the Company's investment properties at 31 December 2009 was approximately RMB9,484,000. The fair value has been arrived based on a valuation carried out by Avista Valuation Advisory Limited ("Avista"), independent qualified professional valuers not connected with the Company. Avista has 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 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.

21. INVESTMENT PROPERTIES *(Continued)*

(d) In June 2009, the Company received a court order from the Hangzhou Xiacheng District People's Court (杭州下城區人民法院) to freeze certain investment properties as a result of a litigation against the Company in relation to act as guarantor and provide guarantee to secure loans granted to Gabriel by Ms. Zhu Li Mei. At 31 December 2010, the carrying amount of approximately RMB7,384,000 (2009: RMB8,215,000) of investment properties has been frozen. The details of guarantee provided by the Company are set out in Note 30.

(e) At 31 December 2010, all investment properties with carrying values of approximately RMB7,384,000 were transferred to assets held for sale. The details are set out in Note 27.

22. PREPAID LEASE PAYMENTS

	2010 **RMB'000**	2009 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	**7,584**	11,022
Current assets	**188**	273
	7,772	11,295

(a) In June 2009, the Company received a court order from the Hangzhou Xiacheng District People's Court ("杭州下城區人民法院") (the "Court") to freeze certain prepaid lease payments as a result of a litigation against the Company in relation to act as guarantor and provide guarantee to secure loans granted to Gabriel by Ms. Zhu Li Mei. At 31 December 2010, the carrying amount of approximately RMB11,022,000 (2009: RMB11,295,000) of prepaid lease payments has been frozen, which including carrying amount of approximately RMB3,250,000 (2009: Nil) under assets held for sales. The details of guarantee provided by the Company are set out in Note 30.

On 10 June 2011, the Company entered into a settlement agreement in which the outstanding amounts have been settled. The details are set out in Note 30. As of the date of approval of these financial statements, the assets were released by the Court.

(b) During the year ended 31 December 2010, certain prepaid lease payments amounting to approximately RMB3,250,000 were transferred to assets held for sale. The details are set out in Note 27.

23. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	**8,989**	10,230
Work in progress	**2,422**	7,445
Finished goods	**30,748**	41,402
	42,159	59,077

At 31 December 2010, inventories to the amount of approximately RMB37,974,000 (2009: RMB49,751,000) was stated at net realisable value.

24. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	**41,366**	62,238
Less: impairment loss recognised	**(25,264)**	(21,582)
	16,102	40,656
Prepayments, deposits and other receivables	**81,761**	85,718
Less: impairment loss recognised	**(80,513)**	(80,281)
	1,248	5,437
Total trade and other receivables	**17,350**	46,093

At 31 December 2010, other receivables included cash advances to Zhejiang Yonghe Enterprises Co., Ltd. * 浙江永禾實業有限公司("Zhejiang Yonghe") with balance of approximately RMB79,851,000 (2009: RMB82,165,000).

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

24. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2010 RMB'000	2009 RMB'000
0 – 60 days	14,995	27,742
61 – 90 days	515	2,568
91 – 365 days	592	2,915
Over 365 days	-	7,431
	16,102	40,656

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

	2010 RMB'000	2009 RMB'000
At the beginning of the year	21,582	16,497
Recognised during the year	3,682	5,085
At the end of the year	25,264	21,582

At 31 December 2010, included in the impairment loss are individually impaired trade receivables with an aggregate balance of approximately RMB25,264,000 (2009: RMB21,582,000) which are due to 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 follow:

	2010 RMB'000	2009 RMB'000
At beginning of the year	80,281	80,242
Recognised during the year	232	39
At end of the year	80,513	80,281

24. TRADE AND OTHER RECEIVABLES *(Continued)*

At 31 December 2010, included in the impairment loss of other receivables are individually impaired other receivables with an aggregate balance of approximately RMB662,000 (2009: RMB430,000) which are due to long outstanding. The remaining balance of impairment loss of approximately RMB79,851,000 (2009: RMB79,851,000) have been recognised due to the misconducts of certain former directors of the Company. The Company does not hold any collateral over these balances.

(d) At 31 December 2010 and 2009, the analysis of trade receivables that were past due but not impaired are as follows:

		Neither past due nor impaired	Past due but not impaired			
	Total		**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 2010	**16,102**	**15,543**	**69**	**272**	**218**	**-**
At 31 December 2009	40,656	30,967	927	797	534	7,431

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:

	2010	2009
	'000	'000
US$	**-**	101
EUR	**-**	282

25. AMOUNTS DUE FROM RELATED COMPANIES

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

	At 31 December 2010			
	Gabriel RMB'000	**Zhejiang Hongxing Textiles Co., Ltd.* "浙江宏興紡織有限公司" ("Zhejiang Hongxing") RMB'000**	**Zhejiang Hongxing Sabrina Garments Ltd.* "浙江宏興莎美娜服飾有限公司" ("Zhejiang Sabrina") RMB'000**	**Total RMB'000**
	(Note i)	(Note ii)	(Note ii)	
Amounts due from related companies	158,605	37,974	22,175	218,754
Less: impairment loss recognised	(158,605)	(37,974)	(22,175)	(218,754)
	-	-	-	-
Maximum amounts outstanding during the year	159,411	38,408	22,600	

	At 31 December 2009			
	Gabriel RMB'000	Zhejiang Hongxing RMB'000	Zhejiang Sabrina RMB'000	Total RMB'000
	(Note i)	(Note ii)	(Note ii)	
Amounts due from related companies	159,411	38,362	22,566	220,339
Less: impairment loss recognised	(158,605)	(37,974)	(22,175)	(218,754)
	806	388	391	1,585
Maximum amounts outstanding during the year	159,411	38,362	23,385	

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

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

	2010	2009
	RMB'000	RMB'000
At the beginning of the year	**218,754**	216,237
Recognised during the year	**-**	2,517
At the end of the year	**218,754**	218,754

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.

26. BANK BALANCES AND CASH

For the year ended 31 December 2010 and 2009, bank balances represented short-term deposits with a maturity of three months or less. The interest rates ranged from 0.36 % to 0.72% per annum (2009: 0.36 % to 0.72% per annum).

Included in the bank balances and cash are the following amounts denominated in a currency other than the functional currency of the Company:

	2010	2009
	'000	'000
US$	**33**	11
EUR	**4**	207
HK$	**93**	93

27. ASSETS CLASSIFIED AS HELD FOR SALE

On 29 December 2010, a resolution was passed by the board of directors of the Company to dispose of certain buildings, investment properties and prepaid lease payments (the "Disposal"). On 30 August 2011, the Company has entered into a memorandum of understanding with 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") in respect of the Disposal. Pursuant to the agreement, the Disposal will be completed before the end of 2011.

The non-current assets classified as held for sale represent as follows:

	2010 **RMB'000**	2009 RMB'000
Buildings (Note 20)	**28,892**	-
Investment properties (Note 21)	**7,384**	-
Prepaid lease payments (Note 22)	**3,250**	-
	39,526	-

At the date of approval of these financial statements, the transaction was still in progress.

** English name is for identification only*

28. TRADE AND OTHER PAYABLES

	2010 **RMB'000**	2009 RMB'000
Trade payables (Notes i & ii)	**12,609**	26,659
Accrued interests (Note iii)	**38,828**	32,902
Receipt in advance	**1,361**	7,554
Other taxes payable	**14,346**	7,179
Accrued expenses and other payables	**23,969**	22,743
	91,113	97,037

(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 former directors of the Company, the Company was unable to settle all the payables within the credit period and several suppliers took legal action against the Company, details of which are set out in Note 36.

28. TRADE AND OTHER PAYABLES *(Continued)*

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

	2010 RMB'000	2009 RMB'000
0 – 60 days	**4,309**	11,870
61 – 90 days	**488**	4,844
91 – 365 days	**222**	2,457
Over 365 days	**7,590**	7,488
	12,609	26,659

(iii) Accrued interests included interests for outstanding bank loans over the borrowing terms amounting to approximately RMB38,828,000 for the year ended 31 December 2010 (2009: RMB32,902,000). At the date of approval of these financial statements, the accrued interests have been fully settled.

29. AMOUNTS DUE TO GUARANTORS

As disclosed in Note 36, 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 amounts represent the settlement of bank borrowings made by the Guarantors on behalf of the Company.

	2010 RMB'000	2009 RMB'000
Xiongsheng and Xiongfeng	**31,728**	31,524
Lingda	**21,563**	20,333
Zhiye	**19,985**	10,000
Jinggong	**96,763**	28,126
Zhejiang Yongli	**272,299**	76,142
	442,338	166,125

The amounts are unsecured, interest bearing and repayable on demand. The average effective interest rate of the advance from guarantors is 3.06% per annum (2009: 2.98% per annum).

** English name is for identification only*

30. PROVISION

	2010 RMB'000	2009 RMB'000
At the beginning of the year	**31,407**	27,883
Provided during for the year (Note 13)	**3,246**	3,524
At the end of the year	**34,653**	31,407

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 the independent third parties of the Company.

(i) On 21 September 2009, 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 2010, provision has been made in respect of the default payment for the amount of approximately RMB24,653,000 (2009: RMB21,407,000), which including interest and liquidated damages of approximately RMB7,953,000 (2009: RMB4,707,000) 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 of approximately RMB546,000 has been settled through bankruptcy claim from Gabriel and the remaining principal balance amount 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 Zhejiang 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.

30. PROVISION *(Continued)*

On 9 October 2009, a civil judgment was issued by the Zhejiang 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 of RMB200,000, as a guarantor, the Company is jointly and severally liable to a sum of RMB10,000,000.

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

The provision is made based on the final judgment issued by the relevant court.

31. BANK BORROWINGS

	Notes	**2010 RMB'000**	2009 RMB'000
Bank loans, within credit terms		**-**	9,000
Bank loans, overdue		**90,700**	275,859
		90,700	284,859
Overdue trust receipt loans		**30,980**	81,860
Total bank borrowings	(i) & (ii)	**121,680**	366,719
Secured	(vi)	**10,000**	120,509
Unsecured		**111,680**	246,210
		121,680	366,719

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

	2010 RMB'000	2009 RMB'000
Fixed-rate bank loans	**121,680**	256,290
Variable-rate bank loans	**-**	110,429
	121,680	366,719

31. BANK BORROWINGS *(Continued)*

(ii) All bank borrowings are repayable on demand or due within one year.

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

	2010	2009
Fixed-rate bank loans	**5.91% - 8.22%**	5.84% - 8.22%
Variable-rate bank loans	**-**	6.69% - 8.61%
Overdue bank loans	**8.87% - 12.33%**	9.21% - 12.92%
Overdue bills payables	**18%**	18%

(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:

	2010 RMB'000	2009 RMB'000
Gabriel and independent third parties	**-**	39,931
Mr. and Mrs. Sun, Mr. Sun Jian Feng, Mr. Xia Xue Nian, Mr. Li Cheng Jun and Gabriel	**-**	25,500
Mr. and Mrs. Sun and independent third parties	**111,680**	105,059
Independent third parties	**-**	70,720
	111,680	241,210

(v) The accrued interests at 31 December 2010 of approximately RMB38,828,000 (2009: RMB32,902,000) are recorded under current liabilities.

(vi) Details of the assets pledged for bank borrowings granted to the Company are set out in Note 35.

32. DEFERRED TAXATION

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 31 December 2008	(6,406)	4,221	1,847	-	338	-
(Charged) credited to other comprehensive income	(1,132)	1,132	-	-	-	-
At 31 December 2009	(7,538)	5,353	1,847	-	338	-
(Charged) credited to other comprehensive income	(1,202)	1,198	4	-	-	-
At 31 December 2010	(8,740)	6,551	1,851	-	338	-

At the end of the reporting period, the Company had unused tax losses of approximately RMB217,311,000 (2009: RMB118,858,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the above unused tax losses due to unpredictability of future profit streams. 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 RMB375,985,000 (2009: RMB372,052,000). A deferred tax assets has been recognised in respect of RMB33,611,000 (2009: RMB28,802,000) in relation to such deductible temporary differences. No deferred tax asset has been recognised in respect of the remaining deductible temporary differences of RMB342,374,000 (2009: RMB343,250,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

33. 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 2009, 31 December 2009 and 31 December 2010	588,000	58,800
H shares at 1 January 2009, 31 December 2009 and 31 December 2010	475,500	47,550
Total share capital of RMB0.10 each at 1 January 2009, 31 December 2009 and 31 December 2010	**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.

34. NON-CASH TRANSACTIONS

The Company has undertaken the following non-cash transactions during the two years ended 31 December 2010 and 2009:

(i) Bills payables and bank loans has been directly settled by the guarantors of the Company of approximately RMB52,500,000 (2009: RMB50,000,000) and RMB114,534,000 (2009: RMB41,000,000) respectively.

(ii) Bank loans has been directly settled by the related companies of the Company of approximately RMB1,361,000.

(iii) Overdue trust receipt loans and bank loans interests has been directly settled by the guarantors, related companies and Zhejiang Yonghe to the bank of approximately RMB17,744,000 (2009: RMB1,299,000), RMB104,000 (2009: Nil) and RMB2,314,000 (2009: Nil) respectively.

35. 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:

	2010 **RMB'000**	2009 RMB'000
Buildings	**-**	103,102
Plant and machinery	**-**	16,599
Investment properties	**-**	8,215
Prepaid lease payments	**-**	11,155
	-	139,071
Assets classified as held for sales	**9,993**	-
	9,993	139,071

36. 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 2010, the total amount of bank loans was RMB121,680,000, in which loans in an aggregate amount of approximately RMB91,547,000 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 2010, total bills payable amounting to RMB30,980,000 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 29 and 38.

(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 RMB1,446,000. All cases were settled following the subsequent settlement in 2011.

36. LITIGATION *(Continued)*

(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 as a result of the misappropriation of funds. 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.

(v) As disclosed in Note 30, the Company acted as a guarantor granted by Ms. Zhu to Gabriel in the principal amount of 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. Details of which are stated in Notes 20, 21 and 22. The frozen assets were released following the subsequent settlement of the amount.

37. 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 guarantee given by related parties to the banks in respect of the loans granted to the Company as at 31 December 2010 set out in Note 31.

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

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

Name of company	Nature	2010 RMB'000	2009 RMB'000
Zhejiang Sabrina (Note i)	Electricity cost reimbursement	**3**	254
	Purchase of goods	**-**	2
Zhejiang Hongxing (Note i)	Electricity cost reimbursement	**9**	598
Miroglio S.p.A. and its subsidiaries ("Miroglio S.p.A Group") (Note ii)	Sales of goods	**1**	668
Zhejiang Miroglio Fulida Textile Co., Ltd. ((浙江米羅利奧富麗達紡織有限公司) ("Miroglio Fulida") (Note iii)	Subcontracting fee	**-**	24
	Sales of goods	**-**	94

Notes:

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

ii. On 24 March 2005, Miroglio S.p.A. became a substantial shareholder of the Compnay and ceased to be a substantial shareholder of the Company on 23 February 2010. Sales recognised by the Company for the period from 1 January 2010 to 23 February 2010 was approximately RMB1,000 (2009: RMB668,000). At 31 December 2009, the amounts due from Miroglio S.p.A. Group (included in trade receivables) were amounted to approximately RMB61,000. 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 of the transactions that were incurred.

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 2009, the amount due to Miroglio Fulida (included in trade payables) was amounted to approximately RMB36,000. The outstanding balance was incurred in the ordinary course of business of the Company and on normal commercial terms, hence, it is repayable accordingly to the relevant contractual terms of the transactions that were incurred.

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

(d) The remuneration of directors and other members of key management for the two years ended 31 December 2010 and 2009 were as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries, other short-term employee benefits and equity-settled share-based payment expenses	**199**	267
Post-employment benefits	**5**	21
	204	288

38. EVENTS AFTER THE REPORTING PERIOD

As disclosed in the Company's announcement 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 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.

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

(ii) Debt restructuring *(Continued)*

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) On 25 December 2010, 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;

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

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

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

(1) The Company shall owe the sum of approximately RMB239,677,000 (as shown in the table above) to Zhejiang Yongli, and Zhejiang Yongli shall permanently abandon any claim against the Company for the repayment of debt amounting to approximately RMB187,089,000, 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 annually until the full repayment of the debt;

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

(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.

RESULTS

	For the year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(restated)	
TURNOVER	**85,697**	92,031	324,992	384,007	415,572
(LOSS) PROFIT BEFORE TAXATION	**(107,670)**	(97,681)	(529,093)	835	(736)
TAXATION	**1,202**	1,132	11,303	4,326	5,219
(LOSS) PROFIT FOR THE YEAR	**(106,468)**	(96,549)	(517,790)	5,161	4,483

ASSETS AND LIABILITIES

	At 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**249,487**	323,852	417,901	695,522	696,127
TOTAL LIABILITIES	**(689,784)**	(661,288)	(662,184)	(423,368)	(429,134)
(DEFICIENCY OF) SHAREHOLDERS' FUNDS	**(440,297)**	(337,436)	(244,283)	272,154	266,993

Note: The summary of the results and the assets and liabilities of the Company for the year ended 31 December 2006, 2007, 2008, 2009 and 2010 are extracted from the audited financial statements.