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 Republice of China)

(Stock Code: 8211)

2011 INTERIM REPORT

* for identification purpose only

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

HIGHLIGHTS

For the six months ended 30 June 2011,

- turnover of the Company increased from approximately RMB28.50 million to approximately RMB55.06 million, representing a rise of approximately 93.22% when compared to the corresponding period in 2010;

- net profit was approximately RMB13.15 million; and

- the Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011.

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

The board of directors (the "Board" or the "Directors") of 浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd.*) (the "Company") is pleased to announce the unaudited results of the Company for the three months and six months ended 30 June 2011, together with the comparative results for the corresponding periods in 2010 as follows:

		Three months ended 30 June		**Six months ended 30 June**	
		2011	2010	**2011**	2010
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	*3*	**41,494**	12,706	**55,060**	28,496
Cost of sales		**(39,602)**	(20,564)	**(52,465)**	(41,987)
Gross profit (loss)		**1,892**	(7,858)	**2,595**	(13,491)
Other operating income	*3*	**12,530**	380	**18,989**	622
Selling and distribution costs		**(51)**	(45)	**(121)**	(169)
Administrative expenses		**(2,477)**	(2,436)	**(3,688)**	(4,359)
Impairment loss recognised in respect of various assets	*5*	**-**	(7,705)	**-**	(8,572)
Loss on misconducts of directors	*6*	**-**	(812)	**-**	(1,623)
Finance costs	*7*	**(1,540)**	(12,412)	**(4,623)**	(28,737)
Profit (loss) before taxation		**10,354**	(30,888)	**13,152**	(56,329)
Income tax expenses	*8*	**-**	-	**-**	-
Profit (loss) and total comprehensive income (expenses) for the period	*9*	**10,354**	(30,888)	**13,152**	(56,329)
Profit (loss) per share – basic and diluted	*11*	**RMB 0.97 cent**	RMB (2.90) cents	**RMB 1.23 cents**	RMB (5.30) cents

UNAUDITED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Notes	**As at 30 June 2011 RMB'000 (Unaudited)**	As at 31 December 2010 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	**130,747**	140,974
Prepaid lease payments		**7,537**	7,584
		138,284	148,558
CURRENT ASSETS			
Inventories		**42,787**	42,159
Trade and other receivables	13	**20,494**	17,350
Prepaid lease payments		**141**	188
Bank balance and cash		**13,387**	1,706
		76,809	61,403
Assets classified as held for sale		**39,526**	39,526
		116,335	100,929
CURRENT LIABILITIES			
Trade and other payables	14	**89,768**	91,113
Amounts due to guarantors	15	**528,178**	442,338
Provision		**10,000**	34,653
Bank borrowings	16	**53,818**	121,680
		681,764	689,784
NET CURRENT LIABILITIES		**(565,429)**	(588,855)
		(427,145)	(440,297)
CAPITAL AND RESERVES			
Share capital		**106,350**	106,350
Reserves		**(533,495)**	(546,647)
		(427,145)	(440,297)

UNAUDITED CONDENSED CASH FLOW STATEMENT

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Net cash (used in) from operating activities	**(5,168)**	19,310
Net cash used in investing activities	**(1,129)**	(67)
Net cash from (used in) financing activities	**17,978**	(22,338)
Net increase (decrease) in cash and cash equivalents	**11,681**	(3,095)
Cash and cash equivalents at beginning of the period	**1,706**	4,339
Cash and cash equivalents at end of the period, representing bank balances and cash	**13,387**	1,244

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital *RMB'000*	Share premium *RMB'000*	Other reserve *RMB'000* (Note (a))	Assets revaluation reserve *RMB'000*	Statutory surplus reserve *RMB'000* (Note (b))	Accumulated losses *RMB'000* (Note (c))	Total *RMB'000*
Balance at 1 January 2010	106,350	69,637	7,880	20,708	12,496	(554,507)	(337,436)
Total comprehensive expenses for the period	-	-	-	-	-	(56,329)	(56,329)
Balance at 30 June 2010	106,350	69,637	7,880	20,708	12,496	(610,836)	(393,765)
Balance at 1 January 2011	106,350	69,637	7,880	24,315	12,496	(660,975)	(440,297)
Total comprehensive income for the period	-	-	-	-	-	13,152	13,152
Balance at 30 June 2011	106,350	69,637	7,880	24,315	12,496	(647,823)	(427,145)

Notes:

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

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

(c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 30 June 2011 and 2010, no reserves were available for distribution due to accumulated losses being noted.

Notes:

1. BASIS OF PREPARATION

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

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

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

The Company has prepared the condensed financial statements in accordance with the applicable disclosure required by the GEM Listing Rules and with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2010. The unaudited results are prepared in accordance with accounting principles generally accepted in Hong Kong.

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

The financial statements have been prepared in accordance with new and revised standards and interpretations ("new and revised HKFRSs") issued by the HKICPA.

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[8]
HKFRS 10	Consolidated Financial Statements[8]
HKFRS 11	Joint Arrangements[8]
HKFRS 12	Disclosure of Interests in Other Entities[8]
HKFRS 13	Fair Value Measurement[8]
Hong Kong Accounting Standard ("HKAS") 1 (Revised)	Presentation of Financial Statements[7]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 19 (as revised in 2011)	Employee Benefits[8]
HKAS 24 (Revised)	Related Party Disclosures[4]

HKAS 27 (as revised in 2011)	Separate Financial Statements[8]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[8]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
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) added requirements for financial liabilities and for derecognition.

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

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

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

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

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

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

3. TURNOVER AND OTHER OPERATING INCOME

Turnover represents the 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 periods is as follows:

	Three months ended 30 June		**Six months ended 30 June**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Turnover				
Sales of woven fabrics	**28,609**	9,594	**37,988**	23,080
Sub-contracting fee income	**12,885**	3,112	**17,072**	5,416
	41,494	12,706	**55,060**	28,496
Other operating income				
Gain on disposal of plant and machinery	**1,062**	-	**1,385**	-
Interest income	**1**	2	**2**	3
Government grants (Note i)	**2,462**	-	**2,462**	-
Insurance compensation	**-**	-	**-**	61
Sales of scrap materials	**506**	378	**1,136**	558
Other debts waived by a creditor	**-**	-	**5,505**	-
Provision for a claim over-provided (Note ii)	**8,499**	-	**8,499**	-
	12,530	380	**18,989**	622
Total revenues	**54,024**	13,086	**74,049**	29,118

Notes:

(i) Government grants of approximately RMB2,462,000 were awarded to the Company during the six months ended 30 June 2011 as financial support to enterprises that had financial difficulties.

(ii) The amount of approximately RMB8,499,000 represents provision for finance costs payable to Ms. Zhu Li Mei over-provided and written off during the six months ended 30 June 2011 after an agreement has been signed with Ms. Zhu on 16 June 2011 as set out in Note 6.

4. SEGMENTAL 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	- Research and development, manufacture and sale of woven fabrics
Sub-contracting services	- Provision of sub-contracting services

(a) Segment revenues and results

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

	For the six months ended 30 June					
	Woven fabric		**Sub-contracting services**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
		(restated)				(restated)
Turnover	**37,988**	23,080	**17,072**	5,416	**55,060**	28,496
Segment results	**3,748**	(16,657)	**(2,166)**	(6,948)	**1,582**	(23,605)
Unallocated corporate income						
- Gain on disposal of plant and machinery					**1,385**	-
- Interest income					**2**	3
- Government grants					**2,462**	-
- Other debts waived by a creditor					**5,505**	-
- Provision for a claim over-provided					**8,499**	-
Unallocated corporate expenses						
- Impairment loss recognised in respect of other receivables					**-**	(857)
- Loss on misconducts of directors					**-**	(1,623)
- Depreciation of investment properties					**-**	(415)
- Others					**(1,660)**	(1,095)
- Finance costs					**(4,623)**	(28,737)
Profit (loss) before taxation					**13,152**	(56,329)

Segment results represents the results of each segment without allocation of gain on disposal of plant and machinery, interest income, government grants, other debts waived by a creditor, provision for a claim over-provided, impairment loss recognised in respect of other receivables, loss on misconducts of directors, 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.

(b) Geographical information

During the six months ended 30 June 2011 and 2010, the Company's operations are located in the PRC only.

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
The PRC (country of domicile)	**55,060**	28,496

5. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF VARIOUS ASSETS

	Three months ended 30 June		**Six months ended 30 June**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Impairment loss recognised in respect of various assets comprised:				
- trade receivables (Note i)	-	7,175	-	7,715
- other receivables (Note ii)	-	530	-	857
	-	7,705	-	8,572

Notes:

i) For the period ended 30 June 2010, the impairment loss recognised in respect of trade receivables of approximately RMB7,715,000 relates to the amounts which are due to long outstanding and the balances are considered not fully recoverable at the end of the reporting period.

ii) For the period ended 30 June 2010, impairment losses of approximately RMB17,000 and approximately RMB840,000 were recognised in respect of staff advances and cash advance to a related company respectively. In light of those staffs went into resignation and the related company being in the process of liquidation, the directors of the Company considered the likelihood of recovery of the amounts due being very remote and impairment loss has been recognised.

6. LOSS ON MISCONDUCTS OF DIRECTORS

With reference to the announcement of the Company dated 24 July 2009, during the year ended 31 December 2008, there was a misappropriation of the Company's funds by certain former directors and major shareholders of the Company, Mr. Sun Li Yong ("Mr. Sun") and his wife, Ms. Fang Xiao Jian ("Mrs. Sun") which consisted of the provision of fund advances and financial guarantees to a related company for securing loans granted to the 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") 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 2008, the Zhu Loan has been expired and Gabriel was unable to repay the loan to Ms. Zhu. On 19 June 2009, the Company received a writ from Hangzhou Xiacheng District People's Court (杭州市下城區人民法院) in relation to a claim of the outstanding Zhu Loan by Ms. Zhu against Gabriel, the Company and Mr. Sun for the outstanding overdue borrowings principal plus the interest and liquidated damages amount of approximately RMB21,731,000. On 20 October 2009, the Company received a civil judgment issued by 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 of approximately RMB16,154,000 has been fully settled by the Company on 16 June 2011.

(ii) On 18 October 2008, the Yatai Loan has been expired and Gabriel was unable to repay the loan to Yatai. On 18 August 2009, the Company received a writ from Shaoxing Intermediate People's Court (紹興市中級人民法院) in relation to a claim of the outstanding Yatai Loan by Yatai against Gabriel and the Company for the outstanding overdue borrowings principal plus the interest and legal fees amount of approximately RMB30,280,000. On 9 October 2009, a civil mediation was issued by Shaoxing Intermediate People's Court, pursuant to which Gabriel is liable to repay the sum of outstanding principal of RMB20,000,000, the interest for the period between 18 September 2008 to 20 October 2009 and legal fees amount of RMB200,000, as a guarantor, the Company is jointly and severally liable to a sum of RMB10,000,000.

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

** English name is for identification only*

7. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest on bank borrowings wholly repayable within five years	**1,540**	10,332	**4,623**	24,578
Add: interest paid for the loan from a guarantor	**-**	2,080	**-**	4,159
	1,540	12,412	**4,623**	28,737

8. INCOME TAX EXPENSES

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

No provision for PRC Enterprise Income Tax has been provided for the period as the Company had no estimated assessable profit arising in or derived from the PRC during the three and six months ended 30 June 2011 (three and six months ended 30 June 2010: nil).

No Provision for Hong Kong Profits Tax has been provided for the period as the Company did not have any assessable profits subject to Hong Kong Profits Tax for the three and six months ended 30 June 2011 (three and six months ended 30 June 2010: nil).

9. PROFIT (LOSS) FOR THE PERIOD

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit (loss) for the period has been arrived at after charging:				
Depreciation and amortisation	**6,249**	7,333	**12,807**	14,681

10. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months and six months ended 30 June 2011.

11. PROFIT (LOSS) PER SHARE

The calculation of the basic profit (loss) per share is based on the following data:

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit (loss) for the purpose of calculating basic loss per share	**10,354**	(30,888)	**13,152**	(56,329)
Number of shares for the purpose of basic profit (loss) per share (Note)	**1,063,500,000**	1,063,500,000	**1,063,500,000**	1,063,500,000
Weighted average number of shares for the purpose of calculating profit (loss) per share	**1,063,500,000**	1,063,500,000	**1,063,500,000**	1,063,500,000

Note:

No diluted profit (loss) per share has been presented for the three months and six months ended 30 June 2011 and 2010 as there was no diluting events during these periods.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period for the six months ended 30 June 2011, the Company spent approximately RMB3,191,000 (31 December 2010: RMB187,000) in additions of property, plant and equipment.

13. TRADE AND OTHER RECEIVABLES

The Company allows an average credit period of 60 to 120 days to its trade customers. The aged analysis of trade receivables net of impairment losses at the respective balance sheet dates is as follows:

	30 June 2011	31 December 2010
Trade receivables	***RMB'000***	*RMB'000*
0– 60 days	**17,022**	14,995
61 – 90 days	**1,040**	515
91 – 365days	**-**	592
Over 365 days	**-**	-
	18,062	16,102
Other receivables	**2,432**	1,248
	20,494	17,350

14. TRADE AND OTHER PAYABLES

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Trade payables (Note i)	**25,933**	12,609
Accrued interests (Note iii)	**37,471**	38,828
Receipt in advance	**3,964**	1,361
Other taxes payable	**7,796**	14,346
Accrued expenses and other payables	**14,604**	23,969
	89,768	91,113

(i) The Company normally receives credit periods from suppliers ranging from 30 days to 90 days.

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

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
0 – 60 days	**18,421**	4,309
61 – 90 days	**77**	488
91 – 365 days	**109**	222
Over 365 days	**7,326**	7,590
	25,933	12,609

(iii) Accrued interests including overdue interests amounts to approximately RMB37,471,000 for the period ended 30 June 2011 (31 December 2010: RMB38,828,000).

15. AMOUNTS DUE TO GUARANTORS

The amount is unsecured, interest bearing and repayable on demand. The effective interest rate of the loan from a guarantor is 3.06% per annum (31 December 2010: 3.06% per annum).

16. BANK BORROWINGS

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Bank loans, overdue	**53,818**	90,700
Overdue bills payables	**-**	30,980
Total bank borrowings	**53,818**	121,680
Secured	**-**	10,000
Unsecured	**53,818**	111,680
	53,818	121,680

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

ii) Certain bank borrowings of the Company are guaranteed by the former directors of the Company and independent third parties. The amounts of the guarantees provided by the former directors and independent third parties are as follows:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Mr. Sun Li Yong, Ms. Fang Xiao Jian and independent third parties	**53,818**	111,680

iii) The accrued interests at 30 June 2011 of approximately RMB37,471,000 (31 December 2010: RMB38,828,000) were recorded under current liabilities.

17. 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:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Assets classified as held for sales	**-**	9,993

18. LITIGATION

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

(i) Legal action of banks

Due to the impact of the financial crisis of Gabriel, (i) as at 30 June 2011, the total amount of bank loans was approximately RMB53,818,000 from the relevant banks could not be renewed as usual upon their maturity due to the reason that guarantors (including Gabriel, Mr. and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee. In addition, due to the financial problems encountered by the Company, the Company cannot repay the above bank loans and bills upon maturity. In view of the above, the relevant banks have taken legal actions against the Company. At the date of this document, the amounts have been fully settled by the Guarantors on behalf of the Company. Details are set out in Note 20.

(ii) Overdue trade creditors

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

(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 cost would be approximately RMB63,315,000 which was based on the percentage of completion of the project and approximately RMB3,961,000 should be paid by the Company. Legal action was taken against the Company following the amount being unsettled and in accordance with the judgment dated 21 October 2009, the Company was liable to the outstanding construction fee of RMB3,961,000 plus court related expenses. At the date of this document, the amounts have been fully settled.

(iv) Staff quarters

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

(v) The Company acted as a guarantor for loans granted by Ms. Zhu to Gabriel in the principal amount of approximately RMB20,000,000. Following the default on repayment from Gabriel, a court order received by the Company in June 2009 from Hangzhou Xiacheng District People's Court (杭州下城區人民法院) ruled that certain land and buildings of the Company would be frozen. The frozen assets were released following the subsequent settlement of the amount in 2011.

19. RELATED PARTY TRANSACTIONS

During the period for the six months ended 30 June 2010, the Company had the following transactions with the related parties:

		Six months ended 30 June	
		2011	2010
Name of related party	**Nature**	***RMB'000***	*RMB'000*
Sabrina (Note i)	Electricity cost reimbursement	**-**	2
Hongxing (Note ii)	Electricity cost reimbursement	**-**	8
Zhejiang Yongli	Electricity	**3,367**	-
Thermal (Note iii)	Steam	**198**	-

Notes:

(i) 浙江宏興莎美娜服飾有限公司(Zhejiang Hongxing Sabrina Garments Co., Ltd.*)("Sabrina") is a subsidiary of Gabriel in which Mr. Xia Xue Nian and Mr. Sun Jian Feng, directors of the Company, have beneficial interests.

(ii) 浙江宏興紡織有限公司(Zhejiang Hongxing Textiles Co., Ltd.*)("Hongxing") is a subsidiary of Gabriel.

(iii) 浙江永利熱電有限公司(Zhejiang Yongli Thermal electricity Company Limited*)("Zhejiang Yongli Thermal") is a subsidiary of Zhejiang Yongli Industry Group Co., Ltd.* 浙江永利實業集團有限公司 ("Zhejiang Yongli") and Mr. Xia Xian Fu is a common director of the Company and it.

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

20. EVENTS AFTER THE REPORTING PERIOD

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

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

(i) Shareholding reorganisation

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

(ii) Debt restructuring

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

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

(iii) Business reorganisation

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

(iv) Reorganisation support

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

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

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

(a) 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.

(c) The signed letters of undertaking from these 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 entered into debt restructuring agreements with each of the Company's five creditors, namely (1) Zhejiang Xiongsheng Holding Co., Ltd. * "浙江雄盛實業有限公司" ("Xiongsheng") and Xiongfeng Holding Group Co., Ltd. * "雄峰控股集團有限公司" ("Xiongfeng"), (2) Zhejiang Lingda Industry Co., Ltd. * "浙江凌達實業有限公司" ("Lingda"), (3) Zhejiang Zhiye Real Estate Group Co., Ltd. * "浙江置業房產集團有限公司" ("Zhiye"), (4) Jinggong Group Co., Ltd. * "精功集團有限公司" ("Jinggong") and (5) Zhejiang Yongli on 20 July 2011, 15 August 2011, 17 August 2011, 13 September 2011 and 15 August 2011 respectively to settle the Company's debts owed to these creditors. Each of the five creditors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of such portion of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies. The breakdowns of these debt restructuring agreements are summarized in the table below:

	Creditors	Total amount to be settled *RMB'000*	Debts settlement according to Debt Agreements: Waived by the creditor *RMB'000*	Released as a result of government support *RMB'000*	Settled by Zhejiang Yongli *RMB'000*	Debt owed to the creditor after Debt Agreements *RMB'000*
1	Xiongsheng and Xiongfeng	122,753	42,963	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 also entered into a debt restructuring agreement with Zhejiang Yongli on 13 September 2011 with the following repayment terms:

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30 June 2011, the Company recorded a turnover of approximately RMB55.06 million, represents a sharp increase of approximately 93.22% when compared with the same period in 2010. It is mainly because both of the turnovers of sales of woven fabrics and subcontracting services fee income increased approximately 64.59% and 215.21% respectively when compared with the same period in 2010. Since 24 December 2010, Zhejiang Yongli has become a substantial shareholder of the Company. Under the financial support of Zhejiang Yongli, the Company has been gradually returned to the major business division of sales of woven fabrics. Under the cost control adopted in early 2011, the Company recorded a gross profit of approximately RMB2.60 million and the administrative expenses and selling expenses decreased by approximately 15.40% and 28.40% respectively. Finance cost decreased by approximately 83.91% as most of the bank loans were repaid by the guarantors. Profit and loss per share for the six months ended 30 June 2011 and 2010 were approximately RMB1.23 cents and RMB5.30 cents respectively.

Business and operation review

Since 24 December 2010, Zhejiang Yongli has become a substantial shareholder of the Company. Under the financial support of Zhejiang Yongli, the Company has been gradually returned to the major business division of sales of woven fabrics. In view of the financial problem in Europe and the U.S., the overseas markets have been shrinking, however, the local demand has been increasing. The business of the Company will focus on the domestic market and the sales efforts will be put on expanding domestic market shares and continuously consolidating the military fabric production. During the six months ended 30 June 2011, the Company did not restart the export sales business. The sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB6.67 million during the six months ended 30 June 2011, which represents approximately 12.11% of the total turnover.

Production facilities

During the six months ended 30 June 2011 under review, the Company spent approximately RMB68,000 in upgrade of office and factory equipment, approximately RMB2,044,000 in replacement of plant and machinery and approximately RMB1,078,000 in renewal of factory buildings.

Product research and development

During the six months ended 30 June 2011, the Company continued to innovate and develop new products so as to meet the customers' need and enhance sales orders from customers. 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 a long-term cooperation in the areas including the application of raw material, 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 to cooperate with CTDC will strengthen the market competitiveness of the Company.

Outlook

Due to the misconduct of certain 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 18 and for management purposees, the operation of the Company has to be reorganized into two divisions, that are, 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 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 20.

Subsequent to the letter of intent signed for the Restructuring Proposal as set out in Note 20, 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 entered into debt agreements with each of the five guarantors of the Company as set out in Note 20. After that, each of the five guarantors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies.

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 30 June 2011, although the Company reported a profit of approximately RMB13,152,000 for the period then ended 30 June 2011, it had net current liabilities of approximately RMB565,428,000 and a capital deficiency of approximately RMB427,145,000. The 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 liability 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 stated in Note 20;

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

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

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

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

As at 30 June 2011 and 31 December 2010, the Company had no material capital commitments or significant investments.

MATERIAL ACQUISITIONS/ DISPOSALS

During the six months ended 30 June 2011, the Company did not have any material acquisitions/ disposals.

SEGMENTAL INFORMATION

Segmental information of the Company is set out in Note 4.

CHARGES ON COMPANY ASSETS

The details of pledge of assets of the Company is set out in Note 17.

EMPLOYEE AND EMOLUMENT POLICIES

At 30 June 2011, the Company had 514 employees (31 December 2010: 759), comprising 5 (31 December 2010: 6) in research and development, 3 (31 December 2010: 7) in sales and marketing, 439 (31 December 2010: 688) in production, 54 (31 December 2010: 49) in quality control, 4 (31 December 2010 : 3) in management, and 9 (31 December 2010: 6) 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, Euro and Hong Kong Dollars, are required to settle the Company's expenses and additions on plant and equipment. 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.

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

As at 30 June 2011, the interests and short positions of the directors, chief executives and supervisors of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company

Name of Directors	Type of interests	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares	Approximate percentage of interests in the total registered capital
Mr. Sun Jian Feng	Personal	Beneficial owner	5,880,000	1%	0.55%
Mr. Xia Xue Nian	Personal	Beneficial owner	5,880,000	1%	0.55%

Save as disclosed above, as at 30 June 2011, none of the directors, chief executives or supervisors of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by directors to be notified to be Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2011, so far as it is known to the directors, chief executives or supervisors of the Company, the persons (not being a director, chief executive or supervisor of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO, were as follows:

Long positions in the shares of the Company

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	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 the 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 represents 23.93% 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.

H shares of RMB0.1 each of the Company

Name of shareholder	Capacity	Number of H shares held	Approximate percentage of interests in H shares	Approximate percentage of interests in total registered capital
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.60%

Save as disclosed above, as at 30 June 2011, 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 under the GEM Listing Rules) of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company under the period under review and up to date of this document.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in May 2002 with written terms of reference, which have been updated in accordance with the provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors, Mr. Lu Guo Qing, Mr. Zong Pei Min and Mr. Zhu Yu Lin. Mr. Lu Guo Qing is the chairman of the Audit Committee.

The Audit Committee has reviewed the interim results of the Company for the six months ended 30 June 2011.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2011, 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 as set out in Note 6, 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, 2010 and 2011, six months ended 30 June 2009, 2010 and 2011, and nine months ended 31 September 2009, 2010 and 2011. 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 has 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, 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 six months ended 30 June 2011, no regular meeting was held due to the delay in announcing the results and dispatching reports of the Company.

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 since 27 July 2009 until the appointments of Mr. Ru Guan Jun as the chairman of the Company passed on the extraordinary general meeting of the Company held on 11 March 2011 by the shareholders and Mr. Xia Xian Fu as the chief executive officer of the Company.

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 an independent auditor to review the internal control system of the Company and the relevant report is expected to be completed before end of 2011.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2011.

SUSPENSION OF TRADING

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

By Order of the Board
Ru Guan Jun
Chairman

Zhejiang, the PRC, 28 November 2011

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

**For identification purpose only*