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 THIRD QUARTERLY REPORT

* for identification purpose only

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HIGHLIGHTS

For the nine months ended 30 September 2011,

– turnover of the Company increased sharply from approximately RMB47.43 million to approximately RMB108.96 million, representing an increase of approximately 129.75% when compared to the corresponding period in 2010;

– net profit was approximately RMB398.38 million; and

– the Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2011.

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 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 nine months ended 30 September 2011, together with the comparative results for the corresponding periods in 2010 as follows:

		Three months ended 30 September		**Nine months ended 30 September**	
		2011	2010	**2011**	2010
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	*3*	**53,899**	18,930	**108,959**	47,426
Cost of sales		**(47,817)**	(27,909)	**(100,282)**	(69,896)
Gross profit (loss)		**6,082**	(8,979)	**8,677**	(22,470)
Other operating income	*3*	**376,198**	430	**395,187**	1,052
Selling and distribution costs		**(51)**	(35)	**(173)**	(204)
Administrative expenses		**(1,626)**	(1,465)	**(5,314)**	(5,824)
Impairment loss reversed in respect of various assets		**-**	15	**-**	(8,557)
Loss on misconducts of directors		**-**	(812)	**-**	(2,435)
Finance costs	*4*	**4,622**	(12,035)	**-**	(40,772)
Profit (loss) before taxation		**385,225**	(22,881)	**398,377**	(79,210)
Income tax expenses	*5*	**-**	-	**-**	-
Profit (loss) and total comprehensive income (expenses) for the period	*6*	**385,225**	(22,881)	**398,377**	(79,210)
Profit (loss) per share – basic and diluted	*8*	**RMB 36.22 cents**	RMB (2.15) cents	**RMB 37.45 cents**	RMB (7.45) cents

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	-	-	-	-	-	(79,210)	(79,210)
Balance at 30 September 2010	106,350	69,637	7,880	20,708	12,496	(633,717)	(416,646)
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	-	-	-	-	-	398,377	398,377
Balance at 30 September 2011	106,350	69,637	7,880	24,315	12,496	(262,598)	(41,920)

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 September 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 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 September		**Nine months ended 30 September**	
		2011	2010	**2011**	2010
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover					
Sales of woven fabrics		**43,956**	10,109	**81,944**	33,189
Subcontracting fee income		**9,943**	8,821	**27,015**	14,237
		53,899	18,930	**108,959**	47,426
Other operating income					
Interest income		**2**	-	**4**	3
Other debts waived by a creditor		**-**	-	**5,505**	-
Government grants	(a) & (b)	**187,090**	-	**189,552**	-
Insurance compensation		**-**	-	**-**	61
Sales of scrap materials		**882**	430	**2,018**	988
Debts waived by guarantors	(a)	**168,326**	-	**168,326**	-
Gain on disposal of plant and machinery		**42**	-	**1,427**	-
Finance cost over provided in previous years	(c)	**19,856**	-	**28,355**	-
		376,198	430	**395,187**	1,052
Total revenues		**430,097**	19,360	**504,146**	48,478

(a) 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 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:

(i) 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.

(ii) 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.

(iii) 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.

(iv) The Company has entered into debt restructuring agreements with each of the Company's five creditors, namely (1) Zhejiang Xiongsheng Holding Co., Ltd. * "浙江雄盛實業有限公司" ("Xiongsheng") and Xiongfeng Holding Group Co., Ltd. * "雄峰控股集團有限公司" ("Xiongfeng"), (2) Zhejiang Lingda Industry Co., Ltd. * "浙江凌達實業有限公司" ("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:

		Debts settlement according to Debt Agreements			
Creditors	**Total amount to be settled**	**Waived by the creditor**	**Released as a result of government support**	**Settled by Zhejiang Yongli**	**Debt owed to the creditor 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 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.

In addition to the five Guarantors, the Company has signed an agreement with Ms. Zhu Li Mei ("Ms. Zhu") on 16 June 2011 which provides that, after Ms. Zhu has obtained repayment of a portion of debts through the winding up procedure of Zhejiang Gabriel Holding Group Company Ltd.* "浙江加佰利控股集團有限公司" ("Gabriel"), and the court enforcement against the Company respectively, the Company shall pay all the 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, Shaoxing Yatai Investment Co., Ltd. 紹興縣亞太投資有限公司, 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.

(b) Government grants of approximately RMB2,462,000 and approximately RMB187,090,000 were awarded to the Company during the nine months ended 30 September 2011 for financial support to the enterprise that had financial difficulties according to the letter of intent signed on 6 December 2010 between the Company, Zhejiang Yongli and the Local Government respectively as stated in Note (a) above.

(c) Finance costs of approximately RMB19,856,000 and approximately RMB8,499,000 were provided in previous years for overdue bank loans and bills payables and provision for claim respectively. The over-provided amount was written off after the debt agreements have been signed between the guarantors and Ms. Zhu during the nine months ended 30 September 2011, details are set out in Note (a) above.

4. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest (over-provided) on bank borrowings wholly repayable within five years	**(4,622)**	9,956	**-**	34,534
Add: interest paid for the loan from a guarantor	**-**	2,079	**-**	6,238
	(4,622)	12,035	**-**	40,772

5. 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 nine months ended 30 September 2011 (three and nine months ended 30 September 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 nine months ended 30 September 2011 (three and nine months ended 30 September 2010: nil).

6. PROFIT (LOSS) FOR THE PERIOD

	Three months ended 30 September		Nine months ended 30 September	
	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	**5,882**	7,320	**18,689**	22,001

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months and nine months ended 30 September 2011 respectively.

8. PROFIT (LOSS) PER SHARE

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

	Three months ended 30 September		Nine months ended 30 September	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit (loss) for the purpose of calculating basic profit (loss) per share	**385,225**	(22,881)	**398,377**	(79,210)
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: Diluted profit (loss) per share has not been calculated for the three months and nine months ended 30 September 2011 and the corresponding periods in 2010 as there were no dilutive potential ordinary shares during these periods.

9. RELATED PARTY TRANSACTIONS

During the period for the nine months ended 30 September 2011, the Company had the following transactions with the related parties:

Name of related party	**Nature**	**Nine months ended 30 September 2011** ***RMB'000***	2010 *RMB'000*
Sabrina (Note i)	Electricity cost reimbursement	-	2
Hongxing (Note ii)	Electricity cost reimbursement	-	8
Zhejiang Yongli Thermal	Electricity	**5,546**	-
(Note iii)	Steam	**448**	-

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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the nine months ended 30 September 2011, the Company recorded a turnover of approximately RMB108.96 million, represents a sharp increase of approximately 129.75% 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 by approximately 146.90% and 89.75% 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. The turnover of sales of woven fabrics was about 75.20% of the total turnover for the nine months ended 30 September 2011, representing a slight increase of approximately 5.22% when compared with the same period in 2010. Under the cost control adopted in early 2011, the Company recorded a gross profit of approximately RMB8.68 million and the administrative expenses and selling expenses decreased by approximately 8.75% and 15.31% respectively. After the debt agreements signed with the guarantors during the nine months ended 30 September 2011 (details are set out in Note 3), certain debts were waived and various provisions that over-provided previously were written off. These result in a substantial amount of income of approximately RMB398.38 million. In addition, as all the outstanding bank loans were either repaid by the Company or waived by the guarantors according to the debt agreements signed during the nine months ended 30 September 2011, the financial costs were not paid or provided during the period. Profit and loss per share for the nine months ended 30 September 2011 and 2010 were approximately RMB37.45 cents and RMB7.45 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. The turnover of sales of woven fabrics was about 75.20% of the total turnover for the nine months ended 30 September 2011, representing a slight increase of 5.22% when compared with the same period in 2010. In view of the financial problems 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 nine months ended 30 September 2011, the Company did not restart the export business. The sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB13.75 million during the nine months ended 30 September 2011, which represents approximately 12.62% of the total turnover.

Production facilities

During the nine months ended 30 September 2011 under review, the Company spent approximately RMB140,000 in upgrade of office and factory equipment, approximately RMB2,813,000 in replacement of plant and machinery and approximately RMB1,603,000 in renewal of factory buildings.

Product research and development

During the nine months ended 30 September 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. 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 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 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 3.

Subsequent to the letter of intent signed for the Restructuring Proposal as set out in Note 3, 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 the executive directors of the Company and Mr. Ru Guan Jun to be the Chairman of the Board of Directors and they were appointed accordingly at the extraordinary general meeting held on 11 March 2011. From 20 July 2011 to 13 September 2011, the Company has signed debt agreements with each of five Guarantors of the Company as set out in Note 3. After that, each of the five Guarantors agreed to waive a portion of debts 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.

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

As at 30 September 2011, 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 (Chapter 571 of the Laws of Hong Kong) (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 September 2011, none of the directors, chief executives or supervisors of the Company had interest or short position 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 the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 30 September 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 September 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 during 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. Zhu Yu Lin and Mr. Zong Pei Min. Mr. Lu Guo Qing is the chairman of the Audit Committee.

The Audit Committee has reviewed the third quarterly results of the Company for the nine months ended 30 September 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 Director and supervisors, all directors and supervisors confirmed that they had complied with the required standard and the code of conduct regarding securities transactions by directors and supervisors adopted by the Company.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 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*