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 ANNUAL REPORT

* for identification purpose only

Contents

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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

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

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

Supervisors
Ms. Wang Ai Yu *(Chairman)*
Mr. Liu Guang Wei
Mr. Hu Hua Jun

Independent supervisors
Mr. Wang He Rong
Mr. Hu Jin Huan

Company secretary and qualified accountant
Ms. Chen Yen Yung - *CPA (Aust.), CPA*

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

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

Legal address
Yangxun Qiao Town
Shaoxing County
Zhejiang Province
PRC

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

Compliance officer
Mr. Xia Xue Nian

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

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

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

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

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

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

Stock code
8211

** English name is for identification only*

For the year ended 31 December 2011,

– turnover of the Company increased from approximately RMB85.70 million in year 2010 to approximately RMB195.43 million in year 2011, representing a sharp increase of approximately 128.04% when compared to the year ended 31 December 2010;

– profit for the year was approximately RMB397.57 million; and

– the Directors do not recommend the payment of a final dividend for the year ended 31 December 2011.

On behalf of the board of directors (the "Board" or the "Directors") of 浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd.*) (the "Company"), I am pleased to present to our shareholders the annual report of the Company for the year ended 31 December 2011.

FINANCIAL PERFORMANCE

For the year ended 31 December 2011, the Company recorded a turnover of approximately RMB195.43 million, represents a sharp increase of approximately 128.04% 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 195.07% and 16.59% 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 80.80% of the total turnover for the year ended 31 December 2011, representing an increase of approximately 18.35% when compared with the same period in 2010. Under the cost control adopted in early 2011, the Company recorded a gross profit of approximately RMB14.22 million and the administrative expenses and selling expenses decreased by approximately 26.42% and 46.22% respectively. After the debt agreements signed with the guarantors during the year ended 31 December 2011 (details are set out in Note 28), certain debts were waived and various overprovided provisions in prior years were written off. These result in a substantial amount of other income of approximately RMB369.49 million. In addition, finance income incurred mainly due to reversal of over-provision of finance costs as a result of the waiver given by the respective guarantors and reversal of over-provision of interest expenses on bank borrowings. Earnings (loss) per share for the year ended 31 December 2011 and 2010 were approximately RMB37.38 cents and (RMB10.01) cents respectively.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011.

OUR STRATEGIES GOING FORWARD

After the Company has entered into the debt agreements with the five Guarantors in the third quarter of 2011 as set out in Note 28 to the financial statements, the financial crisis of the Company has been resolved. The Directors will then focus on the following strategies in order to enhance the benefits to the shareholders of the Company:

A: OPENING UP THE MARKET AND EXPANDING DOMESTIC SALES

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

B: INNOVATIVE PRODUCTS, ENHANCING THE VALUE

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

C: STREAMLINING OPERATIONS, SAVING COST

With reference to the announcement of the Company dated 16 January 2012, in early January 2011, in view of sufficiency of production capacity, the Company consolidated the production, production machines and manpower from the old factory site to the existing factory site in order to streamline operations, optimise personnel and assets, enhance cost control and achieve the purpose of cost saving.

In addition, since February 2011, in order to further reduce the production cost and enhance the stable supply of electricity and steam, the Company commenced purchase electricity and steam from 浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited*)("Zhejiang Yongli Thermal"), a subsidiary of 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd.*)("Zhejiang Yongli"), the ultimate holding company of the Company since 9 March 2012. On 30 December 2011, the Company further entered into an agreement with Zhejiang Yongli Thermal for provision of electricity and steam for the period from 1 January 2012 to 31 December 2014 in order to (1) ensure that the Company will have a sufficient supply of electricity and steam over the next three years, (2) insulate the Company from the potential increase and fluctuations in the market rate, and therefore (3) enable the Company to stay competitive in the competitive fabric industry, details are set out in the circular of the Company dated 24 February 2012.

PROSPECTS

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 紹興縣楊汛橋鎮人民政府 (The People's Government of Yang Xun Qiao Town, Shaoxing County*) (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 the announcement of the Company dated 29 December 2010.

Subsequent to the letter of intent signed for the Restructuring Proposal, 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 Mr. Xia Xian Fu to be the Chief Executive Officer of the Company. They were appointed accordingly at the extraordinary general meeting ("EGM") held on 11 March 2011. During 20 July 2011 to 13 September 2011, the Company has signed debt agreements with each of the five guarantors namely Zhejiang Xiongsheng Holding Co., Ltd.* "浙江雄盛實業有限公司" ("Xiongsheng") and Xiongfeng Holding Group Co., Ltd.* "雄峰控股集團有限公司" ("Xiongfeng"), Zhejiang Lingda Industry Co., Ltd.* "浙江凌達實業有限公司" ("Lingda"), Zhejiang Zhiye Real Estate Group Co., Ltd.* "浙江置業房產集團有限公司" ("Zhiye"), Jinggong Group Co., Ltd.* " 精功集團有限公司" ("Jinggong") and Zhejiang Yongli (collectively referred to as the "Guarantors"). of the Company as set out in the announcement of the Company dated 18 October 2011. After that, each of the five Guarantors agreed to waive a portion of debts and to permanently abandon any claim against the Company for repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies. In view of the above changes and arrangement and based on the experience of the management and the well established infrastructure of the Company, the Directors believe that the Company will overcome the challenges and achieve sustainable business growth as before.

APPRECIATION

On behalf of the Board, I wish to extend our appreciation to our customers, vendors, banks and shareholders for their enthusiasm and support, and to every employee for their hard work and dedication throughout the year.

Ru Guan Jun
Chairman

Zhejiang, the PRC, 12 March 2012

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 80.80% of the total turnover for the year ended 31 December 2011, representing an increase of 18.35% 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 year ended 31 December 2011, the Company has not restarted the export business. The sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB16.59 million during the year ended 31 December 2011, which represents approximately 8.49% of the total turnover.

Production Factilities

During the year ended 31 December 2011 under review, the Company spent approximately RMB144,000 in upgrade of office and factory equipment, approximately RMB4,098,000 in replacement of machinery and approximately RMB1,802,000 in renewal of factory buildings.

Product research and development

During the year ended 31 December 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.

Sales and marketing

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During year ended 31 December 2011, the Company financed its operations mainly by internally generated cash and financial support from the ultimate holding company, Zhejiang Yongli. After the debt agreements (details are set out in the announcement of the Company dated 19 October 2011) entered into between the Company and the Guarantors during July 2011 to September 2011, the bank borrowings were either repaid by the Guarantors or repaid in advance by Zhejiang Yongli. In additions, according to the debt agreement entered into between the Company and Zhejiang Yongli on 13 September 2011, the Company is required to repay Zhejiang Yongli commencing from fifth anniversary after the signing of the debt agreement provided that the amount to be repaid shall not exceed 50% of the operating cash flow on annual basis until the full repayment of the debt. The Board expects that these debt agreements would improve the Company's financial position, and increase the Company's short-term working capital. In addition, this arrangement would provide the Company with the flexibility to repay any debt amount at any time within five years after 13 September 2011. Furthermore, Zhejiang Yongli signed a one-year (from 1 November 2011 to 31 October 2012) financial support letter on 31 October 2011 and further extended it to 30 June 2013 by signing a letter dated 30 November 2011. Both letters confirm that it is the present intention of Zhejiang Yongli to provide financial support for the continuing operations of the Company so as to enable the Company to meet its liabilities as fall due and carry on its business without a significant impact on operations in the said period. The two financial support letters help ensure that the Company will have sufficient capital till 30 June 2013, in addition to the Company's own cash flow from operation.

As at 31 December 2011, the Company's current assets and net current assets (liabilities) were approximately RMB98.94 million (31 December 2010: approximately RMB61.40 million) and approximately RMB71.95 million (31 December 2010: approximately RMB(588.86) million) respectively. The liquidity ratio of the Company, represented by the ratio of current assets over current liabilities, was approximately 1.49 (31 December 2010: 0.09).

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

At 31 December 2011, the Company had no commitments (2010: Nil) for capital expenditure.

MATERIAL DISPOSALS

On 29 December 2010, a resolution was passed by the board of directors of the Company to dispose of certain buildings, investment properties and prepaid lease payments (the "Selling Assets"). On 30 August 2011, the Company signed a memorandum of understanding with the Local Government in respect of disposal of the Selling Assets. On 30 December 2011, the Company and the Local Government entered into an assets transfer agreement pursuant to which the Local Government agreed to acquire and the Company agreed to dispose of the Selling Assets at a consideration of RMB 79,772,200. The disposal will be completed on or before 30 September 2012 in accordance with the terms of the assets transfer agreement.

SEGMENTAL INFORMATION

Segmental information of the Company is set out in Note 10 to the financial statements.

CHARGES ON COMPANY ASSETS

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

EMPLOYEE AND EMOLUMENT POLICIES

At 31 December 2011, the Company had 505 employees (2010: 759), comprising 4 (2010: 6) in research and development, 3 (2010: 7) in sales and marketing, 470 (2010: 688) in production, 16 (2010: 49) in quality control, 5 (2010: 3) in management, and 7 (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 ("USD"), Euro and Hong Kong Dollars, are required to settle the Company' s expenses and additions on plant and equipment and all the direct export sales of the Company are denominated in USD. Since RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government, the Company has used forward contracts, foreign currency borrowings and other means to hedge its foreign currency exposure. The Company considers it has no material foreign exchange risk.

EXECUTIVE DIRECTORS

Mr. Ru Guan Jun (茹關筠先生), aged 64, is currently the Chairman and executive Director of the Company and is responsible for the strategic planning of the Company. He was a vice director and a director of 供銷社 (Supply and Market Co-operative Societies*) in Fucheng, Taoyan and Gaobu,Shaoxing County from October 1968 to November 1984; a vice director of 供銷社 (Supply and Market Co-operative Societies*) in Shaoxing County from December 1984 to January 1986; a deputy director and director of Finance and Tax Bureau in Shaoxing County from February 1986 to May 1990; a deputy magistrate and a magistrate of Municipal People's Government in Shaoxing County from June 1990 to January 1998; a Deputy Mayor of Shaoxing Municipal People's Government and serving as a member of Standing Committee of Shaoxing Municipal Committee from February 1998 to July 2003; a chairman of 中國輕紡城集團股份有限公司 (China Qing Fang City Group Limited*), a PRC listing company from August 2003 to March 2007. He has been worked as a deputy general manager of Zhejiang Yongli since January 2008. Mr. Ru graduated from Zhejiang University of Finance and Economics. He has over 40 years of experience in corporate management in the PRC. He joined the Company in December 2010 and has been appointed as an executive Director of the Company by the EGM held on 11 March 2011 and elected as a Chairman of the Board on the same day.

Mr. Xia Xian Fu (夏先夫先生), aged 56, is currently an executive Director and Chief Executive Officer (General Manager) of the Company. He is responsible for the overall management, sales and production of the Company. Prior to joining the Company, he was a factory director of 楊汛橋鎮新五紡織廠 (Yangxunqiao Xinwu Textiles Factory*) from March 1983 to February 1987; a workshop director and a planning department head of 紹興天橋紡織廠 (Shaoxing County Tianqiao Textiles Factory*) from February 1989 to December 1991; a factory director of 紹興市整理廠 (Shaoxing County Zhengli Factory*) from January 1992 to January 1993; a factory director of 浙江永利集團滌綸廠 ((Zhejiang Yongli Group Polyester Factory*) from February 1993 to January 1998; a vice party secretary and a factory director of Zhejiang Yongli as well as a general manager of Zhejiang Yongli Thermal from February 1998 to February 2010 and a general manager of the audit department of Zhejiang Yongli from March 2010 to December 2010. Mr. Xia graduated in December 1998 from Zhejiang University of Technology and major in Economics Management. He has over 28 years of experience in corporate management in the textile industry in the PRC. He joined the Company in December 2010 and was recommended by the Board as a Chief Executive Officer (General Manager) of the Company on 29 December 2010. He has been appointed as an executive director of the Company by the EGM held on 11 March 2011.

Mr. Sun Jian Feng (孫建鋒先生), aged 41, is an executive Director of the Company. Mr. Sun is responsible for the financial management of the Company. Mr. Sun received his diploma in accounting from the Hangzhou University of Commerce (杭州商學院) in 1990. He has over 20 years of experience in finance and accounting. He joined the Company in April 2002.

Mr. Xia Xue Nian (夏雪年先生), aged 46, is an executive Director of the Company. Mr. Xia is responsible for corporate administration of the Company. He received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has over 25 years of experience in the corporate management. He joined the Company in April 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lu Guo Qing (陸國慶先生), aged 47, is an independent non-executive Director of the Company. Mr. Lu graduated from the Hangzhou University in 1986 and holds a degree in law. He is a licensed lawyer and is a partner of 浙江中法大律師事務所 (Zhejiang Zhong Fa Law Firm*), a law firm in Zhejiang Province. He has extensive experience in securities law. During 1988 to 1998, he practiced in 浙江國大律師事務所 (Zhejiang Guoda Law Firm*). He is currently an independent non-executive director of 浙江展望股份有限公司 (Zhejiang Prospect Company Limited*) (Stock code: 8273), whose shares are listed on the GEM of the Stock Exchange. He was re-appointed as an independent non-executive Director of the Company in January 2012.

Mr. Zhu Yu Lin (竺玉林), aged 52, is an independent non-executive Director of the Company. Mr. Zhu graduated from Zhejiang University of Finance & Economics (浙江財經學院) in 1982 and holds a degree in commerce. He is a PRC Certified Public Accountant (中國註冊會計師), a PRC Certified Assets Appraiser (中國註冊資產評估師) and a PRC Certified Tax Appraiser (中國註冊稅務師). During the period from July 1982 to August 1999, he worked as administrative accountant in Zhejiang University of Finance & Economics (浙江財經學院). He has been practicing in 浙江之江會計師事務所 (Zhejiang Zhijiang Certified Public Accountants*) which was formerly named as 浙江周財會計師事務所 (Zhejiang Zhoucai Certified Public Accountants*), a certified public accounting firm in Zhejiang Province, the PRC since August 1999 and he is also a director of 浙江之江會計師事務所 (Zhejiang Zhijiang Certified Public Accountants*). He was re-appointed as an independent nonexecutive Director of the Company in January 2012.

Mr. Zong Pei Min (宗佩民先生), aged 48, is an independent non-executive Director of the Company. Mr. Zong graduated from Hangzhou University of Commerce (杭州商學院) in 1989 and holds a degree in economics. During the period from August 1989 to May 1990, he was working as an assistant lecturer at 金華職業技術學院 (Jin Hua Technical Institute*). From June 1990 to March 2000, he was working at 浙江興合集團 (Zhejiang Xing He Group*) as supervisor of investment department. From April 2000 to July 2002, he was working at 浙江省天堂矽谷創業有限公司 (Zhejiang Tian Tang Gui Gu Chuang Ye Investment Ltd.*) as general manager at the consulting and research department. He is currently director of 浙江華睿投資有限公司 (Zhejiang Hua Rui Investment Management Co. Ltd.*). Mr. Zong was re-appointed as an independent nonexecutive Director of the Company in January 2012.

INDEPENDENT SUPERVISORS

Mr. Hu Jin Huan (胡金煥先生), aged 47, is an independent Supervisor of the Company. He is responsible for performing the supervisory function in relation to the Board of Directors, manager and other officers of the Company and report independently to the shareholders in general meeting of the Company. He is a PRC certified public accountant and is now working as an audit supervisor in 紹興興業會計師事務所 (Shaoxing Xingye Certified Public Accountants*). He was re-appointed as an independent Supervisor of the Company in January 2012.

Mr. Wang He Rong (王和榮先生), aged 50, is an independent Supervisor of the Company. He is responsible for performing the supervisory function in relation to the Board of Directors, manager and other officers of the Company and report independently to the shareholders in general meeting of the Company. He is a PRC certified public accountant and is now working as an audit supervisor in 紹興宏泰會計師事務所 (Shaoxing Hongtai Certified Public Accountants*). He was re-appointed as an independent Supervisor of the Company in January 2012.

SUPERVISORS

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

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

Mr. Hu Hua Jun (胡華軍) aged 26, is currently an assistant to the Chairman of the Company and is responsible for all secretarial work of the Chairman. Prior to joining the Company, Mr. Hu worked in finance department of Zhejiang Yongli from July 2008 to May 2010 and then in the general manager's office of Zhejiang Yongli from May 2010 to December 2010. He received a bachelor degree in Accounting at Economics and Management Faculty, The University of South China, Hunan. He joined the Company in December 2010 and also has been appointed as a Supervisor of the Company by the EGM held on 11 March 2011.

SENIOR MANAGEMENT

Ms. Chen Yen Yung (陳燕雲女士), aged 40, is a company secretary of the Company and the spouse of Mr. Sun Jian Feng. Ms. Chen studied in the Hong Kong Polytechnic University for higher certificate in accountancy and holds a bachelor's degree in commerce (accounting) from the Curtin University of Technology, Western Australia. She has over 18 years of experience in accounting and finance field. She is a member of the Australian Society of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. From February 1995 to February 2001, she was an assistant manager of K. L. Lee & Partners CPA Limited, Certified Public Accountants in Hong Kong. From February 2001 to June 2002, she was director of BMI Consultants Limited, a business consultancy services company in Hong Kong. She joined the Company in June 2002.

Ms. Wang Ai Yu (王愛玉女士) aged 48, is currently a manager of the finance and accounting department of the Company and is responsible for the management of daily operation of the finance department of the Company. She graduated from Chong Qing University. Ms. Wang was a teacher of 楊汛橋中心小學 (Yangxuqiao Zhongxin Primary School*) in Shaoxing County from February 1979 to January 1980 and working in the accounting department of 紹興市蜜餞廠 (Shaoxing County Mijian Factory*) from February 1980 to February 1987. She has acted as a finance manager of Zhejiang Yongli since February 1987. Ms. Wang has an extensive experience in finance and is well versed of the national taxation law, the accounting rules and the relevant finance, taxation, audit rules and policies. She is good at analysis and has accumulated substantial experience in data analysis, capital operation from different finance projects. She has established a set of comprehensive rules and regulations for internal control for Zhejiang Yongli in order to reduce the investment risk of the enterprises. She also has standardised the audit method for the corporate finance of and enhanced the quality of financial information, thereby enhancing the supervision in finance services within Zhejiang Yongli. Ms. Wang has over 31 years of experience in finance and accounting. She joined the Company in December 2010 and also has been appointed as a Supervisor of the Company by the EGM held on 11 March 2011 and then a chairman of the Supervisory Committee.

Mr. Liu Guang Wei (劉光偉先生) aged 48, currently works as an officer of the Company's general manager's office and is responsible for the management of the daily operation of administrative department. He received a bachelor degree in Economics from Zhongnan University of Economics and Law in 1989, a bachelor degree in Business Administration from Party School of The Zhejiang Committee of the CCP Zhejiang School of Administration in 2003. Mr. Liu also studied post graduated course in Business Administration in Zhejiang Gongshang University between July 2004 to June 2006. He was recognised as an economist by the National Human Resources Department in April 1994, as a senior economist by Shaoxing County Human Resources Office in December 2005, as a management consultant by China Enterprise Confederation and Zhejiang Province Human Resources Office in November 2007 and as a senior human resources manager by Shaoxing County Human Resources Office in July 2008.

Mr. Liu has an extensive working experience in personnel management. Prior to joining the Company, he was a technician of Huanggang City Silk Factory in Hubei Province in September 1981; a general manager of 黃崗亞太化工有限公司 (Huanggang Ya Tai Chemical Limited*) in Hubei Province in January 1993, a chairman of 天浠制絲有限公司 (Tianxi Silk Production Limited*) in Huanggang, Xishui County of Hubei Province in June 1995; an officer to the general manager's office of 浙江慶盛紡織有限集團 (Zhejiang Qing Cheng Textiles Group*) in July 1997; a secretary to the board of directors of 浙江綠洲農業股份有限公司 (Zhejiang Oasis Agricultural Company Limited*) in June 2001; a manager of corporate management department in 浙江加百利控股有限公司 (Zhejiang Gabriel Holdings Group Company Ltd.*) in February 2002; an assistant to the general manager, an officer of listing office and a supervisor of personnel management department of 紹興市稽山集團 (Shaoxing Jishan Group*) in January 2003. Mr. Liu joined the Company in February 2006 and has been elected as a Supervisor of the Company by the work union of the Company on 11 March 2011.

Mr. Chen Jian Jiang (陳建江先生), aged 39, is currently a manager of the production, research and development department of the Company and is responsible for the management of daily operation of the production, research and development department of the Company. Prior to joining the Company, he was a factory director of the production department of 中發紡織有限公司 (Zhongfa Textiles Company Limited*) from February 1996 to January 2000 and a deputy general manager of the production department of 紹興市偉創紡織有限公司 (Shaoxing County Weichuang Textile Company Limited*) from January 2000 to February 2002. He has over 18 years of experience in textile production management in the PRC. He joined the Company in March 2002.

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2011.

PRINCIPAL ACTIVITY

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

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2011 are set out in the statement of comprehensive income on page 29 of this annual report.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2011.

PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2011, the Company spent approximately RMB144,000 in upgrade of office and factory equipment, approximately RMB4,098,000 in replacement of machinery and approximately RMB1,802,000 in renewal of factory buildings.

Details of these and other movements during the year in the property, plant and equipment of the Company are set out in Note 19 to the financial statements.

INVESTMENT PROPERTIES

Details of movements of the investment properties of the Company during the year ended 31 December 2011 are set out in Note 20 to the financial statements.

SHARE CAPITAL

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

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the year ended 31 December 2011 and up to the date of this report were:

Executive Directors:

Mr. Ru Guan Jun (appointed on 11 March 2011) *(Chairman)*
Mr. Xia Xian Fu (appointed on 11 March 2011) *(Chief Executive Officer)*
Mr. Sun Jian Feng
Mr. Xia Xue Nian

Independent Non-Executive Directors:

Mr. Zhu Yu Lin
Mr. Zong Pei Min
Mr. Lu Guo Qing

Supervisors:

Ms. Wang Ai Yu (appointed on 11 March 2011) *(Chairman)*
Mr. Hu Hua Jun (appointed on 11 March 2011)
Mr. Liu Guang Wei (appointed on 11 March 2011)

Independent Supervisors:

Mr. Hu Jin Huan
Mr. Wang He Rong

Each of the directors and supervisors (including the independent non-executive directors and independent supervisors) has entered into a service agreement with the Company for three years from the date of appointment. Each of the directors and supervisors was appointed as a director and supervisor of the Company respectively subject to termination in certain circumstances as stipulated in the relevant services contracts.

In accordance with the provisions of the Company's articles of association, the Directors and supervisors acting for the shareholders are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment. None of the Directors who are proposed for reelection at the forthcoming annual general meeting to be held on 15 May 2012 has a service contract with the Company, which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for termination of executive Directors and independent non-executive Directors' contracts by either party is not less than three months.

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

At 31 December 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 (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions

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

Save as disclosed above, as at 31 December 2011, none of the directors, chief executives or supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed, to have such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE H SHARES OR DEBENTURES

At no time during the year ended 31 December 2011 was the Company a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate and neither the directors nor the supervisors, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in Note 36 to the financial statements, no other contracts of significance to which the Company was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2011.

CONNECTED TRANSACTIONS

Save as disclosed in Note 36 to the financial statements, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

The independent non-executive Directors have reviewed the connected transactions set out in Note 36 to the financial statements and in their opinion, these transactions entered into by the Company were:

(i) in the ordinary and usual course of business of the Company;

(ii) on normal commercial terms or on terms no less favourable than terms available to/from independent third parties; and

(iii) carried out in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, so far as it is known to the Directors or chief executive or supervisors of the Company, the interests and short positions of person in the shares or underlying shares of the Company, other than the interest of the Directors or supervisors, which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO,to be entered in the register referred to therein, or who is interested directly or indirectly in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company were as follows:

Long positions

Domestic shares of the Company

Name of shareholders	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares	Approximate percentage of interests in total registered capital
Zhejiang Yongli Industry Group Co. Ltd.	Beneficial owner (Note 4)	310,000,000	52.72%	29.15%
Mr. Sun Li Yong	Beneficial owner	72,200,000	12.28%	6.79%
	Held by spouse (Notes 1&3)	182,280,000	31.00%	17.14%
		254,480,000	43.28%	23.93%
Ms. Fang Xiao Jian	Beneficial owner	182,280,000	31.00%	17.14%
	Held by spouse (Notes 2&3)	72,200,000	12.28%	6.79%
		254,480,000	43.28%	23.93%

Notes:

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

2. Ms. Fang Xiao Jian ("Mrs. Sun") is the wife of Mr. Sun Li Yong and is deemed by virtue of the SFO to be interested in 72,200,000 shares beneficially owned by Mr. Sun Li Yong.

3. With reference to the announcement of the Company dated 31 August 2009, all the above domestic shares of 254,480,000 held by Mr. and Mrs. Sun, which represent 43.28% of the total issued shares of the Company had been impound by the relevant court in the PRC in accordance with a judgment made and had been effective since 10 August 2009.

4. On 19 December 2011, there is a court judgment ruled out that 240,000,000 domestic shares held by Mr. Sun Li Yong and Ms. Fong Xiao Jian be transferred to Zhejiang Yongli. Upon completion of such share transfer and registration, Zhejiang Yongli will hold in aggregate of 550,000,000 Domestic Shares (representing approximately 51.72% of total issued shares of the Company). Pursuant to rule 26.1 of the Hong Kong Code of Takeovers and Mergers, a mandatory general offer in cash or with a cash alternative shall be made for all the outstanding shares other than those already owned or agreed to be acquired by Zhejiang Yongli. On 9 March 2012, the share transfer and share registration have been completed and Zhejiang Yongli became the Company's immediate and ultimate holding company. Further details are set out in the announcement of the Company dated 12 March 2012.

Long positions

H shares of RMB0.10 each of the Company

Name of directors	Capacity	Number of H shares held	Approximate percentage of interests H shares	Approximate Percentage of interests in total registered capital
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.61%

Save as disclosed above, as at 31 December 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 in the GEM Listing Rules) of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2011, the five largest suppliers and customers of the Company accounted for approximately 47.73% and 51.87% of the Company's purchases and turnover respectively. The largest supplier accounted for approximately 27.30% of the purchases of the Company.

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

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

The Company did not purchase, sell or redeem any of the Company's listed securities for the year ended 31 December 2011.

AUDIT COMMITTEE

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

The first quarterly results for the three months ended 31 March 2011, the interim results for the six months ended 30 June 2011, the third quarterly results for the nine months ended 30 September 2011 and the annual results of the Company for the year ended 31 December 2011 have been reviewed by the Audit Committee.

EMOLUMENT POLICY

The Company has established a remuneration committee (the "Remuneration Committee") in January 2005 and the primary duties of the Remuneration Committee are to formulate and make recommendation to the Board on the Company's policy and structure for all the remuneration of the Directors and senior management and on the establishment of formal and transparent procedures for developing policy on such remuneration. The Remuneration Committee comprises three independent non-executive Directors during the year ended 31 December 2011. With the appointment of Mr. Ru Guan Jun as a member of the Remuneration Committee being effective on 11 March 2011, the Remuneration Committee comprises four members as at the reporting date.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

The financial statements for the year ended 31 December 2011 were audited by SHINEWING (HK) CPA Limited ("SHINEWING").

A resolution will be submitted to the forthcoming annual general meeting to be held on 15 May 2012 to re-appoint SHINEWING as international auditor and 浙江中興會計師事務所有限公司 (Zhejiang Zhongxing CPA Company Limited*) as domestic auditor of the Company.

On behalf of the Board of
Zhejiang Yonglong Enterprises Co., Ltd.*

Ru Guan Jun
Chairman

Zhejiang, the PRC, 12 March 2012

To: All Shareholders

Except for the existing external supervisors, all the internal supervisors have been recommended and appointed as a member of Supervisory Committee of the Company since 11 March 2011. The Supervisory Committee has complied with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company (the "Articles of Association") and has exercised conscientiously its authority, safeguarded the interest of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

Due to the misconducts of certain former Directors during the year ended 31 December 2008, the Company appointed an independent auditor on 1 September 2009 to carry out an investigation for the internal control of the Company and has been completed on 30 October 2009. In order to ensure the Company has adequate internal control procedures, the Company has appointed another independent auditor on 17 January 2011 to review the internal control system of the Company and the relevant report has been completed and issued on 20 December 2011.

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

After review, we consider that the financial statements of the Company for the year ended 31 December 2011, audited by the auditor, SHINEWING, truly and sufficiently reflects the operating results and asset positions of the Company. The Committee also reviewed the Report of the Board of Directors and considers that the report meet the requirements of the relevant regulations and Articles of Association.

Save as disclosed in the Corporate Governance Report in relation to the breach of certain GEM Listing Rules and code provisions of the Code on Corporate Governance Practices due to the misconducts of certain former Directors in 2008, we consider that the members of the Board, the general manager and other officers have strictly complied with the principle of honesty and trustworthiness, working diligently and acting sincerely in the best interest of the Company. Except for the misconducts of certain former Directors in 2008, up to now, none of the directors, general manager and the officers have abused their powers, caused damage to the interests of the Company and infringed upon the interests of the Company and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

By order of the Supervisory Committee of
Zhejiang Yonglong Enterprises Co., Ltd.*

Wang Ai Yu
Chairman of the Supervisory Committee

Zhejiang, the PRC, 12 March 2012

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 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 in 2008, the Company encountered financial crisis that led to delay in publishing results and dispatching reports for the three months ended 31 March 2011, six months ended 30 June 2011, and nine months ended 30 September 2011. These constitute the breach of Rules 18.66, 18.67 and 18.79 of the GEM Listing Rules and the Code Provision C.1.

2. Code Provision A.1.1 stipulates that the Board should hold at least four regular meetings a year at approximately quarterly intervals. During the year ended 31 December 2011, no regular meeting was held.

3. Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, there was no chairman or chief executive officer of the Company until the appointments of Mr. Ru Guan Jun as the chairman of the Company 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 another independent auditor to review the internal control system of the Company and the relevant report has been completed and issued on 20 December 2011.

DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

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 Supervisor of the Company confirmed that they had complied with the required standard and the code of conduct regarding securities transactions by Directors and Supervisors adopted by the Company.

SENIOR MANAGEMENT'S AND STAFF'S SECURITIES TRANSACTIONS

Senior management and those staff who are more likely to be in possession of unpublished price sensitive information or other relevant information in relation to the Company have adopted the Dealing Rules. These senior management and staff have been individually notified and provided with a copy of the Dealing Rules.

BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company affairs.

The Board currently comprises four executive Directors and three independent non-executive Directors. Their brief biographical details are set out in the "Directors and Senior Management's Profile" on pages 10 to 13 of this annual report. Moreover, one of the independent non-executive Director, Mr. Zhu Yu Lin has appropriate professional qualifications, accounting or related financial management expertise so that he has sufficient caliber and views to carry weight.

Saved as disclosed in this report, none of the Directors has any other financial, business, family or other material or relevant relationships among members of the Board. Please refer to the Directors' Report on pages 14 to 15 for the terms of appointment of each Director.

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

During the year ended 31 December 2011, no regular meeting was held to approve the financial results for the year of 2011. The Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each Board meeting. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's Articles of Association. The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meeting. She also keeps the minutes, which are opened for inspection at any reasonable notice by any Director.

There were three Board meetings held in the financial year ended 31 December 2011. Individual attendance of each Board member at these meetings is as follows:

Name of Directors	**Attended/eligible to attend**
Executive Directors	
Mr. Ru Guan Jun (appointed on 11 March 2011)	3/3
Mr. Xia Xian Fu (appointed on 11 March 2011)	3/3
Mr. Sun Jian Feng	3/3
Mr. Xia Xue Nian	3/3
Independent Non-executive Directors	
Mr. Lu Guo Qing	3/3
Mr. Zhu Yu Lin	3/3
Mr. Zong Pei Min	3/3

The Board confines itself to making broad policy decisions, such as the Company' s overall strategies and policies, annual budgets and business plans, while delegating responsibility for more detailed consideration to the various Board Committees and management. Management is responsible for overseeing the Company's business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions. The management must obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants and the mandatory provisions set out in the Code.

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

The Audit Committee has reviewed the results for the three months ended 31 March 2011, six months ended 30 June 2011 and nine months ended 30 September 2011 of the Company. It also has reviewed the audited financial statements for the year ended 31 December 2011 with management and the Company's external auditors and recommended its adoption to the Board. Due to the delay in announcing of the results and dispatching the reports of the Company in 2011, there were two meeting held by the Audit Committee during the year ended 31 December 2011 Individual attendance of each committee member at these meetings is as follows:

Name of Independent Non- executive Directors	**Attended/eligible to attend**
Mr. Luk Guo Qing	2/2
Mr. Zhu Yu Lin	2/2
Mr. Zong Pei Min	2/2

The authorities of the Audit Committee include (1) investigation of any activity within its terms of reference; (2) seeking any information from any employee when required; and (3) obtaining outside legal or other independent professional advice if it considers necessary.

The main duties of the Audit Committee are as follows:

– to consider the appointment of the external auditors, the audit fee, and any question of resignation or dismissal;
– to discuss with the external auditors the nature and scope of the audit;
– to review and monitor the external auditors, independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
– to develop and implement policy on the engagement of external auditors to supply non-audit services;
– to review the Company' s quarterly, interim and annual financial statements before submission to the Board;
– to discuss problem and reservations arising from the final audits and any matters that the external auditors may wish to discuss;
– to review the Company' s statement on internal control system prior to endorsement by the Board;\
– to consider the major findings of any internal investigation and the management's response; and
– to consider other topics as defined by the Board

Auditors' Remuneration

The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect to the Company.

The remuneration in respect of services provided by the international auditor and domestic auditors for the years ended 31 December 2011 and 2010 are analysed as follows:

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Audit service	**732**	676
Performed agreed-upon procedures regarding information on preliminary annual result announcement of the Company	**41**	44
Performed agreed-upon procedures regarding financial information on continuing connected transactions between the Company and Zhejiang Yongli Thermal	**41**	-
	814	720

The audit services fee for the years ended 31 December 2011 and 2010 represent services provided by SHINEWING and Zhejiang Zhongxing. The other services fee for the year ended 31 December 2011 and 2010 represent the services provided by SHINEWING.

REMUNERATION COMMITTEE

According to the Code, the Company has established a remuneration committee in January 2005 and the primary duties of the remuneration committee of the Company (the "Remuneration Committee") are to formulate and make recommendation to the Board on the Company's policy and structure for all the remuneration of the Directors and Senior Management and on the establishment of a formal and transparent procedures for developing policy on such remuneration. The Remuneration Committee shall be appointed by the Board and shall consist of not less than three members and a majority of whom should be independent non-executive Directors. During the year ended 31 December 2011, the Remuneration Committee comprises three independent non-executive Directors namely Mr. Zong Pei Min, Mr. Lu Guo Qing and Mr. Zhu Yu Lin. Mr. Lu Guo Qing was elected as the chairman of the Remuneration Committee and Mr. Ru Guan Jun has been appointed as a member of the Remuneration Committee on 11 March 2011.

During the year ended 31 December 2011, a meeting was held and all the four members had attended the meeting of the Remuneration Committee.

Based on the advice provided from Remuneration Committee, the emoluments of the Directors are recommended by the Board of Directors, having regard to their duties and responsibilities and approved by the shareholders of the Company.

NOMINATION OF DIRECTORS

The Board is mainly responsible for identify suitable candidates for members of the Board when there is a vacancy or an additional Director is considered necessary. He would propose the appointment of such candidates to each member of the Board for consideration and each member of the Board would review the qualifications of the relevant candidates for determining the suitability to the Company on the basis of his qualifications, experience and background. The decision of appointing a director must be approved by the members of the Board and make recommendation to the shareholders' meeting for approval.

In accordance with the provisions of the Company's Articles of Association, the directors and supervisors are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and in presenting the quarterly and annual financial statements, and announcements to shareholders, the Directors aim to present a balanced and understandable assessment of the Company' s position and prospects.

The Directors' responsibilities in preparing financial statements and the auditor' s responsibilities are set out in the Independent Auditor's Report on page 27 of this annual report.

DIRECTORS AND SENIOR MANAGEMENT – REMUNERATION

Details of the remuneration of the Directors and senior management are contained in Note 18 to the financial statements.

INTERNAL CONTROL

The Company did not conduct the internal control review for the year ended 31 December 2008 until the investigation on the misconduct of some of the former Directors was carried out. In order to prevent recurrence of similar misconduct of directors, the Company has appointed an independent auditor on 1 September 2009 to carry out internal control review for the Company on and has been completed 30 October 2009.

For the purpose of ensuring that the Company has adequate internal control procedures, the Company has appointed another independent auditor to review the internal control system of the Company and the relevant report has been completed and issued on 20 December 2011.

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

The Company has disclosed all necessary information to the shareholders and investors in compliance with GEM Listing Rules and uses a number of formal communications channels to account to shareholders and investors for the Company. These include (i) the Company replying to the enquiries from shareholders timely; (ii) updated and key information of the Company available on website of the Company; (iii) the Company's website offering communication channel between the Company and its shareholders and investors; and (iv) the Company's H Share share registrar in Hong Kong serves the shareholders regarding all H Shares share registration matters.

LOOKING FORWARD

The Board of Directors of the Company believes that good corporate governance can safeguard the effective allocation of resources and safeguard shareholders' interest. The Company will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take the necessary actions to ensure compliance with the required practices and standards including the Code Provisions.

信永中和 ShineWing

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

TO THE SHAREHOLDERS OF ZHEJIANG YONGLONG ENTERPRISES CO., LTD.
(Established as a joint stock limited company in the People's Republic of China)

We have audited the financial statements of Zhejiang Yonglong Enterprises Co., Ltd. (the "Company") set out on pages 29 to 81, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2011, and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong
12 March 2012

	Notes	**2011 RMB'000**	2010 RMB'000
Turnover	9	**195,433**	85,697
Cost of sales		**(181,211)**	(122,096)
Gross profit (loss)		**14,222**	(36,399)
Other income and gains	9	**369,485**	1,855
Selling and distribution costs		**(270)**	(502)
Administrative expenses		**(9,659)**	(13,128)
Impairment loss and allowance (reversal of allowance) recognised in respect of various assets	11	**-**	(3,914)
Reversal of provision (provision for) loss on misconducts of former directors of the Company	12	**8,499**	(3,246)
Finance costs	13	**(5,397)**	(52,336)
Interest expenses waived	13	**19,753**	-
Profit (loss) before taxation		**396,633**	(107,670)
Income tax credit	14	**934**	1,202
Profit (loss) for the year	15	**397,567**	(106,468)
Other comprehensive income for the year			
Gain on revaluation of properties		**3,734**	4,809
Income tax relating to revaluation of properties		**(934)**	(1,202)
Other comprehensive income for the year, net of tax		**2,800**	3,607
Total comprehensive income (expenses) for the year		**400,367**	(102,861)
Earnings (loss) per share		**RMB**	RMB
Basic and diluted	16	**37.38 cents**	(10.01) cents

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	19	**125,635**	140,974
Investment properties	20	**-**	-
Prepaid lease payments	21	**7,443**	7,584
		133,078	148,558
Current assets			
Inventories	22	**9,977**	42,159
Trade and other receivables	23	**57,553**	17,350
Prepaid lease payments	21	**141**	188
Amount due from related companies	24	**-**	-
Bank balances and cash	25	**31,269**	1,706
		98,940	61,403
Assets classified as held for sale	26	**39,526**	39,526
		138,466	100,929
Current liabilities			
Amount due to a related company	24	**27**	-
Trade and other payables	27	**56,492**	91,113
Amounts due to guarantors	28	**-**	442,338
Provision	29	**10,000**	34,653
Bank borrowings	30	**-**	121,680
		66,519	689,784
Net current assets (liabilities)		**71,947**	(588,855)
Total assets less current liabilities		**205,025**	(440,297)
Non-current liability			
Amount due to a controlling shareholder	32	**127,885**	-
Net assets (liabilities)		**77,140**	(440,297)

	Notes	2011 RMB'000	2010 RMB'000
Capital and reserves			
Share capital	33	**106,350**	106,350
Reserves		**(29,210)**	(546,647)
		77,140	(440,297)

The financial statements on pages 29 to 81 were approved and authorised for issue by the board of directors on 12 March 2012 and are signed on its behalf by:

Ru Guan Jun Director	Sun Jian Feng Director

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note (a))	Asset revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (Note (b))	Accumulated losses RMB'000 (Note (c))	Total RMB'000
At 1 January 2010	106,350	69,637	7,880	20,708	12,496	(554,507)	(337,436)
Loss for the year	-	-	-	-	-	(106,468)	(106,468)
Other comprehensive income for the year	-	-	-	3,607	-	-	3,607
Total comprehensive income (expenses) for the year	-	-	-	3,607	-	(106,468)	(102,861)
At 31 December 2010 and 1 January 2011	106,350	69,637	7,880	24,315	12,496	(660,975)	(440,297)
Deemed contribution from the controlling shareholder of the Company	-	-	117,070	-	-	-	117,070
Profit for the year	-	-	-	-	-	397,567	397,567
Other comprehensive income for the year	-	-	-	2,800	-	-	2,800
Total comprehensive income for the year	-	-	-	2,800	-	397,567	400,367
At 31 December 2011	106,350	69,637	124,950	27,115	12,496	(263,408)	77,140

Notes:

(a) Other reserve represents dividends waived by the holders of domestic shares, net of tax effect and the deemed contribution arising from the discounting of the non-current interest-free loan from the controlling shareholder of the Company (Note 32).

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

(c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 31 December 2011 and 2010, no reserves were available for distribution due to accumulated losses being noted.

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	**396,633**	(107,670)
Adjustments for:		
Allowance for inventories	**-**	19
Reversal of allowance for inventories	**(19,366)**	-
Amortisation of prepaid lease payments	**188**	273
Bad debts written off	**-**	840
Depreciation of property, plant and equipment	**24,205**	28,378
Depreciation of investment properties	**-**	831
Finance costs	**5,397**	52,336
Interest expenses waived	**(19,753)**	-
Impairment loss recognised in respect of trade receivables	**-**	3,682
Reversal of impairment loss recognised in respect of trade receivables	**(382)**	-
Impairment loss recognised in respect of other receivables	**-**	232
Interest income	**(17)**	(4)
Gain on disposal of property, plant and equipment	**(1,418)**	-
Loss on property, plant and equipment written off	**265**	-
Government subsidies	**(187,090)**	-
Debt waived by guarantors	**(168,325)**	-
Trade and other payables written off	**(7,190)**	-
(Reversal of provision) provision for loss on misconducts of former directors of the Company	**(8,499)**	3,246
Operating cash flows before movements in working capital	**14,648**	(17,837)
Increase in amount due to a related company	**27**	-
Decrease in inventories	**51,548**	16,899
(Increase) decrease in trade and other receivables	**(39,821)**	21,675
Increase (decrease) in trade and other payables	**11,386**	(18,633)
Decrease in provision	**(16,154)**	-
NET CASH GENERATED FROM OPERATING ACTIVITIES	**21,634**	2,104
INVESTING ACTIVITIES		
Repayment from related companies	**-**	134
Interest received	**17**	4
Proceed from disposal of property, plant and equipment	**2,075**	-
Purchase of property, plant and equipment	**(6,044)**	(187)
NET CASH USED IN INVESTING ACTIVITIES	**(3,952)**	(49)

	2011 RMB'000	2010 RMB'000
FINANCING ACTIVITIES		
Repayment of bank borrowings	-	(76,644)
Interest paid	(119)	(26,248)
Advance from guarantors	-	98,204
Cash advance from the controlling shareholder	12,000	-
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	11,881	(4,688)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,563	(2,633)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,706	4,339
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	31,269	1,706

1. GENERAL

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

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

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

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

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

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendment to HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
Hong Kong Accounting Standard ("HKAS") 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK (International Financial Reporting Interpretation Committee ("IFRIC")) – Interpretation ("Int") 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Company's financial performance and financial position for the current and prior years and/or on the disclosures set out in these financial statements.

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

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 7	Disclosures - Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of 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. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

HKFRS 9 Financial Instruments *(Continued)*

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.

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

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Other than disclosed above, the directors of the Company anticipate that application of the other new and revised standards and amendments will have no materials impact on the results and the financial position of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below.

(a) Property, plant and equipment

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

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any revaluation increase arising on revaluation of buildings is recognised in other comprehensive income and accumulated in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the assets revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated losses.

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

Construction in progress for production, supply or administrative purposes is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(b) Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

(c) Prepaid lease payments

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

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(e) Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

Financial assets

The Company's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

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

Impairment loss on financial assets

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

Objective evidence of impairment could include:

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

Impairment loss on financial assets (Continued)

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Company are classified as either financial liabilities or an equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a related company, amount due to a controlling shareholder, amounts due to guarantors and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety, the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

Derecognition

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(f) Provisions

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

(g) Cash and cash equivalents

Bank balances and cash in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of statement of cash flows, cash and cash equivalents consist of cash and short term deposits as defined above.

(h) Non-current assets held for sale

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment losses on tangible assets

At the end of the reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment test is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

(j) Revenue recognition

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

i) Sales of goods

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Revenue recognition *(Continued)*

ii) Subcontracting fee income

Income from subcontracting work is recognised when services are rendered.

iii) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(k) Borrowing costs

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

(l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Taxation *(Continued)*

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(m) Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the functional currency of the Company (foreign currencies) are recorded in the functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

(n) Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised as expenses when employees have rendered services entitling them to the contributions.

(o) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company has sufficient resources and the intention to complete development. Other development expenditure is recognised as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" (see note 3(c)) in the statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

(q) Government grants

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgement in applying the entity's accounting policies

The Company is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognise liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

No deferred tax asset has been recognised in respect of tax losses of approximately RMB13,896,000 as at 31 December 2011 (2010: RMB322,272,000) due to the unpredictability of future profits streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, additional recognition of deferred tax assets may arise, which should be recognised in the statement of comprehensive income for the period in which it takes place.

Key sources of estimation uncertainty

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

Depreciation of property, plant and equipment

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment loss recognised in respect of trade receivables

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Company's expectations and the Company will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. At 31 December 2011, the carrying amount of trade receivables were approximately RMB55,734,000 (2010: RMB16,102,000), net of impairment loss of RMB24,882,000 (2010: RMB25,264,000).

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

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

At 31 December 2011, the carrying amount of other receivables was approximately RMB 1,819,000 (2010: RMB1,248,000), and no impairment loss was made during the year ended 31 December 2011 (2010: RMB80,513,000).

The amounts due from related companies were fully written off as at 31 December 2011. (2010: the carrying amount of amounts due from related companies was nil, net of impairment loss of approximately RMB218,754,000)

Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated selling prices. The cost of inventories is written down to the net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The amount written off to the statement of comprehensive income is the difference between the carrying value and net realisable value of inventories. In determining whether the cost of inventories can be recovered, significant judgment is required. In making this judgment, the Company evaluates, amongst other factors, the duration and extent and the means by which the amount will be recovered. These estimates are based on the current market condition and past experience in sales of similar products. It could change significantly as a result of changes in customer preferences and competitor actions in response to changes in market condition. At 31 December 2011, the carrying amount of inventories is approximately RMB9,977,000 (net of allowance for inventories of approximately RMB7,379,000) (2010: carrying amount of inventories is approximately RMB42,159,000 (net of allowance for inventories of approximately RMB26,745,000)).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Provision

During the prior years, the Company had been involved in two litigations for claims in respect of two financial guarantees given by the Company. The directors determine the provision and guarantees is based on their best estimates according to their understanding of legal advice. Where the final outcome of the claim and negotiation with the respective creditors is different from the estimation made by the directors, such difference will impact the provision in the year in which such determination is finalised. One of the litigations has been settled during the year ended 31 December 2011 and further details are contained in Note 29 to the financial statements.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Company consists of net debt, which includes amount due to a controlling shareholder as disclosed in Note 32, net of bank balances and cash as disclosed in Note 25 and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses. The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the associated risks, and take appropriate actions to adjust the Company's capital structure. The Company's overall strategy remains unchanged from prior period.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 RMB'000	2010 RMB'000
Loans and receivables (including bank balances and cash)	**87,079**	18,073
Financial liabilities at amortised cost	**168,744**	639,424

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, amounts due to a related company and amount due to a controlling shareholder as disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

Currency risk

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

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

	US$		EUR		HK$	
	2011 **'000**	2010 '000	**2011** **'000**	2010 '000	**2011** **'000**	2010 '000
Assets	**23**	33	**-**	4	**88**	93

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

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

The directors consider that the currency risk in response to the changes in exchange rate is insignificant, sensitivity analysis on currency risk is not presented.

Interest rate risk

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

The Company's cash flow interest rate risk relates primarily to its variable-rate bank deposits (see Note 25 for details of these deposits). It is the Company's policy to keep at floating rate of interests so as to minimise the fair value interest rate risk.

The Company's bank deposits are short-term in nature and the amount due to the controlling shareholder is interest-free, the exposure of the interest rate risk is minimal and no sensitivity analysis to interest rate risk is presented.

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

Credit risk

At 31 December 2011, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to the failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at 31 December 2011 is the carrying amount of trade and other receivables as stated in the statement of financial position. In order to minimise the credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

In addition, the Company reviews the recoverable amount of each individual trade and other receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The Company does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

The Company's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all (2010: 100%) of the total trade receivables as at 31 December 2011.

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

Liquidity risk

In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of non-current loan from the controlling shareholder of the Company.

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

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

Liquidity risk *(Continued)*

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

	At 31 December 2011			
	Within 1 year or on demand and total undiscounted cash flow RMB'000	After 1 year and within 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amounts RMB'000
Non-derivative financial liabilities				
Trade and other payables	40,832	-	40,832	40,832
Amount due to a related company	27	-	27	27
Amount due to a controlling shareholder	-	239,677	239,677	127,885
	40,859	239,677	280,536	168,744

	At 31 December 2010	
	Within 1 year or on demand and total undiscounted cash flow RMB'000	Carrying amounts RMB'000
Non-derivative financial liabilities		
Trade and other payables	75,406	75,406
Amounts due to guarantors	442,338	442,338
Bank borrowings	128,100	121,680
	645,844	639,424

8. FAIR VALUE

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

The directors of the Company also consider the fair value of the non-current amount due to a controlling shareholder approximates to its carrying amount as it is carried at amortised cost using the effective interest method.

9. TURNOVER AND OTHER INCOME AND GAINS

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

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

	2011 **RMB'000**	2010 RMB'000
Turnover		
Sales of woven fabrics	**157,917**	53,518
Subcontracting fee income	**37,516**	32,179
	195,433	85,697
Other income and gains		
Government subsidies (Note i)	**189,553**	-
Trade and other payables written off	**7,190**	-
Interest income	**17**	4
Debt waived by guarantors (Note 28)	**168,325**	-
Sales of scrap materials	**3,037**	1,712
Gain on disposal of property, plant and equipment	**1,418**	-
Loss on property, plant and equipment written off	**(265)**	-
Exchange gain	**210**	139
	369,485	1,855

Note (i): Government subsidies of approximately RMB2,463,000 and RMB187,090,000 were granted to the Company for the year ended 31 December 2011 for encouraging the Company's business development in the Zhejiang Province and for supporting the debt restructuring of the Company (Note 28), respectively. There are no unfulfilled conditions or contingencies relating to these subsidies.

10. SEGMENT INFORMATION

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

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

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

(a) Segment revenues and results

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

	For the year ended 31 December					
	Woven fabric		Subcontracting services		Total	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Turnover	**157,917**	53,518	**37,516**	32,179	**195,433**	85,697
Segment results	**9,214**	(25,476)	**2,396**	(16,346)	**11,610**	(41,822)
Unallocated corporate income (expenses)						
- Government subsidies					**189,553**	-
- Debts waived by guarantors					**168,325**	-
- Reversal of provision (provision for) loss on misconducts of former directors of the Company					**8,499**	(3,246)
- Impairment loss recognised in respect of other receivables					**-**	(232)
- Depreciation of investment properties					**-**	(831)
- Others					**4,290**	(9,203)
- Finance costs					**(5,397)**	(52,336)
- Interest expenses waived					**19,753**	-
Profit (loss) before taxation					**396,633**	(107,670)

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3. Segment results represents the results of each segment without allocation of interest income, government subsidies, debts waived by guarantors, reversal of provision (provision for) loss on misconducts of former directors of the Company, impairment loss recognised in respect of other receivables, depreciation of investment properties, directors' remuneration, central administration costs, finance costs and interest expenses waived. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

10. SEGMENT INFORMATION *(Continued)*

(b) Segment assets and liabilities

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

	At 31 December					
	Woven fabric		Subcontracting services		Total	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Segment assets	**164,065**	145,716	**36,607**	62,267	**200,672**	207,983
Unallocated corporate assets						
- Bank balances and cash					**31,269**	1,706
- Assets classified as held for sale					**39,526**	39,526
- Others					**77**	272
Total assets					**271,544**	249,487
Segment liabilities	**(42,451)**	(17,774)	**(10,086)**	(10,687)	**(52,537)**	(28,461)
Unallocated corporate liabilities						
- Other payables					**(3,955)**	(23,824)
- Accrued interests					**-**	(38,828)
- Amounts due to guarantors					**-**	(442,338)
- Amount due to a related company					**(27)**	-
- Amount due to a controlling shareholder					**(127,885)**	-
- Provision					**(10,000)**	(34,653)
- Bank borrowings					**-**	(121,680)
Total liabilities					**(194,404)**	(689,784)

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

- all assets are allocated to reportable segments other than bank balances and cash and assets classified as held for sale. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

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

10. SEGMENT INFORMATION *(Continued)*

(c) Other segment information

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

	For the year ended 31 December					
	Woven fabric		Subcontracting services		Total	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Other segment information:						
- Allowance for inventories	**-**	19	**-**	-	**-**	19
- Reversal of allowance for inventories	**(19,366)**	-	**-**	-	**(19,366)**	-
- Impairment loss recognised in respect of trade receivables	**-**	2,299	**-**	1,383	**-**	3,682
- Impairment loss recognised in respect of other receivables	**-**	179	**-**	53	**-**	232
- Reversal of impairment recognised in respect of trade receivables	**(382)**	-	**-**	-	**(382)**	-
- Addition to non-current assets	**4,884**	117	**1,160**	70	**6,044**	187
- Gain on disposal of property, plant and equipment	**1,146**	-	**272**	-	**1,418**	-
- Loss on property, plant and equipment written off	**214**	-	**51**	-	**265**	-
- Amortisation of prepaid lease payment	**152**	170	**36**	103	**188**	273
- Depreciation of property, plant and equipment	**19,558**	17,722	**4,647**	10,656	**24,205**	28,378
- Research and development costs	**108**	216	**26**	-	**134**	216

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

- Interest income	**14**	2	**3**	2	**17**	4
- Interest expenses waived	**16,267**	-	**3,486**	-	**19,753**	-
- Finance costs	**(4,595)**	(32,684)	**(802)**	(19,652)	**(5,397)**	(52,336)

(d) Geographical information

The Company's markets and production are located in the PRC. All of the Company's revenue from external customers and its non-current assets are situated in the PRC. As a result, no geographical segment information is presented.

10. SEGMENT INFORMATION *(Continued)*

(e) Information about major customers

Details of the customers accounting for 10% or more of aggregate revenue of the Company during the year ended 31 December 2011 are as follows:

	2011 RMB'000
Company A (derived from sale of woven fabrics)	**43,290**

During the years ended 31 December 2010, there were no revenues from transactions with any single external customer amounted to 10% or more of the Company's revenue.

11. IMPAIRMENT LOSS AND ALLOWANCE (REVERSAL OF ALLOWANCE) RECOGNISED IN RESPECT OF VARIOUS ASSETS

	2011 RMB'000	2010 RMB'000
Impairment loss recognised in respect of various assets comprised:		
- trade receivables (Note i)	**-**	3,682
- other receivables (Note ii)	**-**	232
	-	3,914
Allowance for inventories included in cost of sales (Note iii)	**-**	19
Reversal of allowance of inventories included in cost of sales (Note iv)	**(19,366)**	-

Due to misconducts of certain former directors of the Company in 2008, the Company encountered cash flow problems which resulted in a decrease in sales order and operations. For the year ended 31 December 2010, the directors of the Company conducted a review of various assets of the Company and determined that a number of those assets were impaired:

i) Impairment loss of approximately RMB3,682,000 recognised in respect of trade receivables related to the amounts which were long outstanding and the balances were considered not recoverable at 31 December 2010.

ii) Impairment loss of approximately RMB232,000 was recognised in respect of staff advances recorded in other receivables. In light of those staffs having resigned from the Company, the directors of the Company considered that the likelihood of recovery of the amounts due being very remote and an impairment loss has been recognised.

11. IMPAIRMENT LOSS AND ALLOWANCE (REVERSAL OF ALLOWANCE) RECOGNISED IN RESPECT OF VARIOUS ASSETS *(Continued)*

iii) An allowance for inventories of approximately RMB19,000 related to slow-moving inventories which were stated at higher than their net realisable values.

For the year ended 31 December 2011, no further impairment loss was recognised as a result of the misconducts of certain former directors of the Company in 2008.

iv) An allowance for slow-moving inventories of approximately RMB19,366,000 provided in prior years were reversed in the current year since the relevant inventories were sold in the ordinary course of business during the year ended 31 December 2011.

12. REVERSAL OF PROVISION (PROVISION FOR) LOSS ON MISCONDUCTS OF FORMER DIRECTORS OF THE COMPANY

	2011 **RMB'000**	2010 RMB'000
Reversal of provision (provision) (Note 29)	**8,499**	(3,246)

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 spouse, Ms. Fang Xiao Jian ("Mrs. Sun"). The misappropriation of funds consisted of the provision of fund advances and financial guarantees to a related company.

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

During the year ended 31 December 2008, the Company acted as the guarantor to secure loans granted to Zhejiang Gabriel Holdings Group Co., Ltd.* "浙江加佰利控股集團有限公司" ("Gabriel")(the "Zhu Loan") from Ms. Zhu Li Mei ("Ms. Zhu") , an independent third party of the Company for an amount of RMB20,000,000.

On 21 September 2008, the Zhu Loan had been expired and Gabriel was unable to repay the loan to Ms. Zhu. On 19 June 2009, the Company received a writ from the Hangzhou Xiacheng District People's Court (杭州市下城區人民法院) in relation to a claim for the outstanding amount of the Zhu Loan by Ms. Zhu against Gabriel, the Company and Mr. Sun for the outstanding overdue borrowings principal plus the interest and liquidated damages in the amount of approximately RMB21,731,000. On 20 October 2009, the Company received a civil judgment issued by the Hangzhou Xiacheng District People's Court, pursuant to which Gabriel was 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 the guarantor, the Company was jointly and severally liable to the above sum. As at 31 December 2010, provision had been made in respect of the default payment for the amount of approximately RMB24,653,000, which including interest and liquidated damages of approximately RMB7,953,000 and the outstanding principal of RMB16,700,000.

12. REVERSAL OF PROVISION (PROVISION FOR) LOSS ON MISCONDUCTS OF FORMER DIRECTORS OF THE COMPANY *(Continued)*

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, provided that the Company can settle the outstanding principal before 20 June 2011. The amount of approximately RMB546,000 was settled through bankruptcy claim by Gabriel and the remaining balance of the outstanding principal of approximately RMB16,154,000 were fully settled by the Company on 16 June 2011. Consequently, provision made in the amount of RMB8,499,000 was reserved during the year ended 31 December 2011 upon settlement of the principal amount due to Ms. Zhu.

** English name is for identification only*

13. (FINANCE COSTS) AND INTEREST EXPENSES WAIVED

	2011 **RMB'000**	2010 RMB'000
Interest expenses on:		
- bank borrowings wholly repayable within five years	**(119)**	(26,033)
- overdue trust receipt loans	**-**	(17,985)
- advance from guarantors	**-**	(8,318)
Imputed interest on non-current interest-free amount due to a controlling shareholder	**(5,278)**	-
	(5,397)	(52,336)
Interest expenses waived	**19,753**	-

14. INCOME TAX CREDIT

	2011 **RMB'000**	2010 RMB'000
Deferred taxation (Note 31)		
- Current year	**934**	1,202

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

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.

The Company's tax losses brought forward from prior years exceed the estimated assessable profits for the year ended 31 December 2011, therefore, no provision for PRC Enterprise Income Tax was made for the year ended 31 December 2011.

No provision for PRC Enterprise Income Tax was made in the financial statements, as there were no assessable profits were earned for the year ended 31 December 2010.

14. INCOME TAX CREDIT *(Continued)*

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

	2011 RMB'000	2010 RMB'000
Profit (loss) before taxation	**396,633**	(107,670)
Tax expense (tax credit) at the domestic rates at 25% (2010: 25%)	**99,158**	(26,918)
Tax effect of non-taxable income	**(26,803)**	-
Tax effect of non deductible expenses	**3,805**	1,322
Tax effect of tax losses not recognised	**-**	24,613
Utilisation of tax losses previously not recognised	**(77,094)**	-
Tax effect of previously unrecognised deductible temporary differences	**-**	(219)
Income tax credit	**(934)**	(1,202)

Details of the deferred taxation are set out in Note 31.

15. PROFIT (LOSS) FOR THE YEAR

	2011 RMB'000	2010 RMB'000
Profit (loss) for the year has been arrived at after charging (crediting):		
Staff cost (including directors' and supervisors' emoluments):		
Salaries, wages and other benefits in kind	**18,712**	19,009
Retirement benefit scheme contributions	**446**	333
	19,158	19,342
Amortisation of prepaid lease payments	**188**	273
Auditors' remuneration	**732**	676
Bad debts written off	**-**	840
Cost of inventories	**174,043**	120,357
Depreciation of investment properties	**-**	831
Depreciation of property, plant and equipment	**24,205**	28,378
Research and development costs	**134**	216
Reversal of impairment loss in respect of trade receivable	**(382)**	-

16. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share of the Company for the year is calculated on the profit for the year of approximately RMB397,567,000 (2010: loss for the year of approximately RMB106,468,000) and the weighted average of 1,063,500,000 (2010: 1,063,500,000) ordinary shares in issue during the year.

No diluted earnings (loss) per share have been presented for the two years ended 31 December 2011 and 2010 as there were no diluting events existed during those years.

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

	2011 **RMB'000**	2010 RMB'000
Salaries, wages and other benefits in kind	**18,429**	18,815
Retirement benefit scheme contributions	**431**	323
	18,860	19,138

As stipulated by the rules and regulations in the PRC, the Company is required to contribute to a state-sponsored retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Company has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. During the year ended 31 December 2011, a total contribution of approximately RMB446,000 (2010: RMB333,000) was made by the Company in respect of this scheme.

18. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and supervisors' emoluments

The emoluments paid or payable to every director and supervisor for the year ended 31 December 2011 were as follow:

	Fees	Salaries, allowances and other benefits in kind	Retirement benefits scheme contributions	Amount waived	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Ru Guan Jun (Note)	-	-	-	-	-
Mr. Xia Xian Fu (Note)	-	-	-	-	-
Mr. Sun Jian Feng	-	65	5	-	70
Mr. Xia Xue Nian	-	65	5	-	70
Independent non-executive directors					
Mr. Zong Pei Min	36	-	-	-	36
Mr. Lu Guo Qing	36	-	-	-	36
Mr. Zhu Yu Lin	36	-	-	-	36
Supervisors					
Ms. Wang Ai Yu (Note)	-	-	-	-	-
Mr. Liu Guan Wei	-	45	5	-	50
Mr. Hu Wah Jun(Note)	-	-	-	-	-
Mr. Hu Jin Huan	12	-	-	(12)	-
Mr. Wang He Rong	12	-	-	(12)	-
	132	175	15	(24)	298

Note: The annual salary of each of Mr. Ru Guan Jun and Mr. Xia Xian Fu was RMB96,000 which was paid by Zhejiang Yongli according to the terms of services contract. The annual salary of each of Ms. Wong Ai Yu and Mr. Hu Wah Jun were RMB36,000 and RMB35,000 which were also paid by Zhejiang Yongli according to the terms of services contract.

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

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

The emoluments paid or payable to every director and supervisor for the year ended 31 December 2010 were as follow:

	Fees	Salaries, allowances and other benefits in kind	Retirement benefits scheme contributions	Amount waived	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Note d)	
Executive directors					
Mr. Sun Jian Feng	-	60	5	(29)	36
Mr. Xia Xue Nian	-	60	5	(29)	36
Mr. Marco Borio (resigned on 23 February 2010)	-	5	-	(5)	-
Independent non-executive directors					
Mr. Zong Pei Min	36	-	-	-	36
Mr. Lu Guo Qing	36	-	-	-	36
Mr. Zhu Yu Lin	36	-	-	-	36
Supervisors					
Mr. Fan Zhi Gang (resigned on 21 December 2010)	-	30	-	(30)	-
Mr. Shao Bao Hua (resigned on 21 December 2010)	-	30	-	(30)	-
Mr. Hu Jin Huan	12	-	-	-	12
Mr. Wang He Rong	12	-	-	-	12
	132	185	10	(123)	204

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

(b) Senior management's emoluments

Two directors (2010: None) of the Company were included among the five highest paid individuals in the Company during the year ended 31 December 2011. The emoluments of the five highest paid individual were as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and other benefits in kind	**291**	180
Retirement benefits schemes contributions	**19**	11
	310	191

Their emoluments were within the following bands:

	No. of individuals 2011	**No. of individuals** 2010
Nil to HK$1,000,000 (equivalent to Nil to RMB810,700) (2010: equivalent to Nil to RMB850,900)	**5**	5

(c) No emoluments have been paid by the Company to the directors, the supervisors or the five highest paid individuals of the Company as an inducement to join or upon joining the Company, or as compensation for loss of office during the two years ended 31 December 2011 and 2010.

(d) During the year ended 31 December 2011, none of the directors (2010: three) and two of the supervisors (2010: two) waived emoluments of approximately RMB24,000 (2010: approximately RMB63,000 and RMB60,000 were waived by directors and supervisors, respectively).

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings at revalued amounts RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST / VALUATION						
At 1 January 2010	131,264	1,752	202,629	2,027	6,688	344,360
Additions	-	-	141	30	16	187
Adjustment on revaluation	(3,320)	-	-	-	-	(3,320)
Transferred to assets held for sale (Note 26)	(28,892)	-	-	-	-	(28,892)
Written off	-	(556)	-	-	-	(556)
At 31 December 2010	99,052	1,196	202,770	2,057	6,704	311,779
Additions	-	-	4,098	144	1,802	6,044
Adjustment on revaluation, net	(2,163)	-	-	-	-	(2,163)
Disposal	-	(120)	(10,021)	-	-	(10,141)
Written off	-	-	(2,423)	(800)	-	(3,223)
At 31 December 2011	96,889	1,076	194,424	1,401	8,506	302,296
At 31 December 2011						
At cost	-	1,076	194,424	1,401	8,506	205,407
At valuation - 2011	96,889	-	-	-	-	96,889
	96,889	1,076	194,424	1,401	8,506	302,296
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2010	-	1,696	144,036	1,891	3,489	151,112
Provided for the year	8,129	23	20,158	68	-	28,378
Eliminated on revaluation	(8,129)	-	-	-	-	(8,129)
Eliminated on written off	-	(556)	-	-	-	(556)
At 31 December 2010	-	1,163	164,194	1,959	3,489	170,805
Provided for the year	5,897	12	18,229	67	-	24,205
Eliminated on revaluation	(5,897)	-	-	-	-	(5,897)
Eliminated on disposal	-	(120)	(9,374)	-	-	(9,494)
Eliminated on written off	-	-	(2,173)	(785)	-	(2,958)
At 31 December 2011	-	1,055	170,876	1,241	3,489	176,661
CARRYING VALUES						
At 31 December 2011	96,889	21	23,548	160	5,017	125,635
At 31 December 2010	99,052	33	38,576	98	3,215	140,974

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

(b) The leasehold buildings of the Company were revalued on 31 December 2011 and 2010 by Avista Valuation Advisory Limited ("Avista"), independent qualified professional valuers not connected with the Company. Avista has appropriate qualifications and has recent experiences in the valuation of similar properties in the relevant locations. The valuations have been arrived at replacement cost approach.

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

(d) If the leasehold buildings had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation of approximate RMB48,984,000 (2010: RMB52,929,000).

(e) At 31 December 2010, certain buildings with carrying values of approximately RMB28,892,000 were transferred to assets held for sale. The details are set out in Note 26.

(f) In June 2009, the Company received a court order from the Hangzhou Xiacheng District People's Court (杭州下城區人民法院) to freeze certain buildings as a result of a litigation against the Company which acted as guarantor and provided guarantee to secure Zhu Loan granted to Gabriel by Ms. Zhu. At 31 December 2010, the carrying amount of approximately RMB86,766,000 of buildings has been frozen, which included carrying amount of approximately RMB13,784,000 under assets held for sale.

On 10 June 2011, the Company entered into a settlement agreement in which the outstanding amounts have been settled (Notes 12 and 29). At 31 December 2011, the assets were released by the relevant authorities.

20. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2010	**16,199**
Transferred to assets held for sale (Note 26)	**(16,199)**
At 31 December 2010 and 2011	**-**
DEPRECIATION AND IMPAIRMENT	
At 1 January 2010	**7,984**
Provided for the year	**831**
Transferred to assets held for sale (Note 26)	**(8,815)**
At 31 December 2010 and 2011	**-**
CARRYING VALUES	
At 31 December 2010 and 2011	**-**

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

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

(c) In June 2009, the Company received a court order from the Hangzhou Xiacheng District People's Court (杭州下城區人民法院) to freeze certain investment properties as a result of a litigation against the Company in relation to its acting as a guarantor and provide guarantee to secure Zhu Loan granted to Gabriel by Ms. Zhu. At 31 December 2010, the carrying amount of approximately RMB7,384,000 of investment properties has been frozen. At 31 December 2011, as the litigation with Ms. Zhu and the Zhu Loan was settled (Notes 12 and 29), the related pledge on the investment properties has been released.

(d) As at 31 December 2010, all investment properties with carrying value of approximately RMB7,384,000 were transferred to assets held for sale. The details are set out in Note 26.

21. PREPAID LEASE PAYMENTS

	2011 RMB'000	2010 RMB'000
The Company's prepaid lease payments on land use rights are held under medium lease-term in the PRC and analysed for reporting purposes as:		
Non-current assets	**7,443**	7,584
Current assets	**141**	188
	7,584	7,772

(a) In June 2009, the Company received a court order from the Hangzhou Xiacheng District People's Court ("杭州下城區人民法院") (the "Court") to freeze certain prepaid lease payments as a result of a litigation against the Company which acted as guarantor and provided guarantee to secure loans granted to Gabriel by Ms. Zhu. As at 31 December 2010, the carrying amount of approximately RMB11,022,000 of prepaid lease payments has been frozen, which included carrying amount of approximately RMB3,250,000 under assets held for sale (Note 26).

On 10 June 2011, the Company entered into a settlement agreement in which the outstanding amounts have been settled and the relevant assets were released by the Court. Further details are set out in Notes 12 and 29.

(b) At 31 December 2010, certain prepaid lease payments amounting to approximately RMB3,250,000 were transferred to assets held for sale. Further details are set out in Note 26.

22. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials	**803**	8,989
Work in progress	**4,962**	2,422
Finished goods	**4,212**	30,748
	9,977	42,159

At 31 December 2011, none of the inventories was stated at net realisable value (2010: RMB37,974,000).

23. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	**80,616**	41,366
Less: impairment loss recognised	**(24,882)**	(25,264)
	55,734	16,102
Prepayments, deposits and other receivables	**1,819**	81,761
Less: impairment loss recognised	**-**	(80,513)
	1,819	1,248
Total trade and other receivables	**57,553**	17,350

The Company allows an average credit period of 60 days to 120 days to its trade customers. The Company does not hold any collateral or other credit enhancements over its trade and other receivables.

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

	2011 RMB'000	2010 RMB'000
0 – 60 days	**53,924**	14,995
61 – 90 days	**159**	515
91 – 365 days	**1,609**	592
Over 365 days	**42**	-
	55,734	16,102

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

	2011 RMB'000	2010 RMB'000
At the beginning of the year	**25,264**	21,582
Reversal of impairment loss	**(382)**	-
Recognised during the year	**-**	3,682
At the end of the year	**24,882**	25,264

23. TRADE AND OTHER RECEIVABLES *(Continued)*

At 31 December 2011, included in the impairment losses are individually impaired trade receivables with an aggregate balance of approximately RMB24,882,000 (2010: RMB25,264,000) which are due to long outstanding.

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

	2011 RMB'000	2010 RMB'000
At beginning of the year	**80,513**	80,281
Amounts written off during the year	**(80,513)**	-
Recognised during the year	**-**	232
At end of the year	**-**	80,513

At 31 December 2010, included in the impairment loss of other receivables are individually impaired other receivables with an aggregate balance of approximately RMB662,000 which are due to long outstanding. The remaining balance of impairment loss of approximately RMB79,851,000 on cash advances to Zhejaing Yonghe has been recognised due to the misconducts of certain former directors of the Company in 2008.

At 31 December 2011, none of the other receivables are considered by the directors as past due or impaired.

(d) At 31 December 2011 and 2010, the analysis of trade receivables that were past due but not impaired are as follows:

			Past due but not impaired			
	Total RMB'000	**Neither past due nor impaired** RMB'000	**Less than 60 days** RMB'000	**61-90 days** RMB'000	**91-365 days** RMB'000	**Over 365 days** RMB'000
At 31 December 2011	55,734	54,224	1,451	-	17	42
At 31 December 2010	16,102	15,543	69	272	218	-

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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

24. BALANCES WITH RELATED PARTIES

Balances with related parties are unsecured, non-interest bearing and repayable on demand.

Details of the amounts from related companies at 31 December 2010 and 2011 disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Gabriel	**Zhejiang Hongxing Textiles Co., Ltd.* "浙江宏興紡織有限公司" ("Zhejiang Hongxing")**	**Zhejiang Hongxing Sabrina Garments Ltd.* "浙江宏興莎美娜服飾有限公司" ("Zhejiang Sabrina")**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
	(Note i)	(Note ii)	(Note ii)	
Amounts due from related companies	158,605	37,974	22,175	218,754
Less: impairment loss recognised	(158,605)	(37,974)	(22,175)	(218,754)
	-	-	-	-
Maximum amounts outstanding during the year 2010 and 2011	159,411	38,408	22,600	

Notes:

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

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

** English name is for identification only*

25. BANK BALANCES AND CASH

For the year ended 31 December 2011 and 2010, bank balances represented short-term deposits with a maturity of three months or less. The interest rate ranged from 0.1% to 0.5% per annum (2010: 0.36% to 0.72% per annum).

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

	2011	2010
	'000	'000
US$	**23**	33
EUR	**-**	4
HK$	**88**	93

26. ASSETS CLASSIFIED AS HELD FOR SALE

On 29 December 2010, a resolution was passed by the board of directors of the Company to dispose of certain buildings, investment properties and prepaid lease payments (the "Selling Assets"). On 30 August 2011, the Company signed a memorandum of understanding with the People's Government of Yang Xun Qiao Town, Shaoxing County* "紹興縣楊汛橋鎮人民政府" (the "Local Government") in respect of disposal of Selling Assets. On 30 December 2011, the Company and the Local Government entered into an assets transfer agreement pursuant to which the Local Government has agreed to acquire and the Company agreed to dispose the Selling Assets at a total consideration of RMB79,772,200. The disposal will be completed on or before 30 September 2012 in accordance with the terms of the assets transfer agreement.

The assets classified as held for sale represent as follows:.

	2011	2010
	RMB'000	RMB'000
Buildings (Note 19)	**28,892**	28,892
Investment properties (Note 20)	**7,384**	7,384
Prepaid lease payments (Note 21)	**3,250**	3,250
	39,526	39,526

As of the date of approval of these financial statements, the transaction is still in progress.

27. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables (Note i & ii)	**32,815**	12,609
Accrued interests (Note iii)	**-**	38,828
Receipt in advance	**3,438**	1,361
Other taxes payable	**12,222**	14,346
Accrued expenses and other payables	**8,017**	23,969
	56,492	91,113

(i) The Company normally receives credit periods from suppliers ranging from 30 days to 90 days. The Company has in place financial risk management policies to ensure that all payables are settled within the credit timeframe.

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

	2011 RMB'000	2010 RMB'000
0 – 60 days	**18,915**	4,309
61 – 90 days	**5,163**	488
91 – 365 days	**461**	222
Over 365 days	**8,276**	7,590
	32,815	12,609

(iii) Accrued interests included interests for outstanding bank loans over the borrowing terms amounting to approximately RMB38,828,000 as at 31 December 2010. The accrued interests were waived and settled during the year ended 31 December 2011.

28. AMOUNTS DUE TO GUARANTORS

In prior years, the Company defaulted on the settlement of certain bank borrowings and the related banks had taken legal actions against the Company and its guarantors, namely Zhejiang Xiongsheng Holding Co., Ltd. * "浙江雄盛實業有限公司" ("Xiongsheng") and Xiongfeng Holding Group Co., Ltd. * "雄峰控股集團有限公司" ("Xiongfeng"), Zhejiang Lingda Industry Co., Ltd. * "浙江凌達實業有限公司" ("Lingda"), Zhejiang Zhiye Real Estate Group Co., Ltd. * "浙江置業房產集團有限公司" ("Zhiye"), Jinggong Group Co., Ltd. * "精功集團有限公司" ("Jinggong") and Zhejiang Yongli Industry Group Co., Ltd. * "浙江永利實業集團有限公司" ("Zhejiang Yongli") (collectively referred to as the "Guarantors"). The amounts in aggregate of RMB442,338,000 outstanding as at 31 December 2010 represented the settlement of bank borrowings made by the Guarantors on behalf of the Company. Such amounts were unsecured, interest-bearing at an average interest rate of 3.06% per annum and repayment on demand.

During the year, the Company had signed debt agreements with each of the Company's five Guarantors, (1) Xiongsheng and Xiongfeng, (2) Lingda, (3) Zhiye, (4) Jinggong and (5) Zhejiang Yongli on 20 July 2011, 15 August 2011, 17 August 2011, 13 September 2011 and 15 August 2011 respectively (the "Debt Agreements") to settle the Company's debts owed to the Guarantors. Each of the five Guarantors agreed to waive a portion of the debt and to permanently abandon any claim against the Company for the repayment of the remaining amount of the debt from the Company. The remaining amount of the debt after the waived portion was all settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of government subsidies.

Details of the movements and settlement of the amounts due to Gurantors and other debts are set out below:

	RMB'000
At 1 January 2011	442,338
Further settlement of the Company's debt (including bank borrowings and other debts) by the Guarantors during the year	152,754
Aggregate amount due to the Guarantors before signing of the Debt Agreements with Zhejiang Yongli and other four Guarantors	595,092
Wavier of debts granted by the Guarantors (Note 9)	(168,325)
Settled via government subsidies (Note 9(i))	(187,090)
At 31 December 2011	239,677
Amount due to Zhejiang Yongli before the effect of discounting as at 31 December 2011	239,677

** English name is for identification only*

28. AMOUNTS DUE TO GUARANTORS *(Continued)*

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

(1) The Company shall owe the sum of approximately RMB239,677,000 (before the effect of discounting and 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 RMB187,090,000, which will be compensated by the Local Government by way of government subsidies;

(2) The Company agreed to repay Zhejiang Yongli, commencing from the fifth anniversary after 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 on an annual basis until the full repayment of the debt;

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

(4) No interest would be charged to the Company 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.

29. PROVISION

	RMB'000
At 1 January 2011	34,653
Settlement during the year	(16,154)
Reversal of provision (Note 12)	(8,499)
At 31 December 2011	10,000

During the year ended 31 December 2008, the Company acted as a guarantor to secure (i) the Zhu Loan and (ii) 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 for each party. Both parties are the independent third parties of the Company.

(i) The Zhu Loan were settled by the Company on 16 June 2011 and part of the provision made in respect of interest and liquidated damage in relation thereto was reversed during the year ended 31 December 2011 upon the waiver from Ms. Zhu. Further details are disclosed in Note 12.

29. PROVISION *(Continued)*

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

On 9 October 2009, a civil judgment was issued by the Zhejiang Shaoxing Intermediate People's Court (the "Judgment"), 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 the related legal fees amount of RMB200,000. According to the Judgment, the Company, as the guarantor, is liable to a limited sum of RMB10,000,000 in connection with the claim.

30. BANK BORROWINGS

	2011 RMB'000	2010 RMB'000
Bank loans, overdue	-	90,700
Overdue trust receipt loans	-	30,980
Total bank borrowings	-	121,680
Secured	-	10,000
Unsecured	-	111,680
	-	121,680

All bank loans were settled by Zhejiang Yongli, the controlling shareholder of the Company, during the year ended 31 December 2011(Note 28). At 31 December 2010, all of the bank borrowings were fixed-rate bank loans, repayable on demand or due within one year.

The weighted average effective interest rates per annum at 31 December 2010 were 5.91%-8.22% for fixed-rate bank loans, 8.87%-12.33% for overdue bank loans and 18% for overdue trust receipt loans.

Bank borrowings of the Company amounted to approximately RMB111,680,000 as at 31 December 2010 were guaranteed by Mr. and Mrs Sun and independent third parties.

The accrued interests at 31 December 2010 of approximately RMB38,828,000 are recorded under trade and other payables.

Details of the assets pledged for bank borrowings granted to the Company as at 31 December 2010 are set out in Note 35.

31. DEFERRED TAXATION

Major deferred tax (liabilities) assets recognised and movement thereof during the current and prior reporting periods are set out as follows:

	Revaluation of properties	Impairment loss recognised in respect of trade and other receivables	Allownace of inventories	Tax losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	(7,538)	5,353	1,847	338	-
Credited to profit or loss	-	1,198	4	-	1,202
Charged to other comprehensive income	(1,202)	-	-	-	(1,202)
At 31 December 2010	(8,740)	6,551	1,851	338	-
(Charged) credited to profit or loss	-	(330)	(6)	1,270	934
Charged to other comprehensive income	(934)	-	-	-	(934)
At 31 December 2011	**(9,674)**	**6,221**	**1,845**	**1,608**	**-**

At the end of the reporting period, the Company had unused tax losses of approximately RMB13,896,000 (2010: RMB332,272,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the above unused tax losses due to unpredictability of future profit streams. The above unused tax losses will expire after five years from the year of assessment to which they relate.

32. AMOUNT DUE TO A CONTROLLING SHAREHOLDER

The amount due is unsecured, interest-free and not repayable until 12 September 2015. The carrying value of the amount due to the controlling shareholder as at 31 December 2011 was stated at discounted present value with an imputed interest rate of 14.35% per annum. Further details of the balance are set out in Note 28.

33. SHARE CAPITAL

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

	Number of shares '000	**RMB'000**
Domestic shares at 1 January 2010, 31 December 2010 and 31 December 2011	588,000	58,800
H shares at 1 January 2010, 31 December 2010 and 31 December 2011	475,500	47,550
Total share capital of RMB0.10 each at 1 January 2010, 31 December 2010 and 31 December 2011	1,063,500	106,350

The domestic shares and H shares carry the same rights to dividends, receive notice of attender vote at any general meeting of the Company or to participate in any distribution on winding up.

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

34. NON-CASH TRANSACTIONS

The Company has undertaken the following non-cash transactions:

During the year ended 31 December 2011,

(i) trade and other payables of approximately RMB32,193,000, bank loans of approximately RMB121,680,000 and amounts due to guarantors of approximately RMB73,804,000 were directly settled by the controlling shareholder of the Company.

(ii) government subsidies of approximately RMB187,090,000 (Note 28) to the Company for repayment of Zhejaing Yongli for settlement of debts on behalf of the Company.

(iii) the amount due to Guarantors of approximately RMB168,325,000 (Note 28) and interest expenses of approximately RMB19,753,000 (Note 13) were waived by the Guarantors of the Company.

34. NON-CASH TRANSACTIONS *(Continued)*

During the year ended 31 December 2010,

(iv) bills payables and bank loans of approximately RMB52,500,000 and approximately RMB114,534,000 respectively were directly settled by the Guarantors of the Company.

(v) bank loans of approximately RMB1,361,000 were directly settled by the related companies of the Company.

(vi) overdue trust receipt loans and bank loans interests were directly settled by the guarantors, related companies and Zhejiang Yonghe to the bank of approximately RMB17,744,000, RMB104,000 and RMB2,314,000 respectively.

35 PLEDGE OF ASSETS

At 31 December 2010, assets classified as held for sale amounted to approximately RMB9,993,000 of the Company were pledged to secure banking facilities granted to the Company. The pledge was released upon the settlement of related banking facilities during the year ended 31 December 2011.

36. RELATED PARTY TRANSACTIONS

(a) The balances with related parties and the controlling shareholder are set out in Note 24 and 32 respectively.

(b) Details of the guarantee given by related parties to the banks in respect of the loans granted to the Company as at 31 December 2010 are set out in Note 30.

(c) During the year ended 31 December 2011, the Company purchased electricity and steam in an aggregate of approximately RMB8,015,000 (2010: Nil) from Zhejiang Yongli Thermal, a subsidiary of Zhejiang Yongli.

The aforesaid transactions were conducted in the ordinary course of business of the Company.

** English name is for identification only*

36. RELATED PARTY TRANSACTIONS *(Continued)*

(d) The remuneration of directors and other members of key management for the two years ended 31 December 2011 and 2010 were as follows:

	2011	2010
	RMB'000	RMB'000
Short-term employee benefits	**297**	199
Post-employment benefits	**19**	11
	316	210

37. EVENTS AFTER THE REPORTING PERIOD

On 19 December 2011, there was a court judgment ruled out that 240,000,000 domestic shares held by Mr. Sun Li Yong and Ms. Fong Xiao Jian be transferred to Zhejiang Yongli. Upon completion of such share transfer and share registration, Zhejiang Yongli will hold in aggregate of 550,000,000 Domestic Shares (representing approximately 51.72% of total issued shares of the Company). Pursuant to rule 26.1 of the Hong Kong Code of Takeovers and Mergers, a mandatory general offer in cash or with a cash alternative shall be made for all the outstanding shares other than those already owned or agreed to be acquired by Zhejiang Yongli. On 9 March 2012, the share transfer and registration have been completed and Zhejiang Yongli became the Company's immediate and ultimate holding company. Further details are set out in the announcement of the Company dated 12 March 2012.

RESULTS

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(restated)
TURNOVER	**195,433**	85,697	92,031	324,992	384,007
PROFIT (LOSS) BEFORE TAXATION	**396,633**	(107,670)	(97,681)	(529,093)	835
TAXATION	**934**	1,202	1,132	11,303	4,326
PROFIT (LOSS) FOR THE YEAR	**397,567**	(106,468)	(96,549)	(517,790)	5,161

ASSETS AND LIABILITIES

	At 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**271,544**	249,487	323,852	417,901	695,522
TOTAL LIABILITIES	**(194,404)**	(689,784)	(661,288)	(662,184)	(423,368)
SURPLUS (DEFICIENCY OF) SHAREHOLDERS' FUNDS	**77,140**	(440,297)	(337,436)	(244,283)	272,154

Note: The summary of the results and the assets and liabilities of the Company for the year ended 31 December 2007, 2008, 2009, 2010 and 2011 are extracted from the audited financial statements.