浙江永隆實業股份有限公司

# ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*

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

Stock Code: 8211

# ANNUAL REPORT 2013

* For identification purpose only

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**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.**

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

** English name is for identification only*

# CORPORATE INFORMATION

**Executive directors**
Mr. Wang Xinyi *(Chairman)*
Ms. He Lianfeng *(Chief Executive Officer)*
Mr. Hu Hua Jun
Mr. Chen Jian Jiang

**Non-executive director**
Mr. Chen Dong Chun

**Independent non-executive directors**
Mr. Xu Wei Dong
Mr. Li Hui Peng
Mr. Qin Fu

**Supervisors**
Ms. Wang Ai Yu *(Chairman)*
Ms. Tong Jian Juan
Mr. Chen Wei

**Independent supervisors**
Mr. Pan Xing Biao
Mr. Hu Jin Huan

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

**Audit committee**
Mr. Xu Wei Dong *(Chairman)*
Mr. Li Hui Peng
Mr. Qin Fu

**Remuneration committee**
Mr. Li Hui Peng *(Chairman)*
Mr. Xu Wei Dong
Mr. Qin Fu
Mr. Wang Xinyi

**Nomination committee**
Mr. Qin Fu *(Chairman)*
Mr. Xu Wei Dong
Mr. Li Hui Peng
Ms. He Lianfeng

**Legal address**
Yangxun Qian Town
Keqiao Qu, Shaoxing,
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. Hu Hua Jun

**Authorised representatives**
Ms Chen Yen Yung
Mr. Hu Hua Jun

**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

*For the year ended 31 December 2013,*

- revenue of the Company increased from approximately RMB130.01 million in year 2012 to approximately RMB206.41 million in year 2013, representing an increase of approximately 58.76% when compared to the year ended 31 December 2012;

- profit for the year was approximately RMB43.70 million; and

- the Directors do not recommend the payment of a final dividend for the year ended 31 December 2013.

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 2013.

## FINANCIAL PERFORMANCE

For the year ended 31 December 2013, the Company recorded a revenue of approximately RMB206.41 million, represents an increase of approximately 58.76 % when compared with the same period in 2012. It is mainly because the revenue of sales and manufacturing of woven fabrics increased sharply by approximately 111.04% as the Company has recommenced the export sales since the second quarter of 2013. Gross profit margin for the year ended 31 December and 2013 and 2012 was approximately 12.63% and 11.70% respectively. The overall increase in gross profit margin mainly contributed from subcontracting fee income as the Company was not required to bear the cost of raw materials and therefore it was not affected by rose of raw materials cost. In addition, the export sales that has better selling price also result in the increase of gross profit margin during the year. The selling and distributed costs for year ended 31 December 2013 increased sharply by approximately 194.29% when compared with the corresponding period in 2012 mainly due to transportation, salary and sampling fee increased as a result of export business recommenced since the second quarter of 2013. Administrative expenses included approximately RMB2.38 million of reversal of impairment loss recognized in respect of trade receivables, except for that, administrative expenses decreased by approximately 27.11% when compare with that in 2012 mainly due to decrease of legal and professional fees. Other income and gains increased approximately RMB43.03 million for the year ended 31 December 2013 when compared with the corresponding period in 2012 mainly contributed from gains on disposal of old factory to the Local Government. The respective earnings and loss per share for the year ended 31 December 2013 and 2012 were approximately RMB4.11 cents and RMB1.66 cents.

## DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2013.

## OUR STRATEGIES GOING FORWARD

Currently, the textile industry is still under the pressure of cost control such as raw materials cost and labour cost etc, therefore, the overall market sentiments is not good. On the other hand, the Directors expect that the economies of the US and Europe will not be recovered soon after the financial turmoil occurred in 2008. Hence, the worldwide economies will continue be affected, the textile industry will continue be impacted in 2014. Therefore, the Directors will 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

Since the second quarter of 2013, the Company recommenced the export sales. In view of the shrinking of the Europe and US market, the Company successfully developed other market such as South America, Africa and other Asia countries. The Company is located in Zhejiang Province, except for expanding the local market, the Company also develop other market such as Fujian Province and Liaoning Province etc. In order to maximize the sales revenue and minimize the market risk, the Company will continue to place the sales efforts in expanding the domestic market and diversifying the overseas market.

**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.

**C: STREAMLINING OPERATIONS, SAVING COST**

After the consolidation of the production, production machines and manpower from the old factory site to the existing factory site since February 2012, the Company successfully save the production cost, hence improved the gross profit margin in 2013. In order to enhance cost control and achieve cost saving, the Company will continue to streamline operations, optimise personnel and assets.

In addition, in order to further reduce the production cost and enhance the stable supply of electricity and steam, the Company continues to 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"), ultimate holding company of the Company since 9 March 2012.

## PROSPECTS

Since the third quarter in 2012, the textile industry has been facing the impact of rising of raw materials cost, labour cost and therefore, the overall market sentiments were poor. Hence, the impact was reflected since the year end of 2012 to early 2013 of the Company. In additions, the financial problems in the US and Europe, the worldwide economies and the textile industry will continue be impacted in 2014. After disposal of the old factory of the Company in March 2013, the cash and bank balance as at 31 December 2013 was approximately RMB168.88 million and under the financial support from Zhejiang Yongli, the Company has sufficient cash resources to meet its present and future cash flow requirements. The board of directors expects that the Company is able to face with the challenge in 2014 and the near future.

## 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.

**Wang Xinyi**
*Chairman*

Zhejiang, the PRC, 14 March 2014

## BUSINESS AND OPERATION REVIEW

In view of the financial problem in Europe and U.S., the foreign markets have been shrinking. However, the market in the Middle-East, South America and Eastern Europe provides a business opportunity to the Company, export sales to these markets has been commenced since the second quarter of 2013. Since the third quarter in 2012, the local textile industry has been facing the impact of rising of raw materials cost, labour cost and therefore, the overall market sentiments were still poor. Therefore, the Company recommenced the export sales in the second quarter of 2013. In order to maximize the interests of the shareholders and although the market sentiments were still poor, the Company will continue to focus on both domestic and overseas market and sales efforts will be placed in expanding these markets.

### Production Facilities

During the year ended 31 December 2013 under review, the Company spent approximately RMB329,000 and RMB46,000 in additions of motor vehicles and furniture, fixtures and equipment respectively and approximately RMB69,000 in upgrading of plant and machinery.

### Product research and development

During the year ended 31 December 2013, the Company continued to innovate and develop new product so as to meet the customers' need and enhance sales orders from customers.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year ended 31 December 2013, the Company financed its operations mainly by internally generated cash and financial support from the ultimate holding Company, Zhejiang Yongli.

As at 31 December 2013, the Company's current assets and net current assets were approximately RMB232.39 million (31 December 2012: approximately RMB146.77 million) and approximately RMB170.59 million (31 December 2012: approximately RMB98.06 million) respectively. The liquidity ratio of the Company, represented by the ratio of current assets over current liabilities, was approximately 3.76 (31 December 2012: 3.01).

## CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

At 31 December 2013, the Company had no commitments (2012: Nil) for capital expenditure.

## MATERIAL DISPOSALS

Details of material disposals are set out in Note 24 to the financial statements in respect of assets classified as held for sale.

## SEGMENTAL INFORMATION

Segmental information of the Company is set out in Note 9 to the financial statements.

## CONTINGENT LIABILITIES

As at 31 December 2013, the Company did not have any material contingent liabilities (2012: Nil).

## CHARGES ON COMPANY ASSETS

As at 31 December 2013, the Company has no charges on company assets (2012: Nil).

## EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2013, the Company had 565 employees (31 December 2012: 459), comprising 3 (31 December 2012: 2) in research and development, 8 (31 December 2012: 3) in sales and marketing, 497 (31 December 2012: 421) in production, 48 (31 December 2012: 22) in quality control, 6 (31 December 2012: 6) in management, and 6 (31 December 2012: 5) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

## FOREIGN EXCHANGE EXPOSURE

The Company operates in the PRC with most of the transactions denominated and settled in Renminbi ("RMB"). However, foreign currencies, mainly United States Dollars, Euro and Hong Kong Dollars, are required to settle the Company's expenses and additions on plant and equipment. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government, the Company has used forward contracts, foreign currency borrowings and other means to hedge its foreign currency exposure. The Company considers it has no material foreign exchange risk to the Company.

## EXECUTIVE DIRECTORS

**Mr. Wang Xinyi (王欣藝先生)**, aged 32, is currently the Chairman and executive Director of the Company and is responsible for the strategic planning of the Company. Mr. Wang is the son-in-law of Mr. Zhou Yongli ("Mr. Zhou"). Mr. Zhou is the controlling shareholder of Zhejiang Yongli, which is the ultimate holding company of the Company. Mr. Wang currently holds the positions of executive director, chairman of investment decision-making committee and partner of Shanghai CR Assets Management Co. Ltd.* (上海呈瑞投資管理有限公司) ("CR Assets"). Mr. Wang has around 10 years of extensive experience in investment, involving markets in Mainland China, Hong Kong, Europe and the United States. He has also built up good relationships with fund managers, entrepreneurs, industry experts and intermediary organizations all over the world. Before joining CR Assets, Mr. Wang has been working at Shanghai Chongyang Investment Management Co., Ltd., where he was responsible for the investment and research of emerging industries. Before that, for the period of 2009 to 2011, Mr. Wang served as the strategic analyst of small and mid-cap stock investment of Guotai Junan Securities Co., Ltd., which is one of the largest investment banks in the PRC and has been awarded the "Best Domestic Research Team" for four consecutive years. Mr. Wang has extensive working experience in technology, media and telecommunications industry before emerging in the area of investment. He has been a manager of the product research and development of Cisco System, Inc. in the United States. He also established Hangzhou Chuang Sheng Technology Co. Ltd.* (杭州創盛互聯科技有限公司) and acted as the chief executive. Mr. Wang graduated from Zhejiang University in 2003 and obtained the bachelor degree of Engineering. He obtained the master degree of Engineering in University of Nebraska Lincoln in 2005 and the master degree of Business Management in Cranfield School of Management in the United Kingdom in 2009. He has been appointed as an executive Director of the Company at the extraordinary general meeting ("EGM") held on 10 March 2014 and elected as a Chairman of the Board on the same day.

**Ms. He Lianfeng (何連鳳女士)**, aged 40, is currently an executive Director, Chief Executive Officer and also a General Manager of the Company. She is responsible for the overall management, sales and production of the Company. Before joining the Company, she acted as the workshop director of Zhejiang Yongli Warp Knitting Co. Ltd. from January 1990 to July 2007, the general manager assistant of Zhejiang Yongli Warp Knitting Co. Ltd. from August 2007 to February 2013. She is familiar with the trends of textile market in the PRC and has gained more than 23 years of valuable experience in production management in textile enterprises. In March 2013, she joined the Company as the deputy general manager. She has been appointed as an executive director of the Company at the EGM held on 10 March 2014.

**Mr. Hu Hua Jun (胡華軍先生)**, aged 29, is currently an executive Director of the Company. He is responsible for all secretarial work of the chairman and the routine management of administrative department. Prior to joining the Company, Mr. Hu worked in the finance department and the general manager's office of Zhejiang Yongli, the ultimate holding company of the Company from July 2008 to May 2010 and from May 2010 to December 2010, respectively. He received a bachelor degree in Accounting at Economics and Management Faculty in 湖南南華大學 (University of South China, Hunan*). He joined the Company in December 2010 and was appointed as an executive Director at the EGM held on 26 November 2012.

**Mr. Chen Jian Jiang (陳建江先生)**, aged 41, is currently an executive Director of the Company. He is responsible for the routine management of the production and research department of the Company. Prior to joining the Company, Mr. Chen worked as a factory director of production department of 中發紡織有限公司 (Zhongfa Textile Company Limited*) from February 1996 to January 2000 and a deputy general manager of the production department of 紹興縣偉創紡織有限公司 (Shaoxing County Weichuang Textile Company Limited*), from January 2000 to February 2000. He has over 16 years of experience in textile production management in the PRC. He joined the Company in March 2002 and was appointed as an executive Director at the EGM held on 26 November 2012.

## NON-EXECUTIVE DIRECTOR

**Mr. Chen Dong Chun (陳冬春先生)**, aged 31, is currently a non-executive Director of the Company. He is a senior analyst who received a master degree in Accounting at Economics and Management Faculty, 上海交通大學 (Shanghai Jiao Tong University*). Mr. Chen has been working as a senior analyst in 禹杉投資管理有限公司 (Yu Shan Finance and Investment Holding Company Limited*) since January 2009. He has been a director of 上海西恩科技有限公司 (Shanghai Xien Technology Company Limited*) since October 2011 and has strong practical experience and knowledge in securities investment and management in listed companies. Mr. Chen is also a director of Wing Hing Holdings (HK) Investment Limited, a substantial shareholder of the Company. He was appointed as a non-executive Director at the EGM held on 26 November 2012.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Xu Wei Dong (徐維棟先生)**, aged 40, is currently an independent non-executive Director of the Company. He is a senior economist and certified public accountant. He graduated from Jiangxi University of Finance and Economics (江西財經大學) in July 1998 and has been working in 紹興天源會計師事務所有限責任公司(Shaoxing Tianyuan CPA Co., Ltd*) (formerly known as 紹興會計師事務所 (Shaoxing CPA firm*) before transformation) since October 1998. Mr. Xu has over 10 years of experience in financial management and auditing. He was appointed as an independent non-executive Director at the EGM held on 26 November 2012.

**Mr. Li Hui Peng (李會鵬先生)**, aged 66, is currently an independent non-executive Director of the Company. He graduated from 杭州大學 (Hangzhou University*) and received a college degree. Mr. Li served the army, Shaoxing County Water and Electricity Bureau and Personal Bureau from December 1970 to January 1993. He worked as vice secretary of Shaoxing County Party Committee, and a director of National People's Congress Standing Committee form January 1993 to March 2007. He resigned the position as leader in the government authority for age reasons from March 2007 to February 2009 and has retired since February 2009. He was appointed as an independent non-executive Director at the EGM held on 26 November 2012.

**Mr. Qin Fu (秦甫先生)**, aged 50, is currently an independent non-executive Director of the Company. He received a bachelor degree from Law faculty of 華東政法學院 (East China University of Politics and Law*). He is a lawyer and senior economist. He has strong theoretical knowledge and practical experience in laws and economics. Mr. Qin worked as secretary and office director of Shaoxing Justice Bureau from July 1984 to November 2000, director-general and minister of Yuecheng Justice Bureau of Shaoxing City, City Management Bureau and Publicity Department respectively from November 2000 to December 2010, and has been working as general secretary of Shaoxing arbitration commission since December 2010. He was appointed as an independent non-executive Director at the EGM held on 26 November 2012.

## INDEPENDENT SUPERVISORS

**Mr. Hu Jin Huan (胡金煥先生)**, aged 49, is an independent Supervisor of the Company. He is responsible for performing the supervisory function in relation to the Board of Directors, manager and other officers of the Company and report independently to the shareholders in general meeting of the Company. He is a PRC certified public accountant and is now working as a director in 紹興集財會計師事務所 (Shaoxing Jicai Certified Public Accountants*). He was re-appointed as an independent Supervisor of the Company in January 2012.

**Mr. Pan Xing Biao (潘興彪先生)**, aged 48, is an independent Supervisor of the Company. He is a certified public accountant and certified tax accountant. Mr. Pan graduated in Financial Accounting major from 浙江台州供銷學校 (Zhejiang Taizhou Supply and Marketing School*) in July 1985. He worked as the chief accountant of 紹興縣畜產品有限公司 (Shaoxing Livestock Product Co., Ltd. *) from August 1985 to April 1990, 紹興縣土特產有限公司 (Shaoxing Native Products Co., Ltd. *) from May 1990 September 1991, 紹興縣供銷貿易有限公司 (Shaoxing Supply and Marketing Trade Co., Ltd. *) from October 1991 to December 1994 and 紹興縣化纖供應有限公司 (Shaoxing Chemical Fiber Supply Co., Ltd. *) from January 1995 to June 1997. He worked as a department head at 紹興縣第一稅務師事務所 (Shaoxing First Tax Accountant Office*) from July 1997 to December 1999 and has been a director of 紹興益地稅務師事務所 (Shaoxing Yidi Tax Accountant Office*) since January 2000. He was appointed as an independent Supervisor at the EGM held on 26 November 2012.

## SUPERVISORS

**Ms. Wang Ai Yu (王愛玉女士)** aged 50, is a Supervisor of the Company. She is currently a finance manager of Zhejiang Yongli. She graduated from Chong Qing University. Ms. Wang was a teacher of 楊汛橋中心小學 (Yangxunqiao Zhongxing 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 and accounting. She was reappointed as a Supervisor of the Company by the EGM held on 10 March 2014 and a chairman of the Supervisory Committee.

**Ms. Tong Jian Juan (童建娟女士)** aged 37, is a Supervisor of the Company. She is currently the manager of quality inspection department of the Company. She had been working as a warehouse supervisor and a deputy manager of quality inspection department of the Company since 2002. She has strong production technical knowledge and practical experience. She was appointed as a Supervisor at the EGM held on 26 November 2012.

**Mr. Chen Wei (陳偉先生)** aged 32, is a Supervisor of the Company. He is currently the deputy manager of the production department of the Company since February 2007. He was a workshop supervisor in 浙江偉創紡織有限公司 (Zhejiang Wei Chuang Textiles Company Limited*) from 1998 to January 2006 and a production manager in 萬邦紡織有限公司 (Wan Bang Textiles Company Limited*) from 2006 to 2007. He was appointed as a Supervisor at the EGM held on 26 November 2012.

## SENIOR MANAGEMENT

**Ms. Chen Yen Yung (陳燕雲女士)**, aged 42, is a company secretary of the Company. Ms. Chen studied in the Hong Kong Polytechnic University for higher certificate in accountancy and holds a bachelor's degree in commerce (accounting) form 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.

**Mr. Weng Jun Jun (翁君君先生)**, aged 27, is currently a manager of the finance and accounting department and is responsible for the daily operation of the finance department of the Company. She graduated from 浙江財經大學(Zhejiang University of Finance & Economics*). She was worked as an accountant at the finance and accounting department of 浙江永利實業集團有限公司(Zhejiang Yongli Industry Group Limited*) ("Zhejiang Yongli") from July 2008 to April 2010 and was an assistant of the deputy general manager of Zhejiang Yongli from April 2010 to July 2012. She has acted as an assistant of the financial controller of Zhejiang Yongli since July 2012. She has extensive knowledge in finance and has extensive experience in corporate finance management. She joined the Company in January 2013.

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2013.

## 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 2013 are set out in the statement of profit or loss and other 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 2013.

## PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2013, the Company spent approximately RMB329,000 and RMB46,000 in additions of motor vehicles and furniture, fixtures and equipment respectively and approximately RMB69,000 in upgrading of plant and machinery.

Details of these and other movements during the year in the property, plant and equipment of the Company are set out in Note 18 to the financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in Note 30 to the financial statements.

## DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the year ended 31 December 2013 and up to the date of this report were:

**Executive Directors:**

Mr. Wang Xinyi *(Chairman) (appointed on 10 March 2014)*
Ms. He Lianfeng *(Chief Executive Officer) (appointed on 10 March 2014)*
Mr. Ru Guan Jun *(Chairman) (retired on 10 March 2014)*
Mr. Xia Xian Fu *(Chief Executive Officer) (retired on 10 March 2014)*
Mr. Hu Hua Jun
Mr. Chen Jian Jiang

**Non-Executive Director:**

Mr. Chen Dong Chun

**Independent Non-Executive Directors:**

Mr. Xu Wei Dong
Mr. Li Hui Peng
Mr. Qin Fu

**Supervisors:**

Ms. Wang Ai Yu *(Chairman of supervisory committee) (re-elected on 10 March 2014)*
Ms. Tong Jian Juan
Mr. Fang Wei *(resigned on 18 March 2014)*
Mr. Chen Wei

**Independent Supervisors:**

Mr. Hu Jin Huan
Mr. Pan Xing Biao

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

In accordance with the provisions of the Company's articles of association, the Directors and supervisors acting for the shareholders are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment. None of the Directors who are proposed for re-election at the forthcoming annual general meeting to be held on 15 May 2014 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 2013, 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 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

### Long positions in the shares of the Company

As at 31 December 2013, none of the Directors, chief executives and 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 5.67 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 2013 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 31 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 2013.

## CONNECTED TRANSACTIONS

Save as disclosed in Note 31 to the financial statements, there were no other transactions which need to be disclosed as "Connected Transactions" or "Continuing Connected Transactions" under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholder's approval requirements under Chapter 20 of the GEM Listing Rules.

The independent non-executive Directors have reviewed the connected transactions set out in Note 31 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.

The auditor of the Company has also confirmed that the continuing connected transactions:

(a) had received approval from the Board;

(b) had been entered into in accordance with the relevant agreement governing such transactions; and

(c) had not exceeded that the relevant cap for the financial year ended 31 December 2013 as approved by the shareholders of the Company at the EGM held on 11 April 2012.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, 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 in the shares of the Company

***Domestic shares of the Company***

| Name of shareholders | Capacity | Number of domestic shares held | Approximate percentage of interests in domestic shares | Approximate percentage of interests in total registered capital |
|---|---|---|---|---|
| Zhejiang Yongli Industry Group Co., Ltd. | Beneficial owner | 564,480,000 | 96.00% | 53.08% |
| Mr. Zhou Yongli | Interest in controlled corporation *(Note 1)* | 564,480,000 | 96.00% | 53.08% |
| Ms. Xia Wanmei | Interest of spouse *(Note2)* | 564,480,000 | 96.00% | 53.08% |

Notes:

1. Zhejiang Yongli Industry Group Co., Ltd. ("Zhejiang Yongli") directly held 564,480,000 Domestic Shares. Mr. Zhou Yongli ("Mr. Zhou") is holding approximately 88.40% of the shares in Zhejiang Yongli. By virtue of the SFO, Mr. Zhou is deemed to be interested in the 564,480,000 Domestic Shares held by Zhejiang Yongli.

2. Ms. Xia Wanmei ("Ms. Xia") is the spouse of Mr. Zhou. By virtue of the SFO, Ms. Xia is deemed to be interested in the 564,480,000 Domestic Shares held by Zhejiang Yongli.

***H shares of RMB0.10 each of the Company***

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

Save as disclosed above, as at 31 December 2013, 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 2013, the five largest suppliers and customers of the Company accounted for approximately 28.45% and 52.03% of the Company's purchases and turnover respectively. The largest supplier accounted for approximately 7.63% and 20.07% of the purchases and turnover of the Company respectively.

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 2013.

## 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. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu. Mr. Xu Wei Dong is the chairman of the Audit Committee.

The first quarterly results for the three months ended 31 March 2013, the interim results for the six months ended 30 June 2013, the third quarterly results for the nine months ended 30 September 2013 and the annual results of the Company for the year ended 31 December 2013 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. During the year ended 31 December 2013, the Remuneration Committee comprises three independent Non-Executive Directors, Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu and the executive Director Mr. Wang Xinyi, who was appointed as a member of the Remuneration Committee on 10 March 2014 to replace the retired executive Director, Mr. Ru Guan Jun.

## NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the Code on 30 March 2012. The primary duties of the Nomination Committee are to make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors. During the year ended 31 December 2013, the Nomination Committee comprises three independent non-executive Directors namely Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu and the executive Director, Ms. He Lianfeng, who has been appointed as a member of Nomination Committee since 10 March 2014 to replace the retired executive Director, Mr. Xia Xian Fu.

## 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 2013 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 2014 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*) ("Zhejiang Zhongxing") as domestic auditor of the Company.

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

**Wang Xinyi**
*Chairman*

Zhejiang, the PRC, 14 March 2014

**To: All Shareholders**

We are the supervisory committee of Zhejiang Yonglong Enterprise Co., Ltd.*, in accordance 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") during the year ended 31 December 2013, 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.

The Supervisory Committee followed strictly the relevant regulations and carried out its duties honestly, 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 process 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 shareholder's 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 2013, 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.

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. 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, 14 March 2014

During the year ended 31 December 2013, 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.

## DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transaction by Directors and Supervisors on terms no less exacting than the required standard of securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors and Supervisors, all Directors and Supervisors 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, a non-executive Director and three independent non-executive Directors. Their brief biographical details are set out in the "Directors and Senior Management's Profile" on pages 8 to 11 of the annual report. Moreover, one of the independent non-executive Director, Mr. Xu Wei Dong has appropriate professional qualifications, accounting and 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 13 for the terms of appointment of each Director.

The board confines itself to making board 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.

## CONFIRMATION OF INDEPENDENCE

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.

## BOARD MEETINGS

During the year ended 31 December 2013, regular meeting was held to approve the financial results for the year of 2013. The Board also meets 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 five Board meetings held in the financial year ended 31 December 2013. Individual attendance of each Board member at these meetings is as follows:

| Name of Directors | Attended/eligible to attend |
|---|---|
| **Executive Directors** | |
| Mr. Wang Xinyi *(appointed on 10 March 2014)* | N/A |
| Ms. He Lianfeng *(appointed on 10 March 2014)* | N/A |
| Mr. Ru Guan Jun *(retired on 10 March 2014)* | 5/5 |
| Mr. Xia Xian Fu *(retired on 10 March 2014)* | 4/5 |
| Mr. Hu Hua Jun | 5/5 |
| Mr. Chen Jian Jiang | 5/5 |
| **Non-executive Director** | |
| Mr. Chen Dong Chun | 5/5 |
| **Independent Non-executive Directors** | |
| Mr. Xu Wei Dong | 5/5 |
| Mr. Li Hui Peng | 5/5 |
| Mr. Qin Fu | 5/5 |

## CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2013, all Directors have participated in continuous professional development by attending training course on the topics related to corporate governance and regulations.

The individual training record of each Director received fro the year ended 31 December 2013 is summarised below:

| Name of Directors | Attended training courses on topics related to corporate governance and regulations<br>Yes/No |
|---|---|
| **Executive Directors** | |
| Mr. Wang Xinyi *(appointed on 10 March 14)* | N/A |
| Ms. He Lianfeng *(appointed on 10 March 14)* | N/A |
| Mr. Ru Guan Jun *(retired on 10 March 2014)* | Yes |
| Mr. Xia Xian Fu *(retired on 10 March 2014)* | Yes |
| Mr. Hu Hua Jun | Yes |
| Mr. Chen Jian Jiang | Yes |
| **Non-executive Director** | |
| Mr. Chen Dong Chun | Yes |
| **Independent Non-executive Directors** | |
| Mr. Xu Wei Dong | Yes |
| Mr. Li Hui Peng | Yes |
| Mr. Qin Fu | Yes |

All Directors also understand the importance of continuous professional development and are committed to participating any suitable training or reading relevant materials in order to develop and refresh their knowledge and skills.

## 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. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu. Mr. Xu Wei Dong is the chairman of the Audit Committee.

The Audit Committee has reviewed the results for the three months ended 31 March 2013, six months ended 30 June 2013, and nine months ended 30 September 2013 of the Company. It also has reviewed the audited financial statements for the year ended 31 December 2013 with management and the Company's external auditors and recommended its adoption to the Board.

There were four meeting held by the Audit Committee during the year ended 31 December 2013 for reviewed the annual results for the year ended 31 December 2013 and the three quarterly results in 2013. Individual attendance of each independent non-executive Director at these meetings is as follows:

| **Name of Directors** | **Attended/eligible to attend** |
|---|---|
| **Independent Non-executive Directors** | |
| Mr. Xu Wei Dong | 4/4 |
| Mr. Li Hui Peng | 4/4 |
| Mr. Qin Fu | 4/4 |

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 an 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

### Auditor's 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 2013 and 2012 are analysed as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Audit service | **571** | 716 |
| Performed agreed-upon procedures regarding information on preliminary annual result announcement of the Company | **20** | 41 |
| Performed agreed-upon procedures regarding financial information on continuing connected transactions between the Company and Zhejiang Yongli Thermal | **20** | 41 |
| | **611** | 798 |

The audit services fee for the years ended 31 December 2013 and 2012 represent services provided by SHINEWING and Zhejiang Zhongxing. The other services fee for the year ended 31 December 2013 and 2012 represent the services provided by SHINEWING.

## REMUNERATION COMMITTEE

According to the Code, the Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the Code in January 2005. The primary duties of the Remuneration Committee of the Company 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 2013, the Remuneration Committee comprises three independent non-executive Directors namely Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu and the executive Director, Mr. Wang Xinyi,who has been appointed as a member of Remuneration Committee since 10 March 2014 to replace the retired executive Director, Mr. Ru Guan Jun. Mr. Li Hui Peng was the chairman of the Remuneration Committee.

During the year ended 31 December 2013, one meeting was held and all the independent executive Directors and the retired executive Director, Mr. Ru Guan Jun had attended the meeting of the Remuneration Committee while the existing executive Director, Mr. Wang Xinyi was only appointed on 10 March 2014 and therefore was not eligible to attend all the meeting held in 2013.

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 COMMITTEE

According to the Code, the Company has established a nomination committee (the "Nomination Committee") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the Code on 30 March 2012. The primary duties of the Nomination Committee of the Company are to make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors. The Nomination 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 2013, the Nomination Committee comprises three independent non-executive Directors namely Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu and the executive Director, Ms. He Lianfeng,who has been appointed as a member of Nomination Committee since 10 March 2014 to replace the retired executive Director, Mr. Xia Xian Fu. Mr. Qin Fu was elected as the chairman of the Nomination Committee.

During the year ended 31 December 2013, one meeting was held and all the independent executive Directors and Mr. Xia Xian Fu, the retired executive Director, had attended the meeting of the Nomination Committee while the existing executive Directors, Ms. He Lianfeng was only appointed on 10 March 2014 and therefore she not eligible to attend all the meeting held in 2013.

## 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 an 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'S REMUNERATION

Details of the remuneration of the Directors and senior management are contained in Note 15 to the financial statements.

## COMPANY SECRETARY

Ms. Chen Yen Yung ("Ms. Chen") was appointed as the company secretary of the Company in June 2002. She is responsible to the Board for ensuring the board procedures are followed and that the Board is briefed on legislative, regulatory and corporate governance developments.

During the year ended 31 December 2013, Ms. Chen has undertaken not less than 15 hours of relevant professional training.

## INTERNAL CONTROL

In order to ensure that the Company has adequate internal control procedures, the Company has appointed an independent auditor to review the internal control system of the Company.

## SHAREHOLDERS' RIGHTS

Shareholders' rights are set out in a number of sources, such as the Articles of Association, and the GEM Listing Rules. With reference to the above sources, the Company sets out below details of shareholders' rights in the following aspects:

### 1. The way in which shareholders can convene an extraordinary general meeting or class meeting

Pursuant to Article 79 of the Articles of Association, Shareholders who request the convening of an extraordinary general meeting or a class meeting shall do so in accordance with the following procedures:

(a) two (2) or more shareholders with combined title to more than 10% (including 10%) of shares with voting rights at the meeting to be convened may sign one or several written requests in the same format and with the same contents to the board of directors to convene an extraordinary general meeting or class meeting of shareholders and which shall also specify the meeting's agenda. After receiving the aforesaid written request, the board of directors shall promptly convene an extraordinary general meeting or class meeting of shareholders. The aforesaid number of shares held by shareholders shall be calculated as at the date of the written request;

(b) if the board of directors fails to issue notification convening a meeting within thirty (30) days after receiving the aforesaid written request, the shareholders who raised the request may convene the meeting within four (4) months after the board of directors received that request. The procedures for convening such a meeting shall be, as much as possible, the same as the procedures for convening a general meeting by the board of directors.

The written request must be signed by the shareholders and sent to the Head office and principal place of business in Hong Kong of the Company, Suites 3306-12, 33/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong (the "Hong Kong Office"), for the attention of the Company Secretary. The request will then be verified with the Company's H Share share registrar and transfer office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will forward the request to the Board.

### 2. The procedures for sending enquiries to the Board

Shareholders and other stakeholders may send their enquiries and concerns in writing to the Board by addressing them to the Company Secretary at the Hong Kong Office and the Company Secretary shall then forward the same to the appropriate executives of the Company or members in the Board for further handling

**3. The procedures for making proposals at shareholders' meetings**

To put forward proposals at an annual general meeting or an extraordinary general meeting, the shareholders shall submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Hong Kong Office. The request will be verified with the H Share share registrar and transfer office and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting. Moreover, the notice period concerning the notice to be given to all the shareholders for consideration of the proposals submitted by the shareholders concerned varies as follows pursuant to the Article 58 of the Articles of Association of the Company:

"When convening a general meeting of shareholders, written notification shall be made to the shareholders registered in the shareholders register forty-five (45) days (including the date of meeting but excluding the date of notice issuance) before the convening of the meeting of those matters to be discussed at the meeting and the date and location of the meeting. Shareholders intending to attend the general meeting shall send their written acknowledgments to the Company twenty (20) days before the convening of the meeting."

## 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.

## CONSTITUTIONAL DOCUMENTS

There is no significant change in the constitutional documents of the Company during the year.

## LOOKING FORWARD

The Board of Directors of the Company believes that good corporate governance can safeguard the effective allocation of resources and safeguard shareholder's 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 79, which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other 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 judgement, 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 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 2013, 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

14 March 2014

| | Notes | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|---|
| Revenue | 8 | **206,405** | 130,007 |
| Cost of sales | | **(180,342)** | (114,790) |
| Gross profit | | **26,063** | 15,217 |
| Other income and gains | 8 | **46,731** | 3,702 |
| Selling and distribution costs | | **(618)** | (210) |
| Administrative expenses | | **(7,717)** | (13,851) |
| Finance costs | 10 | **(21,576)** | (23,414) |
| Profits (loss) before taxation | | **42,883** | (18,556) |
| Income tax credit | 11 | **818** | 922 |
| Profit (loss) for the year | 12 | **43,701** | (17,634) |
| Other comprehensive income for the year | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Gain on revaluation of properties | | **3,271** | 3,691 |
| Income tax relating to revaluation of properties | | **(818)** | (922) |
| Other comprehensive income for the year, net of tax | | **2,453** | 2,769 |
| Total comprehensive income (expense) for the year | | **46,154** | (14,865) |
| Earnings (loss) per share | | | |
| Basic and diluted | 13 | **RMB4.11 cents** | RMB(1.66) cents |

# STATEMENT OF FINANCIAL POSITION

At 31 December 2013

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 18 | **103,696** | 108,311 |
| Prepaid lease payments | 19 | **7,020** | 7,208 |
| | | **110,716** | 115,519 |
| Current assets | | | |
| Inventories | 20 | **14,333** | 10,753 |
| Trade and other receivables | 21 | **48,984** | 48,550 |
| Prepaid lease payments | 19 | **188** | 188 |
| Financial assets at fair value through profit or loss | 22 | **-** | 4,500 |
| Bank balances and cash | 23 | **168,883** | 43,253 |
| | | **232,388** | 107,244 |
| Assets classified as held for sale | 24 | **-** | 39,526 |
| | | **232,388** | 146,770 |
| Current liabilities | | | |
| Trade and other payables | 25 | **51,188** | 37,767 |
| Amount due to a related company | 26 | **612** | 948 |
| Provision | 27 | **10,000** | 10,000 |
| | | **61,800** | 48,715 |
| Net current assets | | **170,588** | 98,055 |
| Total assets less current liabilities | | **281,304** | 213,574 |
| Non-current liability | | | |
| Amount due to ultimate holding company | 29 | **172,875** | 151,299 |
| Net assets | | **108,429** | 62,275 |
| Capital and reserves | | | |
| Share capital | 30 | **106,350** | 106,350 |
| Reserves | | **2,079** | (44,075) |
| | | **108,429** | 62,275 |

The financial statements on pages 29 to 79 were approved and authorised for issue by the board of directors on 14 March 2014 and are signed on its behalf by:

**Wang Xinyi**, *Director*

**Hu Hua Jun**, *Director*

| | Share capital RMB'000 | Share premium RMB'000 | Other reserve RMB'000 | Asset revaluation reserve RMB'000 | Statutory surplus reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| | | | (Note (a)) | | (Note (b)) | (Note (c)) | |
| At 1 January 2012 | 106,350 | 69,637 | 124,950 | 27,115 | 12,496 | (263,408) | 77,140 |
| Loss for the year | - | - | - | - | - | (17,634) | (17,634) |
| Other comprehensive income for the year | - | - | - | 2,769 | - | - | 2,769 |
| Total comprehensive income (expense) for the year | - | - | - | 2,769 | - | (17,634) | (14,865) |
| At 31 December 2012 and 1 January 2013 | 106,350 | 69,637 | 124,950 | 29,884 | 12,496 | (281,042) | 62,275 |
| Profit for the year | - | - | - | - | - | 43,701 | 43,701 |
| Other comprehensive income for the year | - | - | - | 2,453 | - | - | 2,453 |
| Total comprehensive income for the year | - | - | - | 2,453 | - | 43,701 | 46,154 |
| Transfer to reserve upon disposal of property | - | - | - | (11,115) | - | 11,115 | - |
| At 31 December 2013 | 106,350 | 69,637 | 124,950 | 21,222 | 12,496 | (226,226) | 108,429 |

Notes:

(a) Other reserve represents the 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 ultimate holding company of the Company (Note 29).

(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 2013 and 2012, no reserves were available for distribution due to accumulated losses being noted.

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit (loss) before taxation | **42,883** | (18,556) |
| Adjustments for: | | |
| Allowance for inventories | **166** | - |
| Reversal of allowance for inventories | **(1,723)** | (5,656) |
| Amortisation of prepaid lease payments | **188** | 188 |
| Depreciation of property, plant and equipment | **8,322** | 20,122 |
| Finance costs | **21,576** | 23,414 |
| Reversal of impairment loss recognised in respect of trade receivables | **(2,379)** | (100) |
| Interest income | **(49)** | (479) |
| Gain on disposal of assets classified as held for sale | **(44,866)** | - |
| Written off / loss on disposal of property, plant and equipment | **8** | 1,235 |
| Trade and other payables written off | **-** | (325) |
| Operating cash flows before movements in working capital | **24,126** | 19,843 |
| (Decrease) increase in amount due to a related company | **(336)** | 921 |
| (Increase) decrease in inventories | **(2,023)** | 4,880 |
| Decrease in trade and other receivables | **1,945** | 9,103 |
| Increase (decrease) in trade and other payables | **13,421** | (18,400) |
| **NET CASH FROM OPERATING ACTIVITIES** | **37,133** | 16,347 |
| **INVESTING ACTIVITIES** | | |
| Interest received | **49** | 479 |
| Release (purchase) of financial assets at fair value through profit or loss | **4,500** | (4,500) |
| Proceed from disposal of property, plant and equipment | **-** | 766 |
| Proceed from disposal of assets classified as held for sale | **84,392** | - |
| Purchase of property, plant and equipment | **(444)** | (1,108) |
| **NET CASH FROM (USED IN) INVESTING ACTIVITIES** | **88,497** | (4,363) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **125,630** | 11,984 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | **43,253** | 31,269 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | |
| represented by bank balances and cash | **168,883** | 43,253 |

## 1. GENERAL

Zhejiang Yonglong Enterprises Co., Ltd. (the "Company") is a joint stock limited company established in the People's Republic of China (the "PRC") and the H shares of the Company are listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (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")

***Application of new and revised HKFRSs (disclosure of a detailed list of new and revised HKFRSs)***

In the current year, the Company has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("Int(s)"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in 2012 |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| HKFRS 10 | Consolidated Financial Statements |
| HKFRS 11 | Joint Arrangements |
| HKFRS 12 | Disclosures of Interests in Other Entities |
| HKFRS 13 | Fair Value Measurement |
| HKAS 19 (as revised in 2011) | Employee Benefits |
| HKAS 27 (as revised in 2011) | Separate Financial Statements |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures |
| HK (IFRIC*) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine |

* IFRIC represents the International Financial Reporting Standards Interpretation Committee.

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

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

***Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income***

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

***Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities***

The Company has applied the amendments to HKFRS 7 for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation* and recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The amendments to HKFRS 7 have been applied retrospectively. As the Company does not have any offsetting arrangements or any master netting agreements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the financial statements.

***HKFRS 13 Fair Value Measurement***

The Company has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements for 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 for leasing transactions within the scope of HKAS 17 *Leases* and measurements that have some similarities to fair value but are not fair value.

HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

HKFRS 13 has been applied prospectively as of the beginning of the annual period and resulted in additional disclosure as set out in Notes 6 and 22 to the financial statements. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the financial statements.

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

### *HKAS 19 (revised 2011) Employee Benefits*

The Company has applied HKAS 19 (revised 2011) for the first time in the current year. HKAS 19 (revised 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. HKAS 19 (revised 2011) requires recognition of all changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus. HKAS 19 (revised 2011) also replaces the interest cost and expected return on plan assets used in the previous version of HKAS 19 with a "net-interest" amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

### *New and revised HKFRSs issued but not yet effective*

The Company has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010-2012 Cycle[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011-2013 Cycle[2] |
| HKFRS 9 | Financial Instruments[3] |
| Amendments to HKFRS 7 and HKFRS 9 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities[1] |
| HKFRS 14 | Regulatory Deferral Accounts[4] |
| Amendments to HKAS 19 | Defined Benefit Plans – Employee contributions[2] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[1] |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting[1] |
| HK(IFRIC)-Int 21 | Levies[1] |

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 July 2014, except as disclosed below. Early application is permitted.

3 HKFRS 9, as amended in December 2013, amended the mandatory effective date of HKFRS 9. The mandatory effective date is not specified in HKFRS 9 but will be determined when the outstanding phases are finalised. However, application of HKFRS 9 is permitted.

4 Effective for annual periods beginning on or after 1 January 2016

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

***New and revised HKFRSs issued but not yet effective*** (Continued)

The directors of the Company anticipate that, except as described below, the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Company.

***HKFRS 9 Financial Instruments***

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at 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 reporting 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.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 presented 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

***HKFRS 9 Financial Instruments*** (Continued)

- HKFRS 9 introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

The effective date of HKFRS 9 is not yet determined. However, earlier application is permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Changes in the fair value of financial liabilities attributable to changes in credit risk of financial liabilities that are designated as at fair value through profit or loss are disclosed in Note 6.

***Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities***

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKAS 32 are effective for annual periods beginning on or after 1 January 2014 with early application permitted and require retrospective application.

The directors of the Company do not anticipate that the application of the amendments to HKAS 32 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

***Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets***

The amendments to HKAS 36 require disclosures on additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. If the recoverable amount is fair value less costs of disposal, an entity shall disclose the level of the fair value hierarchy within which the fair value measurement of the asset or cash generating unit is catergorised in its entirety. The Company is required to make additional disclosures for Level 2 and Level 3 of the fair value hierarchy:

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

***Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets*** (Continued)

- a description of the valuation techniques used to measure the fair value less costs of disposals. If there is any change in valuation techniques, the fact and the reason should also be disclosed;

- each key assumption on which management has based its determination of fair value less costs of disposal;

- the discount rates used in the current and previous measurement if fair value less costs of disposal is measured using a present value technique.

The amendments to HKAS 36 are effective for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied, and require retrospectively application.

The directors of the Company do not anticipate that the application of the amendments to HKAS 36 may result in additional disclosures being made with regard to the impairment assessment on non-financial assets.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared on the historical cost basis, except for certain properties, that are measured at revalued amounts or fair values.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

(a) Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and 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.

Revaluations are made annually at each end of reporting period. Any increase in carrying amount of an asset as a result of a revaluation is recognised in other comprehensive income and accumulated in equity under the heading of asset revaluation reserve while any decrease resulted is recognised in profit or loss. However, an increase is recognised in profit or loss when that it reverses a revaluation decrease of the same asset previously recognised in profit or loss while a decrease is recognised in other comprehensive income when it reduces the amount accumulated in asset revaluation reserve.

The asset revaluation reserve in respect of an item of property, plant and equipment stated at revaluated amount is transferred directly to accumulated losses when it is realised on retirement or disposal.

Depreciation is recognised so as to allocate the cost or fair values of items of property, plant and equipment other than construction 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Property, plant and equipment (Continued)

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

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

(b) 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 profit or loss and other comprehensive income over the period of the rights using the straight-line method.

(c) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are 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.

(d) Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Company 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 (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

**Financial assets**

The Company's financial assets are classified as financial assets at fair value through profit and loss ("FVTPL") and 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 debt instrument 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 debt instrument, 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.

*Financial assets at FYTPL*

Financial assets at FVTPL has two categories, including financial assets held for trading and those designated as FVTPL on initial recognition.

A financial assets is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of portfolio to identified instruments that the Company manages together and has a recent actual pattern of short-term profit-making; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial assets form part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

**Financial assets** (Continued)

*Financial assets at FYTPL* (Continued)

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss included interest earned on the financial assets and is included in the other gains or losses in the statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 7.

*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 and bank balances and cash) are measured 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, other than those at FVTPL, 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.

For all other financial assets, 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
- disappearance of an active market for that financial asset because of financial difficulties.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

**Financial assets** (Continued)

*Impairment loss on financial assets* (Continued)

For certain categories of financial asset, such as trade and other receivables, 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 of 60 to 120 days 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, 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 is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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**

Debt 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 and the definitions of a financial liability and an equity instrument.

The Company's financial liabilities are classified as other financial liabilities.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

**Financial liabilities and equity instruments** (Continued)

*Other financial liabilities*

Other financial liabilities including trade and other payables, amount due to a related company and amount due to ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

*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.

*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.

**Derecognition**

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expires, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

**Derecognition** (Continued)

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.

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

(e) Provisions

Provisions are recognised when the Company has a present obligation (legal and constructive) 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.

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).

(f) 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment losses on tangible assets

At the end of the reporting period, the Company reviews the carrying amounts of its tangible assets with finite useful lives 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 of disposal 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 is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised 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.

(h) Revenue recognition

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue recognition (Continued)

(i) Sales of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Subcontracting fee income

Income from subcontracting work is recognised when services are provided.

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.

(i) Borrowing costs

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

(j) 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 before tax as reported in the statement of profit or loss and other 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Taxation (Continued)

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

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

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

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

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.

(k) 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Retirement benefit costs

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

(m) 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.

(n) 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” 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.

(o) 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Government grants (Continued)

Government grants are recognised in profit or loss on a systemic basis over the periods in which the Company recognises as expense 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 on a systematic and rational basis 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.

(p) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such classification requires the asset must be available for immediate sale in its present condition and its sale is highly probable. 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 of disposal.

(q) Fair value measurement

When measuring fair value except for the net realisable value of inventories and value in use of properties, plant and equipment for the purpose of impairment assessment, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Fair value measurement (Continued)

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Company categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Company determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

## 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 judgements, estimates and assumptions about the carrying amounts of assets, liabilities, revenue and expenses reported and disclosures made in the statement of financial position. 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.

**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 2013, the carrying amount of trade receivables were approximately RMB40,519,000 (2012: RMB48,219,000), net of impairment loss of RMB22,403,000 (2012: RMB24,782,000).

*Impairment loss recognised in respect of other receivables*

The policy for provision of impairment loss of other receivables is determined by the management based on the evaluation of collectability and aging analysis of accounts and management's judgement. A considerable amount of judgement 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 2013, the carrying amount of other receivables was approximately RMB8,465,000 (2012: RMB331,000). No provision for impairment loss was made during the two years ended 31 December 2013 and 2012.

*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 profit or loss and other 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 judgement is required. In making this judgement, 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 2013, the carrying amount of inventories is approximately RMB14,333,000 (2012: RMB10,753,000) (net of allowance for inventories of approximately RMB166,000 (2012: RMB1,723,000)).

## 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.

*Income taxes*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account changes in tax legislation.

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profit. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. Details of deferred taxation are set in Note 28.

## 5. CAPITAL RISK MANAGEMENT

The Company manages its 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 Company's overall strategy remains unchanged from prior year.

The capital structure of the Company consists of net debt, which includes amount due to ultimate holding company as disclosed in Note 29, net of cash and cash equivalents 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 consider the cost of capital and the risks associates with capital. Based on recommendations of the directors, the Company will balance its overall capital structure through the redemption of existing debt.

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| *Financial assets* | | |
| Loans and receivables (including cash and cash equivalents) | **212,004** | 91,681 |
| Financial assets at FVTPL | **-** | 4,500 |
| *Financial liabilities* | | |
| Other financial liabilities at amortised cost | **215,181** | 180,675 |

### (b) 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, amount due to a related company and amount due to ultimate holding company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

Currency risk

The Company has certain bank deposits denominated in United States Dollars ("US$") and Hong Kong Dollars ("HK$"), which expose the Company to foreign currency risk.

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$ | | HK$ | |
|---|---|---|---|---|
| | 2013 '000 | 2012 '000 | 2013 '000 | 2012 '000 |
| Assets | **130** | - | **85** | 86 |

The Company currently does not have a foreign currency hedging policy. However, the Company 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$.

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

*Market risk* (Continued)

Currency risk (Continued)

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 Company is exposed to cash flow interest rate risk in relation to its variable-rate short-term 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 exposures to interest rates on the short-term deposits are short-term in nature and the amount due to ultimate holding company is interest-free, the exposure of the interest rate risk is minimal and no sensitivity analysis to interest rate risk is presented.

*Credit risk*

At 31 December 2013, 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 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 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.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, 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 and Middle East, which accounted for 71% and 16% respectively (2012: 100% in the PRC) of the total trade receivables as at 31 December 2013.

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

*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 ultimate holding 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.

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 2013 | | | |
|---|---|---|---|---|
| | **On demand or within 1 year** | **After 1 year and within 5 years** | **Total undiscounted cash flows** | **Carrying amount** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Non-derivative financial liabilities** | | | | |
| Trade and other payables | 41,694 | - | 41,694 | 41,694 |
| Amount due to a related company | 612 | - | 612 | 612 |
| Amount due to ultimate holding company | - | 239,677 | 239,677 | 172,875 |
| | 42,306 | 239,677 | 281,983 | 215,181 |

| | At 31 December 2012 | | | |
|---|---|---|---|---|
| | **On demand or within 1 year** | **After 1 year and within 5 years** | **Total undiscounted cash flows** | **Carrying amount** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Non-derivative financial liabilities** | | | | |
| Trade and other payables | 28,428 | - | 28,428 | 28,428 |
| Amount due to a related company | 948 | - | 948 | 948 |
| Amount due to ultimate holding company | - | 239,677 | 239,677 | 151,299 |
| | 29,376 | 239,677 | 269,053 | 180,675 |

## 7. 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 ultimate holding company approximates to its carrying amount as it is carried at amortised cost using the effective interest method.

**Fair value measurements recognised in the statement of financial position**

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Company's accounting policy.

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Financial assets at FVTPL | | | | |
| - Structured deposit | - | - | - | - |

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Financial assets at FVTPL | | | | |
| - Structured deposit | - | 4,500 | - | 4,500 |

There was no financial assets at FVTPL or other financial assets measured at fair value as at 31 December 2013 (2012: RMB4,500,000). There were no transfers between levels of fair value hierarchy in the current and prior years.

Discounted cash flow valuation technique is used in Level 2 fair value measurements of financial instruments, by using the key input of future cash flows are estimated based on interest rates, discounted at a rate that reflects the credit risk of various counterparties.

## 8. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the amounts received and receivable for goods sold and services rendered by the Company to outside customers, net of discounts and sales related taxes. An analysis of the Company's revenue and other income and gains for the year are as follows:

| | **2013** **RMB'000** | 2012 RMB'000 |
|---|---|---|
| Revenue | | |
| Sales of woven fabrics | **161,081** | 76,327 |
| Subcontracting fee income | **45,324** | 53,680 |
| | **206,405** | 130,007 |
| Other income and gains | | |
| Government subsidies (Note) | **16** | 432 |
| Trade and other payables written off | **-** | 325 |
| Interest income | **49** | 479 |
| Sales of scrap materials | **1,789** | 2,447 |
| Gain on disposal of assets classified as held for sale (Note 25) | **44,866** | - |
| Exchange gain | **-** | 5 |
| Others | **11** | 14 |
| | **46,731** | 3,702 |

Note: Government subsidies of approximately RMB16,000 (2012: RMB432,000) was awarded to the Company during the year ended 31 December 2013 for encouraging the usage of the environmental machinery. There is no unfulfilled condition or contingencies relating to these subsidies.

## 9. 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 and operating segments are as follows:

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

## 9. SEGMENT INFORMATION (Continued)

(a) Segment revenues and results

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

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Woven fabric | | Subcontracting services | | Total | |
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Segment revenue | **161,081** | 76,327 | **45,324** | 53,680 | **206,405** | 130,007 |
| Segment profit | **45,301** | 2,518 | **28,477** | 14,906 | **73,778** | 17,424 |
| Unallocated corporate income | | | | | **76** | 432 |
| Unallocated corporate expenses | | | | | **(9,395)** | (12,998) |
| Finance costs | | | | | **(21,576)** | (23,414) |
| Profit (loss) before taxation | | | | | **42,883** | (18,556) |

The accounting policies of the operating segments are the same as the Company's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of interest income, government subsidies, directors' remuneration, central administration costs and finance costs. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

## 9. SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

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

| | At 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Woven fabric | | Subcontracting services | | Total | |
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Segment assets | **143,893** | 107,065 | **27,726** | 67,736 | **171,619** | 174,801 |
| Unallocated corporate assets | | | | | | |
| Other receivables | | | | | **2,602** | 209 |
| Financial assets at FVTPL | | | | | **-** | 4,500 |
| Bank balances and cash | | | | | **168,883** | 43,253 |
| Assets classified as held for sale | | | | | **-** | 39,526 |
| Total assets | | | | | **343,104** | 262,289 |
| Segment liabilities | **(34,281)** | (20,191) | **(9,646)** | (14,201) | **(43,927)** | (34,392) |
| Unallocated corporate liabilities | | | | | | |
| Other payables | | | | | **(7,261)** | (3,375) |
| Amounts due to a related company | | | | | **(612)** | (948) |
| Amounts due to ultimate holding company | | | | | **(172,875)** | (151,299) |
| Provision | | | | | **(10,000)** | (10,000) |
| Total liabilities | | | | | **(234,675)** | (200,014) |

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

- all assets are allocated to operating segments other than other receivables, financial assets at FVTPL, 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 operating segments other than other payables, amount due to a related company, amount due to ultimate holding company, provision and tax payable. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

## 9. 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 | |
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| - Reversal of allowance for inventories | **(1,723)** | (5,656) | **-** | - | **(1,723)** | (5,656) |
| - Reversal of impairment loss recognised in respect of trade receivables | **(2,379)** | (100) | **-** | - | **(2,379)** | (100) |
| - Addition to non-current assets | **346** | 651 | **98** | 457 | **444** | 1,108 |
| - Written off / loss on disposal of property, plant and equipment | **8** | 725 | **-** | 510 | **8** | 1,235 |
| - Gain on disposal of assets classified as held for sale | **(35,016)** | - | **(9,850)** | - | **(44,866)** | - |
| - Amortisation of prepaid lease payments | **152** | 152 | **36** | 36 | **188** | 188 |
| - Depreciation of property, plant and equipment | **6,494** | 11,814 | **1,828** | 8,308 | **8,322** | 20,122 |
| - Research and development costs | **79** | 46 | **22** | 32 | **101** | 78 |

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

| | | | | | | |
|---|---|---|---|---|---|---|
| - Interest income | **38** | 281 | **11** | 198 | **49** | 479 |
| - Finance costs | **(16,838)** | (13,746) | **(4,738)** | (9,668) | **(21,576)** | (23,414) |

## 9. SEGMENT INFORMATION (Continued)

(d) Geographical information

Information about the Company's revenue from continuing operation from external customers is presented based on the location of the operation. Information about the Company's non-current assets is presented based on the geographical location of the assets.

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| The PRC | **112,029** | 130,007 | **110,716** | 115,519 |
| Middle East | **73,574** | - | **-** | - |
| Other overseas | **20,802** | - | **-** | - |

(e) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Company are as follows:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Customer A (derived from sale of woven fabrics) | **41,426** | N/A* |
| Customer B (derived from sale of woven fabrics) | **37,221** | 36,017 |
| Customer C (derived from subcontracting services) | **N/A*** | 13,099 |

*The corresponding revenue did not contribute over 10% of total revenue of the Company of respective year.

## 10. FINANCE COSTS

| | **2013** **RMB'000** | 2012 RMB'000 |
|---|---|---|
| Imputed interest on non-current interest-free loan due to ultimate holding company | **21,576** | 23,414 |

## 11. INCOME TAX CREDIT

| | **2013** **RMB'000** | 2012 RMB'000 |
|---|---|---|
| Deferred taxation (Note 28) | | |
| - Current year | **818** | 922 |

Hong Kong Profits Tax was calculated a 16.5% of the estimated assessable profit for both year. No provision for Hong Kong Profits Tax has been made for the two years ended 31 December 2013 as the Company did not have assessable profit subject to Hong Kong Profits 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% for both years.

No provision for PRC Enterprise Income Tax was made for the two years ended 31 December 2013 and 2012 as there was no assessable profit derived from the PRC.

## 11. INCOME TAX CREDIT (Continued)

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

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Profit (loss) before taxation | **42,883** | (18,556) |
| Tax at the domestic rate at 25% (2012: 25%) | **10,720** | (4,639) |
| Tax effect of non-taxable income | **(4)** | - |
| Tax effect of non-deductible expenses | **5,971** | 7,739 |
| Utilisation of tax losses previously not recognised | **(17,505)** | (4,022) |
| Income tax credit | **(818)** | (922) |

Details of the deferred taxation are set out in Note 28.

## 12. PROFIT (LOSS) FOR THE YEAR

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Profit (loss) for the year has been arrived at after charging (crediting): | | |
| Staff cost (including supervisors', directors', chief executive's and chairman's emoluments): | | |
| Salaries, wages and other benefits in kind | **26,499** | 18,761 |
| Retirement benefit scheme contributions | **411** | 388 |
| Total staff costs | **26,910** | 19,149 |
| Amortisation of prepaid lease payments | **188** | 188 |
| Auditor's remuneration | **550** | 527 |
| Cost of inventories recognised as an expense | **125,204** | 82,171 |
| Depreciation of property, plant and equipment | **8,322** | 20,122 |
| Written off / loss on disposal of property, plant and equipment | **8** | 1,235 |
| Research and development costs recognised as an expense | **101** | 78 |
| Exchange loss | **764** | - |
| Reversal of impairment loss recognised in respect of trade receivables | **(2,379)** | (100) |

## 13. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share for the year is calculated on the profit for the year of approximately RMB43,701,000 (2012: loss for the year of approximately RMB17,634,000) and the weighted average of 1,063,500,000 (2012: 1,063,500,000) ordinary shares in issue during the year ended 31 December 2013.

No diluted earnings (loss) per share have been presented for the two years ended 31 December 2013 and 2012 as there were no diluting events existed during both years.

## 14. STAFF COSTS (EXCLUDING SUPERVISORS', DIRECTORS', CHIEF EXECUTIVE'S AND CHAIRMAN'S EMOLUMENTS)

| | **2013**<br>**RMB'000** | 2012<br>RMB'000 |
|---|---|---|
| Salaries, wages and other benefits in kind | **26,101** | 17,989 |
| Retirement benefit scheme contributions | **404** | 373 |
| | **26,505** | 18,362 |

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are 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 2013 onwards, the total amount contributed by the Company to this scheme and charged to the statement of profit or loss and other comprehensive income was approximately RMB411,000 (2012: RMB388,000).

## 15. SUPERVISORS', DIRECTORS', CHIEF EXECUTIVE'S AND CHAIRMAN'S EMOLUMENTS

The emoluments paid or payable to each of the six (2012: eight) supervisors, six (2012: eleven) directors, the chief executive and the chairman for the year ended 31 December 2013 were as follows:

*For the year ended 31 December 2013*

| | Fees | Salaries, allowances and other benefits in kind | Retirement benefits scheme contributions | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Chairman** | | | | |
| Mr. Ru Guan Jun (Note 1) | - | - | - | - |
| **Chief executive** | | | | |
| Mr. Xia Xian Fu (Note 1) | - | - | - | - |
| **Executive directors** | | | | |
| Mr. Hu Hua Jun (Note 1) | - | - | - | - |
| Mr. Chen Jian Jiang | - | 212 | 8 | 220 |
| **Non-executive director** | | | | |
| Mr. Chen Dong Chun | 60 | - | - | 60 |
| **Independent non-executive directors** | | | | |
| Mr. Xu Wei Dong | 36 | - | - | 36 |
| Mr. Li Hui Peng | 36 | - | - | 36 |
| Mr. Qin Fu | 36 | - | - | 36 |
| **Supervisors** | | | | |
| Ms. Wang Ai Yu (Note 1) | - | - | - | - |
| Mr. Hu Jin Huan | 12 | - | - | 12 |
| Ms. Tong Jian Juan | - | 94 | 4 | 98 |
| Mr. Chen Wei | - | 78 | 4 | 82 |
| Mr. Fang Wei (Note 1) | - | - | - | - |
| Mr. Pan Xing Biao | 12 | - | - | 12 |
| | 192 | 384 | 16 | 592 |

Note 1: The annual salary of each of Mr. Ru Guan Jun and Mr. Xia Xian Fu was RMB96,000 which was paid by 浙江永利實業集團有限公司 ("Zhejiang Yongli") according to the terms of services contract. The annual salary of Mr. Hu Hua Jun, Ms. Wong Ai Yu and Mr. Fang Wei was RMB60,000, RMB36,000 and RMB12,000 respectively which was also paid by Zhejiang Yongli according to the terms of services contract.

## 15. SUPERVISORS', DIRECTORS', CHIEF EXECUTIVE'S AND CHAIRMAN'S EMOLUMENTS (Continued)

*For the year ended 31 December 2012*

| | Fees RMB'000 | Salaries, allowances and other benefits in kind RMB'000 | Retirement benefits scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Chairman** | | | | |
| Mr. Ru Guan Jun (Note 1) | - | - | - | - |
| **Chief executive** | | | | |
| Mr. Xia Xian Fu (Note 1) | - | - | - | - |
| **Executive directors** | | | | |
| Mr. Hu Hua Jun (Notes 1&2) | - | - | - | - |
| Mr. Chen Jian Jiang (Note 2) | - | 205 | 3 | 208 |
| Mr. Sun Jian Feng (Note 4) | - | 201 | 3 | 204 |
| Mr. Xia Xue Nian (Note 4) | - | 115 | 3 | 118 |
| **Non-executive director** | | | | |
| Mr. Chen Dong Chun (Note 2) | 8 | - | - | 8 |
| **Independent non-executive directors** | | | | |
| Mr. Xu Wei Dong (Note 2) | 3 | - | - | 3 |
| Mr. Li Hui Peng (Note 2) | 3 | - | - | 3 |
| Mr. Qin Fu (Note 2) | 3 | - | - | 3 |
| Mr. Zong Pei Min (Note 3) | 36 | - | - | 36 |
| Mr. Lu Guo Qing (Note 3) | 36 | - | - | 36 |
| Mr. Zhu Yu Lin (Note 3) | 36 | - | - | 36 |
| **Supervisors** | | | | |
| Ms. Wang Ai Yu (Note 1) | - | - | - | - |
| Mr. Hu Jin Huan | 12 | - | - | 12 |
| Ms. Tong Jian Juan (Note 2) | - | 43 | 2 | 45 |
| Mr. Chen Wei (Note 2) | - | 54 | 3 | 57 |
| Mr. Fang Wei (Note 2) | 1 | - | - | 1 |
| Mr. Pan Xing Biao (Note 2) | 1 | - | - | 1 |
| Mr. Liu Guang Wei (Note 5) | - | 3 | 1 | 4 |
| Mr. Wang He Rong (Note 3) | 12 | - | - | 12 |
| | 151 | 621 | 15 | 787 |

Note 1: 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. Wang Ai Yu and Mr. Hu Hua Jun was RMB36,000 which was also paid by Zhejiang Yongli according to the terms of services contract.

Note 2: Appointed on 26 November 2012

Note 3: Resigned on 26 November 2012

Note 4: Resigned on 29 December 2012

Note 5: Resigned on 15 October 2012

## 16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Company, one (2012: two) of them were director and supervisor of the Company whose emoluments are included in Note 15 above. The emoluments of the remaining four (2012: three) individuals are as follows:

| | **2013** **RMB'000** | 2012 RMB'000 |
|---|---|---|
| Salaries, allowances and other benefits in kind | **245** | 274 |
| Retirement benefits schemes contributions | **9** | 9 |
| | **254** | 283 |

Their emoluments were within the following bands:

| | **No. of individuals** | |
|---|---|---|
| | **2013** | 2012 |
| Nil to HK$1,000,000 (equivalent to Nil to RMB798,000) (2012: equivalent to Nil to RMB815,000) | **5** | 5 |

No emoluments were paid or payable by the Company to 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 2013 and 2012.

## 17. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2013, nor has any dividend been proposed since the end of the reporting period (2012: Nil).

## 18. 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 2012 | 96,889 | 1,076 | 194,424 | 1,401 | 8,506 | 302,296 |
| Additions | 127 | - | 213 | 576 | 192 | 1,108 |
| Transferred from construction in progress | 16 | - | 224 | - | (240) | - |
| Adjustment on revaluation, net | (2,406) | - | - | - | - | (2,406) |
| Disposal | (161) | (795) | (6,461) | (261) | - | (7,678) |
| At 31 December 2012 | 94,465 | 281 | 188,400 | 1,716 | 8,458 | 293,320 |
| Additions | - | 329 | 69 | 46 | - | 444 |
| Adjustment on revaluation, net | (2,563) | - | - | - | - | (2,563) |
| Eliminated on written off | - | - | (67) | (4) | - | (71) |
| At 31 December 2013 | 91,902 | 610 | 188,402 | 1,758 | 8,458 | 291,130 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | | |
| At 1 January 2012 | - | 1,055 | 170,876 | 1,241 | 3,489 | 176,661 |
| Provided for the year | 6,114 | 3 | 13,907 | 98 | - | 20,122 |
| Eliminated on revaluation | (6,097) | - | - | - | - | (6,097) |
| Eliminated on disposal | (17) | (777) | (4,622) | (261) | - | (5,677) |
| At 31 December 2012 | - | 281 | 180,161 | 1,078 | 3,489 | 185,009 |
| Provided for the year | 5,834 | 11 | 2,317 | 160 | - | 8,322 |
| Eliminated on revaluation | (5,834) | - | - | - | - | (5,834) |
| Eliminated on written off | - | - | (59) | (4) | - | (63) |
| At 31 December 2013 | - | 292 | 182,419 | 1,234 | 3,489 | 187,434 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2013 | 91,902 | 318 | 5,983 | 524 | 4,969 | 103,696 |
| At 31 December 2012 | 94,465 | - | 8,239 | 638 | 4,969 | 108,311 |

(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% |

## 18. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The leasehold buildings of the Company were revalued on 31 December 2013 and 2012 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 RMB41,094,000 (2012: RMB45,039,000).

## 19. PREPAID LEASE PAYMENTS

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Non-current assets | **7,020** | 7,208 |
| Current assets | **188** | 188 |
| | **7,208** | 7,396 |

The Company's prepaid lease payments on land use rights are held under medium lease-term in the PRC.

## 20. INVENTORIES

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Raw materials | **3,633** | 2,002 |
| Work in progress | **3,077** | 1,931 |
| Finished goods | **7,623** | 6,820 |
| | **14,333** | 10,753 |

During the year ended 31 December 2013, provision for slow-moving inventories of approximately RMB166,000 (2012: nil) has been recognised and included in the cost of sale. An allowance for slow-moving inventories of approximately RMB1,723,000 (2012: RMB5,656,000) 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 2013.

## 21. TRADE AND OTHER RECEIVABLES

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Trade receivables | **62,922** | 73,001 |
| Less: Allowance for impairment of trade receivables | **(22,403)** | (24,782) |
| | **40,519** | 48,219 |
| Other receivables | | |
| Prepayments to suppliers | **5,863** | 122 |
| Other receivables | **2,602** | 209 |
| | **8,465** | 331 |
| Total trade and other receivables | **48,984** | 48,550 |

The Company allows an average credit period of 60 days to 120 days to its trade customers. For the year ended 31 December 2013, the Company extended the credit period to certain customers by signing separate repayment agreement. The Company does not hold any collateral or other credit enhancements over its trade and other receivables.

(a) An aged analysis of trade receivables, net of allowance for impairment of trade receivables and presented based on invoice date which approximates the respective recognition dates, at the end of the reporting period is as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| 0 – 60 days | **34,923** | 18,773 |
| 61 – 90 days | **4,808** | 1,471 |
| 91 – 120 days | **129** | 3,644 |
| 121 – 365 days | **659** | 6,345 |
| Over 365 days | **-** | 17,986 |
| | **40,519** | 48,219 |

## 21. TRADE AND OTHER RECEIVABLES (Continued)

(b) At 31 December 2013 and 2012, the analysis of trade receivables that were past due but not impaired are as follows:

| | | Neither past | Past due but not impaired | | | |
|---|---|---|---|---|---|---|
| | Total | due nor impaired | Less than 60 days | 61-90 days | 91-365 days | Over 365 days |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 31 December 2013 | 40,519 | 39,860 | 387 | - | 272 | - |
| At 31 December 2012 | 48,219 | 23,888 | 1,407 | 2,343 | 18,931 | 1,650 |

Included in the Company's trade receivable balance are debtors with aggregate carrying amount of RMB659,000 (2012: RMB24,331,000) which are past due as at the end of the reporting period for which the Company has not provided for impairment loss. The Company does not hold any collateral over these balances.

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.

(c) The movements in allowance for impairment of trade receivables in respect of trade receivables are as follows:

| | **2013** | 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At the beginning of the year | **24,782** | 24,882 |
| Reversal of impairment loss | **(2,379)** | (100) |
| At the end of the year | **22,403** | 24,782 |

Included in the allowance for impairment of trade receivables are individually impaired trade receivables with an aggregate balance of approximately RMB22,403,000 (2012: RMB24,782,000) which are due to long outstanding.

(d) At 31 December 2013 and 2012, none of the other receivables are considered by the directors of the Company as past due or impaired.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2013** **RMB'000** | 2012 RMB'000 |
|---|---|---|
| Structured deposit | **-** | 4,500 |

The structured deposit was acquired on 31 December 2012. In the opinion of the directors of the Company, the fair value of the structured deposit was approximate to the value placed in the bank as at 31 December 2012. On 28 January 2013, the Company has terminated the structured deposit and the fair value value at the mature date was approximately RMB4,508,000.

## 23. BANK BALANCES AND CASH

For the year ended 31 December 2013 and 2012, bank balances represented short-term deposits with a maturity of three months or less. The interest rate ranged from 0.35% to 0.385% per annum (2012: 0.35% to 0.5% 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:

| | **2013** **'000** | 2012 '000 |
|---|---|---|
| US$ | **130** | - |
| HK$ | **85** | 86 |

## 24. 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 has signed a memorandum of understanding with the People's Government of Yang Xun Qiao Town, Shaoxing County* "浙江省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 Local Government entered into an assets transfer agreement, pursuant to which the Local Government has agreed to acquire and the company has agreed to dispose the Selling Assets at a total consideration of RMB79,772,200.

During the year ended 31 December 2012, there were changes in the Local Government policies in relation to the compensation for demolition and relocation and more time is required by the relevant government authorities to arrange for the Auction for the Selling Assets. As a result, on 25 December 2012, the Company and the Local Government entered into a supplementary assets transfer agreement, in which (1) the total consideration of the Selling Assets was increased from RMB79,772,200 to RMB84,392,068 and (2) the long stop date of the disposal of Selling Assets was extended from 30 September 2012 to 31 March 2013 in accordance with the terms of the supplementary assets transfer agreement. Further details are set out in the announcement of the Company dated 31 December 2012.

## 24. ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

The disposal of the assets classified as held for sale was completed on 26 March 2013 and gain on disposal of approximately RMB44,866,00 was recognised in profit and loss for the year ended 31 December 2013.

The assets classified as held for sale represent as at 31 December 2012 as follows:

| | 2012<br>RMB'000 |
|---|---|
| Buildings | 28,892 |
| Investment properties (Note) | 7,384 |
| Prepaid lease payments | 3,250 |
| | 39,526 |

Note: The investment properties of the Company are located in the PRC under medium-term leases and were held to for capital appreciation.

## 25. TRADE AND OTHER PAYABLES

| | **2013**<br>**RMB'000** | 2012<br>RMB'000 |
|---|---|---|
| Trade payables (Notes i & ii) | **34,432** | 23,350 |
| Receipt in advance | **3,554** | 2,110 |
| Other taxes payable | **5,940** | 7,229 |
| Accrued expenses and other payables | **7,262** | 5,078 |
| | **51,188** | 37,767 |

Notes:

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

| | **2013**<br>**RMB'000** | 2012<br>RMB'000 |
|---|---|---|
| 0 – 60 days | **24,354** | 10,784 |
| 61 – 90 days | **1,203** | 1,774 |
| 91 – 365 days | **3,020** | 3,205 |
| Over 365 days | **5,855** | 7,587 |
| | **34,432** | 23,350 |

## 26. AMOUNT DUE TO A RELATED COMPANY

Balance with a related party is unsecured, non-interest bearing and repayable on demand.

## 27. PROVISION

During the year ended 31 December 2008, the Company acted as a guarantor to secure 紹興縣亞太投資有限公司 (Shaoxing Yatai Investment Co., Ltd.*) ("Yatai") (the "Yatai Loan") for an amount of RMB20,000,000. Yatai is an independent third party of the Company.

On 18 October 2008, the Yatai Loan was due for payment and 浙江加佰利控股集團有限公司 (Zhejiang Gabriel Holdings Group Co., Ltd.*) ("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 judgement was issued by the Zhejiang Shaoxing Intermediate People's Court (the "Judgement"), 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 Judgement, the Company, as a guarantor, is liable to a limited sum of RMB10,000,000 in connection with the claim.

At 31 December 2013, the Company was still in process to negotiate with Yatai about the settlement arrangement and no further progress was noted.

## 28. 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 receivables | Allowance of inventories | Tax losses | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2012 | (9,674) | 6,221 | 1,845 | 1,608 | - |
| (Charged) credited to profit or loss | - | (25) | (1,414) | 2,361 | 922 |
| Charged to other comprehensive income | (922) | - | - | - | (922) |
| At 31 December 2012 | (10,596) | 6,196 | 431 | 3,969 | - |
| (Charged) credited to profit or loss | - | (595) | (389) | 1,802 | 818 |
| Charged to comprehensive income | (818) | - | - | - | (818) |
| At 31 December 2013 | (11,414) | 5,601 | 42 | 5,771 | - |

At the end of the reporting period, the Company has unused tax losses of RMB40,136,000 (2012: RMB95,578,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB23,081,000 (2012: RMB15,875,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB17,055,000 (2012: RMB79,703,000) due to the unpredictability of future profit streams. In the above balances of unrecognised tax losses will expire after five years from the year of assessment to which they relate.

## 29. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

(1) The Company shall owe the sum of approximately RMB239,677,000 (before the effect of discounting) to Zhejiang Yongli, and Zhejiang Yongli shall permanently abandon any claim against the Company for the repayment of debt amounting to 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 the signing of the debt restructuring agreement provided that the amount to be repaid shall not exceed 50% of the operating cash flow of the year 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;

(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; and

(6) The amount is unsecured, interest-free and will not be repayable until 12 September 2016. The carrying value of the amount due to ultimate holding company as at 31 December 2013 was stated at discounted present value with an imputed interest rate of 14.3% per annum.

## 30. 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 2012, 31 December 2012 and 31 December 2013 | 588,000 | 58,800 |
| H shares at 1 January 2012, 31 December 2012 and 31 December 2013 | 475,500 | 47,550 |
| Total share capital of RMB0.10 each at 1 January 2012, 31 December 2012 and 31 December 2013 | 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 2013, nor has any dividend been proposed since the end of the reporting period (2012: Nil).

## 31. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these financial statements, the Company had the following related party transaction and continuing connected party transaction during the years.

(a) The balances with a related party and ultimate holding company are set out in Notes 26 and 29 respectively.

(b) During the year ended 31 December 2013, the Company had paid approximately RMB8,335,000 (2012: RMB9,134,000) to 浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited*), a subsidiary of Zhejiang Yongli for electricity and steam provided to the Company for the usage in the production.

The aforesaid transactions were conducted in accordance with the term of contract dated 30 December 2011 and were in the ordinary course of business of the Company.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

| | **2013**<br>**RMB'000** | 2012<br>RMB'000 |
|---|---|---|
| Short-term benefits | **398** | 772 |
| Post-employment benefits | **7** | 15 |
| | **405** | 787 |

The remuneration of directors and other members of key management are determined by the remuneration committee having regard to the performance of individuals and market trends.

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| REVENUE | **206,405** | 130,007 | 195,433 | 85,697 | 92,031 |
| PROFIT (LOSS) BEFORE TAXATION | **42,883** | (18,556) | 396,633 | (107,670) | (97,681) |
| TAXATION | **818** | 922 | 934 | 1,202 | 1,132 |
| PROFIT (LOSS) FOR THE YEAR | **43,701** | (17,634) | 397,567 | (106,468) | (96,549) |

## ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| TOTAL ASSETS | **343,104** | 262,289 | 271,544 | 249,487 | 323,852 |
| TOTAL LIABILITIES | **(234,675)** | (200,014) | (194,404) | (689,784) | (661,288) |
| SURPLUS (DEFICIENCY OF) SHAREHOLDERS' FUNDS | **108,429** | 62,275 | 77,140 | (440,297) | (337,436) |

Note: The summary of the results and the assets and liabilities of the Company for the year ended 31 December 2009, 2010, 2011, 2012 and 2013 are extracted from the audited financial statements.