



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 RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2009**

**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 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.*

*\* For identification purpose only*

## HIGHLIGHTS

*For the year ended 31 December 2009,*

- turnover of the Company sharply decreased from approximately RMB324.99 million in year 2008 to approximately RMB92.03 million in year 2009, representing a decrease of approximately 71.68% when compared to the year ended 31 December 2008;
- loss decreased sharply from approximately RMB517.79 million in year 2008 to approximately RMB96.55 million in 2009; and
- the Directors do not recommend the payment of a final dividend for the year ended 31 December 2009.

## AUDITED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

The board of directors (the “Board” or the “Directors”) of 浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd.\*) (the “Company”) is pleased to announce the audited results of the Company for the year ended 31 December 2009, together with the comparative results for the corresponding period in 2008 as follows:

	Notes	2009 RMB'000	2008 RMB'000
Turnover	3	92,031	324,992
Cost of sales		<u>(123,594)</u>	<u>(428,012)</u>
Gross loss		(31,563)	(103,020)
Other operating income	3	1,375	5,047
Selling and distribution costs		(1,605)	(8,490)
Administrative expenses		(11,499)	(30,433)
Impairment loss recognised in respect of various assets	5	(7,641)	(22,262)
Loss on misconducts of directors	6	(3,524)	(342,471)
Finance costs	7	<u>(43,224)</u>	<u>(27,464)</u>
Loss before taxation		(97,681)	(529,093)
Income tax credit	8	<u>1,132</u>	<u>11,303</u>
Loss for the year	9	<u><u>(96,549)</u></u>	<u><u>(517,790)</u></u>
Other comprehensive income for the year			
Gain on revaluation of properties		4,528	1,804
Income tax relating to revaluation of properties		<u>(1,132)</u>	<u>(451)</u>
Other comprehensive income for the year, net of tax		<u>3,396</u>	<u>1,353</u>
Total comprehensive expenses for the year		<u><u>(93,153)</u></u>	<u><u>(516,437)</u></u>
Loss per share		RMB	RMB
Basic and diluted	10	<u><u>(9.08) cents</u></u>	<u><u>(48.69) cents</u></u>

**AUDITED STATEMENT OF FINANCIAL POSITION***At 31 December 2009*

	<i>Notes</i>	<b>2009</b> <b>RMB'000</b>	2008 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>193,248</b>	217,242
Investment properties		<b>8,215</b>	9,046
Prepaid lease payments		<b>11,022</b>	11,295
		<hr/> <b>212,485</b>	<hr/> 237,583
<b>Current assets</b>			
Inventories		<b>59,077</b>	59,868
Trade and other receivables	<i>11</i>	<b>46,093</b>	70,203
Prepaid lease payments		<b>273</b>	273
Amounts due from related companies	<i>12</i>	<b>1,585</b>	1,210
Bank balances and cash			
- pledged		-	42,552
- unpledged		<b>4,339</b>	6,212
		<hr/> <b>111,367</b>	<hr/> 180,318
<b>Current liabilities</b>			
Trade and other payables	<i>13</i>	<b>97,037</b>	213,048
Amounts due to guarantors	<i>14</i>	<b>166,125</b>	27,603
Provision for claims		<b>31,407</b>	27,883
Bank borrowings	<i>15</i>	<b>366,719</b>	393,650
		<hr/> <b>661,288</b>	<hr/> 662,184
<b>Net current liabilities</b>			
		<hr/> <b>(549,921)</b>	<hr/> (481,866)
		<hr/> <b>(337,436)</b>	<hr/> (244,283)
<b>Capital and reserves</b>			
Share capital		<b>106,350</b>	106,350
Reserves		<b>(443,786)</b>	(350,633)
		<hr/> <b>(337,436)</b>	<hr/> (244,283)

## STATEMENT OF CHANGES IN EQUITY

	Share Capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Other reserve <i>RMB'000</i> (Note (a))	Assets revaluation reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i> (Note (b))	Retained profits (accumulated losses) <i>RMB'000</i> (Note (c))	Total <i>RMB'000</i>
At 1 January 2008	106,350	69,637	7,880	15,959	12,496	59,832	272,154
Loss for the year	-	-	-	-	-	(517,790)	(517,790)
Other Comprehensive income for the year	-	-	-	1,353	-	-	1,353
Total comprehensive income (expenses) for the year	-	-	-	1,353	-	(517,790)	(516,437)
At 31 December 2008 and 1 January 2009	106,350	69,637	7,880	17,312	12,496	(457,958)	(244,283)
Loss for the year	-	-	-	-	-	(96,549)	(96,549)
Other comprehensive income for the year	-	-	-	3,396	-	-	3,396
Total comprehensive income (expenses) for the year	-	-	-	3,396	-	(96,549)	(93,153)
At 31 December 2009	106,350	69,637	7,880	20,708	12,496	(554,507)	(337,436)

### Notes:

- (a) The other reserve represents the dividends waived by the holders of domestic shares, net of tax.
- (b) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), when distributing the net profit for each year, the Company (after conversion to a limited liability company) shall set aside 10% of its net profit after taxation (based on the 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 2009 and 2008, no reserves were available for distribution due to accumulated losses being noted.

## **EXTRACTS FROM THE INDEPENDENT AUDITOR’S REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2009**

The auditor of the Company, SHINEWING (HK) CPA Limited ( “SHINEWING”), made the qualified opinion arising from limitation of scope in the independent auditor’s report for the year ended 31 December 2009 as follows:

### **“BASIS FOR QUALIFIED OPINION — LIMITATION OF SCOPE**

#### **CORRESPONDING FIGURES**

Our report on the financial statements of the Company for the year ended 31 December 2008 was qualified in view of the limitations on the scope on financial guarantee liabilities, certain other receivables and consignment stocks.

Any adjustments found to be necessary to the opening balances as at 1 January 2009 may affect the results and cash flows and the related disclosures in the notes to the financial statements of the Company for the year ended 31 December 2009. Also the comparative figures in respect of the net liabilities of the Company as at 31 December 2008 and the results and cash flows and the related disclosures in the notes to the financial statements of the Company for the year ended 31 December 2008 may not be comparable with figures for the current year.

#### **QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE FOR THE CORRESPONDING FIGURES**

In our opinion, except for the effects of such adjustments on the opening balances that might have been found to be necessary had we been able to satisfy ourselves as to the matters described in the basis for qualified opinion paragraph, the financial statements give a true and fair view if the state of affairs of the Company as at 31 December 2009 and of its loss and cash flows for the year ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### **EMPHASIS OF MATTER**

Without qualifying our opinion, we draw attention to Note 2 to the financial statements which indicates that the Company had net current liabilities of approximately RMB549,921,000 and a capital deficiency of approximately RMB337,436,000 as at 31 December 2009. These conditions as set out in Note 2 to the financial statements indicate the existence of material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern.”

Notes:

#### **1. BASIS OF PREPARATION**

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

The Company is principally engaged in (i) the research and development, 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”)

The financial statements has been prepared in accordance with new and revised standards and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28 <sup>1</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters <sup>3</sup>
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>5</sup>
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets <sup>5</sup>
HKFRS 9	Financial Instruments <sup>8</sup>
HKFRS 10	Consolidated Financial Statements <sup>8</sup>
HKFRS 11	Joint Arrangements <sup>8</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>8</sup>
HKFRS 13	Fair Value Measurement <sup>8</sup>
Hong Kong Accounting Standard (“HKAS”) 1 (Revised)	Presentation of Financial Statements <sup>7</sup>
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets <sup>6</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>8</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>8</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>8</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>2</sup>
HK(IFRIC) – Interpretation (“Int”) 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> Amendments that are effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>7</sup> Effective for annual periods beginning on or after 1 July 2012.

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

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

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

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

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

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

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



### 3. TURNOVER AND OTHER OPERATING INCOME

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

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

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Turnover		
Sales of woven fabrics	<b>58,598</b>	319,133
Subcontracting fee income	<b>33,433</b>	5,859
	<b>92,031</b>	324,992
Other operating income		
Exchange gain (net)	<b>276</b>	-
Interest income	<b>333</b>	2,301
Government grants (Note)	<b>10</b>	639
Sales of scrap materials	<b>756</b>	2,049
Reversal of impairment loss recognised in respect of trade receivables	-	58
	<b>1,375</b>	5,047
Total revenues	<b>93,406</b>	330,039

Note:

Government grants of approximately RMB10,000 (2008: RMB639,000) were awarded to the Company for the two years ended 31 December 2009 for encouraging business development in overseas market.

### 4. SEGMENTAL INFORMATION

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

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

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

(a) Segment revenues and results

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

	For the year ended 31 December					
	Woven fabric		Subcontracting services		Total	
	2009	2008	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	<u>58,598</u>	<u>319,133</u>	<u>33,433</u>	<u>5,859</u>	<u>92,031</u>	<u>324,992</u>
Segment results	<u>(25,082)</u>	<u>(136,503)</u>	<u>(14,467)</u>	<u>(2,544)</u>	<u>(39,549)</u>	<u>(139,047)</u>
Unallocated corporate income						
- Interest Income					333	2,301
- Government grants					10	639
Unallocated corporate expenses						
- Loss on misconducts of directors					(3,524)	(342,471)
- Impairment loss recognised in respect of other receivables					(39)	(220)
- Impairment loss recognised in respect of amounts due from related companies					(2,517)	-
- Impairment loss recognised in respect of property, plant and equipment					-	(3,489)
- Impairment loss recognised in respect of investment properties					-	(2,168)
- Depreciation of investment properties					(831)	(831)
- Others					(8,340)	(16,343)
- Finance costs					(43,224)	(27,464)
Loss before taxation					<u>(97,681)</u>	<u>(529,093)</u>

Segment results represents the results of each segment without allocation of interest income, government grants, loss on misconducts of directors, impairment loss recognised in respect of other receivables, impairment loss recognised in respect of property, plant and equipment, impairment loss recognised in respect of investment properties, depreciation of investment properties, directors' remuneration, central administration costs and finance costs. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

(b) Geographical information

The Company's operations are located in the PRC, Europe, Asia other than the PRC and others.

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

	<b>Revenue from external customers</b>	
	<b>2009</b>	2008
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
The PRC (country of domicile)	<b>91,341</b>	249,983
Europe	-	58,347
Asia other than the PRC	<b>690</b>	13,670
Others	-	2,992
	<b><u>92,031</u></b>	<u>324,992</u>

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

**5. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF VARIOUS ASSETS**

	<b>2009</b>	2008
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Impairment loss recognised in respect of various assets comprised:		
- trade receivables (Note i)	<b>5,085</b>	16,385
- amounts due from related companies (Note ii)	<b>2,517</b>	-
- other receivables (Note iii)	<b>39</b>	220
- property, plant and equipment (Note iv)	-	3,489
- investment properties (Note v)	-	2,168
	<b><u>7,641</u></b>	<u>22,262</u>
Allowance for inventories included in cost of sales (Note vi)	<b><u>441</u></b>	<u>28,620</u>

Due to misconducts of certain former directors of the Company as set out in Note 6, the Company encountered cash flow problems which resulted in a decrease in sales order and operations as compared with previous years. The directors of the Company conducted a review of various assets of the Company and determined that a number of those assets were impaired:

- i) For the year ended 31 December 2009, the impairment loss recognised in respect of trade receivables of approximately RMB 5,085,000 (2008: RMB16,385,000) relates to amounts which are long outstanding and the balances are considered not recoverable at the end of the reporting period.
- ii) For the year ended 31 December 2009, an impairment loss of approximately RMB2,517,000 (2008: Nil) was recognised in respect of amounts due from related companies which are in the process of liquidation. The amounts due were not recovered and impairment loss has been recognised.
- iii) For the year ended 31 December 2009, an impairment loss of approximately RMB39,000 was recognised in respect of staff advances recorded in trade and other receivables (2008: RMB220,000). In light of those staffs went into resignation, the directors of the Company considered that the likelihood of recovery of the amounts due being very remote and an impairment loss has been recognised.
- iv) For the year ended 31 December 2009, no impairment loss was recognised in respect of property, plant and equipment (2008: RMB3,489,000).
- v) For the year ended 31 December 2009, no impairment loss was recognised in respect of investment properties (2008: RMB2,168,000).
- vi) For the year ended 31 December 2009, the allowance for inventories of RMB441,000 (2008: RMB28,620,000) relates to slow moving inventories which are stated at higher than its net realisable value.

## 6. LOSS ON MISCONDUCTS OF DIRECTORS

	<b>2009</b>	2008
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Loss comprised:		
- impairment loss recognised in amounts due from related companies (Note a)	-	216,237
- impairment loss recognised in respect of other receivables (Note a)	-	79,851
- direct written off of other receivable (Note a)	-	18,500
- provision (Note b)	<b>3,524</b>	27,883
	<b><u>3,524</u></b>	<u>342,471</u>

With reference to the announcement of the Company dated 24 July 2009, during the year ended 31 December 2008, there was a misappropriation of the Company's funds by certain former directors and major shareholders of the Company, Mr. Sun Li Yong ("Mr. Sun") and his wife, Ms. Fang Xiao Jian ("Mrs. Sun") which consisted of the provision of fund advances and financial guarantees to a related company and independent third parties.

a) Misappropriation of the Company's funds

During the year ended 31 December 2008, an amount of RMB156,178,000, RMB47,517,000, RMB23,390,000, RMB82,305,000, and RMB18,500,000 were advanced to Zhejiang Gabriel Holding Group Company Ltd.\* "浙江加佰利控股集團有限公司" ("Gabriel"), Zhejiang Hongxing Textiles Co., Ltd.\* "浙江宏興紡織有限公司" ("Zhejiang Hongxing") and Zhejiang Hongxing Sabrina Garments Ltd.\* "浙江宏興莎美娜服飾有限公司" ("Zhejiang Sabrina") and independent third parties, Zhejiang Yonghe Enterprises Co., Ltd.\* "浙江永禾實業有限公司" ("Zhejiang Yonghe") and Shaoxing County Gabriel Trading Co. Ltd.\* "紹興縣加佰利貿易有限公司" ("Shaoxing Gabriel") respectively (collectively referred to as the "Cash Advances").

At 31 December 2008, the following balances were still outstanding:

	<i>RMB'000</i>
Amounts due from related companies :	
- Gabriel	156,178
- Zhejiang Hongxing	37,884
- Zhejiang Sabrina	23,385
	<hr/>
	217,447
	<hr/>
Other receivables :	
- Zhejiang Yonghe	82,305
	<hr/>
	<u>299,752</u>

The Cash Advances were unsecured, interest free and repayable on demand.

Gabriel, a company established in the PRC, is owned as to 51% and 25% by Mr. and Mrs. Sun respectively. Gabriel is the major shareholder of Zhejiang Hongxing and Zhejiang Sabrina.

Zhejiang Yonghe, a company established in the PRC, is a customer of Zhejiang Hualian Sunshine Petro-Chemical Co., Limited and of which one of its executive directors was Mr. Sun's cousin-in-law, for the period from April 2008 to December 2008. Zhejiang Yonghe and its ultimate beneficial owner are independent third parties of the Company.

Since Gabriel, Zhejiang Hongxing and Zhejiang Sabrina are in the process of liquidation and Zhejiang Yonghe is inactive and facing financial difficulties, the directors of the Company considered that the likelihood of recovery of the amounts due being very remote, a loss on misappropriation of funds of approximately RMB296,088,000 was recognised during the year ended 31 December 2008.

Since Shaoxing Gabriel had been struck off, the balance of approximately RMB18,500,000 has been directly written off during the year ended 31 December 2008.

b) Guarantee provided by the Company to secure loans granted to a related company

During the year ended 31 December 2008, the Company acted as guarantor and provided guarantee to secure loans granted to Gabriel by Ms. Zhu Li Mei (“Ms. Zhu”) (the “Zhu Loan”) and Shaoxing Yatai Investment Co., Ltd. 紹興縣亞太投資有限公司 (“Yatai”) (the “Yatai Loan”) for an amount of RMB20,000,000 and RMB20,000,000 respectively, both are the independent third parties of the Company.

- (i) On 21 September 2008, the Zhu Loan has been expired and Gabriel was unable to repay the loan to Ms. Zhu. On 19 June 2009, the Company received a writ from Hangzhou Xiacheng District People’s Court (杭州市下城區人民法院) in relation to a claim of the outstanding Zhu Loan by Ms. Zhu against Gabriel, the Company and Mr. Sun for the outstanding overdue borrowings principal plus the interest and liquidated damages amount of approximately RMB21,731,000. On 20 October 2009, the Company received a civil judgment issued by the Hangzhou Xiacheng District People’s Court, pursuant to which Gabriel is liable to repay the sum of outstanding principal of RMB16,700,000 and the interest and liquidated damages amount of approximately RMB2,412,000, as a guarantor, the Company is jointly and severally liable to the above sum. During the year ended 31 December 2009, provision has been made in respect of the default payment for the amount of approximately RMB21,407,000 (2008: RMB17,883,000), which including interest and liquidated damages of approximately RMB4,707,000 (2008: RMB1,183,000) together with the outstanding principal of RMB16,700,000.

On 10 June 2011, the Company signed a settlement agreement with Ms. Zhu, accordingly to the agreement, Ms. Zhu conditionally waived the interest and liquidated damages from the Company, as long as the Company can settle the outstanding principal before 20 June 2011. The amount approximately of RMB546,000 has been settled through bankruptcy claim from Gabriel and the remaining principal balance amount approximately of RMB16,154,000 has been fully settled by the Company on 16 June 2011.

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

At the date of publication of this document, the Yatai Loan has yet to be settled.

\* English name is for identification only

## 7. FINANCE COSTS

	<b>2009</b>	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank borrowings wholly repayable within five years	<b>29,726</b>	26,718
Interest expenses on overdue trust receipt loans	<b>8,799</b>	1,215
Less: interest capitalised in construction in progress (Note)	-	(572)
	<u><b>38,525</b></u>	<u>27,361</u>
Interest paid for the advance from guarantors	<b>4,699</b>	103
	<u><b>43,224</b></u>	<u>27,464</u>

Note: Borrowing costs capitalised during the year ended 31 December 2008 arose on general borrowing pool and were calculated by applying a capitalisation rate of 7.76% to expenditure on qualifying assets for the year ended 31 December 2008

## 8. INCOME TAX CREDIT

	<b>2009</b>	2008
	<i>RMB'000</i>	<i>RMB'000</i>
PRC Enterprise Income Tax		
- Overprovision in previous years	-	(5,416)
Deferred taxation		
- Current year	<u><b>(1,132)</b></u>	<u>(5,887)</u>
	<u><b>(1,132)</b></u>	<u>(11,303)</u>

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

No provision for PRC Enterprise Income Tax has been made in the financial statements as no assessable profits were made for both years.

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

## 9. LOSS FOR THE YEAR

	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
Loss for the year has been arrived at after charging:		
Staff cost (including directors' and supervisors' emoluments):		
Salaries, wages and other benefits in kind	<b>16,113</b>	30,837
Retirement benefit scheme contributions	<b>507</b>	727
	<b>16,620</b>	31,564
Amortisation of prepaid lease payments	<b>273</b>	273
Auditors' remuneration	<b>660</b>	661
Bad debts written off	-	6,380
Cost of inventories recognised as expenses	<b>131,406</b>	367,200
Depreciation of investment properties	<b>831</b>	831
Depreciation of property, plant and equipment	<b>28,524</b>	28,494
Loss on disposal of property, plant and equipment	-	32
Net exchange loss	-	8,522
Research and development cost	<b>365</b>	537

## 10. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the loss for the year of approximately RMB96,549,000 (2008: approximately RMB517,790,000) and the weighted average of 1,063,500,000 (2008: 1,063,500,000) ordinary shares in issue during the year.

No diluted loss per share have been presented for the two years ended 31 December 2009 and 2008 as there were no diluting events existed during both years.



## 11. TRADE AND OTHER RECEIVABLES

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Trade receivables	<b>62,238</b>	78,751
Less: impairment loss recognised	<b>(21,582)</b>	(16,497)
	<u><b>40,656</b></u>	<u>62,254</u>
Prepayments, deposits and other receivables	<b>85,718</b>	88,191
Less: impairment loss recognised	<b>(80,281)</b>	(80,242)
	<u><b>5,437</b></u>	<u>7,949</u>
Total trade and other receivables	<u><b>46,093</b></u>	<u>70,203</u>

Note :

At 31 December 2009, other receivables included Cash Advances to Zhejiang Yonghe with balance of approximately RMB82,165,000 (2008: RMB82,305,000). The details of Cash Advances are set out in Note 6.

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

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

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
0 – 60 days	<b>27,742</b>	32,749
61 – 90 days	<b>2,568</b>	4,337
91 – 365 days	<b>2,915</b>	24,649
Over 365 days	<b>7,431</b>	519
	<u><b>40,656</b></u>	<u>62,254</u>

## 12. AMOUNTS DUE FROM RELATED COMPANIES

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

At 31 December 2009

	<b>Gabriel</b>	<b>Zhejiang Hongxing</b>	<b>Zhejiang Sabrina</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Note i)	(Note ii)	(Note ii)	
Amounts due from related companies	159,411	38,362	22,566	220,339
Less: misappropriation of funds recognised (Note 6)	<u>(158,605)</u>	<u>(37,974)</u>	<u>(22,175)</u>	<u>(218,754)</u>
	<u>806</u>	<u>388</u>	<u>391</u>	<u>1,585</u>
Maximum amounts outstanding during the year	<u>159,411</u>	<u>38,362</u>	<u>23,385</u>	

At 31 December 2008

	<b>Gabriel</b>	<b>Zhejiang Hongxing</b>	<b>Zhejiang Sabrina</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Note i)	(Note ii)	(Note ii)	
Amounts due from related companies	156,178	37,884	23,385	217,447
Less: misappropriation of funds recognised (Note 6)	<u>(156,178)</u>	<u>(37,884)</u>	<u>(22,175)</u>	<u>(216,237)</u>
	<u>-</u>	<u>-</u>	<u>1,210</u>	<u>1,210</u>
Maximum amounts outstanding during the year	<u>156,178</u>	<u>47,517</u>	<u>23,390</u>	

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

	<b>2009</b>	2008
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	<b>216,237</b>	-
Recognised during the year (Note 6)	<u><b>2,517</b></u>	<u>216,237</u>
At the end of the year	<u><b>218,754</b></u>	<u>216,237</u>

Notes:

- i) Mr. and Mrs. Sun, Mr. Xia Xue Nian, Mr. Sun Jian Feng and Mr. Li Cheng Jun, directors of the Company, have beneficial interests in Gabriel.
- ii) Zhejiang Hongxing and Zhejiang Sabrina are subsidiaries of Gabriel.
- iii) The amounts are unsecured, non-interest bearing and repayable on demand.

### 13. TRADE AND OTHER PAYABLES

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Trade payables (Notes i & ii)	26,659	174,511
Accrued interests (Note iii)	32,902	747
Receipt in advance	7,554	10,211
Other taxes payable	7,179	6,487
Accrued expenses and other payables	22,743	21,092
	<u>97,037</u>	<u>213,048</u>

- (i) The Company normally receives credit periods from suppliers ranging from 30 days to 90 days. The Company has in place financial risk management policies to ensure that all payables are settled within the credit timeframe. Due to the misconducts of certain directors of the Company mentioned in Note 6, the Company were unable to settle all the payables within the credit period and several suppliers took legal action against the Company, details of which can be found in Note 17.
- (ii) An aged analysis of the trade and bills payables at the end of the reporting period based on invoice date is as follows:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
0 – 60 days	11,870	58,238
61 – 90 days	4,844	6,258
91 – 365 days	2,457	107,418
Over 365 days	7,488	2,597
	<u>26,659</u>	<u>174,511</u>

- (iii) Accrued interests included interests for outstanding bank loans over the borrowing terms amounting to approximately RMB32,902,000 for the year ended 31 December 2009 (2008: RMB92,000). At the date of publication of this document, the accrued interests were fully settled.

#### 14. AMOUNTS DUE TO GUARANTORS

As disclosed in Note 17, the Company has defaulted on the settlement of certain bank borrowings and the related banks have taken legal actions against the Company and its guarantors, namely Zhejiang Xiongsheng Holding Co., Ltd. \* “浙江雄盛實業有限公司” (“Xiongsheng”) and Xiongfeng Holding Group Co., Ltd. \* “雄峰控股集團有限公司” (“Xiongfeng”), Zhejiang Lingda Industry Co., Ltd. \* “浙江凌達實業有限公司” (“Lingda”), Zhejiang Zhiye Real Estate Group Co., Ltd. \* “浙江置業房產集團有限公司” (“Zhiye”), Jinggong Group Co., Ltd. \* “精功集團有限公司” (“Jinggong”) and Zhejiang Yongli Industry Group Co., Ltd.\* 浙江永利實業集團有限公司 (“Zhejiang Yongli”) (the “Guarantors”). The amount represents the settlement made by the Guarantors on behalf of the Company.

	<b>2009</b>	2008
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Xiongsheng and Xiongfeng	<b>31,524</b>	-
Lingda	<b>20,333</b>	-
Zhiye	<b>10,000</b>	-
Jinggong	<b>28,126</b>	27,603
Zhejiang Yongli	<b>76,142</b>	-
	<b><u>166,125</u></b>	<u>27,603</u>

The amount is unsecured, interest bearing and repayable on demand. The average effective interest rate of the loan from a guarantor is 2.98% (2008: 0.38%).

## 15. BANK BORROWINGS

	<i>Notes</i>	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Bank loans, within credit terms		<b>9,000</b>	328,150
Bank loans, overdue		<b>275,859</b>	23,000
		<b>284,859</b>	351,150
Overdue trust receipt loans		<b>81,860</b>	42,500
Total bank borrowings	<i>(i) &amp; (ii)</i>	<b>366,719</b>	393,650
Secured	<i>(v)</i>	<b>120,509</b>	121,730
Unsecured		<b>246,210</b>	271,920
		<b>366,719</b>	393,650

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

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Fixed-rate bank loans	<b>256,290</b>	281,930
Variable-rate bank loans	<b>110,429</b>	111,720
	<b>366,719</b>	393,650

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

iii) Certain bank borrowings of the Company are guaranteed by directors of the Company, related companies and independent third parties. The amounts of the guarantees provided by related companies, directors and independent third parties are as follows:

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Gabriel and independent third parties	<b>39,931</b>	40,000
Mr. and Mrs. Sun, Mr. Sun Jian Feng, Mr. Xia Xue Nian, Mr. Li Cheng Jun and Gabriel	<b>25,500</b>	25,500
Mr. and Mrs. Sun and independent third parties	<b>105,059</b>	115,700
Independent third parties	<b>70,720</b>	120,720
	<b>241,210</b>	301,920

- iv) The accrued interests at 31 December 2009 of approximately RMB32,902,000 (2008: RMB747,000) were recorded under current liabilities.
- v) Details of assets pledged for bank borrowing granted to the Company as set out in Note 16.

## 16. PLEDGE OF ASSETS

At the end of the reporting period, certain assets of the Company were pledged to secure banking facilities granted to the Company as follows:

	<b>2009</b>	2008
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Buildings	<b>103,102</b>	102,962
Plant and machinery	<b>16,599</b>	23,656
Investment properties	<b>8,215</b>	9,046
Pledged bank deposits	-	42,552
Prepaid lease payments	<b>11,155</b>	11,425
	<b><u>139,071</u></b>	<u>189,641</u>

## 17. LITIGATION

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

### (i) Legal action of banks

Due to the impact of the financial crisis of Gabriel, (i) as at 31 December 2009, the total amount of bank loans was RMB366,719,000, in which loans in an aggregate amount of RMB65,040,000 from three relevant banks could not be renewed as usual upon their maturity due to the reason that guarantors (including Gabriel, Mr. and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee; and (ii) as at 31 December 2009, total bills payable amounting to RMB81,000,000 could not be renewed as usual upon their maturity due to the same reason as mentioned above. In addition, due to financial problems encountered by the Company, the Company cannot repay the above bank loans and bills upon maturity. In view of the above, the relevant banks have taken legal actions against the Company. At the date of this document, the amounts have been fully settled by the Guarantors on behalf of the Company.

### (ii) Overdue trade creditors

Due to the cash flow problem of the Company, the Company was faced with short term financing problems and as such were unable to meet payments of certain suppliers. Legal action was taken by six suppliers against the Company for a total amount of approximately RMB1,048,000. All cases were settled following the subsequent settlement in 2011.

(iii) Outstanding construction fees

On 15 January 2008, the Company entered into a construction contract for the construction of a warehouse and staff quarters for a total contract amount of RMB66,000,000. The construction contract was terminated in 2008 following financial difficulties faced by the Company as a result of the misappropriation of funds. In October 2008, both parties agreed that the total cost would be approximately RMB63,315,000 which was based on the percentage of completion of the project and approximately RMB3,961,000 should be paid by the Company. Legal action was taken against the Company following the amount being unsettled and in accordance with the judgment dated 21 October 2009, the Company was liable to the outstanding construction fee of RMB3,961,000 plus court related expenses. At the date of this document, the amounts have been fully settled.

(iv) Staff quarters

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

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

## **18. RELATED PARTY AND CONNECTED PARTY TRANSACTIONS**

- (a) The balances with related parties at the end of the reporting period are disclosed elsewhere in the financial statements.
- (b) Details of the guarantee given by related parties to the banks in respect of the loans granted to the Company as at 31 December 2009 set out in Note 15.

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

Name of company	Nature	2009 RMB'000	2008 RMB' 000
Zhejiang Sabrina (Note i)	Sales of goods	-	16
	Electricity cost reimbursement	254	385
	Purchase of goods	2	-
Zhejiang Hongxing (Note i)	Sales of goods	-	4
	Electricity cost reimbursement	598	955
	Purchase of goods	-	6
Miroglio S.p.A. and its subsidiaries ("Miroglio S.p.A. Group") (Note ii)	Sales of goods	668	33,104
Zhejiang Miroglio Fulida Textile Co. Ltd. (浙江米羅利奧富麗達紡織有限公司) ("Miroglio Fulida") (Note iii)	Subcontracting fee	24	11,453
	Sales of goods	94	3,716

Notes:

- The aforesaid transactions were in the ordinary course of business of the Company and on normal commercial terms.
- Since 24 March 2005, Miroglio S.p.A. became a substantial shareholder of the Company. At 31 December 2009, the amounts due from Miroglio S.p.A. Group (included in trade receivables) were amounted to approximately RMB61,000 (2008: RMB3,959,000). Sales recognised by the Company for the year ended 31 December 2009 was approximately RMB668,000 (2008: RMB33,104,000). The outstanding balance was incurred in the ordinary course of business of the Company and on normal commercial terms, hence, it is receivable according to the relevant contractual terms of the transactions.
- Miroglio Fulida a company established in the PRC, the registered capital of which is owned as to 50% by Miroglio S.p.A.. As at 31 December 2009, the amount due to Miroglio Fulida (included in trade payables) was amounted to approximately RMB36,000 (2008: RMB939,000). The outstanding balance was incurred in the ordinary course of business of the Company and on normal commercial terms, hence, it is repayable according to the relevant contractual terms of the transactions.

- (d) The remuneration of directors and other members of key management were as follows:

	2009 RMB'000	2008 RMB'000
Salaries, other short-term employee benefits and equity-settled share-based payment expenses	267	292
Post-employment benefits	21	25
	<u>288</u>	<u>317</u>



## 19. EVENTS AFTER THE REPORTING PERIOD

As disclosed in the Company's announcement dated 29 December 2010, the Company, Zhejiang Yongli Industry Group Co., Ltd.\* 浙江永利實業集團有限公司 (“Zhejiang Yongli”) and the People's Government of Yang Xun Qiao Town, Shaoxing County, Zhejiang Province “浙江省紹興縣楊汛橋鎮人民政府” (“Local Government”) entered into a letter of intent on 6 December 2010 for the proposed reorganisation of the Company by Zhejiang Yongli with the support from the Local Government (the “Restructuring Proposal”). Zhejiang Yongli is a company established in the PRC.

### (i) Shareholding reorganisation

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

### (ii) Debt restructuring

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

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

### (iii) Business reorganisation

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

### (iv) Reorganisation support

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

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

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

- (a) The Company received confirmation from China Securities Depository and Clearing Corporation Ltd.\* 中國證券登記結算有限責任公司 that 310,000,000 shares (representing approximately 29.15% of the total issued shares of the Company) were transferred from Mr. Sun to Zhejiang Yongli with effect from 24 December 2010. Zhejiang Yongli has become a controlling shareholder of the Company since then;
- (b) The signed letter of intent regarding reorganisation of the Company from the relevant banks, pursuant to which the banks consent to abandon the right of any claim against the Company should Zhejiang Yongli or the Company repay 65% of the indebtedness due and owing by the Company with the remaining 35% to be borne by the Company's guarantors under the bank loan arrangements between the banks and the Company, being the creditors of the Company as referred to in the letter of intent, and;
- (c) The signed letters of undertaking from these guarantors addressed to the Company and the relevant banks, pursuant to which they consent to waive, and abandon any claim against the Company for, the remaining 35% of the indebtedness due and owing by the Company if 65% of the Company's indebtedness is to be repaid.
- (d) The Company has signed debt agreements with each of the Company's five Guarantors, namely (1) Xiongsheng and Xiongfeng, (2) Lingda, (3) Zhiye, (4) Jinggong and (5) Zhejiang Yongli on 20 July 2011, 15 August 2011, 17 August 2011, 13 September 2011 and 15 August 2011 respectively to settle the Company's debts owed to the Guarantors. Each of the five Guarantors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies. The breakdown of these debt settlements are summarised in the table below:

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

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

- (1) The Company shall owe the sum of approximately RMB239,677,000 (as shown in the table above) to Zhejiang Yongli, and Zhejiang Yongli shall permanently abandon any claim against the Company for the repayment of debt amounting to RMB187,089,650, which was cleared as a result of government support (as shown in the table above);
- (2) The Company agreed to repay Zhejiang Yongli, commencing from fifth anniversary after the signing of the debt restructuring agreement provided that the amount to be repaid shall not exceed 50% of the operating cash flow of the year and 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 incurred during the repayment period; and
- (5) Zhejiang Yongli undertakes to assume all the contingent debts of the Company incurred at all times and permanently abandon any claim against the Company for the repayment of such contingent debts of the Company.

In addition to the five Guarantors, the Company has signed an agreement with Ms. Zhu Li Mei on 16 June 2011 which provides that, after Ms. Zhu has obtained repayment of a portion of debts through the winding up procedure of Gabriel and the court enforcement against the Company respectively, the Company shall pay all outstanding amount to Ms. Zhu totalling approximately RMB13,000,000 before 20 June 2011. At present, the Company has settled the accumulated debts due to Ms. Zhu in the amount of approximately RMB16,154,000 which included the above mentioned amount of approximately RMB13,000,000 and the cost incurred in relation to such litigation. Furthermore, in respect of another creditor of the Company, Yatai, the Company will settle an outstanding debt in the maximum sum of RMB10,000,000 according to the civil affair mediation letter issued by the local court at Shaoxing County in Zhejiang Province on 9 October 2009.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial review**

For the year ended 31 December 2009, the Company recorded a turnover of approximately RMB92.03 million, representing a decrease of approximately 71.68% as compared with that of the same period in 2008. It is mainly because turnover for sales of woven fabrics sharply decreased from RMB319.13 million in 2008 to RMB58.60 million in 2009. The misconduct of the directors in 2008 as set out in Note 6 caused a shortage of cash flow of the Company for the purchase of raw materials for manufacturing. In order to maintain the operation and reduce the burden of cash flow problem, the Company then focused on another business division - the provision of sub-contracting services. The turnover of sub-contracting services for the years ended 31 December 2009 and 2008 were approximately RMB33.43 million and RMB5.86 million respectively. As the sales of woven fabrics decreased sharply, the Company incurred gross loss of approximately RMB31.56 million. The profit margin from provision of sub-contracting services was low and cost of sales was high because only about 85% of production capacity was utilized in 2009 which led to an increase of fixed production overhead. Cost of sales for the year ended 31 December 2009 decreased by approximately 71.12% when compared with that in 2008, which was in line with the decrease of turnover in 2009. Selling expenses for the year ended 31 December 2009 decreased by approximately 81.10% when compared with that in 2008, which was in line with the decrease in export sales in 2009. Administrative expenses for the year ended 31 December 2009 decreased by approximately 62.22% when compared with that in 2008 because no material foreign exchange losses incurred in 2009 and certain staff of administrative and finance department resigned in 2009 which led to a decrease of salary and staff benefits. Finance cost increased by approximately 57.38% mainly due to penalty payable for bank borrowings over-due in 2009. Loss per share for the years ended 31 December 2009 and 2008 were RMB9.08 cents and RMB48.69 cents respectively.

### **Business and operation review**

Prior to 2008, the Company mainly focused on the research and development, manufacturing and sales of woven fabrics. During the year ended 31 December 2009, due to the misconduct of some of the former directors as set out in Note 6 to the Company encountered cash flow problems. In order to solve the cash flow problems and maintain a stable production capacity and operations, the Company accepted more existing and new customers to provide their raw materials to the Company for further processing so as to minimise the trade payables balance by providing such sub-contracting services. Accordingly, for management purposes, the Company is currently organised into two operating divisions – sales of woven fabric and provision of sub-contracting

services. During the year under review, sales of woven fabric was approximately RMB58.60 million representing a drop of approximately 81.64% when compared with that of 2008. It was mainly due to the significant decrease in export sales by approximately 95.03% as a result of global financial turmoil in 2009. In addition, due to the financial crisis of the Company, the export sales market had to be temporarily suspended as the Company has insufficient cash flow to purchase raw materials for manufacturing. Turnover from provision of sub-contracting services for the year ended 2009 and 2008 were approximately RMB33.43 million and RMB5.86 million respectively. During the year ended 31 December 2009, the sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB11.47 million, which represented approximately 12.46% of the total turnover. Compared with the operation status of fellow manufacturers in the local region, the Company is at a normal status. Provided that the external environment will not continue to worsen, under realistic estimation, the Company should be able to maintain its production and operation normally.

### **Production facilities**

During the year ended 31 December 2009 under review, the Company did not have material acquisition or disposal of production facilities.

### **Product research and development**

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

### **Sales and marketing**

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

### **Outlook**

Due to the misconduct of some of the former directors as set out in Note 6, the Company encountered a financial crisis which led to a shortage of cash flow for settlement of trade debts and bank borrowings. As a result, there were several litigations against the Company as set out in Note 17 and for management purpose, the operation of the Company has to be reorganised into two divisions, that is, sales of woven fabric and provision of sub-contracting services.

With reference to the announcement of the Company dated 29 December 2010, the Company, Zhejiang Yongli Industry Group Co., Ltd.\* 浙江永利實業集團有限公司 (“Zhejiang Yongli”) and the Local Government entered into a letter of intent on 6 December 2010 for the proposed reorganisation of the Company by Zhejiang Yongli with the support from the Local Government (the “Restructuring Proposal”). Zhejiang Yongli is a company established in the PRC. The principal terms of the letter of intents are set out in Note 19.

Subsequent to the letter of intent signed for the Restructuring Proposal as set out in Note 19, Zhejiang Yongli has become a controlling shareholder of the Company since 24 December 2010. Thereafter, Zhejiang Yongli recommended Mr. Ru Guan Jun and Mr. Xia Xian Fu to be executive directors of the Company and Mr. Ru Guan Jun to be the Chairman of the Board of Directors and they were appointed at the extraordinary general meeting held on 11 March 2011. From 20 July 2011 to 13 September 2011, the Company has signed debt agreements with each of the five Guarantors of the Company as set out in Note 19. After that, each of the five Guarantors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies.

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

## **LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

The Company reported a loss of approximately RMB96,549,000 for the year 31 December 2009 and net current liabilities of approximately RMB549,921,000 and a capital deficiency of approximately RMB337,436,000. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue operation as a going concern and therefore it may be unable to realise its assets and discharge its liability in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Company will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the date of publication of this document given that:

- (i) the debt restructuring of the Company's liabilities, details of which are stated in Note 19;
- (ii) a shareholder of the Company will provide financial support to the Company to meet the Company's liabilities and commitments as and when it falls due; and
- (iii) the directors of the Company anticipate that the Company will generate positive cash flows from its operations.

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

## **CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS**

At 31 December 2009, the Company had no commitments (2008: RMB56,000) for capital expenditure.

## **MATERIAL ACQUISITIONS/ DISPOSALS**

During the year ended 31 December 2009, the Company did not have any material acquisitions/ disposals

## **SEGMENTAL INFORMATION**

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

## **CHARGES ON GROUP ASSETS**

The details of the pledge of assets of the Company is set out in Note 16.

## **EMPLOYEE AND EMOLUMENT POLICIES**

At 31 December 2009, the Company had 886 employees (2008: 1,298), comprising 5 (2008: 11) in research and development, 7 (2008: 54) in sales and marketing, 802 (2008: 987) in production, 61 (2008: 230) in quality control, 4 (2008: 6) in management, and 7 (2008: 10) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

## **FOREIGN EXCHANGE EXPOSURE**

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

## **COMPETING INTERESTS**

None of the Directors or the management shareholders (as defined under the GEM Listing Rules) of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company under the period under review and up to the date of this document.

## **AUDIT COMMITTEE**

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

The annual results for the year ended 31 December 2009 of the Company have been reviewed by the Audit Committee.

## **SCOPE OF WORK OF SHINEWING**

The figures in respect of this preliminary document of the Company’s results for the year ended 31 December 2009 have been agreed by the Company’s auditors, SHINEWING, to the amounts set out in the Company’s draft financial statements for the year. The work performed by SHINEWING in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by SHINEWING on this preliminary document.

## **CORPORATE GOVERNANCE PRACTICES**

During the year ended 31 December 2009, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the “Code Provision”) as set out in the Appendix 15 of GEM Listing Rules, except for the following deviations:

1. Under Code E.1.2, the chairman of the board of directors (the “Board”) should attend the annual general meeting. The chairman of the Board was unable to attend the Company’s annual general meeting which was held on 20 May 2008 as he had other engagement that was important to the Company’s business.
2. Due to the misconduct of some of the Directors as set out in Note 6 to the financial statements, the Company encountered financial crisis that led to delay in publishing results and dispatching reports for the year ended 31 December 2008 and 2009, three months ended 31 March 2009, six months ended 30 June 2009 and nine months ended 31 September 2009. These constitute the breach of Rules 18.03, 18.49, 18.66, 18.67 and 18.79 of the GEM Listing Rules and the Code Provision C.1.

Accordingly, the members of Audit Committee has not liaised with the Board and senior management and the Audit Committee has not met the auditor of the Company during the year ended 31 December 2008 and 2009 to monitor the integrity of financial statements of the Company’s annual reports and accounts, interim reports and quarterly reports, which does not comply with the Code Provision C.3.3.



3. Code Provision A.1.1 stipulates that the Board should hold at least four regular meetings a year at approximately quarterly intervals. During the year ended 31 December 2009, only one regular meeting was held to approve the third quarterly results for the nine months ended 30 September 2008 due to the delay in announcing the results and dispatching reports of the Company for the year of 2009. In addition, no annual general meeting of the Company has been held for the year of 2008 and 2009.
4. Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, Mr. Sun Li Yong (“Mr. Sun”) performed the roles of the chairman of the Board and the chief executive officer of the Company until his resignation as the executive director, chairman and chief executive officer of the Company on 29 July 2009. There was no chairman or chief executive officer of the Company until the appointments of Mr. Ru Guan Jun as the chairman of the Company passed on the extraordinary general meeting of the Company held on 11 March 2011 by the shareholders and Mr. Xia Xian Fu as the chief executive officer of the Company.
5. According to Code Provision C.2.1, the directors should at least annually conduct a review on the effectiveness of the internal control system; however, the Company did not conduct such review for the year ended 31 December 2008 until the investigation on the misconduct of some of the former Directors was carried out. In order to prevent recurrence of similar misconduct of directors, the Company has appointed an independent auditor on 1 September 2009 to carry out internal control review for the Company and has been completed on 30 October 2009.

For the purpose of ensuring that the Company has adequate internal control procedures, the Company has appointed an independent auditor to review the internal control system of the Company and the relevant report is expected to be completed by the year ended 2011.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors except for Mr. Sun Li Yong and Ms. Fang Xiao Jian, who left the PRC on 14 September 2008 and have not returned since then and the directors of the Company have had difficulties in contacting them, and supervisors, all directors, except for Mr. Sun Li Yong and Ms. Fang Xiao Jian 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.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this document, the Company has maintained the prescribed public float under the GEM Listing Rules.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2009.

## **SUSPENSION OF TRADING**

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

By Order of the Board  
**Ru Guan Jun**  
*Chairman*

Zhejiang, the PRC, 3 November 2011

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

*This document will appear on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcement" page for at least 7 days from the day of its posting thereon and the website of the Company at <http://www.zj-yonglong.com>.*

*\* For identification purpose only*