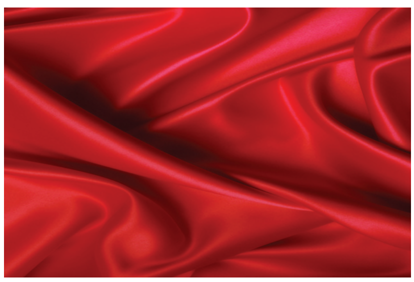
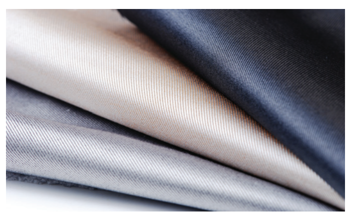
永隆實業
ENTERPRISES
Yonglong

浙江永隆實業股份有限公司
ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8211)

ANNUAL REPORT

2012





** 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*

Executive directors
Mr. Ru Guan Jun *(Chairman)*
Mr. Xia Xian Fu *(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. Fang Wei
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. Ru Guan Jun
Mr. Xu Wei Dong
Mr. Qin Fu

Nomination committee
Mr. Qin Fu *(Chiairman)*
Mr. Xu Wei Dong
Mr. Li Hui Peng
Mr. Xia Xian Fu

Legal address
Yangxun Qian Town
Shaoxing County
Zhejiang Province
PRC

Head office and principal place of business in Hong Kong
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6-8 Harbour Road, Wanchai, Hong Kong

Compliance officer
Mr. Hu Hua Jun

Authorised representatives
Mr. Xia Xian Fu
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
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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 2012,

- turnover of the Company decreased from approximately RMB195.43 million in year 2011 to approximately RMB130.01 million in year 2012, representing a decrease of approximately 33.48% when compared to the year ended 31 December 2011;

- loss for the year was approximately RMB17.63 million; and

- the Directors do not recommend the payment of a final dividend for the year ended 31 December 2012.

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 2012.

FINANCIAL PERFORMANCE

For the year ended 31 December 2012, the Company recorded a turnover of approximately RMB130 million, represents a drop of approximately 33.48% when compared with the same period in 2011. It is mainly because turnovers of sales and manufacturing of woven fabrics dropped by approximately 51.67% while on the other hand subcontracting fee income increased by approximately 43.09%. Since 24 December 2010, 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd.*) ("Zhejiang Yongli") became a substantial shareholder of the Company, under the financial support of Zhejiang Yongli, the Company has been gradually recovered as before the financial crisis incurred in 2008. Gross profit margin for the year ended 31 December 2012 and 2011 was approximately 11.70% and 7.28% respectively. The increase in gross profit margin mainly due to lower production cost which was achieved from the following factors: (i) the merge of old and new factories of the Company in March 2011 reduce the logistic and labour cost; (ii) during the year ended 31 December 2011, the Company spent approximately RMB6 million in upgrading, replacement and renovation of plant and machinery to improve the production capacity and efficiency. Therefore, the production volume was increased and the production cost was reduced as result of the scale of production; (iii) the agreed supply of electricity and steam at a lower rate from 2012 to 2014 from Zhejiang Yongli Thermal Electricity Company Limited* ("Zhejiang Yongli Thermal") enhanced the Company a stable supply of electricity and steam and a lower cost of production. The selling and distribution costs for year ended 31 December 2012 decreased by approximately 22.22% when compared with the corresponding period in 2011 mainly due to tighter operation control is adopted. Administrative expenses increased by approximately RMB4.19 million when compare with that in 2011 mainly due to the legal and professional fees of approximately RMB5.72 million paid for (i) preparation of resumption of trading of shares of the Company on the GEM of the Stock Exchange as trading of shares of the Company had been suspended since 24 October 2008 and resumed on 13 March 2012, details were set out in the announcement of the Company dated 8 March 2012, and (ii) preparation of the relevant documents for the very substantial disposal and continuing connected transactions as set out in the circular of the Company dated 24 February 2012. Other operating income for the year ended 31 December 2012 dropped by approximately RMB365.78 million when compared with the corresponding period in 2011 mainly because there were various exception income such as gain on disposal of plant and machinery of approximately RMB1.43 million, government subsidies of approximately RMB189.55 million, trade and other payables written off of approximately RMB7.2 million, debts waived by guarantors of approximately RMB168.33 million and finance cost over provided in previous years of approximately RMB28.36 million in 2011. Net loss of approximately RMB17.63 million incurred during the year ended 31 December 2012 mainly due to finance cost of approximately RMB23.41 million was estimated in respect of imputed interest on non-current interest-free amount due to Zhejiang Yongli and the above mentioned legal and professional fees of approximately RMB5.72 million. Despite of the net loss for the year ended 31 December 2012 of approximately RMB17.63 million, the Board considers that the Company's overall financial positions are healthy and the Board remains positive on the prospects of the Company. The Board would like to emphasis that the Company's financial position remains stable and has sufficient cash resources to meet its present and future cash flow requirements. As at 31 December 2012, the bank balances and cash of the Company was approximately RMB43.25 million. Loss and earnings per share for the year ended 31 December 2012 and 2011 were approximately RMB1.66 cents and RMB37.38 cents respectively.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012.

OUR STRATEGIES GOING FORWARD

Since 24 December 2010, Zhejiang Yongli became a substantial shareholder of the Company, under the financial support of Zhejiang Yongli, the Company has resolved the various problems of financial crisis incurred in 2008. Trading of shares of the Company on the GEM of the Stock Exchange has been resumed on 13 March 2012 after suspension of trading since 24 October 2008. The various reorganisation activities as set out in the circular of the Company dated 24 February 2012 has also been activated and completed. The Directors will then focus on the following strategies in order to enhance the benefits to the shareholders of the Company:

A: OPENING UP THE MARKET AND EXPANDING DOMESTIC SALES

After the financial turmoil occurred in 2008, the foreign markets, especially in Europe and U.S. still have not recovered and have been shrinking. However, the demand of local market continues to increase. To survive in this scenario, the Company will continue to focus on the domestic market and sales efforts will be placed in expanding domestic market shares and continuing to consolidate the military fabric production, so that full capacity of production and sales of the Company will be achieved.

B: INNOVATIVE PRODUCTS, ENHANCING THE VALUE

The Company will continue to cooperate with professional colleges, universities, national research centers and commercial corporations to carry out joint scientific research and development for the exploration of new raw materials and technologies. The aim of such is to create new products with added values, and the Company's benefits can hence be enhanced.

C: STREAMLINING OPERATIONS, SAVING COST

The Company has consolidated the production, production machines and manpower from the old factory site to the existing factory site since February 2012 in order to streamline operations, optimise personnel and assets, enhance cost control and achieve the purpose of cost saving.

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 Zhejiang Yongli, ultimate holding company of the Company since 9 March 2012. On 30 December 2011, the Company further entered into an agreement with Zhejiang Yongli Thermal for provision of electricity and steam for the period from 1 January 2012 to 31 December 2014 in order to (1) ensure that the Company will have a sufficient supply of electricity and steam over the next three years, (2) insulate the Company from the potential increase and fluctuations in the market rate, and therefore (3) enable the Company to stay competitive in the competitive fabric industry. The agreement was approved by the shareholders of the Company at the extraordinary general meeting held on 11 April 2012.

PROSPECTS

Since 24 December 2010, Zhejiang Yongli became a substantial shareholder of the Company, a number of reorganisation activities, as set out in the announcement of the Company dated 29 December 2010, started to activate, such as the transfer of the installed machinery and equipment from the Company's production plant at Sunjia Qiao to the Company's existing production plant at Jianwu Village, the disposal of the old factory of the Company as located at Sunjia Qiao and entered into a three-years agreement with Zhejiang Yongli Thermal for supplying electricity and steam to the Company. Further details are set out in the circular of the Company dated 24 February 2012. The above activities (i) ensure that the Company will have additional working capital for operation in the near future, (ii) enable the Company to have sufficient supply of electricity and steam over the next three years, (iii) insulate the Company from the potential increase and fluctuation in the market rate and therefore (iv) enable the Company to stay competitive in the competitive fabric industry. As at the date of this document, the Company has completed all the reorganisation activities. In view of the financial problems in the U.S. and Europe, the worldwide economies will continue be affected, hence it will continue be a challenge to the industry of the textile in 2013. The Directors believe that base on the above reoganisation activities, the experience of the management and the well established infrastructure of the Company, the Company is well equipped to face with the challenge.

APPRECIATION

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

RU Guan Jun
Chairman

Zhejiang, the PRC, 15 March 2013

BUSINESS AND OPERATION REVIEW

In view of the financial problem in Europe and U.S., the foreign markets have been shrinking. However, the local demand has been increasing. The Company will focus on the domestic market and sales efforts will be placed in expanding domestic market shares and continuing to consolidate the military fabric production. During the year ended 31 December 2012, the Company has not commenced the export business. The sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB13.12 million during the year ended 31 December 2012, which represents approximately 10.09 % on the total turnover.

Production Facilities

During the year ended 31 December 2012 under review, the Company spent approximately RMB576,000 in additions of office and factory equipment and approximately RMB213,000 in updating of plant and machinery and approximately RMB127,000 in renewal of factory building.

Product research and development

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

As at 31 December 2012, the Company's current assets and net current assets were approximately RMB146.77 million (31 December 2011: approximately RMB138.47 million) and approximately RMB 98.06 million (31 December 2011: approximately RMB71.95 million) respectively. The liquidity ratio of the Company, represented by the ratio of current assets over current liabilities, was approximately 3.01 (31 December 2011: 2.08).

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

As at 31 December 2012, the Company had no commitments (2011: Nil) for capital expenditure.

MATERIAL DISPOSALS

Details of material disposals are set out in Note 26 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 10 to the financial statements.

CONTINGENT LIABILITIES

As at 31 December 2012 and 31 December 2011, the Company did not have any material contingent liabilities.

CHARGES ON COMPANY ASSETS

As at 31 December 2012, the Company has no charges on company assets (2011: Nil).

EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2012, the Company had 459 employees (31 December 2011: 505), comprising 2 (31 December 2011: 4) in research and development, 3 (31 December 2011: 3) in sales and marketing, 421 (31 December 2011: 470) in production, 22 (31 December 2011: 16) in quality control, 6 (31 December 2011: 5) in management, and 5 (31 December 2011: 7) 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. Ru Guan Jun (茹關筠先生), aged 65, is currently the Chairman and executive Director of the Company and is responsible for the strategic planning of the Company. He was a vice director and a director of 供銷社 (Supply and Market Co-operative Societies*) in Fucheng, Taoyan and Gaobu, Shaoxing County from October 1968 to November 1984; a vice director of 供銷社 (Supply and Market Co-operative Societies*) in Shaoxing County from December 1984 to January 1986; a deputy director and director of Finance and Tax Bureau in Shaoxing County from February 1986 to May 1990; a deputy magistrate and a magistrate of Municipal People's Government in Shaoxing County from June 1990 to January 1998; a Deputy Mayor of Shaoxing Municipal People's Government and serving as a member of Standing Committee of Shaoxing Municipal Committee from February 1998 to July 2003; a chairman of the board of directors of 中國輕紡城集團股份有限公司 (China Qing Fang City Group Limited*), a PRC listing company from August 2003 to March 2007. He has been worked as a deputy general manager of Zhejiang Yongli since January 2008. Mr. Ru graduated from Zhejiang University of Finance and Economics. He has over 40 years of experience in corporate management in the PRC. He joined the Company in December 2010 and has been appointed as an executive Director of the Company at the extraordinary general meeting ("EGM") held on 11 March 2011 and elected as a Chairman of the Board on the same day.

Mr. Xia Xian Fu (夏先夫先生), aged 58, is currently an executive Director, Chief Executive Officer and also a General Manager of the Company. He is responsible for the overall management, sales and production of the Company. Prior to joining the Company, he was a factory director of 楊汛橋鎮新五紡織廠 (Yangxunqiao Xinwu Textiles Factory*) from March 1983 to February 1987; a workshop director and a planning department head of 紹興天橋紡織廠 (Shaoxing County Tianqiao Textiles Factory*) from February 1989 to December 1991; a factory director of 紹興市整理廠 (Shaoxing County Zhengli Factory*) from January 1992 to January 1993; a factory director of 浙江永利集團滌綸廠 (Zhejiang Yongli Group Polyester Factory*) from February 1993 to January 1998; a vice party secretary and a factory director of Zhejiang Yongli as well as a general manager of Zhejiang Yongli Thermal from February 1998 to February 2010 and a general manager of the audit department of Zhejiang Yongli from March 2010 to December 2010. Mr. Xia graduated in December 1998 from Zhejiang University of Technology and major in Economics Management. He has over 28 years of experience in corporate management in the textile industry in the PRC. He joined the Company in December 2010 and was recommended by the Board as a Chief Executive Officer and also a General Manager of the Company on 29 December 2010. He has been appointed as an executive director of the Company at the EGM held on 11 March 2011.

Mr. Hu Hua Jun (胡華軍先生), aged 27, 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 39, 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 29, 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 38, 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 64, is currently an independent non-executive Director of the Company. He graduated from 杭州大学 (Hangzhou University*) and received a college degree. Mr. Li served the army, Shaoxing County Water and Electricity Bureau and Personnel 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 from January 1993 to March 2007. He resigned the position as a 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 48, 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 47, is an independent Supervisor of the Company. He is responsible for performing the supervisory function in relation to the Board of Directors, manager and other officers of the Company and report independently to the shareholders in general meeting of the Company. He is a PRC certified public accountant and is now working as an audit supervisor in 紹興興業會計師事務所 (Shaoxing Xingye Certified Public Accountants*). He was re-appointed as an independent Supervisor of the Company in January 2012.

Mr. Pan Xing Biao (潘興彪先生), aged 46, 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 to 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) (Please refer to the following section of senior management for profile)

Ms. Tong Jian Juan (童建娟女士) aged 36, is a Supervisor of the Company. She is currently the deputy 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. Fang Wei (方巍先生) aged 33, is a Supervisor of the Company. He is currently working in the finance department of the Company since December 2010. Mr. Fang graduated in finance profession from 浙江財經學院 (Zhejiang University of Finance and Economics*). Mr. Fang has been working as finance supervisor of various subsidiaries of Zhejiang Yongli from 2002 to 2011. He has strong financial knowledge and practical experience in finance operation. He was appointed as a Supervisor at the EGM held on 26 November 2012.

Mr. Chen Wei (陳偉先生) aged 31, 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 41, 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.

Ms. Wang Ai Yu (王愛玉女士) aged 49, is currently a manager of the finance and accounting department of the Company and is responsible for the management of daily operation of the finance department of the Company. She graduated from Chong Qing University. Ms. Wang was a teacher of 楊汛橋中心小學 (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 joined the Company in December 2010 and also has been appointed as a Supervisor of the Company at the EGM held on 11 March 2011 and then a chairman of the Supervisory Committee.

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2012.

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 2012 are set out in the statement of comprehensive income on page 29 of the annual report.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2012.

PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2012, the Company spent approximately RMB576,000 in additions of office and factory equipment and approximately RMB213,000 in upgrading of plant and machinery and approximately RMB127,000 in renewal of factory buildings.

Details of these and other movements during the year in the property, plant and equipment of the Company are set out in Note 20 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 32 to the financial statements.

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the year ended 31 December 2012 and up to the date of this report were:

Executive Directors:

Mr. Ru Guan Jun *(Chairman)*
Mr. Xia Xian Fu *(Chief Executive Officer)*
Mr. Sun Jian Feng *(resigned on 29 December 2012)*
Mr. Xia Xue Nian *(resigned on 29 December 2012)*
Mr. Hu Hua Jun *(appointed on 26 November 2012)*
Mr. Chen Jian Jiang *(appointed on 26 November 2012)*

Non-Executive Director:

Mr. Chen Dong Chun *(appointed on 26 November 2012)*

Independent Non-Executive Directors:

Mr. Zhu Yu Lin *(resigned on 26 November 2012)*
Mr. Zong Pei Min *(resigned on 26 November 2012)*
Mr. Lu Guo Qing *(resigned on 26 November 2012)*
Mr. Xu Wei Dong *(appointed on 26 November 2012)*
Mr. Li Hui Peng *(appointed on 26 November 2012)*
Mr. Qin Fu *(appointed on 26 November 2012)*

Supervisors:

Ms. Wang Ai Yu *(chairman of supervisory committee)*
Mr. Hu Hua Jun *(resigned on 26 November 2012)*
Mr. Liu Guang Wei *(resigned on 15 October 2012)*
Ms. Tong Jian Juan *(appointed on 26 November 2012)*
Mr. Fang Wei *(appointed on 26 November 2012)*
Mr. Chen Wei *(appointed on 26 November 2012)*

Independent Supervisors:

Mr. Hu Jin Huan
Mr. Wang He Rong *(resigned on 26 November 2012)*
Mr. Pan Xing Biao *(appointed on 26 November 2012)*

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 2013 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 2012, the interests and short positions of the Directors, chief executives and supervisors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company

As at 31 December 2012, none of the Directors, chief executives or supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed, to have such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE H SHARES OR DEBENTURES

At no time during the year ended 31 December 2012 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 34 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 2012.

CONNECTED TRANSACTIONS

Save as disclosed in Note 34 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 shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The independent non-executive Directors have reviewed the connected transactions set out in Note 34 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 the relevant cap for the financial year ended 31 December 2012 as approved by the shareholders of the Company at the EGM held on 11 April 2012.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, 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 *(Note 2)*	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 2012, 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 2012, the five largest suppliers and customers of the Company accounted for approximately 72.02% and 56.83% of the Company's purchases and turnover respectively. The largest supplier and customer accounted for approximately 38.57% and 25.50% 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 2012.

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 2012, the interim results for the six months ended 30 June 2012, the third quarterly results for the nine months ended 30 September 2012 and the annual results of the Company for the year ended 31 December 2012 have been reviewed by the Audit Committee.

EMOLUMENT POLICY

The Company has established a remuneration committee (the "Remuneration Committee") in January 2005 and the primary duties of the Remuneration Committee are to formulate and make recommendation to the Board on the Company's policy and structure for all the remuneration of the Directors and senior management and on the establishment of formal and transparent procedures for developing policy on such remuneration. The Remuneration Committee comprises three independent Non-Executive Directors during the year ended 31 December 2012. With the appointment of Mr. Li Hui Peng as a member of the Remuneration Committee being effective on 26 November 2012, the Remuneration Committee comprises four members as at the reporting date.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

The financial statements for the year ended 31 December 2012 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 2013 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.*

Ru Guan Jun
Chairman

Zhejiang, the PRC, 15 March 2013

To: All Shareholders

We are the supervisory committee of Zhejiang Yonglong Enterprises 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 2012, exercised conscientiously its authority, safeguarded the interest of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

Due to the misconducts of certain former Directors during the year ended 31 December 2008, the Company appointed an independent auditor on 1 September 2009 to carry out an investigation for the internal control of the Company and has been completed on 30 October 2009. In order to ensure the Company has adequate internal control procedures, the Company has appointed another independent auditor on 17 January 2011 to review the internal control system of the Company and the relevant report has been completed and issued on 20 December 2011. After implementation of the suggested improvement of internal control under the report dated 20 December 2011, a follow up review report has been completed and issued on 2 March 2012.

In view of the misconducts of certain former Directors during the year ended 31 December 2008, the Supervisory Committee followed strictly the relevant regulations and carried out its duties honestly, including strengthening internal management and control of the Company, enforcing strict execution of various approval procedures, hiring professional consultation bodies, if necessary, standardising 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 2012, 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, 15 March 2013

During the year ended 31 December 2012, 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 transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.68 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 9 to 12 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 page 14 for the terms of appointment of each Director.

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

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 2012, regular meeting was held to approve the financial results for the year of 2012. The Board will also meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each Board meeting. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's Articles of Association. The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meeting. She also keeps the minutes, which are opened for inspection at any reasonable notice by any Director.

There were nine Board meetings held in the financial year ended 31 December 2012. Individual attendance of each Board member at these meetings is as follows:

Name of Directors	Attended/eligible to attend
Executive Directors	
Mr. Ru Guan Jun	9/9
Mr. Xia Xian Fu	8/9
Mr. Hu Hua Jun *(appointed on 26 November 2012)*	1/1
Mr. Chen Jian Jiang *(appointed on 26 November 2012)*	1/1
Non-executive Director	
Mr. Chen Dong Chun *(appointed on 26 November 2012)*	1/1
Independent Non-executive Directors	
Mr. Xu Wei Dong *(appointed on 26 November 2012)*	1/1
Mr. Li Hui Peng *(appointed on 26 November 2012)*	1/1
Mr. Qin Fu *(appointed on 26 November 2012)*	1/1

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to Code Provision A.6.5, which has come into effect from 1 April 2012, 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 2012, 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 for the year ended 31 December 2012 is summarised below:

Name of Directors	**Attending training course on topics related to corporate governance and regulations** Yes/No
Executive Directors	
Mr. Ru Guan Jun	Yes
Mr. Xia Xian Fu	Yes
Mr. Hu Hua Jun *(appointed on 26 November 2012)*	Yes
Mr. Chen Jian Jiang *(appointed on 26 November 2012)*	Yes
Non-executive Director	
Mr. Chen Dong Chun *(appointed on 26 November 2012)*	Yes
Independent Non-executive Directors	
Mr. Xu Wei Dong *(appointed on 26 November 2012)*	Yes
Mr. Li Hui Peng *(appointed on 26 November 2012)*	Yes
Mr. Qin Fu *(appointed on 26 November 2012)*	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 2012, six months ended 30 June 2012, and nine months ended 30 September 2012 of the Company. It also has reviewed the audited financial statements for the year ended 31 December 2012 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 2012 for reviewed the annual results for the year ended 31 December 2011 and the three quarterly results in 2012. All the four meetings were held by the resigned independent non-executive Directors, Mr. Lu Guo Qing, Mr. Zong Pei Min and Mr. Zhu Yu Lin. The existing independent non-executive Directors were only appointed on 26 November 2012, they were not eligible to attend the last Audit Committee meeting held on 13 November 2012. Individual attendance of each independent non-executive Director at these meetings is as follows:

Name of Independent Non-executive Directors	**Attended/eligible to attend**
Mr. Lu Guo Qing *(resigned on 26 November 2012)*	4/4
Mr. Zong Pei Min *(resigned on 26 November 2012)*	4/4
Mr. Zhu Yu Lin *(resigned on 26 November 2012)*	4/4
Mr. Xu Wei Dong *(appointed on 26 November 2012)*	N/A
Mr. Li Hui Peng *(appointed on 26 November 2012)*	N/A
Mr. Qin Fu *(appointed on 26 November 2012)*	N/A

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 2012 and 2011 are analysed as follows:

	For the year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Audit service	**716**	732
Performed agreed-upon procedures regarding information on preliminary annual result announcement of the Company	**41**	41
Performed agreed-upon procedures regarding financial information on continuing connected transactions between the Company and Zhejiang Yongli Thermal	**41**	41
	798	814

The audit services fee for the years ended 31 December 2012 and 2011 represent services provided by SHINEWING and Zhejiang Zhongxing. The other services fee for the year ended 31 December 2012 and 2011 represent the services provided by SHINEWING.

REMUNERATION COMMITTEE

According to the Code, the Company has established a 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 (the "Remuneration Committee") are to formulate and make recommendation to the Board on the Company's policy and structure for all the remuneration of the Directors and Senior Management and on the establishment of a formal and transparent procedures for developing policy on such remuneration. The Remuneration Committee shall be appointed by the Board and shall consist of not less than three members and a majority of whom should be independent non-executive Directors. During the year ended 31 December 2012, the Remuneration Committee comprises three independent non-executive Directors namely Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu who were appointed as members of Nomination Committee on 26 November 2012 in order to replace the resigned independent non-executive Directors, Mr. Lu Guo Qing, Mr. Zong Pei Min and Mr. Zhu Yu Lin. Mr. Li Hui Peng was elected as the chairman of the Nomination Committee on 26 November 2012 and Mr. Ru Guan Jun has also been appointed as a member of the Remuneration Committee since 11 March 2011.

During the year ended 31 December 2012, two meetings were held and all the resigned independent executive Directors and Mr. Ru Guan Jun had attended the meeting of the Remuneration Committee while the existing independent non-executive Directors, Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu were only appointed on 26 November 2012 and therefore were not eligible to attend the last meeting held on 5 October 2012.

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 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 (the "Nomination Committee") are to make recommendations 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 2012, the Nomination Committee comprises three independent non-executive Directors namely Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu who were appointed as members of Nomination Committee on 26 November 2012 in order to replace the resigned independent non-executive Directors, Mr. Lu Guo Qing, Mr. Zong Pei Min and Mr. Zhu Yu Lin. Mr. Qin Fu was elected as the chairman of the Nomination Committee on 26 November 2012. The executive Director, Mr. Xia Xian Fu has also been appointed as a member of Nomination Committee since 11 March 2011.

During the year ended 31 December 2012, three meetings were held and all the resigned independent executive Directors and Mr. Xia Xian Fu had attended the meeting of the Nomination Committee while the existing independent non-executive Directors, Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu were only appointed on 26 November 2012 and therefore were not eligible to attend the last meeting held on 5 October 2012.

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

DIRECTORS AND SENIOR MANAGEMENT – REMUNERATION

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

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 2012, Ms. Chen has undertaken not less than 15 hours of relevant professional training.

INTERNAL CONTROL

Due to the misconduct of former Directors in 2008 and 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 and the relevant report ("First Review Report") has been completed and issued on 20 December 2011. After implementation of the suggested improvement of internal control under the First Review Report, a follow up review report was made and completed on 2 March 2012.

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

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

LOOKING FORWARD

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

信永中和 ShineWing

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

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

We have audited the financial statements of Zhejiang Yonglong Enterprises Co., Ltd. (the "Company") set out on pages 29 to 75, which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2012, and of its loss 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
15 March 2013

	Notes	2012 RMB'000	2011 RMB'000
Turnover	9	**130,007**	195,433
Cost of sales		**(114,790)**	(181,211)
Gross profit		**15,217**	14,222
Other income and gains	9	**3,702**	369,485
Selling and distribution costs		**(210)**	(270)
Administrative expenses		**(13,851)**	(9,659)
Reversal of provision for loss on misconducts of former directors of the Company	12	**-**	8,499
Interest expenses waived	13	**-**	19,753
Finance costs	13	**(23,414)**	(5,397)
(Loss) profit before taxation		**(18,556)**	396,633
Income tax credit	14	**922**	934
(Loss) profit for the year	15	**(17,634)**	397,567
Other comprehensive income for the year			
Gain on revaluation of properties		**3,691**	3,734
Income tax relating to revaluation of properties		**(922)**	(934)
Other comprehensive income for the year, net of tax		**2,769**	2,800
Total comprehensive (expenses) income for the year		**(14,865)**	400,367
(Loss) earnings per share			
Basic and diluted	16	**RMB(1.66) cents**	RMB37.38 cents

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	20	**108,311**	125,635
Prepaid lease payments	21	**7,208**	7,443
		115,519	133,078
Current assets			
Inventories	22	**10,753**	9,977
Trade and other receivables	23	**48,550**	57,553
Prepaid lease payments	21	**188**	141
Financial assets at fair value through profit or loss	24	**4,500**	-
Bank balances and cash	25	**43,253**	31,269
		107,244	98,940
Assets classified as held for sale	26	**39,526**	39,526
		146,770	138,466
Current liabilities			
Amount due to a related company	27	**948**	27
Trade and other payables	28	**37,767**	56,492
Provision	29	**10,000**	10,000
		48,715	66,519
Net current assets		**98,055**	71,947
Total assets less current liabilities		**213,574**	205,025
Non-current liability			
Amount due to ultimate holding company	31	**151,299**	127,885
Net assets		**62,275**	77,140
Capital and reserves			
Share capital	32	**106,350**	106,350
Reserves		**(44,075)**	(29,210)
		62,275	77,140

The financial statements on pages 29 to 75 were approved and authorised for issue by the board of directors on 15 March 2013 and are signed on its behalf by:

Ru Guan Jun	**Hu Hua Jun**
Director	*Director*

	Share capital	Share premium	Other reserve	Asset revaluation reserve	Statutory surplus reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note (a))		(Note (b))	(Note (c))	
At 1 January 2011	106,350	69,637	7,880	24,315	12,496	(660,975)	(440,297)
Deemed contribution from the ultimate holding company of the Company	-	-	117,070	-	-	-	117,070
Profit for the year	-	-	-	-	-	397,567	397,567
Other comprehensive income for the year	-	-	-	2,800	-	-	2,800
Total comprehensive income for the year	-	-	-	2,800	-	397,567	400,367
At 31 December 2011 and 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 (expenses) for the year	-	-	-	2,769	-	(17,634)	(14,865)
At 31 December 2012	106,350	69,637	124,950	29,884	12,496	(281,042)	62,275

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 31).

(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 2012 and 2011, no reserves were available for distribution due to accumulated losses being noted.

	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(18,556)**	396,633
Adjustments for:		
Reversal of allowance for inventories	**(5,656)**	(19,366)
Amortisation of prepaid lease payments	**188**	188
Depreciation of property, plant and equipment	**20,122**	24,205
Finance costs	**23,414**	5,397
Interest expenses waived	**-**	(19,753)
Reversal of impairment loss recognised in respect of trade receivables	**(100)**	(382)
Interest income	**(479)**	(17)
Gain on disposal of property, plant and equipment	**-**	(1,418)
Loss on disposal of property, plant and equipment	**1,235**	265
Government subsidies	**-**	(187,090)
Debt waived by guarantors	**-**	(168,325)
Trade and other payables written off	**(325)**	(7,190)
Reversal of provision for loss on misconducts of former directors of the Company	**-**	(8,499)
Operating cash flows before movements in working capital	**19,843**	14,648
Increase in amount due to a related company	**921**	27
Decrease in inventories	**4,880**	51,548
Decrease (increase) in trade and other receivables	**9,103**	(39,821)
(Decrease) increase in trade and other payables	**(18,400)**	11,386
Decrease in provision	**-**	(16,154)
NET CASH FROM OPERATING ACTIVITIES	**16,347**	21,634
INVESTING ACTIVITIES		
Interest received	**479**	17
Purchase of financial assets at fair value through profit or loss	**(4,500)**	-
Proceed from disposal of property, plant and equipment	**766**	2,075
Purchase of property, plant and equipment	**(1,108)**	(6,044)
NET CASH USED IN INVESTING ACTIVITIES	**(4,363)**	(3,952)
FINANCING ACTIVITIES		
Interest paid	**-**	(119)
Cash advance from ultimate holding company	**-**	12,000
NET CASH FROM FINANCING ACTIVITIES	**-**	11,881
NET INCREASE IN CASH AND CASH EQUIVALENTS	**11,984**	29,563
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**31,269**	1,706
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**43,253**	31,269

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")

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

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

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

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 2009 – 2011 Cycle[1]
Amendments to HKFRS 1	First-time Adoption of HKFRSs – Government Loans[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]

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

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

HKFRS 12	Disclosures of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK International Financial Reporting Interpretation Committee ("IFRIC") – Interpretation ("Int") 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

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 are 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 and 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 and 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 and loss.

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

HKFRS 9 Financial Instruments *(Continued)*

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application 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.

HKFRS 13 Fair Value Measurement

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

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

The directors of the Company anticipate that the application of the new standard may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income" 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 to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Company's financial statements.

The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors of the Company do not anticipate that the application of the amendments to HKAS 32 will have material effect on the Company's financial statements.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in 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 Growth Enterprise Market 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, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

(a) Property, plant and equipment

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

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

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

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

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

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 comprehensive income over the period of the rights using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Inventories

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

(d) Financial instruments

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Financial instruments *(Continued)*

Financial assets at fair value through profit and loss

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 managers 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 financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduce a measurement or recognition inconsistency that would otherwise arise; or
- The financial assets form part of a group of 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
- 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 comprehensive income.

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Financial instruments *(Continued)*

Impairment loss on financial assets

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

Objective evidence of impairment could include:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Financial instruments *(Continued)*

Impairment loss on financial assets (Continued)

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

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Financial instruments *(Continued)*

Derecognition

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

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

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

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

(e) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(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.

(g) Impairment losses on tangible assets

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

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

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

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

(h) Revenue recognition

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

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 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

(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.

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgement in applying the entity's accounting policies

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

No deferred tax asset has been recognised in respect of tax losses of RMB7,808,000 as at 31 December 2012 (2011: RMB23,896,000) due to the unpredictability of future profits streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, additional recognition of deferred tax assets may arise, which should be recognised in the statement of comprehensive income for the period in which it takes place.

Key sources of estimation uncertainty

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

Depreciation of property, plant and equipment

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

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

Impairment loss recognised in respect of trade receivables

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Company's expectations and the Company will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. At 31 December 2012, the carrying amount of trade receivables were approximately RMB48,219,000 (2011:RMB55,734,000), net of impairment loss of RMB24,782,000 (2011: RMB24,882,000).

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 judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each receivables.

At 31 December 2012, the carrying amount of other receivables was approximately RMB331,000 (2011: RMB1,819,000). No provision for impairment loss was made during the year ended 31 December 2012 (2011: Nil).

Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated selling prices. The cost of inventories is written down to the net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The amount written off to the statement of comprehensive income is the difference between the carrying value and net realisable value of inventories. In determining whether the cost of inventories can be recovered, significant judgment is required. In making this judgment, the Company evaluates, amongst other factors, the duration and extent and the means by which the amount will be recovered. These estimates are based on the current market condition and past experience in sales of similar products. It could change significantly as a result of changes in customer preferences and competitor actions in response to changes in market condition. At 31 December 2012, the carrying amount of inventories is approximately RMB10,753,000 (net of allowance for inventories of approximately RMB1,723,000) (2011: carrying amount of inventories is approximately RMB9,977,000 (net of allowance for inventories of approximately RMB7,379,000)).

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.

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

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 judgment 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 30.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Company consists of net debt, which includes amount due to ultimate holding company as disclosed in Note 31, net of bank balances and cash as disclosed in Note 25 and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses. The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the associated risks, and take appropriate actions to adjust the Company's capital structure. The Company's overall strategy remains unchanged from prior period.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012 **RMB'000**	2011 RMB'000
Loans and receivables (including bank balances and cash)	**91,681**	87,079
Financial assets at fair value through profit or loss	**4,500**	-
Financial liabilities at amortised cost	**180,675**	168,744

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Currency risk

The Company operates in the PRC with all of the transactions denominated and settled in RMB. The Company's foreign currencies are mainly United States Dollars ("US$") and Hong Kong Dollars ("HK$"). The Company has bank deposits denominated in US$ and HK$.

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$**	
	2012	2011	**2012**	2011
	'000	'000	**'000**	'000
Assets	**-**	23	**86**	88

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

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

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

Interest rate risk

The Company is exposed to interest income interest rate risk in relation to current deposits that carry interest at the respective bank deposit rate of the banks located in the PRC and Hong Kong.

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

The Company's exposures to interest rates on the bank 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 2012, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to the failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

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

Credit risk (Continued)

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at 31 December 2012 is the carrying amount of trade and other receivables as stated in the statement of financial position. In order to minimise the credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For the year ended 31 December 2012, the Company had entered into repayment plans with certain debtors who have overdue trade receivables with the Company.

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

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

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

The Company's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all (2011: 100%) of the total trade receivables as at 31 December 2012.

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

Liquidity risk

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

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

Liquidity risk (Continued)

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

	At 31 December 2012			
	Within 1 year or on demand and total undiscounted cash flow RMB'000	**After 1 year and within 5 years** RMB'000	**Total undiscounted cash flow** RMB'000	**Carrying amounts** RMB'000
Non-derivative financial liabilities				
Trade and other payables	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

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

8. FAIR VALUE

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

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

The directors of the Company also consider the fair value of the non-current amount due to 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 subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are based on observable market data (unobservable inputs).

	31 December 2012			
	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Financial assets at fair value through profit or loss				
- Structured deposit	-	4,500	-	4,500

There was no financial assets at fair value through profit or loss or other financial assets measured of fair value as at 31 December 2011. There were no transfers between Level 1 and 2 in the current year.

9. TURNOVER AND OTHER INCOME AND GAINS

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

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

	2012 RMB'000	2011 RMB'000
Turnover		
Sales of woven fabrics	**76,327**	157,917
Subcontracting fee income	**53,680**	37,516
	130,007	195,433
Other income and gains		
Government subsidies (Note)	**432**	189,553
Trade and other payables written off	**325**	7,190
Interest income	**479**	17
Debt waived by guarantors	**-**	168,325
Sales of scrap materials	**2,447**	3,037
Gain on disposal of property, plant and equipment	**-**	1,418
Loss on property, plant and equipment written off	**-**	(265)
Exchange gain	**5**	210
Others	**14**	-
	3,702	369,485

Note:

Government subsidies of approximately RMB2,463,000 and RMB187,090,000 were awarded to the Company during the year ended 31 December 2011 for encouraging the Company's business development in the Zhejiang Province and for supporting the debt restructuring of the Company, respectively. RMB432,000 was awarded to the Company during the year ended 31 December 2012 for encouraging the usage of the environmental machinery. There is no unfulfilled conditions or contingencies relating to these subsidies.

10. SEGMENT INFORMATION

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

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

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

10. SEGMENT INFORMATION *(CONTINUED)*

(a) Segment revenue 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**	
	2012	2011	**2012**	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	**76,327**	157,917	**53,680**	37,516	**130,007**	195,433
Segment results	**2,518**	9,214	**14,906**	2,396	**17,424**	11,610
Unallocated corporate income (expenses)						
- Government subsidies					**432**	189,553
- Debts waived by guarantors					**-**	168,325
- Reversal of provision for loss on misconducts of former directors of the Company					**-**	8,499
- Others					**(12,998)**	4,290
- Interest expenses waived					**-**	19,753
- Finance costs					**(23,414)**	(5,397)
(Loss) profit before taxation					**(18,556)**	396,633

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3. Segment results represents the results of each segment without allocation of interest income, government subsidies, debt waived by guarantors, reversal of provision for loss on misconducts of former directors of the Company, directors' remuneration, central administration costs, interest expenses waived 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.

10. SEGMENT INFORMATION *(CONTINUED)*

(b) Segment assets and liabilities

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

	At 31 December					
	Woven fabric		Subcontracting services		Total	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Segment assets	**107,065**	164,065	**67,736**	36,607	**174,801**	200,672
Unallocated corporate assets						
- Bank balances and cash					**43,253**	31,269
- Financial assets at fair value through profit or loss					**4,500**	-
- Assets classified as held for sale					**39,526**	39,526
- Others					**209**	77
Total assets					**262,289**	271,544
Segment liabilities	**(20,191)**	(42,451)	**(14,201)**	(10,086)	**(34,392)**	(52,537)
Unallocated corporate liabilities						
- Other payables					**(3,375)**	(3,955)
- Amount due to a related company					**(948)**	(27)
- Amount due to ultimate holding company					**(151,299)**	(127,885)
- Provision					**(10,000)**	(10,000)
Total liabilities					**(200,014)**	(194,404)

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

- all assets are allocated to reportable segments other than bank balances and cash, financial assets at fair value through profit or loss and assets classified as held for sale. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to reportable segments other than other payables, amount due to a related company, amount due to ultimate holding company and provision. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

10. SEGMENT INFORMATION *(CONTINUED)*

(c) Other segment information

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

	For the year ended 31 December					
	Woven fabric		Subcontracting services		Total	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Other segment information:						
- Reversal of allowance for inventories	**(5,656)**	(19,366)	**-**	-	**(5,656)**	(19,366)
- Reversal of impairment loss recognised in respect of trade receivables	**(100)**	(382)	**-**	-	**(100)**	(382)
- Addition to non-current assets	**651**	4,884	**457**	1,160	**1,108**	6,044
- Gain on disposal of property, plant and equipment	**-**	(1,146)	**-**	(272)	**-**	(1,418)
- Loss on disposal of property, plant and equipment	**725**	214	**510**	51	**1,235**	265
- Amortisation of prepaid lease payment	**152**	152	**36**	36	**188**	188
- Depreciation of property, plant and equipment	**11,814**	19,558	**8,308**	4,647	**20,122**	24,205
- Research and development costs	**46**	108	**32**	26	**78**	134
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results:						
- Interest income	**281**	14	**198**	3	**479**	17
- Interest expenses waived	**-**	16,267	**-**	3,486	**-**	19,753
- Finance costs	**(13,746)**	(4,595)	**(9,668)**	(802)	**(23,414)**	(5,397)

(d) Geographical information

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

10. SEGMENT INFORMATION *(CONTINUED)*

(e) Information about major customers

Details of the customers accounting for 10% or more of aggregate revenue of the Company during the year ended 31 December 2012 and 2011 are as follows:

	2012 **RMB'000**	2011 RMB'000
Company A (derived from sale of woven fabrics)	**36,017**	N/A*
Company B (derived from subcontracting services)	**13,099**	N/A*
Company C (derived from sale of woven fabrics)	**N/A***	43,290
	49,116	43,290

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

11. REVERSAL OF ALLOWANCE RECOGNISED IN RESPECT OF VARIOUS ASSETS

	2012 **RMB'000**	2011 RMB'000
Reversal of allowance of inventories included in cost of sales (Note)	**(5,656)**	(19,366)

Note:

An allowance for slow-moving inventories of approximately RMB5,656,000 (2011: RMB19,366,000) provided in prior years were reversed in the current year since the relevant inventories were sold in the ordinary course of business during the year ended 31 December 2012.

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

	2012	2011
	RMB'000	RMB'000
Reversal of provision (Note 29)	**-**	8,499

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"). The misappropriation of funds consisted of the provision of fund advances and financial guarantees to a related company.

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

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

On 21 September 2008, the Zhu Loan had been expired and Gabriel was unable to repay the loan to Ms. Zhu. On 19 June 2009, the Company received a writ from the Hangzhou Xiacheng District People's Court (杭州市下城區人民法院) in relation to a claim for the outstanding amount of the Zhu Loan by Ms. Zhu against Gabriel, the Company and Mr. Sun for the outstanding overdue borrowings principal plus the interest and liquidated damages in the amount of approximately RMB21,731,000. On 20 October 2009, the Company received a civil judgment issued by the Hangzhou Xiacheng District People's Court, pursuant to which Gabriel was liable to repay the sum of outstanding principal of RMB16,700,000 and the interest and liquidated damages amount of approximately RMB2,412,000. As the guarantor, the Company was jointly and severally liable to the above sum. As at 31 December 2010, provision had been made in respect of the default payment for the amount of approximately RMB24,653,000, which including interest and liquidated damages of approximately RMB7,953,000 and the outstanding principal of RMB16,700,000.

On 10 June 2011, the Company signed a settlement agreement with Ms. Zhu. According to the agreement, Ms. Zhu conditionally waived the interest and liquidated damages from the Company, provided that the Company can settle the outstanding principal before 20 June 2011. The amount of approximately RMB546,000 was settled through bankruptcy claim by Gabriel and the remaining balance of the outstanding principal of approximately RMB16,154,000 were fully settled by the Company on 16 June 2011. Consequently, provision made in the amount of RMB8,499,000 was reserved during the year ended 31 December 2011 upon settlement of the principal amount due to Ms. Zhu.

** English name is for identification only*

13. INTEREST EXPENSES WAIVED AND FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest expenses on bank borrowings wholly repayable within five years	-	(119)
Imputed interest on non-current interest-free loan due to ultimate holding company	(23,414)	(5,278)
	(23,414)	(5,397)
Interest expenses waived	-	19,753

14. INCOME TAX CREDIT

	2012 RMB'000	2011 RMB'000
Deferred taxation (Note 30)		
- Current year	922	934

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

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

No provision for PRC Corporate Income Tax has been made in the financial statements, as there were no assessable profits made for the year ended 31 December 2012.

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

	2012 RMB'000	2011 RMB'000
(Loss) profit before taxation	(18,556)	396,633
Tax at the domestic rates at 25% (2011: 25%)	(4,639)	99,158
Tax effect of non-taxable income	-	(26,803)
Tax effect of non deductible expenses	7,739	3,805
Utilisation of tax losses previously not recognised	(4,022)	(77,094)
Income tax credit	(922)	(934)

Details of the deferred taxation are set out in Note 30.

15. (LOSS) PROFIT FOR THE YEAR

	2012 RMB'000	2011 RMB'000
(Loss) profit 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	**18,761**	18,712
Retirement benefit scheme contributions	**388**	446
	19,149	19,158
Amortisation of prepaid lease payments	**188**	188
Auditors' remuneration	**527**	732
Cost of inventories	**82,171**	174,043
Depreciation of property, plant and equipment	**20,122**	24,205
Loss on disposal of property, plant and equipment	**1,235**	265
Research and development costs	**78**	134
Reversal of impairment loss recognised in respect of trade receivables	**(100)**	(382)

16. (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share for the year is calculated on the loss for the year of approximately RMB17,634,000 (2011: profit for the year of approximately RMB397,567,000) and the weighted average of 1,063,500,000 (2011: 1,063,500,000) ordinary shares in issue during the year.

No diluted (loss) earnings per share have been presented for the two years ended 31 December 2012 and 2011 as there were no diluting events existed during those years.

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

	2012 RMB'000	2011 RMB'000
Salaries, wages and other benefits in kind	**17,989**	18,429
Retirement benefit scheme contributions	**373**	431
	18,362	18,860

As stipulated by the rules and regulations in the PRC, the Company is required to contribute to a state-sponsored retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Company has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. During the year ended 31 December 2012, a total contribution of approximately RMB388,000 (2011:RMB446,000) was made by the Company in respect of this scheme.

18. SUPERVISORS', DIRECTORS', CHIEF EXECUTIVE'S AND CHAIRMAN'S EMOLUMENTS

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

	Fees	Salaries, allowances and other benefits in kind	Retirement benefits scheme contributions	Amount waived	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 directors					
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

Notes:

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.
2: Appointed on 26 November 2012
3: Resigned on 26 November 2012
4: Resigned on 29 December 2012
5: Resigned on 15 October 2012

18. SUPERVISORS', DIRECTORS', CHIEF EXECUTIVE'S AND CHAIRMAN'S EMOLUMENTS *(CONTINUED)*

The emoluments paid or payable to each of the five supervisors, five directors, the chief executive and the chairman for the year ended 31 December 2011 were as follows:

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

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

19. EMPLOYEES' EMOLUMENTS

For the five individuals with the highest emoluments in the Company, two of them were director and supervisor of the Company whose emoluments are included in Note 18. The emolument of the remaining 3 (2011: 3) individuals are as follows:

	2012 **RMB'000**	2011 RMB'000
Salaries, allowances and other benefits in kind	**274**	291
Retirement benefits schemes contributions	**9**	19
	283	310

Their emoluments were within the following bands:

	No. of individuals	
	2012	2011
Nil to HK$1,000,000 (equivalent to Nil to RMB815,000) (2011: equivalent to Nil to RMB810,700)	**5**	5

(a) No emoluments have been paid by the Company to the directors, the supervisors or the five highest paid individuals of the Company as an inducement to join or upon joining the Company, or as compensation for loss of office during the two years ended 31 December 2012 and 2011.

(b) During the year ended 31 December 2012, none of the directors (2011: Nil) nor the supervisors waived emoluments (2011: two of the supervisors waived emoluments of approximately RMB24,000).

20. 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 2011	99,052	1,196	202,770	2,057	6,704	311,779
Additions	-	-	4,098	144	1,802	6,044
Adjustment on revaluation, net	(2,163)	-	-	-	-	(2,163)
Disposal	-	(120)	(10,021)	-	-	(10,141)
Written off	-	-	(2,423)	(800)	-	(3,223)
At 31 December 2011	96,889	1,076	194,424	1,401	8,506	302,296
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
At 31 December 2012						
At cost	-	281	188,400	1,716	8,458	198,855
At valuation - 2012	94,465	-	-	-	-	94,465
	94,465	281	188,400	1,716	8,458	293,320
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2011	-	1,163	164,194	1,959	3,489	170,805
Provided for the year	5,897	12	18,229	67	-	24,205
Eliminated on revaluation	(5,897)	-	-	-	-	(5,897)
Eliminated on disposal	-	(120)	(9,374)	-	-	(9,494)
Eliminated on written off	-	-	(2,173)	(785)	-	(2,958)
At 31 December 2011	-	1,055	170,876	1,241	3,489	176,661
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
CARRYING VALUES						
At 31 December 2012	94,465	-	8,239	638	4,969	108,311
At 31 December 2011	96,889	21	23,548	160	5,017	125,635

20. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

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

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

(b) The leasehold buildings of the Company were revalued on 31 December 2012 and 2011 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 RMB45,039,000 (2011: RMB48,984,000).

21. PREPAID LEASE PAYMENTS

	2012 **RMB'000**	2011 RMB'000
The Company's prepaid lease payments on land use rights are held under medium lease-term in the PRC and analysed for reporting purposes as:		
Non-current assets	**7,208**	7,443
Current assets	**188**	141
	7,396	7,584

22. INVENTORIES

	2012 **RMB'000**	2011 RMB'000
Raw materials	**2,002**	803
Work in progress	**1,931**	4,962
Finished goods	**6,820**	4,212
	10,753	9,977

At 31 December 2012, none of the inventories was stated at net realisable value (2011: Nil).

23. TRADE AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	**73,001**	80,616
Less: impairment loss recognised	**(24,782)**	(24,882)
	48,219	55,734
Prepayments, deposits and other receivables	**331**	1,819
Total trade and other receivables	**48,550**	57,553

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

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

	2012 RMB'000	2011 RMB'000
0 – 60 days	**18,773**	53,924
61 – 90 days	**1,471**	159
91 – 120 days	**3,644**	143
121 – 365 days	**6,345**	1,466
Over 365 days	**17,986**	42
	48,219	55,734

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

	2012 RMB'000	2011 RMB'000
At the beginning of the year	**24,882**	25,264
Reversal of impairment loss	**(100)**	(382)
At the end of the year	**24,782**	24,882

At 31 December 2012, included in the impairment losses are individually impaired trade receivables with an aggregate balance of approximately RMB24,782,000 (2011: RMB24,882,000) which are due to long outstanding.

23. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(c) At 31 December 2012 and 2011, none of the other receivables are considered by the directors of the Company as past due or impaired.

(d) At 31 December 2012 and 2011, 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 2012	48,219	23,888	1,407	2,343	18,931	1,650
At 31 December 2011	55,734	54,224	1,451	-	17	42

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

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

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
	RMB'000	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.

25. BANK BALANCES AND CASH

For the year ended 31 December 2012 and 2011, bank balances represented short-term deposits with a maturity of three months or less. The interest rate ranged from 0.35% to 0.5% per annum (2011: 0.1% 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:

	2012 **'000**	2011 '000
US$	**-**	23
HK$	**86**	88

26. ASSETS CLASSIFIED AS HELD FOR SALE

On 29 December 2010, a resolution was passed by the board of directors of the Company to dispose of certain buildings, investment properties and prepaid lease payments (the "Selling Assets"). On 30 August 2011, the Company 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" ("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. The disposal will be completed on or before 30 September 2012 in accordance with the terms of the assets transfer agreement.

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 RMB 79,772,200 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.

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

The assets classified as held for sale represent as follows:

	2012 **RMB'000**	2011 RMB'000
Buildings	**28,892**	28,892
Investment properties (Note)	**7,384**	7,384
Prepaid lease payments	**3,250**	3,250
	39,526	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.

** English name is for identification only*

27. AMOUNT DUE TO A RELATED COMPANY

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

28. TRADE AND OTHER PAYABLES

	2012 **RMB'000**	2011 RMB'000
Trade payables (Notes i & ii)	**23,350**	32,815
Receipt in advance	**2,110**	3,438
Other taxes payable	**7,229**	12,222
Accrued expenses and other payables	**5,078**	8,017
	37,767	56,492

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:

	2012 **RMB'000**	2011 RMB'000
0 – 60 days	**10,784**	18,915
61 – 90 days	**1,774**	5,163
91 – 365 days	**3,205**	461
Over 365 days	**7,587**	8,276
	23,350	32,815

29. PROVISION

	2012 RMB'000	2011 RMB'000
At 1 January	**10,000**	34,653
Settlement during the year	**-**	(16,154)
Reversal of provision (Note 12)	**-**	(8,499)
At 31 December	**10,000**	10,000

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

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

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

On 9 October 2009, a civil judgment was issued by the Zhejiang Shaoxing Intermediate People's Court (the "Judgment"), pursuant to which Gabriel is liable to repay the sum of outstanding principal of RMB20,000,000, the interest for the period between 18 September 2008 to 20 October 2009 and the related legal fees amount of RMB200,000. According to the Judgment, the Company, as a guarantor, is liable to a limited sum of RMB10,000,000 in connection with the claim.

30. 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 2011	(8,740)	6,551	1,851	338	-
(Charged) credited to profit or loss	-	(330)	(6)	1,270	934
Charged to other comprehensive income	(934)	-	-	-	(934)
At 31 December 2011	(9,674)	6,221	1,845	1,608	-
(Charged) credited to profit or loss	-	(25)	(1,414)	2,361	922
Charged to comprehensive income	(922)	-	-	-	(922)
At 31 December 2012	(10,596)	6,196	431	3,969	-

At the end of the reporting period, the Company had unused tax losses of approximately RMB7,808,000 (2011: RMB23,896,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the above unused tax losses due to the unpredictability of future profit streams. The above unused tax losses will expire after five years from the year of assessment to which they relate.

31. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The Company and 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd.*) ("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 2012 was stated at discounted present value with an imputed interest rate of 14.35% per annum.

32. 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 2011, 31 December 2011 and 31 December 2012	588,000	58,800
H shares at 1 January 2011, 31 December 2011 and 31 December 2012	475,500	47,550
Total share capital of RMB0.10 each at 1 January 2011, 31 December 2011 and 31 December 2012	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 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

33 NON-CASH TRANSACTIONS

The Company has undertaken the following non-cash transaction during the year ended 31 December 2011:

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

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

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

No non-cash transaction incurred for the year ended 31 December 2012.

34. 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 27 and 31 respectively.

(b) During the year ended 31 December 2012, the Company had paid approximately RMB9,134,000 (2011: RMB8,015,000) to Zhejiang Yongli Thermal Electricity Company Limited*, a subsidiary of Zhejiang Yongli for electricity and steam provided to the Company for 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) The remuneration of directors and other members of key management for the two years ended 31 December 2012 and 2011 were as follows:

	2012 **RMB'000**	2011 RMB'000
Short-term employee benefits	**772**	283
Post-employment benefits	**15**	15
	787	298

** English name is for identification only*

RESULTS

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER	**130,007**	195,433	85,697	92,031	324,992
(LOSS) PROFIT BEFORE TAXATION	**(18,556)**	396,633	(107,670)	(97,681)	(529,093)
TAXATION	**922**	934	1,202	1,132	11,303
(LOSS) PROFIT FOR THE YEAR	**(17,634)**	397,567	(106,468)	(96,549)	(517,790)

ASSETS AND LIABILITIES

	At 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**262,289**	271,544	249,487	323,852	417,901
TOTAL LIABILITIES	**(200,014)**	(194,404)	(689,784)	(661,288)	(662,184)
SURPLUS (DEFICIENCY OF) SHAREHOLDERS' FUNDS	**62,275**	77,140	(440,297)	(337,436)	(244,283)

Note: The summary of the results and the assets and liabilities of the Company for the year ended 31 December 2008, 2009, 2010, 2011 and 2012 are extracted from the audited financial statements.