



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)



2010
INTERIM
REPORT

* for identification purpose only

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

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

HIGHLIGHTS

For the six months ended 30 June 2010,

- turnover of the Company decrease from approximately RMB38.49 million to approximately RMB28.50 million, representing a decrease of approximately 25.96% when compared to the corresponding period in 2009;
- net loss for the six months ended 30 June 2010 was approximately RMB56.33 million; and
- the Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010.

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

The board of directors (the “Board” or the “Directors”) of 浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd.*) (the “Company”) is pleased to announce the unaudited results of the Company for the three months and six months ended 30 June 2010 as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Turnover	3	12,706	22,206	28,496	38,489
Cost of sales		(20,564)	(27,042)	(41,987)	(47,525)
Gross loss		(7,858)	(4,836)	(13,491)	(9,036)
Other operating income	3	380	308	622	427
Selling and distribution costs		(45)	(330)	(169)	(1,516)
Administrative expenses	4	(2,436)	(2,112)	(4,359)	(4,371)
Impairment loss recognised in respect of various assets	5	(7,705)	(9,871)	(8,572)	(13,545)
Loss on misconducts of directors	6	(812)	(881)	(1,623)	(1,762)
Finance costs	7	(12,412)	(15,656)	(28,737)	(28,321)
Loss before taxation		(30,888)	(33,378)	(56,329)	(58,124)
Income tax expenses	8	-	-	-	-
Loss and total comprehensive expenses for the period	9	(30,888)	(33,378)	(56,329)	(58,124)
Loss per share – basic and diluted	11	RMB 2.90 cents	RMB 3.13 cents	RMB 5.30 cents	RMB 5.46 cents

UNAUDITED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

		As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Audited)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment properties		7,801	8,215
Property, plant and equipment	12	179,120	193,248
Prepaid lease payments		10,885	11,022
		<u>197,806</u>	<u>212,485</u>
CURRENT ASSETS			
Inventories		70,233	59,077
Trade and other receivables	13	10,223	46,093
Prepaid lease payments		273	273
Amounts due from related companies	14	1,655	1,585
Bank balance and cash			
- pledged		-	-
- unpledged		1,245	4,339
		<u>83,629</u>	<u>111,367</u>
CURRENT LIABILITIES			
Trade and other payables	15	102,927	97,037
Amounts due to guarantors	16	204,026	166,125
Provision		33,030	31,407
Bank borrowings	17	335,217	366,719
		<u>675,200</u>	<u>661,288</u>
NET CURRENT LIABILITIES		<u>(591,571)</u>	<u>(549,921)</u>
		<u>(393,765)</u>	<u>(337,436)</u>
Capital and Reserves			
Share capital		106,350	106,350
Reserves		(500,115)	(443,786)
		<u>(393,765)</u>	<u>(337,436)</u>

UNAUDITED CONDENSED CASH FLOW STATEMENT

	Six months ended	
	30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash from (used in) operating activities	19,310	(4,468)
Net cash (used in) from investing activities	(67)	36,135
Net cash used in financing activities	<u>(22,338)</u>	<u>(36,098)</u>
Net decrease in cash and cash equivalents	(3,095)	(4,431)
Cash and cash equivalents at beginning of the period	<u>4,339</u>	<u>6,212</u>
Cash and cash equivalents at end of the period, representing bank balances and cash	<u><u>1,244</u></u>	<u><u>1,781</u></u>

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note (a))	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (Note (b))	Accumulated losses RMB'000 (Note (c))	Total RMB'000
Balance at 1 January 2009	106,350	69,637	7,880	17,312	12,496	(457,958)	(244,283)
Total comprehensive expenses for the period	-	-	-	-	-	(58,124)	(58,124)
Balance at 30 June 2009	<u>106,350</u>	<u>69,637</u>	<u>7,880</u>	<u>17,312</u>	<u>12,496</u>	<u>(516,082)</u>	<u>(302,407)</u>
Balance at 1 January 2010	106,350	69,637	7,880	20,708	12,496	(554,507)	(337,436)
Total comprehensive expenses for the period	-	-	-	-	-	(56,329)	(56,329)
Balance at 30 June 2010	<u>106,350</u>	<u>69,637</u>	<u>7,880</u>	<u>20,708</u>	<u>12,496</u>	<u>(610,836)</u>	<u>(393,765)</u>

Notes:

- (a) The other reserve represents the dividends waived by the holders of domestic shares, net of tax.
- (b) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), when distributing the net profit for each year, the Company (after conversion to a limited liability company) shall set aside 10% of its net profit after taxation (based on the Company's PRC statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's share capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset against accumulated losses or increase the share capital.
- (c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 30 June 2010 and 2009, no reserves were available for distribution due to accumulated losses being noted.

Notes:

1. BASIS OF PREPARATION

The Company is a joint stock limited company established in the PRC and the H Shares of the Company are listed on the GEM of the Stock Exchange.

The Company is principally engaged in the research and development, manufacture, and sale of woven fabrics.

The Company has prepared the condensed financial statements in accordance with the applicable disclosure required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The Company’s books and records are maintained in Renminbi (“RMB”), which is the same as the functional currency of the Company.

The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company’s annual financial statements for the year ended 31 December 2009. The unaudited results are prepared in accordance with accounting principles generally accepted in Hong Kong.

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

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

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2009), HKFRS 7, HKAS 1 and HKAS 28 ¹
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters ³
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ⁵
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets ⁵
HKFRS 9	Financial Instruments ⁸
HKFRS 10	Consolidated Financial Statements ⁸
HKFRS 11	Joint Arrangements ⁸
HKFRS 12	Disclosure of Interests in Other Entities ⁸
HKFRS 13	Fair Value Measurement ⁸
Hong Kong Accounting Standard (“HKAS”) 1 (Revised)	Presentation of Financial Statements ⁷

HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets ⁶
HKAS 19 (as revised in 2011)	Employee Benefits ⁸
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 27 (as revised in 2011)	Separate Financial Statements ⁸
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ⁸
HKAS 32 (Amendment)	Classification of Rights Issues ²
HK(IFRIC) – Interpretation (“Int”)	Prepayments of a Minimum Funding Requirement ⁴
14 (Amendment)	
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

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

² Effective for annual periods beginning on or after 1 February 2010.

³ Effective for annual periods beginning on or after 1 July 2010.

⁴ Effective for annual periods beginning on or after 1 January 2011.

⁵ Effective for annual periods beginning on or after 1 July 2011.

⁶ Effective for annual periods beginning on or after 1 January 2012.

⁷ Effective for annual periods beginning on or after 1 July 2012.

⁸ Effective for annual periods beginning on or after 1 January 2013.

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

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

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

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

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

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

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

3. TURNOVER AND OTHER OPERATING INCOME

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

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

	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sales of woven fabrics	9,594	13,578	23,080	25,968
Sub-contracting fee income	3,112	8,628	5,416	12,521
	<u>12,706</u>	<u>22,206</u>	<u>28,496</u>	<u>38,489</u>
Other operating income				
Interest income	2	308	3	320
Government grants (Note)	-	-	-	10
Insurance compensation	-	-	61	-
Sales of scrap materials	378	-	558	97
	<u>380</u>	<u>308</u>	<u>622</u>	<u>427</u>
Total revenues	<u>13,086</u>	<u>22,514</u>	<u>29,118</u>	<u>38,916</u>

Note:

Government grants of approximately RMB10,000 were awarded to the Company during the six months ended 30 June 2009 for encouraging business development in overseas market.

4. SEGMENTAL INFORMATION

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

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

- | | |
|--------------------------|---|
| Woven fabric | - Research and development, manufacture and sale of woven fabrics |
| Sub-contracting services | - Provision of sub-contracting services |

(a) Segment revenues and results

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

	For the six months ended 30 June					
	Woven fabric		Sub-contracting services		Total	
	2010	2009	2010	2009	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	<u>23,080</u>	25,968	<u>5,416</u>	12,521	<u>28,496</u>	38,489
Segment results	<u>(17,276)</u>	(16,662)	<u>(6,948)</u>	(9,547)	<u>(24,224)</u>	(26,209)
Unallocated corporate income						
- Interest Income					3	320
- Government grants					-	10
- Sales of scrap materials					619	97
Unallocated corporate expenses						
- Impairment loss recognised in respect of other receivables					(857)	(1,128)
- Loss on misconducts of directors					(1,623)	(1,762)
- Depreciation of investment properties					(415)	(415)
- Others					(1,095)	(716)
- Finance costs					<u>(28,737)</u>	<u>(28,321)</u>
Loss before taxation					<u>(56,329)</u>	<u>(58,124)</u>

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

(b) Geographical information

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

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

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
The PRC (country of domicile)	28,496	37,809
Europe	-	-
Asia other than the PRC	-	680
Others	-	-
	<u>28,496</u>	<u>38,489</u>

5. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF VARIOUS ASSETS

	Three months ended 30 June		Six months ended 30 June	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Impairment loss recognised in respect of various assets comprised:				
- trade receivables (Note i)	7,175	9,612	7,715	12,417
- other receivables (Note ii)	530	259	857	1,128
	<u>7,705</u>	<u>9,871</u>	<u>8,572</u>	<u>13,545</u>

Notes:

- i) For the period ended 30 June 2010, the impairment loss recognised in respect of trade receivables of approximately RMB 7,715,000 (2009: RMB12,417,000) relates to the amounts which are due to long outstanding and the balances are considered not fully recoverable at the end of the reporting period.
- ii) For the period ended 30 June 2010, an impairment loss of approximately RMB857,000 was recognised in respect of staff advances of approximately RMB17,000 and cash advance to related company, Sabrina of RMB840,000 (2009: RMB220,000). In light of those staffs went into resignation and Sabrina being in the process of liquidation, the directors of the Company considered the likelihood of recovery of the amounts due being very remote and impairment loss has been recognised.

6. LOSS ON MISCONDUCTS OF DIRECTORS

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") to provide fund advances and provision of financial guarantees to some related companies.

a) Misappropriation of the Company's funds

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

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

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

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

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

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

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

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

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

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

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

At the date of publication of this document, the Yatai Loan has not yet been settled.

** English name is for identification only*

7. FINANCE COSTS

	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	10,332	14,481	24,578	25,972
Add: interest paid for the loan from a guarantor	2,080	1,175	4,159	2,349
	<u>12,412</u>	<u>15,656</u>	<u>28,737</u>	<u>28,321</u>

8. INCOME TAX EXPENSES

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

No provision for PRC enterprise income tax has been provided for the period as the Company had no estimated assessable profit arising in or derived from the PRC during the three and six months ended 30 June 2010 (three and six months ended 30 June 2009: Nil).

No Provision for Hong Kong Profits Tax has been provided for the period as the Company did not have any assessable profits subject to Hong Kong Profits Tax for the three and six months ended 30 June 2010 (three and six months ended 30 June 2009: Nil).

9. LOSS FOR THE PERIOD

	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Loss for the period has been arrived at after charging:				
Depreciation and amortisation	<u>7,333</u>	<u>7,440</u>	<u>14,681</u>	<u>14,758</u>

10. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three and six months ended 30 June 2010.

11. LOSS PER SHARE

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

	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Loss for the purpose of calculating basic loss per share	<u>30,888</u>	<u>33,378</u>	<u>56,329</u>	<u>58,124</u>
Number of shares for the purpose of basic loss per share (Note)	<u>1,063,500,000</u>	1,063,500,000	<u>1,063,500,000</u>	1,063,500,000
Weighted average number of shares for the purpose of calculating loss per share	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>

Note:

Diluted loss per share has not been calculated for the three months and six months ended 30 June 2010 and the corresponding period as there were no dilutive potential ordinary shares during these periods.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period for the six months ended 30 June 2010, the Company did not purchase any property, plant and equipment (31 December 2009: RMB17.62 million) on additions of property, plant and equipment.

13. TRADE AND OTHER RECEIVABLES

The Company allows an average credit period of 60 to 120 days to its trade customers. The aged analysis of trade receivables net of impairment losses at the respective balance sheet dates is as follows:

	30 June	31 December
	2010	2009
	RMB'000	RMB'000
Trade receivables		
0– 60 days	4,469	27,742
61 – 90 days	523	2,568
91 – 365days	768	2,915
Over 365 days	216	7,431
	<u>5,976</u>	<u>40,656</u>
Other receivables	<u>4,247</u>	<u>5,437</u>
	<u>10,223</u>	<u>46,093</u>

14. AMOUNTS DUE FROM RELATED COMPANIES

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

	At 30 June 2010			Total <i>RMB '000</i>
	Gabriel <i>RMB '000</i> (Note i)	Zhejiang Hongxing <i>RMB '000</i> (Note ii)	Zhejiang Sabrina <i>RMB '000</i> (Note ii)	
Amount due from related companies	159,411	38,408	22,590	220,409
Less: misappropriation of funds recognised (Note 6)	(158,605)	(37,884)	(22,265)	(218,754)
	<u>806</u>	<u>524</u>	<u>325</u>	<u>1,655</u>
Maximum amount outstanding during the period	<u>159,411</u>	<u>40,726</u>	<u>22,566</u>	
	At 31 December 2009			
	Gabriel <i>RMB '000</i> (Note i)	Zhejiang Hongxing <i>RMB '000</i> (Note ii)	Zhejiang Sabrina <i>RMB '000</i> (Note ii)	Total <i>RMB '000</i>
Amount due from related companies	159,411	38,362	22,566	220,339
Less: misappropriation of funds recognised (Note 6)	(158,605)	(37,974)	(22,175)	(218,754)
	<u>806</u>	<u>388</u>	<u>391</u>	<u>1,585</u>
Maximum amount outstanding during the year	<u>159,411</u>	<u>38,362</u>	<u>23,385</u>	

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
At the beginning of the period	218,754	216,237
Recognised during the period (Note 6)	-	2,517
At the end of the period	<u>218,754</u>	<u>218,754</u>

Notes:

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

15. TRADE AND OTHER PAYABLES

	30 June 2010 RMB'000	31 December 2009 RMB'000
Trade payables (Note i)	15,030	26,659
Accrued interests (Note iii)	53,468	32,902
Receipt in advance	7,461	7,554
Other taxes payable	4,789	7,179
Accrued expenses and other payables	<u>22,179</u>	<u>22,743</u>
	<u>102,927</u>	<u>97,037</u>

- (i) The Company normally receives credit periods from suppliers ranging from 30 days to 90 days.

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
0 – 60 days	5,685	11,870
61 – 90 days	1,246	4,844
91 – 365 days	2,089	2,457
Over 365 days	6,010	7,488
	<u>15,030</u>	<u>26,659</u>

- (iii) Accrued interests including overdue interests amounts to approximately RMB53,468,000 for the period ended 30 June 2010 (31 December 2009: RMB32,902,000).

16. AMOUNTS DUE TO GUARANTORS

The amount is unsecured, interest bearing and repayable on demand. The effective interest rate of the loan from a guarantor is 3.06% per annum (31 December 2009 : 2.98% per annum).

17. BANK BORROWINGS

	30 June 2010 RMB'000	31 December 2009 RMB'000
Bank loans, within credit terms	-	9,000
Bank loans, overdue	259,337	275,859
	<u>259,337</u>	<u>284,859</u>
Overdue bills payables	75,880	81,860
Total bank borrowings	<u>335,217</u>	<u>366,719</u>
Secured	118,938	120,509
Unsecured	216,279	246,210
	<u>335,217</u>	<u>366,719</u>

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

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
Gabriel and independent third parties	8,379	39,931
Mr. Sun Li Yong, Ms. Fang Xiao Jian, Mr. Sun Jian Feng, Mr. Xia Xue Nian, Mr. Li Cheng Jun and Gabriel	25,500	25,500
Mr. Sun Li Yong, Ms. Fang Xiao Jian and independent third parties	111,680	105,059
Independent third parties	70,720	70,720
	<u>216,279</u>	<u>241,210</u>

- iii) The accrued interests at 30 June 2010 of approximately RMB53,468,000 (31 December 2009: RMB32,902,000) were recorded under current liabilities.

18. PLEDGE OF ASSETS

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
Buildings	85,916	103,102
Plant and machinery	13,070	16,599
Investment properties	7,801	8,215
Pledged bank deposits	-	-
Prepaid lease payments	11,020	11,155
	<u>117,807</u>	<u>139,071</u>

19. LITIGATION

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

(i) Legal action of banks

Due to the impact of the financial crisis of Gabriel, (i) as at 30 June 2010, the total amount of bank loans was RMB335,217,000, in which loans in an aggregate amount of RMB170,399,000 from the relevant banks could not be renewed as usual upon their maturity due to the reason that guarantors (including Gabriel, Mr. and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee; and (ii) as at 30 June 2010, total bills payable amounting to RMB75,880,000 could not be renewed as usual upon their maturity due to the same reason as mentioned above. In addition, due to financial problems encountered by the Company, the Company cannot repay the above bank loans and bills upon maturity. In view of the above, the relevant banks have taken legal actions against the Company. At the date of this document, the amounts have been fully settled by the Guarantors on behalf of the Company. Details are set out in Note 21.

(ii) Overdue trade creditors

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

(iii) Outstanding construction fees

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

(iv) Staff quarters

On 8 May 2009, the Company into an agreement for the construction of two quarters which was completed on 17 December 2009. Due to a financial difficulties faced by the Company, the outstanding balance of RMB5,180,000 construction costs was not settled by the Company. The contractors took legal action against the Company and a judgment dated 30 April 2010 conferred that the Company was liable for the outstanding construction costs plus interest and court related expenses. At the date of this document, the amounts have been fully settled.

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

20. RELATED PARTY TRANSACTIONS

During the period for the six months ended 30 June 2010, the Company had the following transactions with the related parties:

Name of related party	Nature	Six months ended 30 June	
		2010 RMB' 000	2009 RMB' 000
Sabrina	Electricity cost reimbursement	2	-
	Purchase of goods	-	2
Hongxing	Electricity cost reimbursement	8	47
Miroglio and its subsidiaries ("Miroglio S.p.A. Group") (note i)	Sales of woven fabrics	-	1,189
Fulida Dyeing (note ii)	Sub-contracting fee	-	24
	Sales of goods	-	23
	Purchase of goods	-	24
		-	24

Notes:

- (i) Since 24 March 2005, Miroglio S.p.A. became a substantial shareholder of the Company and Miroglio S.p.A. ceased to be a substantial shareholder of the Company on 23 February 2010. Sales recognised by the Company for the six months ended 30 June 2009 was approximately RMB1,189,000.
- (ii) 浙江米羅利奧富利達紡織有限公司 (Zhejiang Miroglio Fulida Dyeing Co. Ltd.) ("Fulida Dyeing") is owned as to 50% by Miroglio, a substantial shareholder of the Company, and 50% by an independent third party. The Company has engaged Fulida Dyeing to provide dyeing services for the weaving fabrics of the Company since 29 May 2007.

Details of the guarantee given by related parties to the banks in respect of the loans granted to the Company as at 30 June 2010 and 31 December 2009 are set out in note 17.

In addition to the above, balances with related parties as at 30 June 2009 and 31 December 2009 are set out in note 14.

21. EVENTS AFTER THE REPORTING PERIOD

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

The principal terms of the letter of intents are set out below:

(i) Shareholding reorganisation

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

(ii) Debt restructuring

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

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

(iii) Business reorganisation

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

(iv) Reorganisation support

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

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

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

- (a) On 25 December 2010, the Company received confirmation from China Securities Depository and Clearing Corporation Ltd.* 中國證券登記結算有限責任公司 that 310,000,000 shares (representing approximately 29.15% of the total issued shares of the Company) were transferred from Mr. Sun to Zhejiang Yongli with effect from 24 December 2010. Zhejiang Yongli has become a controlling shareholder of the Company since then.
- (b) The signed letter of intent regarding reorganisation of the Company from the relevant banks, pursuant to which the banks consent to abandon the right of any claim against the Company should Zhejiang Yongli or the Company repay 65% of the indebtedness due and owing by the Company with the remaining 35% to be borne by the Company's guarantors under the bank loan arrangements between the banks and the Company, being the creditors of the Company as referred to in the letter of intent, and;
- (c) The signed letters of undertaking from these guarantors addressed to the Company and the relevant banks, pursuant to which they consent to waive, and abandon any claim against the Company for, the remaining 35% of the indebtedness due and owing by the Company if 65% of the Company's indebtedness is to be repaid.
- (d) The Company entered into debt restructuring agreements with each of the Company's five creditors, namely (1) Zhejiang Xiongsheng Holding Co., Ltd. * “浙江雄盛實業有限公司” (“Xiongsheng”) and Xiongfeng Holding Group Co., Ltd. * “雄峰控股集團有限公司” (“Xiongfeng”), (2) Zhejiang Lingda Industry Co., Ltd. * “浙江凌達實業有限公司” (“Lingda”), (3) Zhejiang Zhiye Real Estate Group Co., Ltd. * “浙江置業房產集團有限公司” (“Zhiye”), (4) Jinggong Group Co., Ltd. * “精功集團有限公司” (“Jinggong”) and (5) Zhejiang Yongli on 20 July 2011, 15 August 2011, 17 August 2011, 13 September 2011 and 15 August 2011 respectively to settle the Company's debts owed to these creditors. Each of the five creditors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of such portion of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies. The breakdowns of these debt restructuring agreements are summarized in the table below:

Creditor	Total amount to be settled RMB '000	Debts settlement according to Debt Agreements			Debt owed to the creditor after Debt Agreements RMB '000
		Waived by the creditor RMB '000	Released as a result of government support		
			RMB '000	Settled by Zhejiang Yongli RMB '000	
1 Xiongsheng and Xiongfeng	122,753	42,964	43,136	36,654	-
2 Lingda	21,563	7,547	7,577	6,439	-
3 Zhiye	19,986	6,995	7,023	5,968	-
4 Jinggong	118,633	52,687	33,391	32,554	-
5 Zhejiang Yongli	312,157	58,132	95,963	158,062	239,677
Total:	<u>595,092</u>	<u>168,325</u>	<u>187,090</u>	<u>239,677</u>	<u>239,677</u>

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

- (1) The Company shall owe the sum of approximately RMB239,677,000 (as shown in the table above) to Zhejiang Yongli, and Zhejiang Yongli shall permanently abandon any claim against the Company for the repayment of debt amounting to RMB187,089,650, which was cleared as a result of government support (as shown in the table above);
- (2) The Company agreed to repay Zhejiang Yongli, commencing from fifth anniversary after the signing of the debt restructuring agreement provided that the amount to be repaid shall not exceed 50% of the operating cash flow of the year annually until the full repayment of the debt;
- (3) Unless obtaining prior written agreement from both parties, Zhejiang Yongli shall not demand any early repayment of the debt notwithstanding the occurrence of one or a multiple of material adverse event(s) affecting Zhejiang Yongli's repayment capability, such as, among other things, serious operation problems, deterioration in financial situation and material litigation;
- (4) No interest would be incurred during the repayment period; and
- (5) Zhejiang Yongli undertakes to assume all the contingent debts of the Company incurred at all times and permanently abandon any claim against the Company for the repayment of such contingent debts of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30 June 2010, the Company recorded a turnover of approximately RMB28.50 million, representing a sharp decrease of approximately 25.96% when compared with that of the same period in 2009. It is mainly because turnover of sales of woven fabrics decreased from approximately RMB25.97 million in 2009 to approximately RMB23.08 million in 2010. The misconduct of the directors as set out in Note 6 during the year ended 31 December 2008 caused a shortage of cash flow of the Company for the purchase of raw materials for manufacturing. In order to maintain the operation and reduce the burden of cash flow problem, the Company then focused on another business division – the provision of subcontracting services. The turnover of provision of subcontracting services for the six months ended 30 June 2010 and 2009 were approximately RMB5.42 million and RMB12.52 million respectively, representing a drop of approximately 56.75%. The profit margin of provision of subcontracting services was low. The Company temporarily suspended export sales due to insufficient working capital for the purchase of raw materials for manufacturing. During the period under review, certain obsolete inventories were disposed and cost of sales was high. The Company incurred gross loss of approximately RMB13.49 million in the six months ended 30 June 2010. Production volume decreased by about 20% which led to increase in fixed production overhead. Cost of sales for the six months ended 30 June 2010 was high as only about 85% of production capacity was utilized in 2010 which led to an increase in fixed production overhead. Wages, salary and staff benefit were high under the new labour ordinance implemented in the PRC in 2008. Selling expenses for the six months ended 30 June 2010 decreased by approximately 88.88% when compared with that in 2009, which was in line with the decrease in export sales in 2010 and resignation of certain sales staff at the year end of 2009. There are no material changes in administrative expenses and finance cost for the six months ended 30 June 2010. Loss per share for the six months ended 30 June 2010 and 2009 were approximately RMB5.30 cents and RMB5.46 cents respectively.

Business and operation review

Prior to 2008, the Company mainly focused on the research and development, manufacturing and sales of woven fabrics. During the six months ended 30 June 2010, due to the misconduct of some former directors of the Company during the year ended 31 December 2008, the Company encountered cash flow problems. In order to solve the cash flow problems and maintain a stable production capacity and operations, the Company accepted more existing and new customers to provide raw materials to the Company for further processing so as to minimise the trade payables balance by providing such subcontracting services. Accordingly, for management purposes, the Company is currently organised into two operating divisions – sales of woven fabric and provision of subcontracting services. During the period under review, sales of woven fabric was approximately RMB23.08 million representing a drop of approximately 11.12% when compared with that in 2009. It was because export sales was temporarily suspended as the Company has insufficient cash flow to purchase raw materials for manufacturing. Turnover from provision of subcontracting services for the six months ended 30 June 2010 and 2009 were approximately RMB5.42 million and RMB12.52 million respectively. During the six months ended 30 June 2010, the sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB4.4 million, which represented approximately 15.44% of the total turnover. Compared with the operation status of fellow manufacturers in the local region, the Company is at a normal status. Provided that the external environment will not continue to worsen, under realistic estimation, the Company should be able to maintain its production and operation normally.

Production facilities

During the six months ended 30 June 2010 under review, the Company did not have any material acquisition or disposal of production facilities.

Product research and development

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

Sales and marketing

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

Outlook

Due to the misconduct of some of the former directors as set out in Note 6 during the year ended 31 December 2008, the Company encountered a financial crisis which led to a shortage of cash flow for settlement of trade debts and bank borrowings. As a result, there were several litigations against the Company as set out in Note 19 to the financial statements and for management purposes, the operation of the Company has to be reorganized into two divisions, that are, sales of woven fabric and provision of subcontracting services.

With reference to the announcement of the Company dated 29 December 2010, the Company, Zhejiang Yongli Industry Group Co., Ltd.* 浙江永利實業集團有限公司 (“Zhejiang Yongli”) and the Local Government entered into a letter of intent on 6 December 2010 for the proposed reorganisation of the Company by Zhejiang Yongli with the support from the Local Government (the “Restructuring Proposal”). Zhejiang Yongli is a company established in the PRC. The principal terms of the letter of intents are set out in Note 21.

Subsequent to the letter of intent signed for the Restructuring Proposal as set out in Note 21, Zhejiang Yongli has become a controlling shareholder of the Company since 24 December 2010. Thereafter, Zhejiang Yongli recommended Mr. Ru Guan Jun and Mr. Xia Xian Fu to be executive directors of the Company and Mr. Ru Guan Jun to be the Chairman of the Board of Directors and they were appointed accordingly at the extraordinary general meeting held on 11 March 2011. From 20 July 2011 to 13 September 2011, the Company entered into debt agreements with each of the five Guarantors of the Company as set out in Note 21. After that, each of the five Guarantors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies.

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 30 June 2010, the Company reported a loss of approximately RMB56,329,000 for the period then ended 30 June 2010 and had net current liabilities of approximately RMB591,571,000 and a capital deficiency of approximately RMB393,765,000. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liability in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Company will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the date of publication of this document given that:

- (i) the debt restructuring of the Company's liabilities, details of which are stated in Note 21;
- (ii) a shareholder of the Company will provide financial support to the Company to meet the Company's liabilities and commitments as and when it falls due; and
- (iii) the Directors anticipate that the Company will generate positive cash flows from its operations.

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

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

As at 30 June 2010, the Company had no commitments (31 December 2009: nil) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

MATERIAL ACQUISITIONS/ DISPOSALS

During the six months ended 30 June 2010, the Company did not have any material acquisitions/ disposals.

SEGMENTAL INFORMATION

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

CHARGES ON GROUP ASSETS

The details of pledge of assets of the Company is set out in Note 18.

EMPLOYEE AND EMOLUMENT POLICIES

At 30 June 2010, the Company had 816 employees (31 December 2009: 1,015), comprising 6 (31 December 2009: 8) in research and development, 5 (31 December 2009: 6) in sales and marketing, 738 (31 December 2009: 915) in production, 56 (31 December 2009: 72) in quality control, 3 (31 December 2009: 6) in management, and 8 (31 December 2009: 8) 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. Since RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government, the Company has used forward contracts, foreign currency borrowings and other means to hedge its foreign currency exposure. The Company considers it has no material foreign exchange risk to the Company.

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS SECURITIES

As at 30 June 2010, the interests and short positions of the directors, chief executives and supervisors of the Company in the shares, underlying shares or 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

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

Save as disclosed above, as at 30 June 2010, none of the directors, chief executives or supervisors of the Company had any interest 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 under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by directors to be notified to be Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2010, so far as it is known to the directors, chief executives or supervisors of the Company, the persons (not being a director, chief executive or supervisor of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO, were as follows:

Long positions in the shares of the Company

Domestic shares of the Company

Name of shareholders	Capacity	Number of Domestic Shares held	Approximate percentage of interests in Domestic shares	Approximate percentage of interests in total registered capital
Mr. Sun Li Yong	Beneficial owner	382,200,000	65%	35.94%
	Held by spouse	182,280,000	31%	17.14%
	<i>(Notes 1&3)</i>	564,480,000	96%	53.08%
Ms. Fang Xiao Jian	Beneficial owner	182,280,000	31%	17.14%
	Held by spouse	382,200,000	65%	35.94%
	<i>(Notes 2&3)</i>	564,480,000	96%	53.08%

Notes:

1. Mr. Sun Li Yong ("Mr. Sun") is the husband of Ms. Fang Xiao Jian and is deemed by virtue of the SFO to be interested in the 182,280,000 shares beneficially owned by Ms. Fang Xiao Jian.
2. Ms. Fang Xiao Jian ("Mrs. Sun") is the wife of Mr. Sun Li Yong and is deemed by virtue of the SFO to be interested in 382,200,000 shares beneficially owned by Mr. Sun Li Yong.
3. With reference to the announcement of the Company dated 31 August 2009, all the above domestic shares of 564,480,000 held by Mr. and Mrs. Sun, which represents 53.08% of the total issued shares of the Company had been impounded by the relevant court in the PRC in accordance with a judgment made and had been effective since 10 August 2009.
4. With reference to the announcement of the Company dated 29 December 2010, the Company received a copy of the Judgement, which indicated among other things that the Court appointed an auction house for auction of 310,000,000 domestic shares held by Mr. Sun (representing approximately 29.15% of the total issued shares of the Company) on 10 December 2010, and Zhejiang Yongli won the bid at the highest price of RMB29,760,000.00 (representing RMB0.096 per share). It was ordered that the 310,000,000 domestic shares held by Mr. Sun would belong to Zhejiang Yongli, and this would come into effect immediately after service of the Judgment. On 25 December 2010, the Company received confirmation from 中國證券登記結算有限責任公司 (China Securities Depository and Clearing Corporation Ltd.*) that the 310,000,000 domestic shares held by Mr. Sun were transferred to Zhejiang Yongli with effect from 24 December 2010.

H shares of RMB0.1 each of the Company

Name of shareholder	Capacity	Number of H shares held	Approximate percentage of interests in H shares	Approximate percentage of interests in total registered capital
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.60%

Save as disclosed above, as at 30 June 2010, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

COMPETING INTERESTS

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

AUDIT COMMITTEE

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

The Audit Committee has reviewed the interim report for the six months ended 30 June 2010.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2010, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the “Code Provision”) as set out in the Appendix 15 of GEM Listing Rules, except for the following deviations:

1. Due to the misconduct of some of the former Directors as set out in Note 6, the Company encountered financial crisis that led to delay in publishing results and dispatching reports for the year ended 31 December 2008 and 2009, three months ended 31 March 2009 and 2010, six months ended 30 June 2009 and 2010, and nine months ended 31 September 2009. These constitute the breach of Rules 18.03, 18.49, 18.66, 18.67 and 18.79 of the GEM Listing Rules and the Code Provision C.1.

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

2. Code Provision A.1.1 stipulates that the Board should hold at least four regular meetings a year at approximately quarterly intervals. During the six months ended 30 June 2010, no regular meeting was held due to the delay in announcing the results and dispatching reports of the Company for the year of 2009. In addition, no annual general meeting of the Company has been held for the year of 2008 and 2009.
3. Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, there was no chairman or chief executive officer of the Company until the appointments of Mr. Ru Guan Jun as the chairman of the Company passed on the extraordinary general meeting of the Company held on 11 March 2011 by the shareholders and Mr. Xia Xian Fu as the chief executive officer of the Company.
4. According to Code Provision C.2.1, the directors should at least annually conduct a review on the effectiveness of the internal control system; however, the Company did not conduct such review for the year ended 31 December 2008 until the investigation on the misconduct of some of the former Directors was carried out. In order to prevent recurrence of similar misconduct of directors, the Company has appointed an independent auditor on 1 September 2009 to carry out internal control review for the Company and has been completed on 30 October 2009.

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors and supervisors, all directors and supervisors confirmed that they have complied with the required standard and the code of conduct regarding securities transactions by directors and supervisors adopted by the Company.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2010.

SUSPENSION OF TRADING

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

By Order of the Board
Ru Guan Jun
Chairman

Zhejiang, the PRC, 3 November 2011

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

**For identification purpose only*