2007 ANNUAL REPORT

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)

Contents

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This report, for which the directors (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 (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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Corporate Information

EXECUTIVE DIRECTORS
Mr. Sun Li Yong *(Chairman)*
Ms. Fang Xiao Jian
Mr. Sun Jian Feng
Mr. Xia Xue Nian
Mr. Li Cheng Jun
Mr. Marco Borio

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Zong Pei Min
Mr. Luk Guo Qing
Mr. Zhu Yu Lin

SUPERVISORS
Mr. He Dong Hui
Mr. Fan Zhi Gang
Mr. Shao Bao Hua

INDEPENDENT SUPERVISORS
Mr. Wang He Rong
Mr. Hu Jin Huan

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT
Ms. Chen Yen Yung – *CPA (Aust.), CPA*

AUDIT COMMITTEE
Mr. Zong Pei Min
Mr. Luk Guo Qing
Mr. Zhu Yu Lin

REMUNERATION COMMITTEE
Mr. Sun Li Yong
Mr. Zong Pei Min
Mr. Luk Guo Qing
Mr. Zhu Yu Lin

LEGAL ADDRESS
Yangxun Qiao Town
Shaoxing County
Zhejiang Province
PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 620, 6/F., Chevalier Commercial Centre,
8 Wang Hoi Road,
Kowloon Bay, Hong Kong

COMPLIANCE OFFICER
Mr. Xia Xue Nian

AUTHORISED REPRESENTATIVES
Mr. Sun Li Yong
Mr. Sun Jian Feng

PRINCIPAL BANKERS
Agriculture Bank of China
Shaoxing Branch
333 Jin Ke Quao Da Road,
Shaoxing County,
Zhejiang Province,
PRC

INTERNATIONAL AUDITORS
SHINEWING (HK) CPA Limited
16/F., United Centre,
95 Queensway, Hong Kong

DOMESTIC AUDITORS
Shulun Pan Certified Public Accountants Co., Ltd.
Hangzhou Branch
Flat A, 20/F., Wang Zuo Centre,
Yuan Hua Commercial Building,
Xin Tang Road, Jiang Gan Qu,
Hangzhou, Zhejiang Province, PRC

H SHARE SHARE REGISTRAR AND TRANSFER OFFICE
Union Registrars Limited
Room 1901-02, Fook Lee Commercial Centre,
Town Place 33, Lockhart Road,
Wanchai, Hong Kong

LEGAL ADVISERS
As to Hong Kong law
Tung & Co
19th Floor, 8 Wyndham Street,
Central, Hong Kong

STOCK CODE
8211

Highlights

For the year ended 31 December 2007,

– turnover of the Company decreased from approximately RMB416.57 million in year 2006 to approximately RMB384.01 million in year 2007, representing a decrease of approximately 7.82% when compared to the year ended 31 December 2006;

– Profit for the year was approximately RMB5.16 million, and

– The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007.

Chairman's Statement

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 2007.

FINANCIAL PERFORMANCE

For the year ended 31 December 2007, the Company recorded a turnover of approximately RMB384.01 million, representing a decrease of approximately 7.82% as compared with that of the same period in 2006. The sales volume dropped by approximately 25.05% while the overall selling price increased by approximately 23%, as the Company concentrated on sales of high value ended product and provision of high return subcontracting services to potential customers whom provided raw materials for manufacturing during the year. The gross profit for the year was approximately RMB38.65 million, representing a gross profit margin of approximately 10.06%, which was approximately 3.2% higher than that of the corresponding period in 2006 and a gross profit margin of approximately 6.86% for the corresponding period in 2006. Selling expenses increased by approximately 43.13%, which was in line with increase of export sales. Administrative expenses increased by approximately 25.04% mainly due to exchange loss on certain foreign currency bank deposit and accounts receivable during the year ended 31 December 2007. The exchange loss was approximately RMB8 million. Finance cost decreased mainly due to bank borrowings decreased which was resulted from repayment made during the year. Earnings per share amounted to RMB0.5 cents, compared to RMB0.4 cents for the year ended 31 December 2006.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007.

OUR STRATEGY GOING FORWARD

A. Globalisation

During the year under review, the result of sales to the market in Europe was encouraged. In accordance with doctrine of globalisation, the Company continues to search for cooperation opportunities with the famous international partners such as ZARA, MANGO, GAP, TARGET, NYC, PVH and MIROGLIO etc. In additions, the Company plans to establish sales office in overseas such as New York and Spain so as to expand and strengthen these markets. In order to gain exposure of the Company to the potential customers and in the fabrics market and popularised the Company's product, the Company actively participates in various overseas exhibitions and is preparing for establishing its own product brand or trademark.

B. Streamline the operation

In 2006, the Company had reorganized production management and implemented cost saving proposal and tightened administrative expenses and selling expenses. The Company will continue the cost saving proposal and closely supervise the efficiency of the operation so as to streamline the operation.

C. Product innovation

Except for keeping up-to-date information of the market trend and product development, the Company continues cooperation with DuPont Fiber (China) Limited ("DuPont China"), Donghua University and the Research and Development Department of the PRC government for manufacturing of uniform to the military in order to step up development of new and high quality products and improvement of the existing products. During the year under review, the Company spent approximately RMB479,000 on product innovation, which was approximately 10.14% higher than that in 2006.

D. Capital investment opportunities

The shareholders of the Company passed a special resolution on the extraordinary general meeting that was held on 13 November 2007 and approved the Directors of the Company to place a maximum of 880,000,000 new H Shares at a placing price of HK$0.55 per H Share ("Placing"). The net proceeds of the Placing, after deducting the related commission and expenses, will be approximately HK$470,900,000, representing a net placing price of approximately HK$0.535 per H Share. The Company intends to use such net proceeds for working capital and future investments purposes. The Board considers that the Placing gives the opportunity to the Company to broaden its shareholder and capital base and provide funding to the Company to capture suitable investment opportunities once they are identified. The Company has been exploring potential investment and business opportunities and the new proceeds arising from the Placing will be used for such potential investment or business opportunities once they are identified.

PROSPECTS

The challenges arising from heightening production cost pressure is expected to continue in the year 2008, especially stemming from the upward movement of raw material prices, wages levels and energy prices. Facing these challenges, the Company is undertaking various productivity and operating efficiency enhancement projects with a view to alleviate the negative factors in a proactive manner. Given these enhancement initiatives, strong market demand and the gradual price adjustment for its products, the Directors are cautiously optimistic about the Company's performance in the fiscal year.

It is the Company's strategy to keep the strong position in the Europe. On the other hand, the Company continues to develop and explore high profile market and high value ended customers. In additions, the Company will continue the strategy and target of 60% and 40% respectively for domestic sale and direct export sales in order to balance the market share. During the year ended 31 December 2007, the domestic sales and direct export sales were 60.28% (2006: 70.62%) and 39.72% (2006: 29.38%) respectively. The Company continues to search for the ultimate ended user customers like Zara, Mango, H&M, Next, Marks & Spencer in Europe and like Target, NYC, Sears, Fishman Toblin, JC Penny etc in USA and reduce the portion of customers that are trading companies, import and export companies and agency companies. Hence, the Company will strengthen the sales and marketing department and research and development department in order to search for high potential end users and develop new and high value ended product.

In additions, in order to broaden the shareholders of the Company and capital base and provide funding to the Company to capture suitable investment opportunities so as to increase profit of the Company, the Company is planning to place a maximum of 880,000,000 new H Shares at a placing price of HK$0.55 per H Share ("Placing") in 2008. The net proceeds of the Placing, after deducting the related commission and expenses, will be approximately HK$470,900,000, representing a net placing price of approximately HK$0.535 per H Share. Up to the date of this report, the procedures of Placing has not completed as it is still under the relevant government authorities' approval.

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.

Sun Li Yong
Chairman

Zhejiang, the PRC, 26 March 2008

BUSINESS AND OPERATION REVIEW

During the year under review, the Company was still under severe cost pressure arising from the negative operating environment, through various initiatives implemented in enhancing its operating efficiency and searched for and development of high profile and potential customers, the Company has improved the gross profit margin from product. Hence, the respective gross profit and gross profit margin for the year ended 31 December 2007 was approximately RMB38.65 million (2006: RMB28.58 million) and 10.06% (2006: 6.86%). During the year under review, for the domestic market development, the Company successfully developed certain high profile and potential customers, such as provided fabrics for manufacturing of uniform for the military of the PRC. During the year ended 31 December 2007, the sales turnover and provision of subcontracting services to the PRC government for manufacturing of uniform for the military was approximately RMB71.92 million and RMB6.7 million, of which the sales turnover represented approximately 31.07% and 18.73% of the total domestic sales and the total sales turnover for the year. On the other hand, the Company experienced significant growth in its export sales by approximately 24.62% to RMB152.53 million (2006:RMB122.40 million). The growth in the export sales mainly contributed from sales to the Europe and Asia region, which were approximately RMB113.15 million (2006: RMB97.43 million) and RMB37.24 million (2006: RMB23.75 million) respectively. The Company will continue to search for high value ended customers and new market in order to diversify the risk and maximise profit of the Company.

PRODUCT RESEARCH AND DEVELOPMENT

In order to fulfill the high quality requirement of high profile customers, the Company continues to innovate and develop new products and employ experience and talent staff. In order to improve the quality of the product, the Company engages and cooperates with experience consultants such as the research and development department of the PRC government for manufacturing of uniform to the military, for the technical support.

PRODUCTION FACILITIES

The Company continues to search for the opportunities to enter the area of down stream dyeing and finishing.

SALES AND MARKETING

During the year ended 31 December 2007, the Company actively participated in various trade fairs held in PRC and overseas so as to gain exposure in the fabrics market and to popularise the Company's new products. The marketing strategy for year 2008 will emphasis on the U.S. market, while still continue to keep strong position in the Europe market.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

As at 31 December 2007, the Company had net current assets of approximately RMB64.09 million (2006: RMB76.80 million).

As at 31 December 2007, the current assets comprised inventories of approximately RMB168.36 million (2006: RMB106.67 million), prepaid lease payments of approximately RMB0.27 million (2006: RMB0.27 million), trade receivables of approximately RMB128.34 million (2006: RMB115.38 million), other receivables, deposits and prepayments of approximately RMB9.09 million (2006: RMB16.03 million), amount due from a related company of approximately RMB0.02 million (2006: RMB0.01 million), pledged bank deposits of approximately RMB65.19 million (2006: RMB41.62 million), fixed bank deposits of approximately RMB60.57 million (2006: RMB102.13 million), and bank balances and cash of approximately RMB10.18 million (2006: RMB47.51 million).

As at 31 December 2007, the current liabilities comprised trade payables of approximately RMB97.44 million (2006: RMB66.10 million), other payables and accruals of approximately RMB19.50 million (2006: RMB17.47 million), amount due to a related company of approximately RMB nil (2006: RMB0.28 million), tax liabilities of approximately RMB6.04 million (2006: RMB9.49 million) and borrowings due within one year of approximately RMB254.95 million (2006: RMB259.49 million).

Borrowings and banking facilities and charges of company assets

The Company generally finances its operations and capital expenditures and other capital requirements with cashflow generated internally and banking facilities provided by its bankers.

As at 31 December 2007, the Company had bank loans due within one year and bank loans due after one year of approximately RMB254.95 million (2006: RMB259.49 million) and RMB40.00 million (2006: RMB70.00 million) respectively. The loans bear interest at prevailing market rates range from approximately 6.12% per annum to 8.42% per annum (2006: 5.02% per annum to 7.25% per annum) and repayable in installments over a period of six months to two years.

The unsecured loans were jointly guaranteed by the Directors of the Company, Zhejiang Gabriel Holdings Group Company Limited ("Gabriel"), a related company which Mr. Sun Li Yong, Ms Fang Xiao Jian, Mr. Sun Jian Feng, Mr. Li Cheng Jun and Mr. Xia Xue Nian are also directors and shareholders of this company, and independent third parties.

The secured loans were pledged by bank deposits of approximately RMB65.19million, prepaid lease payments of approximately RMB5.13 million, buildings and investment properties situated in the PRC of net book values as at 31 December 2007 of approximately RMB65.95 million and RMB11.98 million respectively.

CAPITAL STRUCTURE

As at 31 December 2006 and 2007, the Company has 588,000,000 shares and 475,500,000 shares of Domestic Shares and H Shares in issued respectively. The par value of the Domestic Shares and H Shares is RMB0.1 each.

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

As at 31 December 2007, the Company had commitments of approximately RMB0.75 million (2006: RMB2.77 million) 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 year ended 31 December 2007, the Company did not have any material acquisitions/disposals.

SEGMENTAL INFORMATION

Segmental information of the Company is set out in Note 6 to the financial statements.

EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2007, the Company had 1,462 employees (2006: 1,560), comprising 12 (2006: 12) in research and development, 46 (2006: 44) in sales and marketing, 1,174 (2006: 1,254) in production, 211 (2006: 228) in quality control, 10 (2006: 10) in management, and 9 (2006: 12) 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.

The Company has established a 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 and Mr. Sun Li Yong, the Chairman and an executive Director of the Company.

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS AND USE OF NET PROCEEDS FROM THE ISSUING OF THE NEW SHARES

The shareholders of the Company passed a special resolution on the extraordinary general meeting that was held on 13 November 2007 and approved the Company to place a maximum of 880,000,000 new H Shares at a placing price of HK$0.55 per H Share ("Placing"). The net proceeds of the Placing, after deducting the related commission and expenses, will be approximately HK$470,900,000, representing a net placing price of approximately HK$0.535 per H Share. The Company intends to use such net proceeds for working capital and future investments purposes. The Company has been exploring potential investment and business opportunities and the new proceeds arising from the Placing will be used for such potential investment or business opportunities once they are identified. Upto the date of this annual report, the procedures of Placing has not completed as it is still under the relevant government authorities' approval.

On 24 March 2005, the Company issued 205,000,000 of H shares to its customer, Miroglio S.p.A. ("Miroglio") and placed 16,000,000 of H shares to other independent third parties in order to maintain the public float of the H Shares of the Company as required under the GEM Listing Rules. The net proceeds from the issue of H shares to Miroglio and independent third parties after deduction of transaction cost attributable to issue of the new shares was approximately RMB55.8 million. It is planned that 60% (equivalent approximately RMB33.48 million) will be used for the acquisition of a dying factory in the PRC, 20% (equivalent approximately RMB11.16 million) will be used for research and development of technology of the Company and 20% (equivalent approximately RMB11.16 million) will be used as the general working capital of the Company.

For the period from 24 March 2005 to 31 December 2007, the Company has used approximately RMB1,190,000 (For the year ended 31 December 2007: approximately RMB711,000) in research and development. The Company is in progress of searching for appropriate dying factory in the PRC as at 31 December 2007.

GEARING RATIO

The gearing ratio (total debts over total assets) of the Company as at 31 December 2007 was 60.87% (2006: 61.60%).

FOREIGN EXCHANGE EXPOSURE

The Company operates in the People's Republic of China (the "PRC") with most of the transactions denominated and settled in Renminbi ("RMB"). However, foreign currencies, mainly United States Dollars ("USD"), Euro and Hong Kong Dollars, are required to settle the Company's expenses and additions on plant and equipment and all the direct export sales of the Company are denominated in USD. 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 or other means to hedge its foreign currency exposure. The Company considers it has no material foreign exchange risk to the Company.

CONTINGENT LIABILITIES

As at 31 December 2007, the Company did not have any significant contingent liabilities.

Directors and Senior Management's Profile

EXECUTIVE DIRECTORS

Mr. Sun Li Yong (孫利永), aged 37, is the Chairman and an executive Director of the Company. Mr. Sun is the founder of the Company and is responsible for the strategic planning and overall management of the Company. Mr. Sun received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has over 10 years of experience in corporate management in the PRC. He joined the Company in April 2002.

Ms. Fang Xiao Jian (方曉健), aged 35, is an executive Director of the Company and the spouse of Mr. Sun Li Yong. She is responsible for sales and marketing management of the Company. Ms. Fang received her tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. She has over 10 years of experience in the textile industry. She joined the Company in April 2002.

Mr. Sun Jian Feng (孫建鋒), aged 37, is an executive Director of the Company. Mr. Sun is responsible for the financial management of the Company. Mr. Sun received his diploma in accounting from the Hangzhou University of Commerce (杭州商學院) in 1990. He has over 10 years of experience in finance and accounting. He joined the Company in April 2002.

Mr. Xia Xue Nian (夏雪年), aged 43, is an executive Director of the Company. Mr. Xia is responsible for corporate administration of the Company. He received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has over 15 years of experience in the corporate management. He joined the Company in April 2002.

Mr. Li Cheng Jun (李成軍) aged 42, is an executive Director of the Company. He is the brother-in-law of Mr. Sun Li Yong, the Chairman of the Company. Mr. Li is responsible for the product operation and manufacturing technology of the Company. From July 1986 to June 1994, Mr. Li was the project manager of 浙江省工業設備安裝公司 (Zhejiang Province Industrial Facilities Installation Company*), a services company for installation of industrial facilities in Zhejiang Province. From July 1994 to March 1996, Mr. Li was the production manager of 浙江國宏經編工業有限公司 (Zhejiang Guohong Wrap Knitting Industrial Co., Ltd.*), a company for manufacturing and sales of knitted wrap. From April 1996 to May 2002, Mr. Li was the project manager of 蕭山建築工程公司 (Xiaoshan Construction Engineering Company*), a construction company. Mr. Li graduated from Zhejiang University of Technology (浙江工業大學) in 1986 and holds a degree in electronic engineering. He has about 18 years of experience in the project and production management. He joined the Company in June 2002.

Mr. Marco Borio, aged 37, is an executive Director of the Company. He holds a degree major in international business. He has been working for Miroglio group since 1994 and was promoted to executive Director of a subsidiary of Miroglio responsible for all the purchases of raw materials, including but not limited to polyester chips, yarns, loomstate and finished plain dyed fabrics in the Asian region. Mr. Borio joined the Company in March 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Luk Guo Qing (陸國慶), aged 43, is an independent non-executive Director of the Company. Mr. Luk graduated from the Hangzhou University in 1986 and holds a degree in law. He is a licensed lawyer and is a partner of 浙江中法大律師事務所 (Zhejiang Zhong Fa Law Firm*), a law firm in Zhejiang Province. He has extensive experience in securities law. During 1988 to 1998, he practiced in 浙江國大律師事務所 (Zhejiang Guoda Law Firm*). He was re-appointed as an independent non-executive Director of the Company in May 2005.

Mr. Zhu Yuk Lin (竺玉林), aged 48, is an independent non-executive Director of the Company. Mr. Zhu graduated from Zhejiang University of Finance & Economics (浙江財經學院) in 1982 and holds a degree in commerce. He is a PRC Certified Public Accountant (中國註冊會計師), a PRC Certified Assets Appraiser (中國註冊資產評估師) and a PRC Certified Tax Appraiser (中國註冊稅務師). During the period from July 1982 to August 1999, he worked as administrative accountant in Zhejiang University of Finance & Economics (浙江財務學院). He has been practicing in 浙江之江會計師事務所 (Zhejiang Zhijiang Certified Public Accountants*) which formerly named as 浙江周財會計師事務所 (Zhejiang Zhoucai Certified Public Accountants*), a certified public accounting firm in Zhejiang Province, the PRC since August 1999 and he is also a director of 浙江之江會計師事務所 (Zhejiang Zhijiang Certified Public Accountants*). He was appointed as an independent non-executive Director of the Company in September 2004.

Mr. Zong Pei Min (宗佩民), aged 44, is an independent non-executive Director of the Company. Mr. Zong graduated from Hangzhou University of Commerce (杭州商業學院) in 1989 and holds a degree in economics. During the period from August 1989 to May 1990, he was working as an assistant lecturer at 金華職業技術學院 (Jin Hua Technical Institute*). From June 1990 to March 2000, he was working at 浙江興合集團 (Zhejiang Xing He Group*) as supervisor of investment department. From April 2000 to July 2002, he was working at 浙江省天堂硅谷創業投資有限公司 (Zhejiang Tian Tang Gui Gu Chuang Ye Investment Ltd.*) as general manager of consulting and research department. He is currently a director of 浙江華睿投資管理有限公司 (Zhejiang Hua Rui Investment Management Co. Ltd.*). Mr. Zong was appointed as an independent non-executive Director of the Company in May 2005.

INDEPENDENT SUPERVISORS

Mr. Hu Jin Huan (胡金煥), aged 43, 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 May 2005.

Mr. Wang He Rong (王和榮), aged 46, is an independent Supervisor of the Company. He is responsible for performing the supervisory function in relation to the Board of Directors, manager and other officers of the Company and report independently to the shareholders in general meeting of the Company. He is a PRC certified public accountant and is now working as an audit supervisor in 紹興宏泰會計師事務所 (Shaoxing Hongtai Certified Public Accountants*). He was re-appointed as an independent Supervisor of the Company in May 2005.

SUPERVISORS

Mr. Shao Bao Hua (邵寶華), aged 42, is the Supervisor of the Company who joined the Company in December 1999. He is working in the Finance Department of the Company. From 1989 to December 1999, he worked as accounts clerk in the finance department of 紹興縣經編廠 (Shaoxing Wrap Knitting Factory*), a wrap manufacturing company in the Zhejiang Province. He was re-appointed as Supervisor of the Company in May 2005.

Mr. He Dong Hui (何東輝), aged 38, is the Supervisor of the Company who joined the Company in December 1998. He is working in the administration department and is responsible for the website and network maintenance, information and technology support. From August 1992 to June 1993, Mr. He was at 湖北黃石下鋼總廠電氣分廠 (Branch of Electric Gas of Wubei Wangshi Xiagang*) and was responsible for the repair and maintenance of the mechanical and electrical facilities. From July 1993 to March 1996, Mr. He was at 湖北黃石康賽集團有限公司 (Wubei Wangshi Kangzhai Group Co., Ltd.*) and was responsible for the development of management software of information & technology department. From April 1996 to November 1998, Mr. He was at 湖北黃石康賽集團康博針織有限公司 (Wubei Wangshi Kangzhai Group Kangpao Knitting Co., Ltd.*) and was responsible for embroidery design. Mr. He graduated from Wuhan University of Technology (武漢理工大學) in 1992 and holds a degree in mechanical and electrical engineering. He was re-appointed as Supervisor of the Company in May 2006.

Mr. Fan Zhi Gang (樊芝剛), aged 32, is the Supervisor of the Company who joined the Company in October 2000. He is working in the administrative department and is responsible for the general administration and human resources. From July 1999 to September 2000, Mr. Fan was at 紹興聯興紡織有限公司 (Shaoxing Lianxing Textile Co., Ltd.*) and was responsible for the general administration. Mr. Fan graduated from Zhejiang University (浙江大學) in 1992 and holds a degree in economic management. He was appointed as Supervisor of the Company in May 2005.

SENIOR MANAGEMENT

Ms. Chen Yen Yung (陳燕雲), aged 36, is the qualified accountant and company secretary of the Company and the spouse of Mr. Sun Jian Feng. Ms. Chen studied in the Hong Kong Polytechnic University for higher certificate in accountancy and holds a bachelor's degree in commerce (accounting) from the Curtin University of Technology, Western Australia. She has over 10 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 a director of BMI Consultants Limited, a business consultancy services company in Hong Kong. She joined the Company in June 2002.

Directors and Senior Management's Profile

Mr. Ding Zhong Xin (丁忠心), aged 37, is the manager of the finance department of the Company. He completed business management from Shanghai Lisin Professional Accounting College (上海立信會計高等專科學校) and has over 10 years of experience in accounting and finance. From April 1990 to February 2002, he worked in 紹興縣信用聯社 (Shaoxing County Credit Cooperation), a finance company and was responsible for the loan arrangements with its clients in the Zhejiang Province. He joined the Company in February 2002.

Ms. Sun Yan (孫燕), aged 28, is the manager of sales and marketing department of the Company. She graduated from Ningbo University and obtained a bachelor degree in English. Ms. Sun joined the Company in September 2003.

Ms. Wong Ai Feng (王愛鳳), aged 71, is the head of research and development department of the Company. She obtained a degree in textile study from 華東紡織工業學院 (Hua Tung Textile Technical College*) and has over 30 years of experience in textile and garment industries. From September 1974 to April 2002, she was a professor of Donghua University and was responsible for the course of textiles in Shanghai. She joined the Company in April 2002.

The directors of the Company present their annual report and the audited financial statements of the Company for the year ended 31 December 2007.

PRINCIPAL ACTIVITY

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

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2007 are set out in the income statement on page 32 of the annual report.

The directors do not recommend the payment of a dividend for the year ended 31 December 2007.

INVESTMENT PROPERTIES

Details of these movements during the year in the investment properties of the Company are set out in Note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately RMB13.72 million in aggregate on factory premises and other plant and machinery to expand and upgrade its production capacity.

Details of these and other movements during the year in the property, plant and equipment of the Company are set out in Note 14 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 26 to the financial statements.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Sun Li Yong *(Chairman)*
Ms. Fang Xiao Jian
Mr. Sun Jian Feng
Mr. Xia Xue Nian
Mr. Li Cheng Jun
Mr. Marco Borio (re-elected on 12 June 2007)

Independent Non-Executive Directors:
Mr. Luk Guo Qing
Mr. Zhu Yu Lin (re-appointed on 12 June 2007)
Mr. Zhong Pei Min

Supervisors:
Mr. Shao Bao Hua
Mr. He Dong Hui
Mr. Fan Zhi Gang

Independent Supervisors:
Mr. Hu Jin Huan
Mr. Wang He Rong

Each of the directors and supervisors (including the independent non-executive directors and independent supervisors) has entered into a service agreement with the Company for three years from the date of appointment. Each of the directors and supervisors was appointed as 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 are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

At 31 December 2007, the interests and short positions of the directors, chief executives and supervisors 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

Long positions

Name of director	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 (Note 1)	182,280,000	31%	17.14%
		564,480,000	96%	53.08%
Ms. Fang Xiao Jian	Beneficial owner	182,280,000	31%	17.14%
	Held by spouse (Note 2)	382,200,000	65%	35.94%
		564,480,000	96%	53.08%
Mr. Sun Jian Feng	Beneficial owner	5,880,000	1%	0.55%
Mr. Xia Xue Nian	Beneficial owner	5,880,000	1%	0.55%

Short positions

None

Notes:

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

2. Ms. Fang Xiao Jian is the wife of Mr. Sun Li Yong and shall be deemed by virtue of the SFO to be interested in 382,200,000 shares beneficially owned by Mr. Sun Li Yong.

Save as disclosed above, as at 31 December 2007, none of the directors, chief executives or supervisors had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed, to have such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE H SHARES OR DEBENTURES

At no time during the year 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 Notes 19, 23, 24 and 31 to the financial statements, no other contracts of significance to which the Company was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Save as disclosed in Notes 19, 23, 24 and 31 to the financial statements, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

The independent non-executive directors have reviewed the connected transactions set out in Notes 19, 23, 24 and 31 to the financial statements and in their opinion, these transactions entered into by the Company were:

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed in "Directors' and Supervisors' Interests In Securities", the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Long positions

H-shares of RMB0.10 each of the Company

Name of shareholder	Capacity	Number of H-share held	Approximate percentage of interests in H-share in issue	Approximate percentage of interests in total registered capital
Miroglio S.p.A.	Beneficial owner	209,500,000	44.06%	19.70%

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2007.

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, the five largest suppliers and customers of the Company accounted for approximately 48.10% and 43.35% of the Company's purchases and turnover, respectively. The largest supplier accounted for approximately 15.24% of the purchases of the Company.

Except for Miroglio S.p.A. ("Miroglio"), a substantial shareholder of the Company and its subsidiary, Miroglio (Jiaxing) Trading Co., Ltd ("Miroglio Jiaxing") (米羅利奧(嘉興)貿易有限公司), were two of the five largest customers of the Company during the year, 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.

The independent non-executive directors represented that the transactions between the Company and Miroglio and Miroglio Jiaxing were carried out on normal commercial terms.

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 2007.

AUDIT COMMITTEE

The Company has established an 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. Luk Guo Qing, Mr. Zhong Pei Min and Mr. Zhu Yu Lin. Mr. Luk Guo Qing is the chairman of the audit committee.

The quarterly results for the three months ended 31 March 2007, 30 June 2007, 30 September 2007 of the Company and the financial statements of the Company for the year ended 31 December 2007 have been reviewed by the audit committee. The audit committee had held four meetings during the current financial year.

EMOLUMENT POLICY

The Company has established a 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 a formal and transparent procedures for developing policy on such remuneration. The remuneration committee comprises three independent non-executive Directors and Mr. Sun Li Yong, the Chairman and an executive Director of the Company.

Based on the advice provided by the remuneration committee, the emoluments of the directors of the Company are recommended by the board of directors, having regard to their duties and responsibilities and approved by the shareholders of the Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the People's Republic of China (the "PRC"), which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 December 2007.

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.

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.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

During the year, Messrs. SHINEWING (HK) CPA Limited appointed as auditors of the Company.

The financial statements for the year ended 31 December 2007 were audited by Messrs. SHINEWING (HK) CPA Limited.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. SHINEWING (HK) CPA Limited as international auditors of the Company.

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

Sun Li Yong
CHAIRMAN

Zhejiang, the PRC, 26 March 2008

Supervisors' Report

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 2007, 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.

During the year we have carefully reviewed the use of the proceeds raised in strict compliance with the plan of use of proceeds disclosed in the announcement of the Company dated 8 March 2005 and provided reasonable suggestions and advice on the operations and development plans to the Board and strictly and effectively and the Articles of Association or safeguarded the interests of the shareholders.

After review, we consider that the financial statements of the Company, audited by the auditors, SHINEWING (HK) CPA Limited, truly and sufficiently reflects the operating distribution proposal. We consider that the above report and proposal meet the requirements of the relevant regulations and Articles of Association. We have attended the meeting of the Board. We consider that the members of the Board, the general manager and other officers have strictly complied with the principle of honestly and trustworthiness, worked diligently and sincerely acted in the best interest of the Company. Up to now, none of the directors, general manager and the officers have abused their powers, caused damage 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.

We are satisfied with the various tasks achieved as well as the cost effectiveness gained and are confident about the prospectus of future development of the Company.

By order of the Board of Supervisors
Zhejiang Yonglong Enterprises Co., Ltd.

He Dong Hui
Chairman of the Supervisory Committee

Zhejiang, the PRC, 26 March 2008

CORPORATE GOVERNANCE PRACTICES

Except for the deviations as disclosed on this report, in the opinion of the Board, the Company has complied with all the code provisions on Corporate Governance Practices (the "Code") as set out in the GEM Listing Rules by establishing a formal and transparent procedures to protect and maximise the interests of shareholders throughout the year under review.

DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company has adopted a Code of Conduct for Securities Transactions by Directors (the "Dealing Rules") 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 they have 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

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. Mr. Sun Li Yong is the Chairman and Chief Executive (i.e. the General Manager) of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Company. The operations of the Board, which comprises experienced, and high caliber individuals and meets regularly to discuss issues affecting operations of the Company ensure the balance of power and authority. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Sun and believes that his appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects of the Company.

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 six executive Directors, three independent non-executive Directors. Their brief biographical details are set out in the "Directors and Senior Management's Profile" on pages 11 to 14 of this Annual Report. Please refer to the Directors Report on pages 15 and 16 for the terms of appointment of each Director.

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

The Board meets at least four times a year to review the financial and operating performance of the Company. Apart from the regular Board meetings of the year, the Board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each Board meeting. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's Articles of Association. According to the Code, at least 14 days of notice in advance should be given for a regular board meeting to give all Directors an opportunity to attend. During the year under review, all board meetings were given at least 14 days in advance to the Directors according to the Articles of Association of the Company. 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 open for inspection at any reasonable notice by any Director.

There were twelve Board meetings held in the financial year ended 31 December 2007. Individual attendance of each Board member at these meetings is as follows:

Name of Director	**Attended/eligible to attend**
Executive Directors	
Mr. Sun Li Yong *(Chairman & General Manager)*	12/12
Ms Fang Xiao Jian	11/12
Mr. Li Cheng Jun	11/12
Mr. Sun Jian Feng	12/12
Mr. Xia Xue Nian	12/12
Mr. Marco Borio	3/12
Independent Non-executive Directors	
Mr. Luk Guo Qing	11/12
Mr. Zhu Yu Lin	11/12
Mr. Zong Pei Min	11/12

During the regular meetings of the Board, the Directors discuss and formulate the overall strategies of the Company, review and monitor the business and financial performances and discuss the quarterly, half-yearly and annual results, as well as discuss and decide on other significant matters.

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.

BOARD COMMITTEES

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 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. Luk Guo Qing, Mr. Zhong Pei Min and Mr. Zhu Yu Lin. Mr. Luk Guo Qing is the chairman of the audit committee.

The audit committee has reviewed the quarterly results for the three months ended 31 March 2007, 30 June 2007, 30 September 2007 of the Company. It also has reviewed the audited financial statements for the year ended 31 December 2007 with management and the Company's external auditors and recommended its adoption by the Board. The audit committee had held four meetings during the current financial year. Individual attendance of each committee member at these meetings is as follows:

Name of Director	**Attended/eligible to attend**
Independent Non-executive Directors	
Mr. Luk Guo Qing	4/4
Mr. Zhu Yu Lin	4/4
Mr. Zong Pei Min	4/4

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

The main duties of the audit committee are as follows:

– to consider the appointment of the external auditors, the audit fee, and any question of resignation or dismissal;

– to discuss with the external auditors the nature and scope of the audit;

– to review and monitor the external auditors, independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

– to develop and implement policy on the engagement of external auditors to supply non-audit services;

– to review the Company's quarterly, interim and annual financial statements before submission to the Board;

– to discuss problem and reservations arising from the final audits and any matters that the external auditors may wish to discuss;

– to review the Company's statement on internal control system prior to endorsement by the Board;

– to consider the major findings of any internal investigation and the management's response; and

– to consider other topics as defined by the Board

Auditors' Remuneration

The audit committee of the Company 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 affect to the Company.

External Auditor

SHINEWING (HK) CPA Limited ("SHINEWING") and Shulu Pan Certified Public Accountants Co., Ltd. ("Shulu Pan") has been appointed as the international auditors and domestic auditors respectively of the Company and shall hold office until the conclusion of the forthcoming annual general meeting of the Company. SHINEWING has audited the financial statements for the year ended 31 December 2007

The audit committee holds meetings with the external auditors each year to discuss the operating results, statements of the Company and listed of advices provided by the auditors

The remuneration in respect of services provided by the external international auditors and external domestic auditors for the years ended 31 December 2007 and 2006 is analysed as follows:

	For the year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Audit service	**655**	970
Performed agreed-upon procedures regarding information on preliminary annual result announcement of the Company	**47**	52
Performed agreed-upon procedures regarding financial information on connected transactions between the Company and Miroglio and its subsidiaries	**47**	52
	749	1,074

The audit services fee for the year ended 31 December 2006 representing services provided by the external international auditors, SHINEWING and the domestic auditors, Shulu Pan. The audit services fee for the year ended 31 December 2007 representing services provided by SHINEWING. The other services fee for the year ended 31 December 2006 and 2007 representing the services provided by SHINEWING.

REMUNERATION COMMITTEE

According to the Code, the Company has established a remuneration committee in January 2005 and the primary duties of the remuneration committee 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, a majority of whom should be independent non-executive directors. The remuneration committee comprises three independent non-executive Directors being Mr. Zong Pei Min, Mr. Luk Guo Qing and Mr. Zhu Yu Lin and Mr. Sun Li Yong, the Chairman and executive Director of the Company. Mr. Luk Guo Qing was elected as chairman of the remuneration committee. It is scheduled to meet at least once a year and the quorum necessary for the transaction of business is two.

The remuneration committee of the Company has considered and reviewed the existing terms of service contracts of the Directors and considers that the existing terms of the service contracts are fair and reasonable.

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

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a Director, and approving terminating the appointment of a director.

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

The Company has complied with Code provision A.4.1 and A.4.2 of the Code as required by the GEM Listing Rules. According to the Company's Articles of Association, the Company appoints its Directors for a maximum term of three years and shall be elected by shareholders at annual general meeting every three years.

All Directors (including executive, non-executive and independent non-executive directors) are subject to election for appointment by shareholders at the annual general meeting at every three years. None of the Directors who are proposed for re-election at the forthcoming annual general meeting 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.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The Directors' responsibilities in preparing financial statements and the auditors' responsibilities are set out in the Auditors' Report on page 30 of this Annual Report.

DIRECTORS AND SENIOR MANAGEMENT – REMUNERATION AND SHARES INTEREST

Details of the remuneration and share interest of the Directors and senior management are contained in notes 7 to the financial statements on pages 58 to 60 and Directors Report on pages 16 to 17 respectively of this Annual Report.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Company. The Company's internal control includes a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Company's objectives.

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control. The audit committee also reviews the internal control system and evaluates their adequacy, effectiveness and compliance on a regular basis.

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 publication of quarterly, interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) the Company replying to the enquiries from shareholders timely; (iv) updated and key information of the Company available on website of the Company; (v) the Company's website offering communication channel between the Company and its shareholders and investors; and (vi) 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 believe 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 provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
ZHEJIANG YONGLONG ENTERPRISES CO., LTD.
浙江永隆實業股份有限公司
(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 32 to 81, which comprise the balance sheet as at 31 December 2007, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibilities

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 as to 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 and true and fair presentation of the financial statements 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 the Company's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants

Lo Wa Kei
Practicing Certificate Number: P03427
Hong Kong
26 March 2008

Income Statement

For the year ended 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Turnover	6	**384,007**	416,572
Cost of sales		**(345,361)**	(387,991)
Gross profit		**38,646**	28,581
Other operating income		**7,888**	11,687
Selling expenses		**(6,315)**	(4,412)
Administrative and operating expenses		**(20,803)**	(16,637)
Finance costs	8	**(18,581)**	(19,955)
Profit (loss) before taxation		**835**	(736)
Taxation	9	**4,326**	5,219
Profit for the year	10	**5,161**	4,483
Dividend	11	**–**	–
Earnings per share – basic	12	**RMB0.5 cents**	RMB0.4 cents

Balance Sheet

As At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Investment properties	13	**12,045**	12,876
Property, plant and equipment	14	**229,890**	241,786
Prepaid lease payments	15	**11,568**	11,841
		253,503	266,503
Current assets			
Inventories	17	**168,362**	106,671
Prepaid lease payments	15	**273**	273
Trade receivables	18	**128,336**	115,378
Other receivables, deposits and prepayments	18	**9,089**	16,028
Amount due from a related company	19	**20**	11
Pledged bank deposits	20	**65,192**	41,617
Fixed bank deposits	16	**60,565**	102,132
Bank balances and cash	21	**10,182**	47,514
		442,019	429,624
Current liabilities			
Trade payables	22	**97,438**	66,101
Other payables and accruals	22	**19,504**	17,466
Amount due to a related company	23	**–**	275
Tax liabilities		**6,040**	9,493
Borrowings – due within one year	24	**254,950**	259,490
		377,932	352,825
Net current assets		**64,087**	76,799
Total assets less current liabilities		**317,590**	343,302
Non-current liabilities			
Borrowings – due after one year	24	**40,000**	70,000
Deferred tax liabilities	25	**5,436**	6,309
		45,436	76,309
NET ASSETS		**272,154**	266,993

Balance Sheet

As At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Capital and reserves			
Share capital	26(a)	**106,350**	106,350
Reserves	26(b)	**165,804**	160,643
SHAREHOLDERS' FUNDS		**272,154**	266,993

The financial statements on pages 32 to 81 were approved and authorised for issue by the Board of Directors on 26 March 2008 and are signed on its behalf by:

SUN LI YONG
DIRECTOR

LI CHENG JUN
DIRECTOR

Statement of Changes in Equity

For the year ended 31 December 2007

	Share Capital RMB'000 (Note 26 (a))	Share premium RMB'000	Other reserve RMB'000 (Note 26 (b))	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (Note 26 (b))	Statutory welfare fund RMB'000 (Note 26 (b))	Retained profits RMB'000 (Note 26 (b))	Total RMB'000
At 1 January 2006	106,350	69,637	7,880	15,959	8,144	4,073	50,467	262,510
Transfer	–	–	–	–	4,352	(4,073)	(279)	–
Profit for the year	–	–	–	–	–	–	4,483	4,483
At 31 December 2006 and 1 January 2007	106,350	69,637	7,880	15,959	12,496	–	54,671	266,993
Profit for the year	–	–	–	–	–	–	5,161	5,161
At 31 December 2007	106,350	69,637	7,880	15,959	12,496	–	59,832	272,154

Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	**835**	(736)
Adjustments for:		
Impairment recognised for deposits	**171**	–
Impairment (reversal of impairment) recognised for trade receivables	**170**	(69)
Allowance (reversal of allowance) for obsolete inventories	**385**	(4,064)
Interest income	**(4,062)**	(5,967)
Gain on disposal of investments held-for-trading	**–**	(193)
Loss on disposal of property, plant and equipment	**41**	–
Finance costs	**18,581**	19,955
Exchange loss recognised to income statement in respect of bank deposits	**3,688**	1,924
Depreciation of investment properties	**831**	831
Depreciation and amortisation of property, plant and equipment	**25,517**	24,669
Amortisation of prepaid lease payments	**273**	273
Operating cash flows before movements in working capital	**46,430**	36,623
Increase in inventories	**(62,076)**	(13,175)
Increase in trade receivables	**(13,128)**	(27,535)
Decrease in other receivables, deposits and prepayments	**6,768**	14,035
(Increase) decrease in amount due from a related company	**(9)**	425
Increase (decrease) in trade payables	**31,337**	(14,223)
Increase in other payables and accruals	**2,038**	829
(Decrease) increase in amount due to a related company	**(275)**	275
Cash generated from (used in) operations	**11,085**	(2,746)
Interest paid	**(21,726)**	(22,507)
NET CASH USED IN OPERATING ACTIVITIES	**(10,641)**	(25,253)
INVESTING ACTIVITIES		
(Increase) decrease in pledged bank deposits	**(23,575)**	5,791
Decrease in fixed bank deposits	**38,919**	118,728
Purchase of property, plant and equipment	**(10,577)**	(7,137)
Interest received	**3,022**	4,158
Proceeds from disposal of investments held-for-trading	**–**	593
Proceeds from disposal of property, plant and equipment	**60**	–
NET CASH FROM INVESTING ACTIVITIES	**7,849**	122,133

Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
FINANCING ACTIVITIES		
Repayment of borrowings	**(579,896)**	(965,862)
New borrowings raised	**545,356**	893,894
NET CASH USED IN FINANCING ACTIVITIES	**(34,540)**	(71,968)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(37,332)**	24,912
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**47,514**	22,602
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	**10,182**	47,514

Notes to the Financial Statements

For the year ended 31 December 2007

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 section of "Corporate Information" to the annual report.

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

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, for the first time, the following new or revised Hong Kong Accounting Standard ("HKAS"), HKFRS, amendment and interpretations ("Ints") (herein collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Company's financial year beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Company has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective as at 31 December 2007. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and financial position of the Company.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 March 2007.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

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

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.

Sales of goods are recognised when goods are delivered and title has passed.

Sub-contracting fee income is recognised when services are provided.

Interest income from a financial asset 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 assets' net carrying amount.

Rental income is recognised on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

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

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method.

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

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.

The Company as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expenses on a straight-line basis over the lease term.

The Company as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated at cost or valuation less subsequent accumulated depreciation and accumulated impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amount, 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 values at the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Any revaluation increase arising on revaluation of buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset 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 retained profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Prepaid lease payment

Prepaid lease payments represent lease payments paid or payable for the right to use the land on which various plants and buildings are situated for a definite period, are carried at cost less accumulated amortisation. Amortisation of prepaid lease payments is calculated on a straight-line basis over the expected period of the lease.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Where government grants are given for the purposes of immediate financial support to the Company with no further related cost to be incurred, the grants are recognised as income when they become receivable. Grants relating to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are release to income over the useful lives of the assets.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement 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 of current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

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 its functional currency (i.e. the currency of the primary economic environment in which the Company operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Exchange differences arising on the settlement of monetary items, and on the translation 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 except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Financial instruments

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

Financial assets

The Company's financial assets are mainly loans and receivables. 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 on 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 asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivable (including trade receivables, other receivables, deposits, amount due from a related company, bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are 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 investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Trade and other receivables that are assessed not to be impaired individually are subsequently 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 and an increase in number of delayed payments in the portfolio past the average credit period of 30 days to 120 days.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company's financial liabilities are mainly other financial liabilities.

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 through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivables and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefits scheme

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

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 are required to make judgements, 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. Revision 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 of the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Allowances for inventories

The management of the Company reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales or use in production. The management estimates that the net realisable value for raw materials, work in progress and finished goods based primarily on the latest invoice prices and current market conditions. The Company carries out an inventory review on a product-by-product basis at each balance sheet date. During the year ended 31 December 2007, the Company has provided allowances for obsolete inventories of approximately RMB385,000 (2006: reversal of allowance of obsolete inventories of approximately RMB4,064,000).

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include trade receivables, other receivables, deposits, pledged bank deposits, fixed bank deposits, bank balances and cash, trade payables, other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risks and interest rate risk), credit risks and liquidity risks. 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.

Foreign currency risk

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

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.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

The Company has no monetary liabilities denominated in foreign currency. The carrying amounts of the Company's foreign currency denominated monetary assets at the balance sheet date are as follows:

	Assets	
	2007	2006
	RMB'000	RMB'000
Denominated in USD		
Trade receivables	**52,967**	51,448
Bank balances and cash	**436**	565
Denominated in HKD		
Pledged bank deposits	**–**	25,117
Fixed bank deposits	**50,565**	77,132
Bank balances and cash	**605**	1,021

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

The following table details the Company's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the balance sheet date for a 5% change in foreign currency rates. A positive number below indicates an increase in profit/decrease in loss for the year where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit/(loss) for the year, and the balances below would be negative.

RMB strengthens 5%	**USD Impact**		**HKD Impact**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Impact on profit or loss	**(2,670)**	(2,600)	**(2,558)**	(5,164)

RMB weakens 5%	**USD Impact**		**HKD Impact**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Impact on profit or loss	**2,670**	2,600	**2,558**	5,164

The Company's sensitivity to foreign currency was similar as compared to last year. When RMB strengthens 5%, the profit for both the year ended 31 December 2007 and 2006 decrease as the Company has no monetary liabilities denominated in foreign currency.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Interest rate risk

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly the interest bearing bank balances and floating-rate bank borrowings at prevailing market interest rates. Borrowings, bank deposits and balances carried at variable rates expose the Company to cash-flow interest rate risk whilst borrowings and bank deposits carried at fixed rates expose the Company to fair value interest rate risks.

The Company is also exposed to the repricing risk caused by the short-term maturity of certain fixed rate bank borrowings. These fixed rate bank borrowings would be matured and rolled over for every three to six months. The relevant interest rate would be repriced and marked to the market prevailing rates.

In respect of the fixed rate bank borrowings, the following tables indicate the effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	Year ended 31 December 2007			
	Effective interest rate %	Total RMB'000	Within one year RMB'000	More than one year and less than five years RMB'000
Repricing dates which reprice before maturity	**6.12% – 8.42%**	**91,900**	**91,900**	**–**
Repricing dates which do not reprice before maturity	**6.12% – 8.02%**	**113,050**	**73,050**	**40,000**
		204,950	**164,950**	**40,000**

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Interest rate risk *(continued)*

	Year ended 31 December 2006			
	Effective interest rate %	Total RMB'000	Within one year RMB'000	More than one year and less than five years RMB'000
Repricing dates which reprice before maturity	5.02% – 6.14%	100,660	100,660	–
Repricing dates which do not reprice before maturity	5.85% – 7.25%	159,130	89,130	70,000
		259,790	189,790	70,000

The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below have been determined based on the exposure to interest rates for interest bearing pledged bank deposits, bank balances and floating-rate bank borrowings at the balance sheet date. The analysis is prepared assuming the relevant assets and liabilities outstanding at the balance sheet date were outstanding for that whole year.

1% sensitivity rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the profit for the year ended 31 December 2007 would decrease/increase by approximately RMB148,000 (2006: increase/decrease by approximately RMB259,000). This is because the amounts of the Company's floating-rate borrowings are higher than that of the aggregate amounts of the interest bearing bank deposits and balances.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 is the carrying amount of trade and other receivables as stated in the balance sheet. In addition, the Company has concentration of credit risk by certain major customers. In order to minimise the credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are banks with high credit rating assigned.

Liquidity risk

The board of directors of the Company has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining sufficient bank balances. The Company continuously monitors the forecast and actual cash flows and the maturity profiles of financial liabilities.

The maturity profile of the Company's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

For the year ended 31 December 2007

	Effective interest rate	On demand or less than three months RMB'000	Three months to less than twelve months RMB'000	More than one year but not exceeding two years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amounts RMB'000
Trade payables	–	53,876	43,562	–	97,438	97,438
Other payables and accruals	–	19,504	–	–	19,504	19,504
Amount due to a related company	–	–	–	–	–	–
Borrowings	6.12%-8.42%	4,070	260,282	41,178	305,530	294,950
Total		77,450	303,844	41,178	422,472	411,892

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

For the year ended 31 December 2006

	Effective interest rate	On demand or less than three months RMB'000	Three months to less than twelve months RMB'000	More than one year but not exceeding two years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amounts RMB'000
Trade payables	–	23,756	42,345	–	66,101	66,101
Other payables and accruals	–	17,466	–	–	17,466	17,466
Amount due to a related company	–	275	–	–	275	275
Borrowings	5.02%-7.25%	5,101	263,147	70,989	339,237	329,490
Total		46,598	305,492	70,989	423,079	413,332

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consist of debt, which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The key management personnel of the Company actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Company and capital efficiency, bank facilities, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006. The Company did not breach any loan covenants during the year ended 31 December 2007 and 2006.

Fair value

The fair values of financial assets and financial liabilities reported in the balance sheets of the Company approximate their carrying amounts due to their immediate or short-term maturities.

6. TURNOVER AND SEGMENT INFORMATION

Turnover of the Company represents the amounts received and receivable for goods sold, which is net of value-added tax during the year.

In accordance with the Company's internal financial reporting, the Company has determined that geographical segments is its primary reporting segment.

Geographical segments

The Company's business is located in the PRC and its segment information is by geographical location of its customers who are principally located in the PRC and Europe. Segment information about these geographical markets is presented below:

For the year ended 31 December 2007

	PRC RMB'000	Europe RMB'000	Asia other than PRC RMB'000	Others RMB'000	Total RMB'000
TURNOVER – external	**231,475**	**113,146**	**37,243**	**2,143**	**384,007**
SEGMENT RESULT	**19,396**	**4,124**	**961**	**252**	**24,733**
Unallocated corporate income					**7,888**
Unallocated corporate expenses					**(13,205)**
Finance costs					**(18,581)**
Profit before taxation					**835**
Taxation					**4,326**
Profit for the year					**5,161**

6. TURNOVER AND SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by the geographical location of its customers:

Balance sheet as at 31 December 2007

	PRC RMB'000	Europe RMB'000	Asia other than PRC RMB'000	Others RMB'000	Total RMB'000
ASSETS					
Segment assets	**75,369**	**48,334**	**4,321**	**312**	**128,336**
Unallocated corporate assets					**567,186**
Total assets					**695,522**

The liabilities of the Company are all unallocated

For the year ended 31 December 2007

	PRC RMB'000	Europe RMB'000	Asia other than PRC RMB'000	Others RMB'000	Total RMB'000
OTHER INFORMATION					
Capital additions	**13,722**	**–**	**–**	**–**	**13,722**
Amortisation of prepaid lease payments	**273**	**–**	**–**	**–**	**273**
Depreciation and amortisation	**26,348**	**–**	**–**	**–**	**26,348**
Loss on disposal of property, plant and equipment	**41**	**–**	**–**	**–**	**41**
Allowance for obsolete inventories	**385**	**–**	**–**	**–**	**385**
Impairment recognised for deposits	**171**	**–**	**–**	**–**	**171**
Impairment recognised for trade receivables	**170**	**–**	**–**	**–**	**170**

6. TURNOVER AND SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

For the year ended 31 December 2006

	PRC RMB'000	Europe RMB'000	Asia other than PRC RMB'000	Others RMB'000	Total RMB'000
TURNOVER – external	294,173	97,434	23,752	1,213	416,572
SEGMENT RESULT	3,425	7,970	2,566	(23)	13,938
Unallocated corporate income					11,687
Unallocated corporate expenses					(6,406)
Finance costs					(19,955)
Loss before taxation					(736)
Taxation					5,219
Profit for the year					4,483

6. TURNOVER AND SEGMENT INFORMATION *(continued)*

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by the geographical location of its customers:

Balance sheet as at 31 December 2006

	PRC RMB'000	Europe RMB'000	Asia other than PRC RMB'000	Others RMB'000	Total RMB'000
ASSETS					
Segment assets	63,929	48,156	3,293	–	115,378
Unallocated corporate assets					580,749
Total assets					696,127

The liabilities of the Company are all unallocated

For the year ended 31 December 2006

	PRC RMB'000	Europe RMB'000	Asia other than PRC RMB'000	Others RMB'000	Total RMB'000
OTHER INFORMATION					
Capital additions	9,689	–	–	–	9,689
Amortisation of prepaid lease payments	273	–	–	–	273
Depreciation and amortisation	25,500	–	–	–	25,500
Reversal of impairment recognised for trade receivables	(69)	–	–	–	(69)
Reversal of allowance for obsolete inventories	(4,064)	–	–	–	(4,064)

In addition, the carrying amount of segment assets and capital expenditure are located in the PRC as at 31 December 2007 and 2006.

Business segments

The Company is principally engaged in the research and development, manufacture and sale of woven fabrics and accordingly no analysis of business segment is presented.

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS

Particulars of the emoluments of directors, supervisors and the five highest paid employees are as follows:

(a) Directors' emoluments

The emoluments paid or payable to each of the nine (2006: nine) directors were as follows:

For the year ended 31 December 2007

	Mr. Sun Li Yong RMB'000	Ms. Fang Xiao Jian RMB'000	Mr. Sun Jian Feng RMB'000	Mr. Xia Xue Nian RMB'000	Mr. Li Cheng Jun RMB'000	Mr. Marco Borio RMB'000	Mr. Luk Guo Qing RMB'000	Mr. Zhu Yu Lin RMB'000	Mr. Zhong Pei Min RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	36	36	36	108
Other emoluments										
Salaries and other benefits	60	60	60	60	60	60	–	–	–	360
Retirement benefits scheme contributions	2	2	2	2	2	–	–	–	–	10
Less: amount waived	(24)	(29)	(29)	(29)	(29)	–	–	–	–	(140)
Total emoluments	38	33	33	33	33	60	36	36	36	338

For the year ended 31 December 2006

	Mr. Sun Li Yong RMB'000	Ms. Fang Xiao Jian RMB'000	Mr. Sun Jian Feng RMB'000	Mr. Xia Xue Nian RMB'000	Mr. Li Cheng Jun RMB'000	Mr. Marco Borio RMB'000	Mr. Luk Guo Qing RMB'000	Mr. Zhu Yu Lin RMB'000	Mr. Zhong Pei Min RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	36	36	36	108
Other emoluments										
Salaries and other benefits	60	60	60	60	60	60	–	–	–	360
Retirement benefits scheme contributions	1	1	1	1	1	–	–	–	–	5
Less: amount waived	(24)	(29)	(29)	(29)	(29)	–	–	–	–	(140)
Total emoluments	37	32	32	32	32	60	36	36	36	333

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS *(continued)*

(b) Supervisors' emoluments

The emoluments paid or payable to each of the five (2006: five) supervisors were as follows:

For the year ended 31 December 2007

	Mr. Fan Zhi Gang RMB'000	Mr. Shao Bao Hua RMB'000	Mr. He Dong Hui RMB'000	Mr. Hu Jin Huan RMB'000	Mr. Wang He Rong RMB'000	Total RMB'000
Fees	**–**	**–**	**–**	**12**	**12**	**24**
Other emoluments:						
Salaries and other benefits	**36**	**36**	**36**	**–**	**–**	**108**
Retirement benefits scheme contributions	**–**	**–**	**–**	**–**	**–**	**–**
Less: amount waived	**(36)**	**(36)**	**(36)**	**–**	**–**	**(108)**
Total emoluments	**–**	**–**	**–**	**12**	**12**	**24**

For the year ended 31 December 2006

	Mr. Fan Zhi Gang RMB'000	Mr. Shao Bao Hua RMB'000	Mr. He Dong Hui RMB'000	Mr. Hu Jin Huan RMB'000	Mr. Wang He Rong RMB'000	Total RMB'000
Fees	–	–	–	12	12	24
Other emoluments:						
Salaries and other benefits	36	36	36	–	–	108
Retirement benefits scheme contributions	–	–	–	–	–	–
Less: amount waived	(36)	(36)	(36)	–	–	(108)
Total emoluments	–	–	–	12	12	24

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS *(continued)*

(c) Employees' emoluments

Of the five individuals with the highest emoluments in the Company, two (2006: five) were directors of the Company whose emoluments are included in the note (a) above. The emoluments of the remaining three individuals for the year ended 31 December 2007 were as follows:

	2007 RMB'000	2006 RMB'000
Salaries and allowances	108	–
Retirement benefits scheme contributions	6	–
	114	–

The emoluments of each of the five highest paid individuals are less than HK$1,000,000 (equivalent to approximately RMB936,400) for the year ended 31 December 2007.

During the years ended 31 December 2007 and 2006, no emoluments were paid by the Company to the directors, supervisors and employees as inducement to join or upon joining the Company or as compensation for loss of office.

8. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on bank borrowings wholly repayable within five years	21,726	22,507
Less: amounts capitalised in construction in progress	(3,145)	(2,552)
	18,581	19,955

Borrowing costs capitalised during the year arose on general borrowing pool and are calculated by applying a capitalisation rate of 6.41% (2006: 6.02%) to expenditure on qualifying assets.

9. TAXATION

	2007 RMB'000	2006 RMB'000
The credit comprises:		
PRC enterprise income tax for the year	–	–
Overprovision in previous years	(3,453)	(5,676)
	(3,453)	(5,676)
Deferred tax (Note 25)		
– Current year	656	457
– Attributable to a change in tax rate	(1,529)	–
	(873)	457
	(4,326)	(5,219)

No provision for PRC enterprise income tax for both years as there is no assessable profit for the two years ended 31 December 2007 and 2006.

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The tax rate of the Company will change from 33% to 25% from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

9. TAXATION *(continued)*

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

	2007	2006
	RMB'000	RMB'000
Profit (loss) before taxation	**835**	(736)
Tax at the domestic income tax rate of 33% (2006: 33%)	**276**	(243)
Tax effect of expenses that are not deductible in determining taxable profit	**380**	700
Decrease in opening balances of deferred tax resulting from a decrease in tax rate	**(1,529)**	–
Overprovision in previous years	**(3,453)**	(5,676)
Tax credit for the year	**(4,326)**	(5,219)

10. PROFIT FOR THE YEAR

	2007 RMB'000	2006 RMB'000
Profit for the year has been arrived at after charging:		
Auditors' remuneration	655	700
Amortisation of the prepaid lease payments	273	273
Cost of inventories recognised as expenses	345,133	387,991
Depreciation and amortisation		
– property, plant and equipment	25,517	24,669
– investment properties	831	831
	26,348	25,500
Employee benefits expenses, including directors' and supervisors' remuneration	22,557	24,031
Retirement benefit scheme contributions	527	638
Total staff costs	23,084	24,669
Net exchange loss	7,996	5,204
Research and development costs	479	435
Loss on disposal of property, plant and equipment	41	–
Allowance for obsolete inventories (Note 17)	385	–
Impairment recognised for trade receivables (Note 18)	170	–
Impairment recognised for deposits	171	–
and after crediting:		
Government grants (Note 32)	33	113
Interest income	4,062	5,967
Rental income from investment properties, net of outgoings of approximately RMB58,000 (2006: RMB58,000)	1,106	1,106
Reversal of allowance of obsolete inventories (Note 17)	–	4,064
Reversal of impairment recognised for trade receivables (Note 18)	–	69
Gain on disposal of investments held-for-trading	–	193

11. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2007, nor has any dividend been proposed since the balance sheet date (2006: nil).

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year of approximately RMB5,161,000 (2006: RMB4,483,000) and the weighted average of 1,063,500,000 (2006: 1,063,500,000) ordinary shares in issue during the year.

No diluted earnings per share have been presented for the two years ended 31 December 2007 and 2006 as there were no diluting events existed during those years.

13. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2006, 31 December 2006 and 31 December 2007	16,199
DEPRECIATION AND IMPAIRMENT	
At 1 January 2006	2,492
Provided for the year	831
At 31 December 2006 and 1 January 2007	3,323
Provided for the year	831
At 31 December 2007	4,154
CARRYING VALUES	
At 31 December 2007	12,045
At 31 December 2006	12,876

The fair value of the Company's investment properties at 31 December 2007 was RMB14,400,000 (2006: RMB14,200,000). The fair value has been arrived at based on a valuation carried out by BMI Appraisals Limited, an independent qualified professional valuers not connected with the Company. The valuation, which conforms to International Valuation Standards, was determined by reference to recent market prices for similar properties.

The investment properties of the Company are located in the PRC and are held to earn rentals or for capital appreciation. The investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of investment properties over their estimated useful life from the date on which they become fully operational at 5% per annum using straight line method.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Plant and machinery	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST OR VALUATION						
At 1 January 2006	94,668	1,747	192,810	1,805	40,798	331,828
Additions	12	5	3,782	76	5,814	9,689
At 31 December 2006 and 1 January 2007	94,680	1,752	196,592	1,881	46,612	341,517
Additions	–	–	5,420	16	8,286	13,722
Transfer	54,886	–	–	12	(54,898)	–
Disposal	–	–	(205)	–	–	(205)
At 31 December 2007	149,566	1,752	201,807	1,909	–	355,034
Comprising:						
At cost	91,011	1,752	201,807	1,909	–	296,479
At valuation – 2003	58,555	–	–	–	–	58,555
	149,566	1,752	201,807	1,909	–	355,034
DEPRECIATION AND AMORTISATION						
At 1 January 2006	8,836	806	64,424	996	–	75,062
Provided for the year	4,734	338	19,261	336	–	24,669
At 31 December 2006 and 1 January 2007	13,570	1,144	83,685	1,332	–	99,731
Provided for the year	4,963	314	19,936	304	–	25,517
Eliminated on disposals	–	–	(104)	–	–	(104)
At 31 December 2007	18,533	1,458	103,517	1,636	–	125,144
CARRYING VALUES						
At 31 December 2007	131,033	294	98,290	273	–	229,890
At 31 December 2006	81,110	608	112,907	549	46,612	241,786

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The buildings are situated on land leased under medium-term land use rights in the PRC (Note 15).

If buildings had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation at approximately RMB54,769,000 (2006: RMB58,224,000).

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	5%
Motor vehicles	20%
Plant and machinery	10%
Furniture, fixture and equipment	20%

15. PREPAID LEASE PAYMENTS

	2007	2006
	RMB'000	RMB'000
The Company's prepaid lease payment comprise:		
Medium-term leasehold land in the PRC	**11,841**	12,114
Analysed for reporting purposes as:		
Non-current asset	**11,568**	11,841
Current asset	**273**	273
	11,841	12,114

16. FIXED BANK DEPOSITS

Included in the fixed bank deposits of RMB50,565,000 (2006: RMB53,019,000) at the balance sheet date represents a fixed return bank deposits with one year fixed term. The effective interest rate is 3.15% (2006: 3.46%) per annum.

The remaining deposits represent a fixed return bank deposits with six months fixed term. The effective interest rate is 3.42% (2006: 2.25% to 3.46%) per annum.

Included in fixed bank deposits are the following amounts denominated in currencies other than the functional currencies of the Company:

	2007	2006
	HKD'000	HKD'000
Denominated in HKD	**54,000**	76,773

17. INVENTORIES

	2007	2006
	RMB'000	RMB'000
Raw materials	**22,447**	12,058
Work in progress	**45,340**	18,826
Finished goods	**100,960**	75,787
	168,747	106,671
Less: Allowance for obsolete inventories	**(385)**	–
	168,362	106,671

There was a significant increase in the net realisable value of finished goods due to market shortage of woven fabrics, a reversal of write-down of finished goods of approximately RMB4,064,000 has been recognised and included in cost of sales for the year ended 31 December 2006.

18. TRADE RECEIVALBES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Trade receivables

The Company allows an average credit period of 30 days to 120 days to its trade customers. The aged analysis of trade receivables net of impairment losses at the reporting date is as follows:

	2007	2006
	RMB'000	RMB'000
Within 30 days	**52,394**	54,142
31 – 60 days	**21,154**	25,242
61 – 90 days	**16,674**	12,672
91 – 120 days	**6,960**	5,444
121 – 180 days	**13,532**	12,536
181 – 365 days	**17,622**	5,299
Over 365 days	**–**	43
	128,336	115,378

Movement in the impairment for trade receivables:

	2007	2006
	RMB'000	RMB'000
Balance at beginning of the year	**–**	69
Impairment losses recognised	**170**	–
Impairment losses reversed	**–**	(69)
Balance at end of the year	**170**	–

18. TRADE RECEIVALBES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

Trade receivables *(continued)*

Trade receivables that are neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Company limits its exposure to credit risk by carefully selecting the customers and by diversification.

As at the balance sheet date, trade receivables with aggregate carrying amount of approximately RMB31,154,000 (2006: RMB17,878,000) were past due at the balance sheet date for which the Company has not provided for impairment. These are related to a number of independent customers that have a good repayment record with the Company. Based on the past experience, the management believes that no impairment is considered necessary as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The aging analysis of these trade receivables is as follows:

	2007 RMB'000	2006 RMB'000
0 – 60 days	13,532	12,536
Over 60 days	17,622	5,342
	31,154	17,878

Included in trade receivables are the following amounts denominated in currencies other than functional currencies of the Company:

	2007 USD'000	2006 USD'000
Denominated in USD	7,251	6,589

18. TRADE RECEIVALBES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

Other receivables, deposits and prepayments

Movement in the impairment for deposits:

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	–	–
Impairment losses recognised	171	–
Balance at end of the year	171	–

The other receivables that were neither past due nor impaired related to a large number of diversified debtors for whom there was no recent history of default.

19. AMOUNT DUE FROM A RELATED COMPANY

Details of amount due from a related company is as follows:

	2007 RMB'000	2006 RMB'000
Sabrina (Note a)	–	11
Hongxing (Note b)	20	–
	20	11

Note:

(a) At 31 December 2006, the amount of approximately RMB11,000 represents balance due from 浙江宏興莎美娜服飾有限公司 (Zhejiang Hongxing Sabrina Garments Co., Ltd.) ("Sabrina"). Sabrina is a subsidiary of 浙江加佰利控股集團有限公司 (Zhejiang Gabriel Holdings Group Company Limited) ("Gabriel"), in which Messrs. Sun Li Yong, Xia Xue Nian, Sun Jian Feng, Li Cheng Jun and Ms. Fang Xiao Jian, directors of the Company, have beneficial interests. The amount is interest-free, unsecured and repayable on demand. The maximum balance outstanding during the year ended 31 December 2007 amounted to approximately RMB210,000 (2006: RMB1,144,000).

(b) At 31 December 2007, the amount of approximately RMB20,000 (2006: Nil) represents balance due from 浙江宏興紡織有限公司 (Zhejiang Hongxing Textiles Co., Ltd.) ("Hongxing"). Hongxing is a subsidiary of Gabriel. The amount is interest-free, unsecured and repayable on demand. The maximum balance outstanding during the year amounted to approximately RMB2,868,000.

20. PLEDGED BANK DEPOSITS

At the balance sheet date, the Company had placed deposits to banks to secure banking facilities granted to the Company. Deposits have been pledged to secure short-term bank loans and are therefore classified as current assets.

The deposits carry interest rate at 3.42% (2006: ranged from 2.07% to 2.625%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Included in pledged bank deposits are the following amounts denominated in currencies other than the functional currencies of the Company they relate:

	2007 HKD'000	2006 HKD'000
Denominated in HKD	–	25,000

21. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Company. Bank balances carry interest rates ranged from 0.72% to 0.81% per annum (2006: 0.72% per annum).

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

	2007 USD'000	2006 USD'000
Denominated in USD	60	72

	2007 HKD'000	2006 HKD'000
Denominated in HKD	646	1,026

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

The aged analysis of trade payables at the respective balance sheet dates is as follows:

	2007 RMB'000	2006 RMB'000
Within 30 days	48,231	23,781
31 – 60 days	23,797	20,521
61 – 90 days	8,811	8,608
91 – 120 days	11,469	2,984
121 – 180 days	1,294	6,342
181 – 365 days	1,742	2,099
1 – 2 years	2,094	1,766
Trade payables	97,438	66,101
Other payables and accruals	19,504	17,466

23. AMOUNT DUE TO A RELATED COMPANY

Details of amount due to a related company is as follows:

	2007 RMB'000	2006 RMB'000
Hongxing	–	275

Hongxing is a subsidiary of Gabriel, in which Messrs. Sun Li Yong, Xia Xue Nian, Sun Jian Feng, Li Cheng Jun and Ms. Fang Xiao Jian, directors of the Company, have beneficial interests in Gabriel. The amount is interest-free, unsecured and repayable on demand.

24. BORROWINGS

	2007 RMB'000	2006 RMB'000
Bank borrowings	**294,950**	329,490
Analysed as:		
Secured (see note 29)	**56,230**	109,730
Unsecured	**238,720**	219,760
	294,950	329,490
Denominated in RMB	**294,950**	329,490
Carrying amount repayable:		
Within one year or on demand	**254,950**	259,490
More than one year, but not exceeding two years	**40,000**	70,000
	294,950	329,490
Less: amount due within one year shown under current liabilities	**(254,950)**	(259,490)
Amount due after one year	**40,000**	70,000

The exposure of the Company's fixed-rate and variable rate borrowings and the relevant contractual maturity dates (or repricing dates) are as follows:

	2007 RMB'000	2006 RMB'000
Fixed-rate borrowings		
Within one year or on demand	**164,950**	189,790
More than one year, but not exceeding two years	**40,000**	70,000
	204,950	259,790
Floating-rate borrowings		
Within one year or on demand	**90,000**	69,700
More than one year, but not exceeding two years	**–**	–
	90,000	69,700

24. BORROWINGS *(continued)*

The ranges of effective interest rates on the Company's borrowings are as follows:

	2007	2006
Fixed-rate borrowings	**6.12%-8.42%**	5.02%-7.25%
Floating-rate borrowings	**7.23%-7.45%**	6.44%-6.73%

	2007	2006
	RMB'000	RMB'000
The borrowings were guaranteed by:		
Mr. Sun Li Yong and Ms. Fang Xiao Jian	**5,200**	–
Gabriel and independent third parties	**80,000**	40,000
Gabriel and directors of the Company	**–**	10,000
Directors of the Company and independent third parties	**10,000**	–
Zhejiang Zhiye, Mr. Sun Li Yong and independent third party (Note)	**–**	25,000
Mr. Sun Li Yong, Ms. Fang Xiao Jian and independent third parties	**39,500**	57,000
Mr. Sun Li Yong and independent third parties	**20,000**	–
Independent third parties	**84,020**	130,760
	238,720	262,760

Note:

浙江市置業房地產開發有限公司 (Zhejiang Zhiye Real Estate Development Co., Ltd.) ("Zhejiang Zhiye"), a company in which Gabriel has 32% of controlling interest and Mr. Sun Li Yong is also a director of Zhejiang Zhiye.

During the year, the Company obtained new bank borrowings in the amount of approximately RMB545,356,000 (2006: RMB893,894,000). The loans bear fixed interest at prevailing market rates and repayable in installments over a period of three months to two years. The proceeds were mainly used to finance for general working capital of the Company.

25. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Tax losses	Impairment loss recognised in respect of trade receivables and deposits	Fixed return bank deposits	Write down of inventories	Revaluation of buildings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	(89)	(237)	(824)	(858)	7,860	5,852
(Credited) charged to income statement for the year	(1,235)	237	597	858	–	457
At 31 December 2006 and 1 January 2007	(1,324)	–	(227)	–	7,860	6,309
(Credited) charged to income statement for the year	665	(85)	172	(96)	–	656
Effect on opening balances resulting from change of tax rate	321	–	55	–	(1,905)	(1,529)
At 31 December 2007	(338)	(85)	–	(96)	5,955	5,436

At 31 December 2007, the Company has unused estimated tax losses of approximately RMB1,350,000 (2006: RMB4,011,000) available for offset against future profits. The unused tax losses will be expired in 2010.

For the purpose of balance sheet presentation, the above deferred tax assets and liabilities have been offset.

26. SHARE CAPITAL AND RESERVES

(a) Share capital

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

	Number of shares	Value
		RMB'000
Domestic shares as at 1 January 2006, 31 December 2006 and 31 December 2007	588,000,000	58,800
H shares as at 1 January 2006, 31 December 2006 and 31 December 2007	475,500,000	47,550
Total share capital of RMB0.10 each as at 1 January 2006, 31 December 2006 and 31 December 2007	1,063,500,000	106,350

The domestic shares and H shares carring 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.

(b) Reserves

Other reserve

The balance of other reserve represents dividends waived by holders of domestic shares, net of tax effect.

Statutory surplus reserve

As stipulated by the relevant PRC laws and regulations, 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 accumulated losses or increase capital.

Statutory welfare fund

Prior to 1 January 2006, the Company is required in each year to transfer 5% to 10% of the profit after taxation (based on the Company's PRC statutory accounts) to the statutory welfare fund. Starting from 1 January 2006, the Company is not required to transfer any profit after taxation to statutory welfare fund in accordance with the amendment in the PRC Companies Ordinance.

26. SHARE CAPITAL AND RESERVES *(continued)*

(b) Reserves *(continued)*

Retained profits

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 accounting principles generally accepted in the PRC and the amount determined under Hong Kong Financial Reporting Standards. As at 31 December 2007, the amount of reserve available for distribution was approximately RMB59,832,000 (2006: RMB54,671,000).

27. OPERATING LEASES COMMITMENTS

(a) The Company as lessee

The Company had no (2006: RMB81,000) minimum lease payments under operating leases during the year in respect of land and buildings.

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2007 **RMB'000**	2006 RMB'000
Within one year	**–**	273

Operating lease payments for year 2006 represent rentals payable by the Company for its office premises. Leases are negotiated and rentals are fixed for one year.

(b) The Company as lessor

Property rental income earned during the year was RMB1,164,000 (2006: RMB1,164,000). The properties are expected to generate rental yields of 10% (2006: 9%) on an ongoing basis.

At the balance sheet date, the Company had no operating lease arrangement (2006: nil).

28. CAPITAL COMMITMENTS

At the balance sheet date, the Company had commitments of approximately RMB747,000 (2006: RMB2,773,000) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

29. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Company with the following carrying values had been pledged to secure borrowings granted to the Company:

	2007 RMB'000	2006 RMB'000
Pledged bank deposits	**65,192**	41,617
Investment properties	**11,979**	–
Prepaid lease payments	**5,131**	4,899
Buildings	**65,948**	18,805
Plant and machinery	**–**	10,833
Construction in progress	**–**	46,612
	148,250	122,766

30. RETIREMENT BENEFIT SCHEME

The Company contributed to a local municipal government retirement scheme for all qualified employees in the PRC. The employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Company with respect to the retirement scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The total cost charged to income statement of approximately RMB527,000 (2006: RMB638,000) represents contributions payable to the scheme by the Company during the year.

31. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) Compensation of directors and key management personnel

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

	2007 RMB'000	2006 RMB'000
Short-term benefits	352	352
Post-employment benefits	10	5
	362	357

The remuneration of directors and key executives is determined by the Board of Director having regard to the performance of individuals and market trends.

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

Name of related company	Nature	2007 RMB'000	2006 RMB'000
Sabrina	Sales of goods	–	17
	Rental income	181	181
	Electricity cost reimbursement	35	9
	Purchase of goods	7	4
Hongxing	Sales of goods	–	3
	Rental income	983	328
	Electricity cost reimbursement	11	8
	Purchase of goods	2,674	8
Miroglio S.P.A. and its subsidiaries ("Miroglio S.p.A. Group") (Note a)	Sales of goods	65,868	43,338
Miroglio Fulida (Note b)	Subcontracting fee	9,545	8,796
	Sales of goods	18	62

31. CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

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

Notes:

a. Since 24 March 2005, Miroglio S.p.A. became a substantial shareholder of the Company. The sales order placed by Miroglio S.p.A. Group to the Company for the year ended 31 December 2007 was approximately RMB82,776,000 (2006: RMB65,684,000). Sales recognised by the Company for the year ended 31 December 2007 was approximately RMB65,868,000 (2006: RMB43,338,000). As at 31 December 2007, the amounts due from Miroglio S.p.A. Group (included in trade receivables) were amounted to approximately RMB17,597,000 (2006: RMB12,385,000). The outstanding balance was incurred in the ordinary course of business of the Company and on normal commercial terms, hence, it is receivable according to the relevant contractual terms of the transactions that were incurred.

b. Zhejiang Miroglio Fulida Textile Co., Ltd. (浙江羅米利奧富麗達紡織有限公司) ("Miroglio Fulida") a company established in the PRC, the registered capital of which is owned as to 50% by Miroglio S.p.A. As at 31 December 2007, the amount due to Miroglio Fulida (included in trade payables) was amounted to approximately RMB1,262,000 (2006: RMB2,000,000). The outstanding balance was incurred in the ordinary course of business of the Company and on normal commercial terms, hence, it is repayable according to the relevant contractual terms of the transactions that were incurred.

Details of the guarantee given by related parties to the banks in respect of the loans granted to the Company as at 31 December 2007 set out in Note 24.

In addition to the above, balances with related parties as at 31 December 2007 are set out in Notes 19 and 23 respectively.

32. GOVERNMENT GRANTS

Government grants of approximately RMB33,000 (2006: RMB113,000) have been received during the year for the encouragement of the development of business in Zhejiang Province. The amounts have been included in other operating income for the year.

33. FINANCIAL INSTRUMENTS

As at the balance sheet date, the Company had the following categories of financial instruments:

	2007 RMB'000	2006 RMB'000
Financial assets		
Loans and receivables (including bank balances and cash)		
Trade receivables	128,336	115,378
Other receivables and deposits	8,278	15,753
Amount due from a related company	20	11
Pledged bank deposits	65,192	41,617
Fixed bank deposits	60,565	102,132
Bank balances and cash	10,182	47,514
	272,573	322,405
Financial liabilities		
Amortised cost		
Trade payables	97,438	66,101
Other payables	10,162	7,528
Amount due to a related company	–	275
Borrowings	294,950	329,490
	402,550	403,394

34. POST BALANCE SHEET EVENTS

The shareholders of the Company passed a special resolution on the extraordinary general meeting that was held on 13 November 2007 and approved the directors of the Company to place a maximum of 880,000,000 new H Shares ("Placing Shares") at a placing price of HK$0.55 per H Share.

The 880,000,000 Placing Shares to be placed represent (i) approximately 82.75% of the existing total registered capital of the Company; (ii) approximately 185.07% of the existing H Shares in issue; (iii) approximately 64.92% of the total H Shares in issue as enlarged by the issue of the Placing Shares and (iv) approximately 45.28% of the total registered capital of the Company as enlarged by the issue of the Placing Shares.

The net proceeds of the Placing, after deducting the related commission and expenses, will be approximately HK$470,900,000, representing a net placing price of approximately HK$0.535 per H Share. The Company intends to use such net proceeds for working capital and future investment purposes.

Upto the date of this report, the procedures of Placing has not completed as it is still under the relevant government authorities' approval.

Financial Summary

RESULTS

	THE COMPANY (Note 1)					THE GROUP
	For the year ended 31 December					For the year ended 31 December
	2007	2006	2005	2004	2003	2003
	RMB'000	RMB'000	RMB'000 (restated)	RMB'000 (restated)	RMB'000	RMB'000
TURNOVER	**384,007**	415,572	415,366	449,766	466,669	195,086
PROFIT (LOSS) BEFORE TAXATION	**835**	(736)	(8,073)	29,202	48,397	12,958
TAXATION	**4,326**	5,219	4,413	(10,104)	(14,243)	(4,490)
PROFIT (LOSS) BEFORE MINORITY INTERESTS	**5,161**	4,483	(3,660)	19,098	34,154	8,468
MINORITY INTEREST	**–**	–	–	–	–	–
PROFIT (LOSS) FOR THE YEAR	**5,161**	4,483	(3,660)	19,098	34,154	8,468

ASSETS AND LIABILITIES

	At 31 December					At 31 December
	2007	2006	2005	2004	2003	2003
	RMB'000	RMB'000	RMB'000 (restated)	RMB'000 (restated)	RMB'000	RMB'000
TOTAL ASSETS	**695,522**	696,127	781,950	852,341	853,555	132,946
TOTAL LIABILITIES	**(423,368)**	(429,134)	(519,440)	(641,433)	(646,740)	(120,193)
MINORITY INTEREST	**–**	–	–	–	–	–
SHAREHOLDERS' FUNDS	**272,154**	266,993	262,510	210,908	206,815	12,753

Note: The summary of the results and the assets and liabilities of the Company for the year ended 31 December 2003, 2004, 2005, 2006 and 2007 are extracted from the audited financial statements.