浙江永隆實業股份有限公司

ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*

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

(Stock Code: 8211)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

* *For identification purpose only*

HIGHLIGHTS

For the year ended 31 December 2012,

- turnover of the Company decreased from approximately RMB195.43 million in year 2011 to approximately RMB130.01 million in year 2012, representing a decrease of approximately 33.48% when compared to the year ended 31 December 2011;
- loss for the year was approximately RMB17.63 million; and
- the Directors do not recommend the payment of a final dividend for the year ended 31 December 2012.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

The board of directors (the "Board" or the "Directors") of the Company is pleased to announce the audited results of the Company for the year ended 31 December 2012, together with the comparative results for the corresponding period in 2011 as follows:

	Notes	**2012** ***RMB'000***	2011 *RMB'000*
Turnover	*3*	**130,007**	195,433
Cost of sales		**(114,790)**	(181,211)
Gross profit		**15,217**	14,222
Other income and gains	*3*	**3,702**	369,485
Selling and distribution costs		**(210)**	(270)
Administrative expenses		**(13,851)**	(9,659)
Reversal of provision for loss on misconducts of former directors of the Company		**-**	8,499
Interest expenses waived	*6*	**-**	19,753
Finance costs	*6*	**(23,414)**	(5,397)
(Loss) profit before taxation		**(18,556)**	396,633
Income tax credit	*7*	**922**	934
(Loss) profit for the year	*8*	**(17,634)**	397,567
Other comprehensive income for the year			
Gain on revaluation of properties		**3,691**	3,734
Income tax relating to revaluation of properties		**(922)**	(934)
Other comprehensive income for the year, net of tax		**2,769**	2,800
Total comprehensive (expenses) income for the year		**(14,865)**	400,367
(Loss) earnings per share		**RMB**	RMB
Basic and diluted	*9*	**(1.66) cents**	37.38 cents

STATEMENT OF FINANCIAL POSITION
At 31 December 2012

	Notes	**2012** **RMB'000**	2011 RMB'000
Non-current assets			
Property, plant and equipment		**108,311**	125,635
Prepaid lease payments		**7,208**	7,443
		115,519	133,078
Current assets			
Inventories		**10,753**	9,977
Trade and other receivables	*11*	**48,550**	57,553
Prepaid lease payments		**188**	141
Financial assets at fair value through profit or loss		**4,500**	-
Bank balances and cash		**43,253**	31,269
		107,244	98,940
Assets classified as held for sale	*12*	**39,526**	39,526
		146,770	138,466
Current liabilities			
Amount due to a related company	*13*	**948**	27
Trade and other payables	*14*	**37,767**	56,492
Provision	*15*	**10,000**	10,000
		48,715	66,519
Net current assets		**98,055**	71,947
Total assets less current liabilities		**213,574**	205,025
Non-current liability			
Amount due to ultimate holding company	*16*	**151,299**	127,885
Net assets		**62,275**	77,140
Capital and reserves			
Share capital		**106,350**	106,350
Reserves		**(44,075)**	(29,210)
		62,275	77,140

STATEMENT OF CHANGES IN EQUITY

	Share capital *RMB'000*	Share premium *RMB'000*	Other reserve *RMB'000* *(Note (a))*	Asset revaluation reserve *RMB'000*	Statutory surplus reserve *RMB'000* *(Note (b))*	Accumulated losses *RMB'000* *(Note (c))*	Total *RMB'000*
At 1 January 2011	106,350	69,637	7,880	24,315	12,496	(660,975)	(440,297)
Deemed contribution from the ultimate holding company of the Company	-	-	117,070	-	-	-	117,070
Profit for the year	-	-	-	-	-	397,567	397,567
Other comprehensive income for the year	-	-	-	2,800	-	-	2,800
Total comprehensive income for the year	-	-	-	2,800	-	397,567	400,367
At 31 December 2011 and 1 January 2012	106,350	69,637	124,950	27,115	12,496	(263,408)	77,140
Loss for the year	-	-	-	-	-	(17,634)	(17,634)
Other comprehensive income for the year	-	-	-	2,769	-	-	2,769
Total comprehensive income (expenses) for the year	-	-	-	2,769	-	(17,634)	(14,865)
At 31 December 2012	106,350	69,637	124,950	29,884	12,496	(281,042)	62,275

Notes:

(a) Other reserve represents the dividends waived by the holders of domestic shares, net of tax effect and the deemed contribution arising from the discounting of the non-current interest-free loan from ultimate holding company of the Company (Note 16).

(b) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), when distributing the net profit for each year, the Company (after conversion to a limited liability company) shall set aside 10% of its net profit after taxation (based on the PRC statutory accounts of the Company) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's share capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset against accumulated losses or increase the share capital.

(c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 31 December 2012 and 2011, no reserves were available for distribution due to accumulated losses being noted.

Notes:

1. BASIS OF PREPARATION

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

The Company is principally engaged in (i) the manufacture and sale of woven fabrics and (ii) provision of subcontracting services.

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

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

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

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

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

New and revised HKFRSs issued but not yet effective

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

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

HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosures of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK International Financial Reporting Interpretation Committee ("IFRIC") – Interpretation ("Int") 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit and loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit and loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit and loss.

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

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 13 Fair Value Measurement

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

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

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

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

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

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

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

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

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

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

3. TURNOVER AND OTHER INCOME AND GAINS

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

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

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

Note:

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

4. SEGMENTAL INFORMATION

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

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

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

(a) Segment revenue and results

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

	For the year ended 31 December					
	Woven fabric		**Subcontracting services**		**Total**	
	2012	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	**76,327**	157,917	**53,680**	37,516	**130,007**	195,433
Segment results	**2,518**	9,214	**14,906**	2,396	**17,424**	11,610
Unallocated corporate income (expenses)						
- Government subsidies					**432**	189,553
- Debts wavied by guarantors					**-**	168,325
- Reversal of provision for loss on misconduct of former directors of the Company					**-**	8,499
- Others					**(12,998)**	4,290
- Interest expenses waived					**-**	19,753
- Finance costs					**(23,414)**	(5,397)
(Loss) profit before taxation					**(18,556)**	396,633

The accounting policies of the reportable segments are the same as the Company's accounting policies. Segment results represents the results of each segment without allocation of interest income, government subsidies, debts waived by guarantors, reversal of provision for loss on misconducts of former directors of the Company, directors' remuneration, central administration costs, interest expenses waived and finance costs. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

(b) Geographical information

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

5. REVERSAL OF ALLOWANCE RECOGNISED IN RESPECT OF VARIOUS ASSETS

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

Note:

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

6. INTEREST EXPENSES WAIVED AND FINANCE COSTS

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

7. INCOME TAX CREDIT

	2012	2011
	RMB'000	*RMB'000*
Deferred taxation		
- Current year	**922**	934

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

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

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

8. (LOSS) PROFIT FOR THE YEAR

	2012	2011
	RMB'000	*RMB'000*
(Loss) profit for the year		
has been arrived at after charging (crediting):		
Staff cost (including supervisors', directors',		
chief executive's and chairman's emoluments):		
Salaries, wages and other benefits in kind	**18,761**	18,712
Retirement benefit scheme contributions	**388**	446
	19,149	19,158
Amortisation of prepaid lease payments	**188**	188
Auditors' remuneration	**527**	732
Cost of inventories	**82,171**	174,043
Depreciation of property, plant and equipment	**20,122**	24,205
Research and development costs	**78**	134
Reversal of impairment loss recognised		
in respect of trade receivables	**(100)**	(382)

9. (LOSS) EARNINGS PER SHARE

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

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

10. DIVIDENDS

No dividend was paid or proposed by the directors of the Company in respect of the year ended 31 December 2012, nor has any dividend been proposed since the end of reporting period (2011:Nil).

11. TRADE AND OTHER RECEIVABLES

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

The Company allows an average credit period of 60 days to 120 days to its trade customers. For the year ended 31 December 2012, the Company extended the credit period to certain customers by signing separate repayment agreements. The Company does not hold any collateral or other credit enhancements over its trade and other receivables.

An aged analysis of trade receivables, net of impairment loss recognised and presented base on invoice date is as follows:

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

12. ASSETS CLASSIFIED AS HELD FOR SALE

On 29 December 2010, a resolution was passed by the board of directors of the Company to dispose of certain buildings, investment properties and prepaid lease payments (the "Selling Assets"). On 30 August 2011, the Company has signed a memorandum of understanding with the People's Government of Yang Xun Qiao Town, Shaoxing County* "浙江省紹興縣楊汛橋鎮人民政府" ("Local Government") in respect of disposal of Selling Assets. On 30 December 2011, the Company and Local Government entered into an assets transfer agreement, pursuant to which the Local Government has agreed to acquire and the company has agreed to dispose the Selling Assets at a total consideration of RMB79,772,200. The disposal will be completed on or before 30 September 2012 in accordance with the terms of the assets transfer agreement.

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

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

The assets classified as held for sale represent as follows:

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

Note:

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

** English name is for identification only*

13. AMOUNT DUE TO A RELATED COMPANY

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

14. TRADE AND OTHER PAYABLES

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

Notes:

(i) The Company normally receives credit periods from suppliers ranging from 30 days to 90 days. The Company has in place financial risk management policies to ensure that all payables are settled within the credit timeframe.

(ii) An aging analysis of the trade payables at the end of the reporting periods based on invoice date is as follows:

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

15. PROVISION

	2012	2011
	RMB'000	*RMB'000*
At 1 January	**10,000**	34,653
Settlement during the year	**-**	(16,154)
Reversal of provision *(Note 4)*	**-**	(8,499)
At 31 December	**10,000**	10,000

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

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

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

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

16. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The Company and 浙江永利實業集團有限公司(Zhejiang Yongli Industry Group Co., Ltd*)("Zhejiang Yongli") signed a debt restructuring agreement on 13 September 2011 with the following repayment terms:

(1) The Company shall owe the sum of approximately RMB239,677,000 (before the effect of discounting) to Zhejiang Yongli, and Zhejiang Yongli shall permanently abandon any claim against the Company for the repayment of debt amounting to RMB187,090,000, which will be compensated by the Local Government by way of government subsidies;

(2) The Company agreed to repay Zhejiang Yongli, commencing from the fifth anniversary after the signing of the debt restructuring agreement provided that the amount to be repaid shall not exceed 50% of the operating cash flow of the year on an annual basis until the full repayment of the debt;

(3) Unless obtaining prior written agreement from both parties, Zhejiang Yongli shall not demand any early repayment of the debt notwithstanding the occurrence of one or a multiple of material adverse event(s) affecting Zhejiang Yongli's repayment capability, such as, among other things, serious operation problems, deterioration in financial situation and material litigation;

(4) No interest would be charged to the Company during the repayment period;

(5) Zhejiang Yongli undertakes to assume all the contingent debts of the Company incurred at all times and permanently abandon any claim against the Company for the repayment of such contingent debts of the Company; and

(6) The amount is unsecured, interest-free and will not be repayable until 12 September 2016. The carrying value of the amount due to ultimate holding company as at 31 December 2012 was stated at discounted present value with an imputed interest rate of 14.35% per annum.

17. RELATED PARTY TRANSACTIONS

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

(a) The balances with a related party and ultimate holding company are set out in Note 13 and 16 respectively.

(b) During the year ended 31 December 2012, the Company had paid approximately RMB9,134,000 (2011: RMB8,015,000) to Zhejiang Yongli Thermal Electricity Company Limited*, a subsidiary of Zhejiang Yongli for electricity and steam provided to the Company for usage in the production.

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

(c) The remuneration of directors and other members of key management for the two years ended 31 December 2012 and 2011 were as follows:

	2012	2011
	RMB'000	*RMB'000*
Short-term employee benefits	**772**	297
Post-employment benefits	**15**	19
	787	316

** English name is for identification only*

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

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

Business and operation review

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

Production facilities

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

Product research and development

During the year ended 31 December 2012, the Company continued to innovate and develop new product so as to meet the customers' need and enhance sales orders from customers.

Outlook

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

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2012, the Company's current assets and net current assets were approximately RMB146.77 million (31 December 2011: approximately RMB138.47 million) and approximately RMB98.06 million (31 December 2011: approximately RMB71.95 million) respectively. The liquidity ratio of the Company, represented by the ratio of current assets over current liabilities, was approximately 3.01 (31 December 2011: 2.08).

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

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

MATERIAL DISPOSALS

Details of material disposals are set out in note 12 above in respect of assets classified as held for sale.

SEGMENTAL INFORMATION

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

CONTINGENT LIABILITIES

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

CHARGES ON COMPANY ASSETS

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

EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2012, the Company had 459 employees (31 December 2011: 505), comprising 2 (31 December 2011: 4) in research and development, 3 (31 December 2011: 3) in sales and marketing, 421 (31 December 2011: 470) in production, 22 (31 December 2011: 16) in quality control, 6 (31 December 2011: 5) in management, and 5 (31 December 2011: 7) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

FOREIGN EXCHANGE EXPOSURE

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

COMPETING INTERESTS

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

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in May 2002 and the primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-Executive Directors, Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu. Mr. Xu Wei Dong is the chairman of the Audit Committee.

The annual results of the Company for the year ended 31 December 2012 of the Company have been reviewed by the Audit Committee.

SCOPE OF WORK OF MESSRS. SHINEWING (HK) CPA LIMITED

This figures in respect of the Company's statement of financial position, statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in the Preliminary Announcement have been agreed by the Company's auditors, Messrs. SHINEWING (HK) CPA Limited, to the amounts set out in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements of Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. SHINEWING (HK) CPA Limited on the preliminary announcement.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2012, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code Provision") as set out in the Appendix 15 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company for the year 2012 will be held on 15 May 2013. A notice convening the annual general meeting will be published in due course.

CLOSURE OF H SHARE REGISTER

The H Share register of shareholders of the Company will be closed from 15 April 2013 to 15 May 2013 (both days inclusive), during which period no transfer of H Shares will be effected. The shareholders of H Shares whose names appeared on the register of shareholders of the Company at 4:00 p.m. on Friday, 12 April 2012 will be entitled to attend and vote at the AGM.

By Order of the Board
Ru Guan Jun
Chairman

Zhejiang, the PRC, 15 March 2013

As at the date of this document, the executive directors of the Company are Mr. Ru Guan Jun, Mr. Xia Xian Fu, Mr. Hu Hua Jun, Mr. Chen Jian Jiang; the non-executive director is Mr. Chen Dong Chun; the independent non-executive directors are Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu.

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