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 2011

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 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 2011,

- turnover of the Company increased from approximately RMB85.70 million in year 2010 to approximately RMB195.43 million in year 2011, representing a sharp increase of approximately 128.04% when compared to the year ended 31 December 2010;
- profit for the year was approximately RMB397.57 million; and
- the Directors do not recommend the payment of a final dividend for the year ended 31 December 2011.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

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 2011, together with the comparative results for the corresponding period in 2010 as follows:

	Notes	**2011** **RMB'000**	2010 *RMB'000*
Turnover	3	**195,433**	85,697
Cost of sales		**(181,211)**	(122,096)
Gross profit (loss)		**14,222**	(36,399)
Other income and gains	3	**369,485**	1,855
Selling and distribution costs		**(270)**	(502)
Administrative expenses		**(9,659)**	(13,128)
Impairment loss recognised in respect of various assets	5	**-**	(3,914)
Reversal of provision (provision for) loss on misconducts of former directors of the Company	6	**8,499**	(3,246)
Finance costs	7	**(5,397)**	(52,336)
Interest expenses waived	7	**19,753**	-
Profit (loss) before taxation		**396,633**	(107,670)
Income tax credit	8	**934**	1,202
Profit (loss) for the year	9	**397,567**	(106,468)
Other comprehensive income for the year			
Gain on revaluation of properties		**3,734**	4,809
Income tax relating to revaluation of properties		**(934)**	(1,202)
Other comprehensive income for the year, net of tax		**2,800**	3,607
Total comprehensive income (expenses) for the year		**400,367**	(102,861)
Earnings (loss) per share		**RMB**	RMB
Basic and diluted	10	**37.38 cents**	(10.01) cents

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment		**125,635**	140,974
Prepaid lease payments		**7,443**	7,584
		133,078	148,558
Current assets			
Inventories		**9,977**	42,159
Trade and other receivables	12	**57,553**	17,350
Prepaid lease payments		**141**	188
Bank balances and cash		**31,269**	1,706
		98,940	61,403
Assets classified as held for sale	14	**39,526**	39,526
		138,466	100,929
Current liabilities			
Amount due to a related company	13	**27**	-
Trade and other payables	15	**56,492**	91,113
Amounts due to guarantors	16	**-**	442,338
Provision	17	**10,000**	34,653
Bank borrowings	18	**-**	121,680
		66,519	689,784
Net current assets (liabilities)		**71,947**	(588,855)
Total assets less current liabilities		**205,025**	(440,297)
Non-current liability			
Amount due to a controlling shareholder	19	**127,885**	-
Net assets (liabilities)		**77,140**	(440,297)
Capital and reserves			
Share capital		**106,350**	106,350
Reserves		**(29,210)**	(546,647)
		77,140	(440,297)

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 2010	106,350	69,637	7,880	20,708	12,496	(554,507)	(337,436)
Loss for the year	-	-	-	-	-	(106,468)	(106,468)
Other comprehensive income for the year	-	-	-	3,607	-	-	3,607
Total comprehensive income (expenses) for the year	-	-	-	3,607	-	(106,468)	(102,861)
At 31 December 2010 and 1 January 2011	106,350	69,637	7,880	24,315	12,496	(660,975)	(440,297)
Deemed contribution from the controlling shareholder 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	106,350	69,637	124,950	27,115	12,496	(263,408)	77,140

Notes:

(a) Other reserve represents 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 the controlling shareholder of the Company.

(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 2011 and 2010, 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 HKFRSs	Improvements to HKFRSs issued in 2010
Amendments to HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
Hong Kong Accounting Standard (“HKAS”) 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK (International Financial Reporting Interpretation Committee (“IFRIC”)) – Interpretation (“Int”) 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Company’s financial performance and positions for the current and prior years and/or on the disclosures set out in the financial statements.

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

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.

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

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

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

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 HKFRS 13 will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the 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:

	2011	2010
	RMB'000	*RMB'000*
Turnover		
Sales of woven fabrics	**157,917**	53,518
Subcontracting fee income	**37,516**	32,179
	195,433	85,697
Other income and gains		
Government subsidies (Note i)	**189,553**	-
Trade and other payables written off	**7,190**	-
Interest income	**17**	4
Debt waived by the guarantors (Note 16)	**168,325**	-
Sales of scrap materials	**3,037**	1,712
Gain on disposal of property, plant and equipment	**1,418**	-
Loss on property, plant and equipment written off	**(265)**	-
Exchange gain	**210**	139
	369,485	1,855

Note :

(i) Government subsidies of approximately RMB2,463,000 and RMB187,090,000 (Note 16) were awarded to the Company for the year ended 31 December 2011 for encouraging business development in the Zhejiang Province and supporting the debt restructuring of the Company, respectively. There are 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 revenues and results

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

	For the year ended 31 December					
	Woven fabric		Subcontracting services		Total	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	**157,917**	53,518	**37,516**	32,179	**195,433**	85,697
Segment results	**9,214**	(25,476)	**2,396**	(16,346)	**11,610**	(41,822)
Unallocated corporate income (expenses)						
- Government subsidies					**189,553**	-
- Debts waived by guarantors					**168,325**	-
- Reversal of provision (provision for) loss on misconducts of directors					**8,499**	(3,246)
- Impairment loss recognised in respect of other receivables					**-**	(232)
- Depreciation of investment properties					**-**	(831)
- Others					**4,290**	(9,203)
- Finance costs					**(5,397)**	(52,336)
- Interest expenses waived					**19,753**	-
Profit (loss) before taxation					**396,633**	(107,670)

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3 to the financial statements. Segment results represents the results of each segment without allocation of interest income, government subsidies, debts waived by guarantors, reversal of provision (provision for) loss on misconducts of directors, impairment loss recognised in respect of other receivables, depreciation of investment properties, directors' remuneration, central administration costs, finance costs and interest expenses waived. 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. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF VARIOUS ASSETS

	2011	2010
	RMB'000	*RMB'000*
Impairment loss recognised in respect of various assets comprised:		
- trade receivables (Note i)	**-**	3,682
- other receivables (Note ii)	**-**	232
	-	3,914
Allowance for inventories included in cost of sales (Note iii)	**-**	19
Reversal of allowance of inventories included in cost of sales (Note iv)	**19,366**	-

Due to misconducts of certain former directors of the Company in 2008, the Company encountered cash flow problems which resulted in a decrease in sales orders and operations. For the year ended 31 December 2010, the directors of the Company conducted a review of various assets of the Company and determined that a number of those assets were impaired:

i) Impairment loss of approximately RMB3,682,000 recognised in respect of trade receivables related to the amounts which were long outstanding and the balances were considered not recoverable at 31 December 2010.

ii) Impairment loss of approximately RMB232,000 was recognised in respect of staff advances recorded in trade and other receivables. In light of the fact those staffs had resigned from the Company, the directors of the Company considered that the likelihood of recovery of the amounts due being very remote and an impairment loss has been recognised.

iii) An allowance for inventories of approximately RMB19,000 related to slow-moving inventories which were stated at higher than their net realisable values.

For the year ended 31 December 2011, no further impairment loss was recognized as a result of the misconduct of certain former directors of the Company in 2008.

iv) An allowance for slow-moving inventories of 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.

6. REVERSAL OF PROVISION (PROVISION FOR) LOSS ON MISCONDUCTS OF FORMER DIRECTORS OF THE COMPANY

	2011	2010
	RMB'000	*RMB'000*
Reversal of provision (provision) (Note 17)	**8,499**	(3,246)

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

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

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

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

On 10 June 2011, the Company signed a settlement agreement with Ms. Zhu. According to the agreement, Ms. Zhu conditionally waived the interest and liquidated damages from the Company, provided that the outstanding principal of RMB16,700,000 was settled before 20 June 2011. During the year, an amount approximately of RMB546,000 was settled through bankruptcy claim by Gabriel and the remaining balance of the outstanding principal of approximately RMB16,154,000 were fully settled by the Company on 16 June 2011. Consequently, provision made in the amount of RMB8,499,000 was reversed during the year ended 31 December 2011 upon settlement of the principal amount due to Ms. Zhu.

** English name is for identification only*

7. (FINANCE COSTS) / INTEREST EXPENSES WAIVED

	2011 *RMB'000*	2010 *RMB'000*
Interest expenses on:		
- bank borrowings wholly repayable within five years	**(118)**	(26,033)
- overdue trust receipt loans	**-**	(17,985)
- advance from guarantors	**-**	(8,318)
Imputed interest on non-current interest-free loan from the controlling shareholder	**(5,279)**	-
	(5,397)	(52,336)
Interest expenses waived	**19,753**	-

8. INCOME TAX CREDIT

	2011 *RMB'000*	2010 *RMB'000*
Deferred taxation		
- Current year	**934**	1,202

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.

The Company's tax losses brought forward from prior years exceed the estimated assessable profits for the year ended 31 December 2011, therefore, no provision for PRC Enterprise Income tax was made for the year ended 31 December 2011.

No provision for PRC Enterprise Income Tax was made in the financial statements, as there were no assessable profits earned by the Company during the year ended 31 December 2010.

9. PROFIT (LOSS) FOR THE YEAR

	2011	2010
	RMB'000	*RMB'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Staff cost (including directors' and supervisors' emoluments):		
Salaries, wages and other benefits in kind	**18,712**	19,009
Retirement benefit scheme contributions	**446**	333
	19,158	19,342
Amortisation of prepaid lease payments	**188**	273
Auditors' remuneration	**941**	638
Bad debts written off	**-**	840
Cost of inventories	**174,043**	120,357
Depreciation of investment properties	**-**	831
Depreciation of property, plant and equipment	**24,205**	28,378
Research and development costs	**134**	216
Reversal of impairment loss in respect of trade receivable	**(382)**	-

10. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share of the Company for the year is calculated based on profit for the year of approximately RMB397,567,000 (2010: loss for the year of approximately RMB106,468,000) and the weighted average of 1,063,500,000 (2010: 1,063,500,000) ordinary shares in issue during the year.

No diluted earnings (loss) per share have been presented for the two years ended 31 December 2011 and 2010 as there were no diluting events existed during those years.

11. DIVIDENDS

No dividend was paid or proposed by the Directors of the Company in respect of the year ended 31 December 2011 (2010: Nil).

12. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**80,616**	41,366
Less: impairment loss recognised	**(24,882)**	(25,264)
	55,734	16,102
Prepayments, deposits and other receivables	**1,819**	81,761
Less: impairment loss recognised	**-**	(80,513)
	1,819	1,248
Total trade and other receivables	**57,553**	17,350

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

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

	2011	2010
	RMB'000	*RMB'000*
0 – 60 days	**53,924**	14,995
61 – 90 days	**159**	515
91 – 365 days	**1,609**	592
Over 365 days	**42**	-
	55,734	16,102

13. AMOUNT DUE TO A RELATED COMPANY

The balance is unsecured, non-interest bearing and repayable on demand.

14. 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 signed a memorandum of understanding with the People's Government of Yang Xun Qiao Town, Shaoxing County, Zhejiang Province* "浙江省紹興縣楊汛橋鎮人民政府" (the "Local Government") in respect of disposal of the Selling Assets. On 30 December 2011, the Company and the Local Government entered into an assets transfer agreement pursuant to which the Local Government agreed to acquire and the Company agreed to dispose of the Selling Assets at a consideration of RMB 79,772,200. The disposal will be completed on or before 30 September 2012 in accordance with the terms of the assets transfer agreement.

The assets classified as held for sale represent as follows:.

	2011	2010
	RMB'000	*RMB'000*
Buildings	**28,892**	28,892
Investment properties	**7,384**	7,384
Prepaid lease payments	**3,250**	3,250
	39,526	39,526

As of the date of this document, the transaction is still in progress.

15. TRADE AND OTHER PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables (Note i & ii)	**32,815**	12,609
Accrued interests (Note iii)	**-**	38,828
Receipt in advance	**3,438**	1,361
Other taxes payable	**12,222**	14,346
Accrued expenses and other payables	**8,017**	23,969
	56,492	91,113

(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 period based on invoice date is as follows:

	2011	2010
	RMB'000	*RMB'000*
0 – 60 days	**18,915**	4,309
61 – 90 days	**5,163**	488
91 – 365 days	**461**	222
Over 365 days	**8,276**	7,590
	32,815	12,609

(iii) Accrued interests included interests for outstanding bank loans over the borrowing terms amounting to approximately RMB38,828,000 as at 31 December 2010. The accrued interests were either waived or settled during the year ended 31 December 2011.

16. AMOUNTS DUE TO GUARANTORS

In prior years, the Company defaulted on the settlement of certain bank borrowings and the related banks had taken legal actions against the Company and its guarantors namely Zhejiang Xiongsheng Holding Co., Ltd. * "浙江雄盛實業有限公司" ("Xiongsheng") and Xiongfeng Holding Group Co., Ltd. * "雄峰控股集團有限公司" ("Xiongfeng"), Zhejiang Lingda Industry Co., Ltd. * "浙江凌達實業有限公司" ("Lingda"), Zhejiang Zhiye Real Estate Group Co., Ltd. * "浙江置業房產集團有限公司" ("Zhiye"), Jinggong Group Co., Ltd. * "精功集團有限公司" ("Jinggong") and Zhejiang Yongli Industry Group Co., Ltd.* "浙江永利實業集團有限公司"("Zhejiang Yongli") (collectively referred to as the "Guarantors"). The amounts in aggregate of RMB442,338,000 outstanding as at 31 December 2010 represented the settlement of bank borrowings made by the Guarantors on behalf of the Company. Such amounts were unsecured, interest-bearing at average interest rate of 3.06% per annum and repayable on demand.

During the year, the Company had signed debt agreements with each of the Company's five Guarantors, namely (1) Xiongsheng and Xiongfeng, (2) Lingda, (3) Zhiye, (4) Jinggong and (5) Zhejiang Yongli on 20 July 2011, 15 August 2011, 17 August 2011, 13 September 2011 and 15 August 2011 respectively (the "Debt Agreements") to settle the Company's debts owed to the Guarantors. Each of the five Guarantors agreed to waive a portion of the debt and to permanently abandon any claim against the Company for the repayment of the remaining amount of the debt from the Company. The remaining amount of debt after the waived portion was all settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of government subsidies.

Details of the movement and settlement of the amounts due to Guarantors and other debts are set out below:

	RMB'000
At 1 January 2011	442,338
Further settlement of the Company's debts (including bank borrowings and other debts) by the Guarantors during the year	152,754
Aggregate amount due to the Guarantors before signing of the Debt Agreements with Zhejiang Yongli and other four Guarantors	595,092
Waiver of debts granted by the Guarantors (Note 3(i))	(168,325)
Amount settled by Zhejiang Yongli which will be compensated by the Local Government via government subsidies (Note 3)	(187,090)
Amount due to Zhejiang Yongli before the effect of discounting as at 31 December 2011	239,677

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

(1) The Company shall owe the sum of approximately RMB239,677,000 (before the effect of discounting and as shown in the table above) to Zhejiang Yongli, and Zhejiang Yongli shall permanently abandon any claim against the Company for the repayment of debt amounting to RMB187,090,000, 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 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; and

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

17. PROVISION

	2011
	RMB'000
At 1 January 2011	**34,653**
Settlement during the year	**(16,154)**
Reversal of provision (Note 6)	**(8,499)**
At 31 December 2011	**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 were settled by the Company on 16 June 2011 and part of the provision made in respect of the interest and liquidated damage in relation thereto was reversed during the year ended 31 December 2011 upon the waiver from Ms. Zhu. Further details are disclosed in Note 6.

(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 interest and legal fees in the 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 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 the guarantor, is liable to a limited sum of RMB10,000,000 in connection with the claim.

18. BANK BORROWINGS

	2011	2010
	RMB'000	*RMB'000*
Bank loans, overdue	-	90,700
Overdue trust receipt loans	-	30,980
Total bank borrowings	-	121,680
Secured	-	10,000
Unsecured	-	111,680
	-	121,680

All bank loans were either settled by Zhejiang Yongli, the controlling shareholder of the Company, during the year ended 31 December 2011 (Note 16). At 31 December 2010, all of the bank borrowings were fixed-rate bank loans, repayable on demand and due within one year.

The weighted average effective interest rates per annum as at 31 December 2010 were 5.91%-8.22% for fixed-rate bank loans, 8.87%-12.33% for overdue bank loans and 18% for overdue trust receipt loans.

Bank borrowings of the Company amounted to approximately RMB111,680,000 as at 31 December 2010 were guaranteed by Mr. and Mrs. Sun and independent third parties.

The accrued interests at 31 December 2010 of approximately RMB38,828,000 are recorded under trade and other payables.

At 31 December 2010, the Company's assets clarified as held for sale amounted to approximately RMB9,993,000 were pledged to secure banking facilities granted to the Company. The pledge was released upon the settlement of related banking facilities during the year ended 31 December 2011.

19. AMOUNT DUE TO A CONTROLLING SHAREHOLDER

The amount due is unsecured, interest-free and not repayable until 12 September 2015. The carrying value of the amount due to the controlling shareholder as at 31 December 2011 was stated at discounted present value with an imputed interest rate of 14.35% per annum. Further details of the balance are set out in Note 16.

20. EVENTS AFTER THE REPORTING PERIOD

(i) Mandatory unconditional general offer

On 19 December 2011, there is a court judgment ruled out that 240,000,000 domestic shares held by Mr. Sun Li Yong and Ms. Fong Xiao Jian be transferred to Zhejiang Yongli. Upon completion of such share transfer and registration, Zhejiang Yongli will hold in aggregate of 550,000,000 Domestic Shares (representing approximately 51.72% of total issued shares of the Company). Pursuant to rule 26.1 of the Hong Kong Code of Takeovers and Mergers, a mandatory general offer in cash or with a cash alternative shall be made for all the outstanding shares other than those already owned or agreed to be acquired by Zhejiang Yongli. On 9 March 2012, the share transfer and registration have been completed and Zhejiang Yongli became the Company's immediate and ultimate holding company. Further details are set out in the announcement of the Company dated 12 March 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the year ended 31 December 2011, the Company recorded a turnover of approximately RMB195.43 million, represents a sharp increase of approximately 128.04% when compared with the same period in 2010. It is mainly because both of the turnovers of sales of woven fabrics and subcontracting services fee income increased by approximately 195.07% and 16.59% respectively when compared with the same period in 2010. Since 24 December 2010, Zhejiang Yongli has become a substantial shareholder of the Company. Under the financial support of Zhejiang Yongli, the Company has been gradually returned to the major business division of sales of woven fabrics. The turnover of sales of woven fabrics was about 80.80% of the total turnover for the year ended 31 December 2011, representing an increase of approximately 18.35% when compared with the same period in 2010. Under the cost control adopted in early 2011, the Company recorded a gross profit of approximately RMB14.22 million and the administrative expenses and selling expenses decreased by approximately 26.42% and 46.22% respectively. After the debt agreements signed with the guarantors during the year ended 31 December 2011 (details are set out in Note 16), certain debts were waived and various overprovided provisions in prior years were written off. These result in a substantial amount of other income of approximately RMB369.49 million. In addition, finance income incurred mainly due to reversal of over-provision of finance costs as a result of the waiver given by the respective guarantors and reversal of over-provision of interest expenses on bank borrowings. Earnings (loss) per share for the year ended 31 December 2011 and 2010 were approximately RMB37.38 cents and (RMB10.01) cents respectively.

Business and operation review

Since 24 December 2010, Zhejiang Yongli has become a substantial shareholder of the Company. Under the financial support of Zhejiang Yongli, the Company has been gradually returned to the major business division of sales of woven fabrics. The turnover of sales of woven fabrics was about 80.80% of the total turnover for the year ended 31 December 2011, representing an increase of 18.35% when compared with the same period in 2010. In view of the financial problems in Europe and the U.S., the overseas markets have been shrinking, however, the local demand has been increasing. The business of the Company will focus on the domestic market and the sales efforts will be put on expanding domestic market shares and continuously consolidating the military fabric production. During the year ended 31 December 2011, the Company has not restarted the export business. The sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB16.59 million during the year ended 31 December 2011, which represents approximately 8.49% of the total turnover.

Production facilities

During the year ended 31 December 2011 under review, the Company spent approximately RMB144,000 in upgrade of office and factory equipment, approximately RMB4,098,000 in replacement of machinery and approximately RMB1,802,000 in renewal of factory buildings.

Product research and development

During the year ended 31 December 2011, the Company continued to innovate and develop new products so as to meet the customers' need and enhance sales orders from customers. With reference to the announcement dated 18 October 2011, the Company entered into Technology Development Agreement with China Textiles Development Center ("CTDC") (紡織產品開發中心) on 15 June 2011, whereby both parties agreed to develop new types of woven fabric material through a long-term cooperation in the areas including the application of raw material, fabric manufacturing art craft and product design. CTDC is a national enterprise, and a national grade textile product development and promotion institute. Cooperation with CTDC will strengthen the Company's position and capability in research and development and increase the Company's technology component. The Company will also obtain long-term research and development support from CTDC to develop new technology and accelerate the development and application of new technology. The technology development agreement to cooperate with CTDC will strengthen the market competitiveness of the Company.

Sales and marketing

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

Outlook

Due to the misconduct of certain former directors in 2008, the Company encountered a financial crisis which led to a shortage of cash flow for settlement of trade debts and bank borrowings. As a result, there were several litigations against the Company and for management purpose, the operation of the Company has to be reorganised into two divisions, that is, sales of woven fabric and provision of subcontracting services. With reference to the announcement of the Company dated 29 December 2010, the Company, Zhejiang Yongli and the Local Government entered into a letter of intent on 6 December 2010 for the proposed reorganisation of the Company by Zhejiang Yongli with the support from the Local Government (the "Restructuring Proposal"). Zhejiang Yongli is a company established in the PRC. The principal terms of the letter of intents are set out in the announcement of the Company dated 29 December 2010.

Subsequent to the letter of intent signed for the Restructuring Proposal, Zhejiang Yongli has become a controlling shareholder of the Company since 24 December 2010. Thereafter, Zhejiang Yongli recommended Mr. Ru Guan Jun and Mr. Xia Xian Fu to be the executive directors of the Company and Mr. Ru Guan Jun to be the Chairman of the Board of Directors and they were appointed accordingly at the extraordinary general meeting held on 11 March 2011. From 20 July 2011 to 13 September 2011, the Company has signed debt agreements with each of five Guarantors of the Company as set out in the announcement of the Company dated 18 October 2011. After that, each of the five Guarantors agreed to waive a portion of debts and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies. In view of the above changes and arrangement and based on the experience of the management and the well established infrastructure of the Company, the Directors believe that the Company will overcome the challenges and achieve sustainable business growth as before.

LIQUIDITY AND FINANCIAL RESOURCES

During year ended 31 December 2011, the Company financed its operations mainly by internally generated cash and financial support from the 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 from 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 the 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 support letters help ensure that the Company will have sufficient capital till 30 June 2013, in addition to the Company's own cash flow from operation.

As at 31 December 2011, the Company's current assets and net current assets (liabilities) were approximately RMB98,94 million (31 December 2010: approximately RMB61.40 million) and approximately RMB71.95 million (31 December 2010: approximately RMB(588.86) million) respectively. The liquidity ratio of the Company, represented by the ratio of current assets over current liabilities, was approximately 1.49 (31 December 2010: 0.089).

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

At 31 December 2011, the Company had no commitments (2010: Nil) for capital expenditure.

MATERIAL DISPOSALS

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 entered into a memorandum of understanding with the People's Government of Yang Xun Qiao Town, Shaoxing County, Zhejiang Province* "浙江省紹興縣楊汛橋鎮人民政府" ("Local Government") in respect of the disposal of the Selling Assets. On 30 December 2011, the Company and Local Government entered into 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 RMB 79,772,200. Pursuant to the agreement, the disposal will be completed on or before 30 September 2012.

SEGMENTAL INFORMATION

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

EMPLOYEE AND EMOLUMENT POLICIES

At 31 December 2011, the Company had 505 employees (2010: 759), comprising 4 (2010: 6) in research and development, 3 (2010: 7) in sales and marketing, 470 (2010: 688) in production, 16 (2010: 49) in quality control, 5 (2010: 3) in management, and 7 (2010: 6) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

FOREIGN EXCHANGE EXPOSURE

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

COMPETING INTERESTS

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

AUDIT COMMITTEE

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

The annual results for the year ended 31 December 2011 of the Company have been reviewed by the Audit Committee.

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

The 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 2011 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 the Company's audited financial statements for the year. The work performed by Messrs. SHINEWING (HK) CPA Limited 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 announcment.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2011, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code Provision") as set out in the Appendix 15 of GEM Listing Rules, except for the following deviations:

1. Due to the misconduct of some of the former Directors in 2008, the Company encountered financial crisis that led to delay in publishing results and dispatching reports for three months ended 31 March 2011, six months ended 30 June 2011, and nine months ended 30 September 2011. These constitute the breach of Rules 18.66, 18.67 and 18.79 of the GEM Listing Rules and the Code Provision C.1.

2. Code Provision A.1.1 stipulates that the Board should hold at least four regular meetings a year at approximately quarterly intervals. During the year ended 31 December 2011, no regular meeting was held.

3. Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, there was no chairman or chief executive officer of the Company until the appointments of Mr. Ru Guan Jun as the chairman of the Company passed on the extraordinary general meeting of the Company held on 11 March 2011 by the shareholders and Mr. Xia Xian Fu as the chief executive officer of the Company.

4. According to Code Provision C.2.1, the directors should at least annually conduct a review on the effectiveness of the internal control system; however, the Company did not conduct such review for the year ended 31 December 2008 until the investigation on the misconduct of some of the former Directors was carried out. In order to prevent recurrence of similar misconduct of directors, the Company has appointed an independent auditor on 1 September 2009 to carry out internal control review for the Company and has been completed on 30 October 2009.

   For the purpose of ensuring that the Company has adequate internal control procedures, the Company has appointed another independent auditor to review the internal control system of the Company and the relevant report has been completed and issued on 20 December 2011.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

DELAY FOR RESUMPTION OF TRADING

Trading in the shares of the Company (the "Shares") on the GEM has been suspended since 9:30 a.m. on 24 October 2008. On 7 March 2012, the Company fulfilled all the resumption conditions required by the Stock Exchange as set out in the announcement of the Company dated 17 February 2012 and trading in Shares on the GEM is expected to resume at 9:00 a.m. on 13 March 2012. However, at the request of the Company, the expected date of the resumption of trading in the Shares on the GEM will be delayed and trading of Shares on GEM will continue to be suspended pending the release of a joint announcement in relation to the Mandatory Unconditional Cash Offer, the information of which is price sensitive. The Company will apply to the Stock Exchange for resumption of the trading in the Shares where appropriate.

By Order of the Board
Ru Guan Jun
Chairman

Zhejiang, the PRC, 12 March 2012

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

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

* *For identification purpose only*