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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)**

**ANNOUNCEMENT  
RESUMPTION OF TRADING  
AND  
RESUMPTION ISSUES**

**Financial Adviser to the Company**

 **川盟融資有限公司**  
Chanceton Capital Partners Limited

**RESUMPTION OF TRADING**

The Board is pleased to announce that all the Two Resumption Conditions in 2012 required have been fulfilled on 7 March 2012. Trading in the Company's shares on the GEM will resume at 9:00 a.m. on 13 March 2012. At the request of the Stock Exchange, the Company wishes to inform the Shareholders of the following issues in relation to resumption.

**BACKGROUND ABOUT THE TRADING SUSPENSION IN 2008**

The suspension of trading in the Company's shares on 24 October 2008 is primarily due to the misappropriation of the Company's funds in 2008 by Mr. Sun and Mrs. Sun, who have not held any position with the Company since their resignation in July 2009. The fund misappropriation, which amounted to approximately RMB338,086,000, comprised the Gabriel Cash Advance, the Yonghe Cash Advance and the financial guarantee provided by the Company to secure loans granted to a connected person. It affected the trading status of the Company and caused a serious debt problem, the transfer of Shares from Mr. Sun and Mrs. Sun to Zhejiang Yongli, and the changes in the Company's management.

## **FULFILLMENT OF ALL THE RESUMPTION CONDITIONS**

The Company has fulfilled all the resumption conditions by undertaking various actions which include (1) clarification of operation and financial position, which includes the debt agreements between July 2011 and September 2011, the Company's current debt position and the on-going financial support provided by Zhejiang Yongli, (2) publication of the Company's financial results, (3) provision of a comfort letter concerning the sufficiency of the Company's working capital, and (4) assurance of the adequacy and effectiveness of the Company's internal control system.

## **RESOLUTION OF PROBLEMS ARISING FROM THE FUND MISAPPROPRIATION IN 2008**

The Company, to resolve problems arising from the fund misappropriations in 2008 took four major steps to identify the amount of the Company's liabilities and engaged two professional parties to conduct reviews in relation to the fund misappropriation. Currently the Company considers that all the implications arising from the fund misappropriation have been completely and accurately reflected in the Company's financial statements.

## **LATEST DEVELOPMENTS**

The Company may soon receive confirmation from 中國證券登記結算有限責任公司 (China Securities Depository and Clearing Corporation Ltd.\*) about the registration of the 240,000,000 Domestic Shares transferred from Mr. Sun and Mrs. Sun to Zhejiang Yongli. Currently, the Company has seven key persons in operation and management. Four of them have been working in the Company for several years, while three (namely, Mr. Ru Guan Jun, Mr. Xia Xian Fu and Ms. Wang Ai Yu) joined the Company recently from Zhejiang Yongli.

The Company has resumed full production capacity, reduced reliance on subcontracting services and the operation cost, and cleared all the litigation cases, except for one case with an outstanding debt in the maximum sum of RMB10 million. The Company seeks to increase revenues and profits while keeping cost low based on the continued business model and the existing production scale. Based on the current operation of the Company, the Company plans to achieve these by keeping production cost low and production capacity high, increasing fabric sales to garment makers and overseas customers, and keeping innovation in product development.

## **POST-RESUMPTION ARRANGEMENT**

To the best knowledge and reasonable belief of Directors, (i) the Company, Zhejiang Yongli or the Directors has no present agreement, arrangement, intention, negotiation and/or plan to carry out a principal business other than the existing business of the Company within 24 months after resumption; (ii) Zhejiang Yongli and its beneficial owners have no intention or plan to dispose its controlling interests in the Company within 24 months after resumption; and (iii) the Directors at the time of resumption will remain with the Board after resumption.

## **RESUMPTION OF TRADING**

The Board is pleased to announce that all the Two Resumption Conditions in 2012 required have been fulfilled on 7 March 2012. Trading in the Company's shares on the GEM will resume at 9:00 a.m. on 13 March 2012.

At the request of the Stock Exchange, the Company wishes to inform the Shareholders the issues in relation to resumption, including (1) the background about the suspension of the trading in the Company's shares in 2008, (2) the work done by the Company to fulfill all the resumption conditions, (3) the work done by the Company to resolve the problems arising from the fund misappropriation in 2008, (4) the latest developments in relation to the Company's shareholding structure, management, operation and business plan, and (5) the post-resumption arrangement.

## **BACKGROUND ABOUT THE TRADING SUSPENSION IN 2008**

At the request of the Company, trading in the shares of the Company was suspended with effect from 9:30 a.m. on Friday, 24 October 2008 pending the release of an announcement which might be price sensitive in nature.

### ***Reason for suspension on 24 October 2008: Fund misappropriation***

The suspension is primarily due to the misappropriation of the Company's funds in 2008, which caused a serious financial crisis to the Company.

Personnel involved in the fund misappropriation included the former major shareholder, Mr Sun Li Yong (“Mr. Sun”), the then executive director and chairman of the Company and his spouse, Ms. Fang Xiao Jian (“Mrs. Sun”), the executive director of the Company. The Board received resignation letters from Mr. Sun and Mrs. Sun respectively on 27 July 2009, pursuant to which Mr. Sun resigned as executive director and chairman of the Company and Mrs. Sun resigned as executive director of the Company, in each case, with effect from 29 July 2009, the date on which the Board resolved to accept the above resignations of Mr. Sun and Mrs. Sun. According to the resignation letters, Mr. Sun and Mrs. Sun were of the view that they were no longer able to perform their duties as a chairman and/or an executive director of the Company normally as they were currently in the United States of America. Since then, they have not held any position with the Company.

Mr. Sun and Mrs. Sun went to the United States of America on 14 September 2008. Soon the Company was troubled with debt problem. As stated in the Company’s announcement dated 19 October 2008 (five days before the suspension of trading in the Company’s shares), Hualian Sanxin, a subsidiary of Gabriel controlled by Mr. Sun and Mrs. Sun, was in a financial crisis and under the investigation of the relevant authorities of Shaoxing County. In addition, the relevant authorities of the PRC government were formulating a reorganization proposal of Gabriel. In the process of reorganization of Gabriel, the related issues between Gabriel and the Company were found, including the guarantee of certain bank loans of the Company jointly by the Directors, Gabriel and independent third parties, and, accordingly, the Company had to negotiate with the banks for the replacements of certain of these guarantors.

Affected by the financial crisis of its subsidiary, Hualian Sunshine, Gabriel encountered cash flow problems that its cash flow could not be revolved normally. At the same time, the Company was also affected and encountered difficulties in its fund flow. The Board had difficulties in contacting Mr. Sun and Mrs. Sun. Hence, Mr. Sun and Mrs. Sun could not perform their regular duties as a chairman and/or a director of the Company. In view of such situation, other executive Directors undertook a review on the financial records of the Company under the support from the local government authority of the PRC and found that the Company had several financial problems, which are referred to as the fund misappropriation, as described below.

The fund misappropriation, which amounted to approximately RMB338,086,000, comprised (i) the Gabriel Cash Advance, (ii) the Yonghe Cash Advance, and (iii) the financial guarantee provided by the Company to secure loans granted to Gabriel, as described in details in the Company's announcement dated 24 July 2009. (i) In the Gabriel Cash Advance, which amounted to approximately RMB220,081,000 as at 31 December 2008, Mr. Sun and Mrs. Sun were then controlling shareholders of Gabriel, which in turn held 60% and 70% shareholding interests in Zhejiang Hongxing and Zhejiang Sabrina respectively. (ii) In the Yonghe Cash Advance, approximately RMB82,305,000 was misappropriated by Zhejiang Yonghe, which was then a customer of Hualian Sunshine and of which one of its executive directors is Mr. Sun's cousin-in-law, for the period from April 2008 to December 2008. Save as disclosed above, Zhejiang Yonghe and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company. Therefore, Zhejiang Yonghe is not a connected person of the Company. There was no guarantee, interest or terms of repayment for the Cash Advance. The Cash Advance was made and arranged in accordance with Mr. Sun's instruction and had not been approved by the Board nor had it been notified to any member of the Board. Accordingly, this constituted unauthorised personal act of Mr. Sun. (iii) Finally, the Company had provided financial guarantee to secure loans granted to Gabriel. On 18 August 2008, Gabriel borrowed the Yatai Loan in an amount of RMB20,000,000 from Yatai, which itself and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company. On 12 September 2008, Gabriel borrowed the Zhu Loan in an amount of RMB20,000,000 from Ms. Zhu who is a third party independent of the Company and connected persons of the Company. The Company provided the Gabriel Guarantee to secure the Yatai Loan and Zhu Loan granted to Gabriel under the instruction and arrangement of Mr. Sun without prior approval by the Board. This also constituted unauthorised personal act of Mr. Sun. As at 24 July 2009, the outstanding amounts of Yatai Loan and Zhu Loan were approximately RMB19,000,000 and RMB16,700,000 respectively, both of which were overdue and not yet repaid by Gabriel.

### ***Results and impact to the Company arising from the misappropriation of fund***

The fund misappropriation has considerable impact on the Company, which can be described in three aspects.

**(i) Impact on the Company's trading status**

The fund misappropriation pursued by Mr. Sun and Mrs. Sun resulted in a breach of the relevant rules of the GEM Listing Rules in relation to the reporting, announcement, and independent shareholders' approval requirements, as described in the Company's announcement dated 24 July 2009. On 9 March 2009, after reviewing the Company's situation, the Stock Exchange sent a letter to the Company requesting the Company to address the following issues (the "Three Resumption Conditions") in its application for resumption of trading in the shares of the Company:

1. clarify the Company's financial position and operation and demonstrate that the market is properly informed of all material information related to the Company that is necessary to enable them to appraise the Company's position and their implications to the Company's liquidity, operations, assets and financial position;
2. publish all outstanding financial results of the Company as required under the GEM Listing Rules and address any concerns that may be raised by the auditors through the qualification of their audit report on the Company's financial statements published after the suspension; and
3. demonstrate that the Company has adequate financial reporting system and internal control procedures to enable the Company to meet its obligations under the GEM Listing Rules.

To fulfill the Three Resumption Conditions, the Company has undertaken various actions. Subsequently on 15 February 2012, the GEM Listing Division replaced the Three Resumption Conditions with the following Two Resumption Conditions:

1. Provision of a comfort letter, to be prepared by the Company's auditors and financial adviser, confirming that the Company will have sufficient working capital for at least 12 months after resumption; and
2. Provision of a confirmation from Zenith Risk Management Advisory Limited that the Company has an adequate and effective internal control system.

On 7 March 2012, the Two Resumption Conditions were all fulfilled. All the work done by the Company to fulfill the resumption conditions are described in the section headed "Fulfillment of all the resumption conditions" in this announcement.

**(ii) Debt problem**

The fund misappropriation created a serious debt problem for the Company to settle. As described in the Company's announcement dated 24 July 2009, as at 30 June 2009, the total amount of bank loans was approximately RMB336,150,000, in which loans in an aggregate amount of approximately RMB162,000,000 from five relevant banks could not be renewed as usual upon their maturity due to the reason that guarantors (including Gabriel, Mr. Sun and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee. Those companies who provided corporate guarantee for bank loan were requested by the relevant banks to act as the Company's creditors to pay. As a result, the Company had to identify and fully settle the Company's debts with the banks, the creditors, and the two private lenders (that is, Ms. Zhu and Yatai). All the work done by the Company to resolve the problems arising from the fund misappropriation are described in the section headed "Resolution of problems arising from the fund misappropriation in 2008" in this announcement,

**(iii) Changes in shareholding structure, management and operation**

In addition to the Company's financial situation, the fund misappropriation induced changes in the Company's various aspects.

Details of the latest developments of the Company in relation to shareholding structure, management, operation and business plan are included in the section headed "Latest developments" in this announcement. The following summarises the key developments after the fund misappropriation in 2008.

- ***Shareholding structure and restructuring***

Soon after the fund misappropriation, on 14 September 2008, Mr. Sun and Mrs. Sun went to the United States of America and have not returned to the PRC. Mr. Sun and Mrs. Sun and Zhejiang Yongli, which itself and its ultimate beneficial owner were third parties independent of the Company and connected persons of the Company, jointly provided guarantee to secure approximately RMB30,000,000 of bank loans granted to Zhejiang Hongxing and approximately RMB30,000,000 of bank loans granted to the Company. As Zhejiang Hongxing and the Company could not repay principal and interest to the banks at maturity date, Zhejiang Yongli repaid these sums on behalf of Zhejiang Hongxing and the Company. In this connection, Zhejiang Yongli took legal action against Mr. Sun and Mrs. Sun requesting them to undertake their guarantee obligation in the aggregate amount (including principal and interest) of RMB35,027,736.87. Therefore, part of the shareholding interest of Mr. Sun and Mrs. Sun in the Company, which is 550,000,000 Domestic Shares representing 51.72% of the total issued shares of the Company, was impounded by Shaoxing Intermediate Court (for details, please refer to the Company's announcements dated 25 March 2009 and 24 July 2009).

On 6 December 2010, the Company, Zhejiang Yongli and the Local Government entered into the Letter of Intent for the proposed reorganisation of the Company by Zhejiang Yongli with the support from the Local Government. Pursuant to the Letter of Intent, Zhejiang Yongli agreed to participate in the auction of the 564,480,000 Domestic Shares held by Mr. Sun and Mrs. Sun (representing approximately 53.08% of the total issued shares of the Company) for the purpose of becoming interested in not less than 29.90% of the shareholding in the Company. Also, in consideration of consents from all the Company's creditors to waive, and to abandon any claim against the Company for, 35% of the indebtedness owing by the Company to each of them, Zhejiang Yongli agreed, upon the change of the controlling Shareholder, to undertake and warrant repayment on behalf of the Company of the remaining 65% to its creditors (together with any incidental liabilities) within two years from the date on which the Company's indebtedness becomes due. Zhejiang Yongli would be responsible for the liabilities of not more than RMB10,000,000. Regarding any liabilities in excess of RMB10,000,000, the Local Government would assist Zhejiang Yongli in full settlement thereof. For details, please refer to the Company's announcement dated 29 December 2010.

On 21 December 2010, the Company received a copy of the 2010 Judgment, which indicated that: (i) despite the Court's issue of an enforcement notice to Mr. Sun and Mrs. Sun following a judgment, they had failed to perform the obligations stipulated in the relevant legal document(s); (ii) Mr. Sun and Mrs. Sun had not raised any opposition to the valuation carried out by the Court on the shares of the Company held by them; (iii) the Court appointed an auction house for auction of 310,000,000 Domestic Shares held by Mr. Sun (representing approximately 29.15% of the total issued shares of the Company) on 10 December 2010, and Zhejiang Yongli won the bid at the highest price of RMB29,760,000 (representing RMB0.096 per share). It was ordered that the 310,000,000 Domestic Shares held by Mr. Sun, which had been bidden at RMB29,760,000 (representing RMB0.096 per share), would belong to Zhejiang Yongli, and that this would come into effect immediately after service of the 2010 Judgment. On 25 December 2010, the Board received confirmation from 中國證券登記結算有限責任公司 (China Securities Depository and Clearing Corporation Ltd.\*) that the 310,000,000 Domestic Shares were transferred from Mr. Sun to Zhejiang Yongli with effect from 24 December 2010. For details, please refer to the Company's announcement dated 29 December 2010.



Recently, on 19 December 2011, the Company was informed by Zhejiang Yongli that Zhejiang Yongli received a copy of the 2011 Judgment ordering that the 240,000,000 Domestic Shares held by Mr. Sun (as to 60,000,000 Domestic Shares) and Mrs. Sun (as to 180,000,000 Domestic Shares) would be assigned to Zhejiang Yongli as a compensation for Zhejiang Yongli with a value of RMB18,630,000 and Zhejiang Yongli would be entitled to effect the transfer of the 240,000,000 Domestic Shares with the relevant governmental authority pursuant to the 2011 Judgment, and the 2011 Judgment would come into effect immediately after service of the 2011 Judgment. For details, please refer to the Company's announcement dated 14 February 2012.

- ***Operation***

The Company has been principally engaged in the research and development, manufacture and sales of woven fabrics. Due to the fund misappropriation, the Company encountered cash flow problems. In order to solve the cash flow problems and ensure stable production and operation, as stated in the Company's announcement dated 24 July 2009, the Company modified its raw materials procurement approach by requiring some of the local customers to provide their own raw materials to the Company for further processing so as to minimize trade payables of the Company incurred in the manufacturing process. In view of the scale, volume, quality, cost control, sales and raw material supply of the production, the production of Company was at a stable status. During January to May in 2009, the operating rate of textile machines achieved 85% and the production volume dropped 20% comparing with the same period in 2008.

## **FULFILLMENT OF ALL THE RESUMPTION CONDITIONS**

Since the Company was informed of the Three Resumption Conditions as set out in the announcement of the Company dated 20 March 2009, the Company has undertaken the following actions, including (1) clarification of operation and financial position, (2) publication of the Company's financial results, (3) provision of a comfort letter concerning the sufficiency of the Company's working capital, and (4) assurance of the adequacy and effectiveness of the Company's internal control system.

To facilitate the resumption, the Company appointed Chanceton Capital Partners Limited as the Company's financial adviser in January 2011, while engaging auditors to complete the auditing of the financial statements for the three years ended 31 December 2008, 2009 and 2010, the attorneys to handle all litigation issues, including debt agreements, a valuer to prepare for the Company's asset valuation reports, and another independent auditor to assess and improve the Company's internal control procedures.

## **1. Clarification of operation and financial position**

At first, to fulfill the first of the Three Resumption Conditions, the Company has made relevant announcements to clarify and update the Company's financial position and operation and demonstrate that the market is properly informed of all material information related to the Company that is necessary to enable them to appraise the Company's position and their implications to the Company's liquidity, operations, assets and financial position. This includes the disclosure on (i) debt agreements between July and September 2011, (ii) the Company's current debt position, and (iii) on-going financial support provided by Zhejiang Yongli, which are summarised below.

### ***(i) Debt agreements between July and September 2011***

In the Company's announcement dated 18 October 2011, the Company disclosed its debt agreements with its creditors between July and September 2011. The Company entered into debt agreements with each of the Company's five creditors ("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 to settle the Company's debt owed to these creditors, and each of the five agreements was witnessed by the Local Government.

Except for Zhejiang Yongli which has become a shareholder of the Company since 24 December 2010, the Guarantors are independent third parties of the Company which provided corporate guarantee on the Company's behalf and were therefore involved in the repayment of bank loans caused by the fund misappropriation. As described in the Company's announcement dated 24 July 2009, as at 30 June 2009, the total amount of bank loans was approximately RMB336,150,000, in which loans in an aggregate amount of approximately RMB162,000,000 from five relevant banks could not be renewed as usual upon their maturity due to the reason that the guarantors (including Gabriel, Mr. Sun and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee. Therefore, the Guarantors, which provided the Company with corporate guarantee for bank loans as usual, were requested by the relevant banks to settle, including the principles and the interest, on the behalf of the Company.

Pursuant to the debt agreements, each of the five Guarantors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be repaid subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies. The breakdowns of these Debt Agreements are summarised in the table below.

Creditor	Amount to be settled on the relevant date of the respective agreement	Debt settlement according to Debt Agreements			Debt owed to the Creditor after Debt Agreements
		Waived by the creditor	Settled with * governmental support	Settled by Zhejiang Yongli	
1 Xiongsheng & Xiongfeng	122,753,300	42,963,600	43,135,700	36,654,000	0
2 Lingda	21,563,100	7,547,085	7,577,300	6,438,715	0
3 Zhiye	19,985,518	6,994,931	7,022,900	5,967,687	0
4 Jinggong	118,633,119	52,687,592	33,391,200	32,554,327	0
5 Zhejiang Yongli	312,157,176	58,132,465	95,962,550	158,062,161	239,676,890
Total : (RMB)	595,092,213	168,325,673	187,089,650	239,676,890	239,676,890

\* Settled initially by Zhejiang Yongli and subsequently repaid by the Local Government by way of governmental subsidies.;

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

- (1) The Company shall owe the sum of approximately RMB239,677,000 (as shown in the table above) to Zhejiang Yongli, and Zhejiang Yongli shall permanently abandon any claim against the Company for the repayment of debt amounting to approximately RMB187,090,000, which will be repaid by the Local Government to Zhejiang Yongli by way of governmental subsidies (as shown in the table above);
- (2) The Company shall 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 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 events affecting Zhejiang Yongli's financial position, such as, among other things, serious operation problems, deterioration in financial situation and material litigation;

- (4) No interest shall be incurred during the repayment period; and
- (5) Zhejiang Yongli undertakes to assume all the contingent debts of the Company incurred at all times and permanently abandon any claim against the Company for the repayment of such contingent debts of the Company.

In addition to the five Guarantors, the Company entered into an agreement with Ms Zhu on 16 June 2011 which provides that, after Ms Zhu has obtained the repayment of a portion of debts through the winding up procedure of Gabriel and the court enforcement against the Company, the Company shall pay all outstanding amount to Ms Zhu totaling approximately RMB13,000,000 before 20 June 2011. At present, the Company has settled the accumulated debts due to Ms. Zhu in the amount of approximately RMB16,153,880 which included the above mentioned amount of approximately RMB13,000,000 and the cost incurred in relation to such litigation. Furthermore, in respect of another creditor of the Company, Yatai, the Company will settle an outstanding debt in the maximum sum of RMB10,000,000 according to the civil affair mediation letter issued by the local court at Shaoxing County in Zhejiang Province on 9 October 2009.

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.

**(ii) *The Company's current debt position***

After the debt settlement with the creditors, the Company's short term debt is basically limited to the outstanding debt in the maximum sum of RMB10,000,000 for Yatai mentioned above. As Gabriel is under liquidation, the exact amount to be borne by the Company on the Yatai Loan should be adjudicated from the court at the final stage of liquidation. The Company plans to settle the Yatai loan after the final judgement has been received from the court. Besides, the Company has an interest-free long-term debt amounting to approximately RMB239,677,000 to be paid to Zhejiang Yongli after 12 September 2016 as mentioned above.

**(iii) *On-going financial support provided by Zhejiang Yongli***

As stated on page 8 of the Company's annual report ended 31 December 2010, "a shareholder of the Company will provide financial support to the Company to meet the Company's liabilities and commitments as and when it falls due". 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.

**2. Publication of the Company's financial results**

To fulfill the second of the Three Resumption Conditions, the Company has published all the outstanding financial results (including the annual reports for each of the years ended 31 December 2008, 2009 and 2010, and the unaudited 2011 first quarterly, interim, and third quarterly financial results) of the Company as required under the GEM Listing Rules. Except for the qualified opinion in respect of a limitation of scope on a special case that a debtor was struck off and failed to provide the auditor with the information on an outstanding loan of approximately RMB18,500,000 as at 31 December 2008, the Hong Kong auditor of the Company, Shinewing (HK) CPA Limited, has no qualified audit opinion in the Company's 2009 and 2010 financial reports.

**3. Provision of a comfort letter confirming sufficiency of the Company's working capital**

Thirdly, to fulfill the first of the Two Resumption Conditions, on 7 March 2012, the Company provided a comfort letter prepared by the Company's auditor and financial adviser confirming that the Company will have sufficient working capital for at least 12 months after resumption.

#### **4. Assurance of the adequacy and effectiveness of the Company's internal control system**

Finally, to fulfill the last of the Three Resumption Conditions, as well as the last of the Two Resumption Conditions, and to improve the Company's internal control procedures, the Company engaged Zenith Risk Management Advisory Limited ("Zenith") in Hong Kong on 17 January 2011 to perform a review of the procedures, systems and controls for the Company. Zenith completed a report (內部控制審閱報告, "Internal Control Evaluation Report"\*) for the Company on 20 December 2011, which was submitted by the Company to the Stock Exchange on 23 December 2011, and a follow-up report (內部控制跟進審閱報告, "Follow-up Internal Control Evaluation Report"\*) for the Company on 2 March 2012. The Company submitted the Follow-up Internal Control Evaluation Report to the Stock Exchange on 6 March, 2012, together with a letter dated 2 March 2012 from Zenith confirming that the Company has an adequate and effective internal control system.

The two reports contain findings, recommendations and management responses in three aspects: (1) internal control system evaluation under Coso framework, (2) compliance with corporate governance practices, and (3) internal control system evaluation by business cycles. The following are the key results.

##### ***(i) New measures to avoid crises similar to 2008 debt crisis***

The Company has improved its loan policy which may help avoid crises similar to 2008 debt crisis. First, a written loan and guarantee policy has been adopted, which is confirmed in the Follow-up Internal Control Evaluation Report. Second, a loan has to be approved by the Board and meeting records must be kept. The loan agreement has to be signed by the Company's legal representative and chopped by the officer of Company's administration department. Cashier will record the loan, and finance department will keep the loan documents and update loan list. This is confirmed in the Internal Control Evaluation Report. In addition, the Company has improved its guarantee policy to avoid crises similar to 2008 debt crisis. It has to be approved by a Shareholders' meeting with record. For provision of financial guarantee, a pledge of assets is required and the value of assets pledged should not be less than the amount guaranteed. The guarantee agreement has to be signed by the Company's legal representative and chopped by the officer of Company's administration department. Finance department will keep the guarantee documents. This has already been confirmed in the Internal Control Evaluation Report.

***(ii) Completion of internal control evaluation reports***

In the Internal Control Evaluation Report, concerning the internal control system under Coso framework, the Company, based on Zenith's recommendations, has clarified its system of performance evaluation, will establish an internal control department and hire qualified persons in 2012, and will soon prepare a budget to pursue discrepancy analyses and to monitor financial forecasts. In the aspect of compliance with corporate governance practices, Zenith has been satisfied with almost all the areas under evaluation. Only three suggestions are made, which include (i) setting up guidelines for Directors to seek independent professional advices, (ii) clarifying the roles of chairman and chief executive officer, and (iii) holding the annual general meeting with the attendance of the chairman of the Board. In the Follow-up Internal Control Evaluation Report, it is confirmed that all the three suggestions have been implemented.

***(iii) Improved financial reporting system***

Finally, regarding the Company's financial reporting system, Zenith has identified some deficiencies and made relevant recommendations and the Company has improved the Company's internal system based on the recommendations. Improvements include: (i) passwords of individual users' accounts of the accounting system should be kept confidentially by each user; (ii) the Company has started to conduct a detailed evaluation of the credibility and background for new customers since March 2011 and will perform more documentation tasks; (iii) the Company has implemented a written policy on the impairment on account receivable in August 2011 and started in September 2011 to conduct monthly evaluation of the debtors' repayment ability; (iv) the Company has improved the protection measures against the loss of a few purchase orders contracts caused by the resignation of employees; (v) the Company has completed a set of supplier evaluation documents and delivered them to the responsible officers for execution; (vi) the Company has complied the impairment on inventory policy in August 2011 and has implemented it since September 2011; and (vii) the Company has, according to the Follow-up Internal Control Evaluation Report, labeled the minor items, such as computer and office equipment.

## **RESOLUTION OF PROBLEMS ARISING FROM THE FUND MISAPPROPRIATION IN 2008**

To resolve problems arising from the fund misappropriations in 2008, as disclosed in this section, the Company took four major steps to identify the amount of the Company's liabilities and engaged two professional parties to conduct reviews in relation to the fund misappropriation. Currently, the Company considers that all the implications arising from the fund misappropriation have been completely and accurately reflected in the Company's financial statements.

### ***(i) Four major steps to identify debt amount in 2009***

In 2009, efforts were made to identify the Company's liabilities caused by the fund misappropriation in 2008 and to reflect them in the Company's financial statement for the year ended 31 December 2008. Four major steps were pursued. (1) 浙江中興會計師事務所 (Zhejiang Zhongxing Certified Public Accountant\*) (the "PRC Auditor") issued a clean auditors report dated 30 March 2009 without any qualification opinion for the Company's financial statement ended 31 December 2008, indicating that there was no omission of liabilities or claims and the financial statements were free from material misstatement. (2) The Company, on 25 September 2009, as suggested by Anda CPA Limited, an independent auditor in Hong Kong engaged by the Company on 1 September 2009, published a notice (the "Notice") at Zhejiang Daily News to inform any potential creditors to make claim to the Company before 15 October 2009. (3) The PRC Auditor, on 21 November 2009, issued an appraisal report of the Company's liabilities and assets for the interim result ended 30 June 2009, which formed the basis for the Letter of Intent as set out in the announcement of the Company dated 29 December 2010. (4) Anda CPA Limited confirmed in its investigation report dated 4 January 2010 that, for the period from 1 January 2008 to 31 July 2009, the Company, after the publication of the Notice, did not receive any unrecorded, whether material or not, debt claims and received only one recorded claim (that is, the Yatai Loan, which was announced by the Company on 24 July 2009) and that "there is no irregular transaction identified apart from those disclosed in the announcement dated 24 July 2009 of the Company".

### ***(ii) Assistance from professional parties to review problems arising from fund misappropriation***

As described above, two professional parties, namely the PRC Auditor and Anda CPA Limited, were engaged by the Company in 2009 to review the problems arising from the fund misappropriation. The following is a summary of their works.



The PRC Auditor's review covered the period from 1 January 2008 to 31 December 2008. Its objective is to generate an audited report of the Company's financial statement for the financial year in which the fund misappropriation occurred. The PRC Auditor issued a clean auditors report dated 30 March 2009 without any qualification opinion. Furthermore, the PRC Auditor provided an appraisal report of the Company's liabilities and assets for the interim result ended 30 June 2009. Its findings were later used as the basis for the external parties, namely, Local Government and Zhejiang Yongli, to sign the Letter of Intent on 6 December 2010 to restructure the Company.

The investigation conducted by Anda CPA Limited covered the period from 1 January 2008 to 31 July 2009. Its objective is to make an evaluation and verification in respect of the fund misappropriation, including guarantee provided by the Company to secure loans granted to a connected person, to ensure that there is no further similar transaction in the Company. Its scope of work included (i) the understanding about the principles and processes of providing borrowings or cash advances and the principles of providing guarantee to a connected person by the Company, (ii) the understanding of the segregation of duties within bank deposit and cash transactions flow through discussion with the relevant staff of the Company, (iii) review of all the minutes and loan / guarantee contracts existed during the period from 1 January 2008 to 31 July 2009, (iv) tracing the supporting payment records to financial records of the Company on sampling basis, (v) publication of the Notice at Zhejiang Daily News. In addition, the review further covered the procedures in relation to control and implementation of disclosure of connected transactions by the Company, consultation with the legal adviser of the Company, contingent liabilities, review of all correspondences of Mr. Sun and Mrs. Sun during the period from 1 January 2008 to 31 July 2009, and whistle-blowing system.

The findings of Anda CPA Limited include, amongst others, the (1) discovery and verification of the non-conventional procedures in respect of the fund misappropriation conducted by the former director, Mr Sun, and (2) confirmation that there is no other significant non-conventional transactions in bank accounts and no missing non-conventional guarantee other than the two guarantee cases (that is, Yatai Loan and Zhu Loan). Recommendations include (1) the approvals by Directors, Mr. Li Cheng Jun and Mr. Xia Xue Nian, and two members of difficulty relief team shall be obtained in advance, in case the Company is required to make any payments, and (2) the segregation of duties within bank deposit and cash transactions flow.

***(iii) Sufficiency of the steps to completely resolve problems arising from fund misappropriation***

In view of the above work done as instructed by the Directors except for Mr. Sun and Mrs. Sun and as concluded in the following that form the bases upon which the Company considers, the Company is of the view that all the implications arising from the fund misappropriation have been completely and accurately reflected in the Company's financial statements:

- (a) the Company has improved the internal control process with the assistance of Zenith in 2011, which helped to ensure that the Company has provided complete, accurate, and updated bills and documents to and upon the request of the PRC and Hong Kong auditors who have prepared for the audit of the Company's financial statements;
- (b) the Company has relied on the PRC and Hong Kong auditors' professional efforts to prepare for the audit of the Company's financial statements to reflect all the implications arising from the fund misappropriation;
- (c) the Hong Kong auditor of the Company, Shinewing (HK) CPA Limited, issued auditors reports on 3 November 2011, for each of the three years ended 31 December 2008, 2009 and 2010 of the Company. Except for the qualified opinion in respect of a limitation of scope on a special case that a debtor was struck off and failed to provide the auditor with the information on an outstanding loan of approximately RMB18,500,000 as at 31 December 2008, the Hong Kong auditor has no qualified audit opinion in the Company's 2009 and 2010 financial reports;
- (d) Anda CPA Limited has issued a letter dated 29 January 2010 stating that "(i) We confirm that there is no irregular transaction identified apart from those disclosed in the announcement dated 24 July 2009 of the Company. (ii) We believe that sufficient steps and coverage have been performed for identifying other irregularities. Thus the purpose of our report is achieved." ;
- (e) the Company has relied on Grandall Legal Group ("Grandall") to ensure that there is no other existing claim. Grandall had conducted a professional litigation search and completed an opinion in November 2011 that the Company as at 30 September 2011 has cleared all the debt litigation issues arising from the fund misappropriation and guarantee, except the Yatai Loan in the maximum sum of RMB10,000,000;

- (f) the Company has a reasonable belief that all the participants, including the banks, guarantors (that is, the independent third parties which provided corporate guarantee to the bank loans granted to the Company), creditors and the local government, have made reasonable efforts to get a comprehensive and accurate picture of the Company's debt situation and to put forward all their claims, when getting involved in the Company's debt repayment reconciliation agreement (as announced on 19 April 2010 and 20 October 2010), the Letter of Intent (debt settlement plan announced in 29 December 2010) and the debt agreements (announced on 18 October 2011). Thus, it is unlikely that there is any omitted debt claim from the known existing parties; and
- (g) the Company has set deadlines for debt claim on 25 September 2009 to 15 October 2009 at the notice dated 25 September 2009 as published at Zhejiang Daily News. Regarding potential claims from unknown parties, it is unlikely that there is any potential guarantor or creditor who is unaware of the Company's deadline and has not made any claim arising from the fund misappropriation which happened three years ago and has been well known.

## **LATEST DEVELOPMENTS**

### **Transfer of 240,000,000 Domestic Shares to Zhejiang Yongli**

#### ***(i) Latest status of registration of the 240,000,000 Domestic Shares***

Pursuant to the 2011 Judgment stated in the Company's announcement dated 14 February 2012, it was ordered that (i) the 240,000,000 Domestic Shares (representing approximately 22.57% of the total issued shares of the Company) held by Mr. Sun (as to 60,000,000 Shares) and Mrs. Sun (as to 180,000,000 Shares) and impounded by the Court were to be assigned to Zhejiang Yongli as a compensation for the judgment debt (執行款) granted in favour of Zhejiang Yongli with a value of RMB18,630,000; and (ii) Zhejiang Yongli would be entitled to effect the transfer of 240,000,000 Domestic Shares with the relevant governmental authority pursuant to the 2011 Judgment, and the 2011 Judgment would come into effect immediately after service of the 2011 Judgment.

The 2011 Judgment has come into effect after Zhejiang Yongli's receipt of the 2011 Judgment on 19 December 2011. Zhejiang Yongli, which currently holds 310,000,000 Domestic Shares (representing approximately 29.15% of the total issued Shares as at the date of this announcement), intends to register the 240,000,000 Domestic Shares and would, upon the share registration, become the ultimate beneficial owner of these 240,000,000 Domestic Shares. Upon such share registration, Zhejiang Yongli, which has no options, warrants, convertibles or other derivatives in respect of the Shares, will hold in an aggregate of 550,000,000 Domestic Shares (representing approximately 51.72% of the total issued Shares, as shown in the table below) whereupon, pursuant to Rule 26.1 of the Takeovers Code, a mandatory unconditional general offer will be required.

The Company may soon receive confirmation from 中國證券登記結算有限責任公司 (China Securities Depository and Clearing Corporation Ltd.\*) about the registration of the 240,000,000 Domestic Shares transferred from Mr. Sun and Mrs. Sun to Zhejiang Yongli.

**(ii) Shareholding structure before and upon the share registration**

The table below sets out the shareholding structure of the Company immediately before and upon the share registration.

Name of Shareholder	Before share registration		Upon share registration	
	Number of shares	Approximate %	Number of shares	Approximate %
<b>Domestic Shares</b>				
Mr. Sun	72,200,000	6.79	12,200,000	1.15
Zhejiang Yongli	310,000,000	29.15	550,000,000	51.72
Mrs. Sun	182,280,000	17.14	2,280,000	0.21
Remaining Domestic Shareholders	23,520,000	2.21	23,520,000	2.21
Sub-total	<u>588,000,000</u>	<u>55.29</u>	<u>588,000,000</u>	<u>55.29</u>
<b>H Shares</b>				
Wing Hing Holdings (HK) Investment Limited	208,540,000	19.61	208,540,000	19.61
Public Shareholders	<u>266,960,000</u>	<u>25.10</u>	<u>266,960,000</u>	<u>25.10</u>
Total	<u>1,063,500,000</u>	<u>100.00</u>	<u>1,063,500,000</u>	<u>100.00</u>

**(iii) Information on Zhejiang Yongli**

Zhejiang Yongli is a company established in the PRC and is beneficially owned as to approximately 88.40% by Mr. Zhou Yongli; as to approximately 6.98% by Ms. Xia Wanmei, the spouse of Mr. Zhou Yongli; as to approximately 4.06% by 紹興縣楊汛橋鎮集體資產經營管理公司 (Shaoxing County Yangxun Qiao Town Collectively Assets Management Company\*) and as to the remaining balance of approximately 0.56% by 23 individuals respectively. Zhejiang Yongli is principally engaged in manufacture of knitwear and textile products and has made investments in power, hotel, building materials, real estate and finance and insurance businesses.

**Change in the Company's management after the fund misappropriation in 2008**

Soon after the fund misappropriation, on 14 September 2008, Mr. Sun and Mrs. Sun went to the United States of America and have not returned to the PRC. They have not held any position with the Company since their resignation in July 2009. According to the Letter of Intent signed between Zhejiang Yongli and the Local Government, upon Zhejiang Yongli becoming the controlling Shareholder, Zhejiang Yongli agreed to proceed with the reorganisation of the Company for the benefit of the Shareholders in compliance with the stipulations made by China Securities Regulatory Commission, the Securities and Futures Commission and the Stock Exchange, and to carry on the business of the Company as a going concern with the coordination of the Local Government.

Currently, the Company has seven key persons in operation and management. Four of them have been working in the Company for several years, while three (namely, Mr. Ru Guan Jun, Mr. Xia Xian Fu and Ms. Wang Ai Yu) joined the Company recently from Zhejiang Yongli, as described below.

## *Executive Directors*

- (1) Mr. Ru Guan Jun (茹關筠) is responsible for the strategic planning

Mr. Ru Guan Jun (茹關筠先生), aged 64, joined the Company in December 2010 and is currently the Chairman (董事長) and executive Director of the Company responsible for the strategic planning of the Company. He was a vice director and a director of Supply and Market Co-operative Societies (供銷社) in Fucheng, Taoyan and Gaobu, Shaoxing County from October 1968 to November 1984; a vice director of Supply and Market Co-operative Societies in Shaoxing County from December 1984 to January 1986; a deputy director and director of Finance and Tax Bureau in Shaoxing County (紹興縣財政稅務局) from February 1986 to May 1990; a deputy magistrate and a magistrate of Municipal People's Government in Shaoxing County (紹興縣人民政府) from June 1990 to January 1998; a Deputy Mayor of Shaoxing Municipal People's Government and serving as a member of Standing Committee of Shaoxing Municipal Committee from February 1998 to July 2003; a chairman of China Qing Fang City Group Limited (中國輕紡城集團股份有限公司), a listing company in the PRC from August 2003 to March 2007. He has worked as a deputy general manager of Zhejiang Yongli since January 2008. Mr. Ru graduated from Zhejiang University of Finance and Economics. He has over 40 years of experience in corporate management in the PRC. He joined the Company in December 2010 and has been appointed as an executive Director of the Company by an extraordinary general meeting ("EGM") held on 11 March 2011 and elected as a Chairman of the Board on the same day. Mr Ru plays a significant role in the Company. At first, he has worked in the local government for a long period and possesses strong experience administration management and great reputation, which would facilitate the communication and coordination between the Company and the local government. Secondly, his experience as a chairman of China Qing Fang City Group Limited (中國輕紡城集團股份有限公司), a listing company in the PRC would be beneficial to the corporate government, process and operation of the Company and his industry management experience and market operation concepts will directly affect the Company's strategic development. Finally, he has been a deputy general manager of Zhejiang Yongli since January 2008, which would be helpful to the communication between the Company and Zhejiang Yongli (the Company's substantial shareholder) and to the attainment of the substantial shareholders' multi-dimensional support.

(2) Mr. Xia Xian Fu (夏先夫) is responsible for overall operation

Mr Xia, aged 56, is currently an executive Director and Chief Executive Officer (General Manager) of the Company and joined the Company in December 2010. He is responsible for the overall management, sales and production of the Company. Prior to joining the Company, he was a factory director of 楊汛橋鎮新五紡織廠 (Yangxunqiao Xinwu Textiles Factory\*) from March 1983 to February 1987; a workshop director and a planning department head of 紹興天橋紡織廠 (Shaoxing County Tianqiao Textiles Factory\*) from February 1989 to December 1991; a factory director of 紹興縣整理廠 (Shaoxing County Zhengli Factory\*) from January 1992 to January 1993; a factory director of 浙江永利集團滌綸廠 (Zhejiang Yongli Group Polyester Factory\*) from February 1993 to January 1998; a vice party secretary and a factory director of Zhejiang Yongli as well as a general manager of 浙江永利熱電有限公司 (Zhejiang Yongli Thermo Electricity Limited\*) from February 1998 to February 2010 and a general manager of the audit department of Zhejiang Yongli from March 2010 to December 2010. Mr. Xia graduated in December 1998 from Zhejiang University of Technology and major in Economics Management. He has over 28 years of experience in corporate management in the textile industry in the PRC. He joined the Company in December 2010 and was recommended by the Board as a Chief Executive Officer (General Manager) of the Company on 29 December 2010. He has been appointed as an executive director of the Company by the EGM held on 11 March 2011. Mr Xia Xian Fu worked at various positions, from low to high, in the textile industry. His experience is highly relevant to the Company and matches the Company's current professional requirements. His leadership would greatly benefit the Company's comprehensive at both, systematical, and regulatory managerial works at both micro and macro levels.

(3) Mr. Sun Jian Feng (孫建鋒) is responsible for investment and finance

Mr. Sun, aged 41, is an executive Director of the Company and joined the Company in 2002. He is currently the Vice General Manager of the Company, primarily responsible for investment and financial management of the Company. Mr. Sun received his diploma in accounting from the Hangzhou University of Commerce (杭州商學院) in 1990. He has over 20 years of experience in finance and accounting. He worked as finance manager at 紹興宏大針織有限公司 (Shaoxing Hongda Knitting Company Limited\*) from January 1992 to June 1998. In June 1998, he was a finance manager at 紹興縣宏興紡織廠 (Shaoxing Hongxing Textile Factory\*). In 2002, after Shaoxing Hongxing Textile Factory was converted into a joint stock limited company, he became an executive director and Vice General Manager of the Company mainly responsible for the investment and finance matter of the Company. From October 2008 to 2011, during which the Company had to overcome the financial crisis and to pursue restructuring, he demonstrated his sense of responsibility as a manager and made considerable contributions.

- (4) Mr. Xia Xue Nian 夏雪年 is responsible for marketing

Mr. Xia, aged 47, is an executive Director of the Company and joined the Company in 2002. Mr. Xia is currently the Vice General Manager of the Company, primarily responsible for production and sales management. He received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has over 25 years of experience in the corporate management. He worked as Vice General Manager at 浙江慶盛紡織集團 (Zhejiang Qing Cheng Textiles Group\*) from January 1995 to January 1999. In February 1999, he handled administration management tasks at 紹興縣宏興紡織廠 (Shaoxing Hongxing Textile Factory\*). In 2002, after Shaoxing Hongxing Factory was converted into a joint stock limited company, he became an executive director and Vice General Manager of the Company in charge of administration works. He has been responsible for the Company's production and marketing matters since January 2006. From October 2008 to 2011, during which the Company had to overcome the financial crisis and to pursue restructuring, he demonstrated his sense of responsibility as a manager and made considerable contributions.

#### *Senior Managers*

- (1) Ms. Wang Ai Yu (王愛玉) is responsible for Finance Department

Ms. Wang, aged 48, is currently a manager of the finance and accounting department of the Company and joined the Company in December 2010. She is responsible for the management of daily operation of the finance department of the Company. She graduated from Chong Qing University. Ms. Wang was a teacher of 楊汛橋中心小學 (Yangxuqiao Zhongxin Primary School\*) in Shaoxing County from February 1979 to January 1980 and working in the accounting department of 紹興縣蜜餞廠 (Shaoxing County Mijian Factory\*) from February 1980 to February 1987. She has acted as a finance manager of Zhejiang Yongli since February 1987. Ms. Wang has an extensive experience in finance and is well versed of the national taxation law, the accounting rules and the relevant finance, taxation, audit rules and policies. She is good at analysis and has accumulated substantial experience in data analysis, capital operation from different finance projects. She has established a set of comprehensive rules and regulations of internal control for Zhejiang Yongli in order to reduce the investment risk of the enterprises. She also has standardised the audit method for the corporate finance of and enhanced the quality of financial information, thereby enhancing the supervision in finance services within Zhejiang Yongli. Ms. Wang has over 31 years of experience in finance and accounting. She joined the Company in December 2010 and also has been appointed as a Supervisor of the Company by the EGM held on 11 March 2011.



- (2) Mr Liu Guang Wei (劉光偉) is responsible for Administration Department & Corporate management

Mr. Liu, aged 47, currently works as an officer of the Company's administration department (辦公室主任) and joined the Company since February 2006. He is responsible for the management of the daily operation of administrative department. He received a bachelor degree in Economics from Zhongnan University of Economics and Law in 1989, a bachelor degree in Business Administration from Party School of the Zhejiang Committee of the CCP Zhejiang School of Administration in 2003. Mr. Liu also studied post graduated course in Business Administration in Zhejiang Gongshang University between July 2004 and June 2006. He was recognised as an economist by the National Human Resources Department in April 1994, as a senior economist by Shaoxing County Human Resources Office in December 2005, as a management consultant by China Enterprise Confederation and Zhejiang Province Human Resources Office in November 2007 and as a senior human resources manager by Shaoxing County Human Resources Office in July 2008. Mr. Liu has an extensive working experience in personnel management. Prior to joining the Company, he was a technician of Huanggang City Silk Factory in Hubei Province in September 1981; a general manager of 黃崗亞泰化工有限公司 (Huanggang Ya Tai Chemical Limited\*) in Hubei Province in January 1993, a chairman of 天滄製絲有限公司 (Tianxi Silk Production Limited\*) in Huanggang, Xishui County of Hubei Province in June 1995; an officer to the general manager's office of 浙江慶盛紡織集團 (Zhejiang Qing Cheng Textiles Group\*) in July 1997; a secretary to the board of directors of 浙江綠州農業股份有限公司 (Zhejiang Oasis Agricultural Company Limited\*) in June 2001; a manager of corporate management department in 浙江加佰利控股集團有限公司 (Zhejiang Gabriel Holdings Group Company Ltd.\*) in February 2002; an assistant to the general manager, an officer of listing office and a supervisor of personnel management department of 紹興縣稽山集團 (Shaoxing Jishan Group\*) in January 2003. He has been elected as a supervisor of the Company by the work union of the Company on 11 March 2011.

- (3) Mr Chen Jian Jiang (陳建江) is responsible for Production Department and R&D Center

Mr. Chen, aged 38, is currently a manager of the production, research and development department of the Company and joined the Company since 2002. He is responsible for the management of daily operation of the production, research and development department of the Company. Prior to joining the Company, he was a factory director of the production department of Zhongfa Textiles Company Limited (中發紡織有限公司) from February 1996 to January 2000 and a deputy general manager of the production department of 紹興縣偉創紡織有限公司 (Shaoxing County Weichuang Textile Company Limited\*) from January 2000 to February 2002. He has over 18 years of experience in textile production management in the PRC. He graduated from 紹興市中等專業技術學校 (Shaoxing Secondary Technical School\*) focusing on textile engineering.

## **Current operation**

### **(i) Resumption of full production capacity**

The Company's production machinery mainly comprises jet looms (噴氣織機) and rapier looms (劍杆織機), which were all imported from overseas. Currently, the Company owns 395 units (including 295 jet looms and 100 rapier looms) of 2,300 mm wide-band jet looms, without any contracted jet looms (that is, looms leased from the others). The annual production capacity of the machines of 395 units is approximately 38 million meters of fabric, or between 3 million and 3.5 million meters monthly, depending on fabric types and complexity. In June, July, August and September 2011, the Company had 449, 452, 450, and 450 production workers respectively around the clock on three shifts every day. In 2011, the Company's production lines have been operating at full capacity.

### **(ii) Reduced reliance on subcontracting services**

With the debt settlement under the support of Zhejiang Yongli, the Company can now focus on the sale of woven fabrics after the release from the burden of cash flow problem since 2008. According to the management of the Company, the turnover of sales of woven fabrics for the year ended 31 December 2011 increased substantially when compared with the year ended 31 December 2010 because the Company gradually reduced the portion of orders of provision of subcontracting services. The proportion of sales of woven fabrics increased from approximately 62% for the three months ended March 2011 to approximately 89.72% for the ten months ended October 2011. Therefore, compared with the year ended 31 December 2010, the turnover of sales of woven fabrics for the year ended 31 December 2011 is expected to increase by approximately 181.2%. In addition, further improvement in the Company's cash flow is expected because the Company's Selling Assets at Sunjia Qiao, a major asset of the Company, was agreed on 30 December 2011 to be sold at a consideration of RMB79,772,200, as disclosed in the Company's announcement dated 16 January 2012.

### **(iii) Reduced operation cost**

In 2011, the Company reduced its operation cost by moving the production facilities from the Company's Selling Assets at Sunjia Qiao to the Company's existing production plant at Jianwu Village and by using the electricity and steam services from Zhejiang Yongli Thermal.

As disclosed in the Company's announcement dated 16 January 2012, the Company has terminated the operation of the Selling Assets since February 2011 and in March 2011 all the 195 units of 2,300 mm wide-band jet looms and the accessory production lines owned by the Company in the Selling Assets were completely moved to the Company's existing production plant at Jianwu Village and were tested. According to the management's view, the merge, while keeping the same level of output and stability of products, has greatly reduced the production cost and administration cost as a result of approximately fifty percent of reduction of the use of factory building areas, land, production-related and living-related equipments and facilities. Logistic cost between the two factories has been reduced to approximately zero. The number of processing lines in the Company has been reduced from four to two, with the corresponding cut in management staff. Various management costs have been decreased substantially. The total number of employees was reduced from 712 in January 2011 to 493 in February 2011. In April 2011, the operation of all installed machinery and equipments was proved normal. Since April 2011, the Selling Assets has been vacant. Since the relocation of the machinery and equipments has been completed, the Directors are of the view that the disposal of the Selling Assets will not cause any material impact to the operation of the Company.

Regarding the electricity and steam services from Zhejiang Yongli Thermal, as disclosed in the Company's circular dated 24 February 2012, as one of a group company of Zhejiang Yongli, the Company, which has been purchasing electricity from the local government, is allowed to use electricity from Zhejiang Yongli Thermal. The long duration of the Electricity and Steam Supply Agreement with Zhejiang Yongli Thermal and the two agreed average prices would (1) ensure that the Company will have a sufficient supply of electricity and steam over the next three years, (2) insulate the Company from the potential increase and fluctuations in the market rate, and therefore (3) enable the Company to stay competitive in the competitive fabric industry.

**(iv) Litigation**

As at 30 September 2011, all the litigation cases in which the Company are involved have been cleared with judgement, as confirmed with a legal opinion. There is only one case in which the Company has not settled the payment. The Company is negotiating with Yatai to settle an outstanding debt in the maximum sum of RMB 10,000,000 according to the civil mediation letter issued by the local court at Shaoxing County in Zhejiang Province on 9 October 2009. As Gabriel is under liquidation, the exact amount to be borne by the Company on the Yatai Loan should be adjudicated from the court at the final stage of liquidation. The Company plans to settle the Yatai loan after the final judgement has been received from the court. As at the date of this announcement, no outstanding lawsuits and claims are lodged against the Company which remain outstanding, except for the above-mentioned Yatai loan.

## **Future business plans**

The Company seeks to increase revenues and profits while keeping cost low based on the continued business model and the existing production scale. Based on the current operation of the Company, the Company plans to achieve these by keeping production cost low and production capacity high, increasing fabric sales to garment makers and overseas customers, and keeping innovation in product development. In production, the Company seeks to continue to minimise cost and to keep cost low so as to ensure a good profit margin in this price competitive industry, and to maintain high capacity to ensure that large orders can be accommodated. Currently, as the Company produces semi-finished product (坯布) which cannot be used directly by garment manufacturer, the Company will seek to process dyeing by utilising the nearby dyeing companies, such as Zhejiang Yongli dyeing company owned by Zhejiang Yongli. This will allow the Company to sell products (that is, dyed fabric) directly to garment manufacturers, mainly domestically, and therefore increase the proportion of the fabric sales business in relation to processing business. If a transaction may constitute a continuing connected transaction on the part of the Company pursuant to the GEM Listing Rules, the Company will comply with the relevant requirements under the GEM Listing Rules where appropriate. The Company will also restart its export business by setting up an export team composed of a few experienced export sales persons (especially those who were employed by the Company before the Company's 2008 debt crisis in order to regain the previous overseas customers) to solicit quality overseas customers, by participating in the relevant industry fairs to be held annually in France (Texworld), Germany (Intertextile at Frankfurt), Hong Kong, Guangzhou, Shanghai and Beijing, and by establishing an overseas branch or cooperating with overseas sales partners.

In the area of research and development, the Company intends to continue to develop new products so as to deliver value-added products to the Company's customers. As stated in the Company's 2010 Annual Report released on 16 November 2011, "the Company will continue to cooperate with professional colleges, universities, national research centers and commercial corporations to carry out joint scientific research and development for the exploration of new raw materials and technologies. The aim of such is to create new products with added values, and the Company's benefits can hence be enhanced". To meet the changing market needs and trends, the Company would seek to develop new products. The Company will pursue feasibility studies in 2012 and develop new materials with research institutions, such as China Textiles Development Center (國家紡織產品開發中心)("CTDC") based on Technology Development Agreement as disclosed in the Company's announcement dated 19 October 2011, and material production companies, such as Zhejiang Yongli chemical fabric company owned by Zhejiang Yongli. New materials developed would be registered as patented products and branded. They would be produced by material production companies, and then the Company would manufacture and sell the fabric. If a transaction may constitute a continuing connected transaction on the part of the Company pursuant to the GEM Listing Rules, the Company will comply with the relevant requirements under the GEM Listing Rules where appropriate.

## POST-RESUMPTION ARRANGEMENT

To the best knowledge and reasonable belief of Directors,

- (i) the Company, Zhejiang Yongli or the Directors has no present agreement, arrangement, intention, negotiation and/or plan to carry out a principal business other than the existing business of the Company within 24 months after resumption;
- (ii) Zhejiang Yongli and its beneficial owners have no intention or plan to dispose its controlling interests in the Company within 24 months after resumption; and
- (iii) the Directors at the time of resumption will remain with the Board after resumption.

## DEFINITIONS

*Unless otherwise specified, the following terms have the following meanings in this announcement:*

“2010 Judgment”	執行裁定書 (Enforcement Judgment*) issued by the Court on 16 December 2010
“2011 Judgment”	執行裁定書 (Enforcement Judgment*) issued by the Court on 16 December 2011
“Board”	the board of Directors of the Company
“Cash Advance”	the Gabriel Cash Advance and the Yonghe Cash Advance
“Company”	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 PRC
“CTDC”	China Textiles Development Center (紡織產品開發中心), a national enterprise and a national grade textile product development and promotion institute.
“Director(s)”	director(s) of the Company, including the independent non-executive directors of the Company
“Domestic Share(s)”	domestic share(s) of nominal value of RMB0.1 each in the registered capital of the Company

“Electricity and Steam Supply Agreement”	the electricity and steam supply agreement dated 30 December 2011 and entered into between the Company and Zhejiang Yongli Thermal in respect of the provision of electricity and steam from Zhejiang Yongli Thermal to the Company
“Gabriel”	浙江加佰利控股集團有限公司 (Zhejiang Gabriel Holdings Group Company Ltd.*), a company established in the PRC, is owned as to 51% and 25% by Mr. Sun and Mrs. Sun respectively and is principally engaged in investment holding
“Gabriel Cash Advance”	misappropriation of funds of the Company by Gabriel, Zhejiang Hongxing and Zhejiang Sabrina
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Division”	the listing division of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Guarantor(s)”	<ol style="list-style-type: none"> <li>1. Xiongsheng and Xiongfeng</li> <li>2. Lingda</li> <li>3. Zhiye</li> <li>4. Jinggong and</li> <li>5. Zhejiang Yongli</li> </ol>
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“H Share(s)”	oversea listed foreign share(s) of nominal value of RMB0.10 each in the registered capital of the Company which are listed on GEM and subscribed for in Hong Kong dollar
“Hualian Sanxin”	華聯三鑫有限公司 (Hualian Sanxin Company Limited*), a company established in the PRC
“Hualian Sunshine”	浙江華聯三鑫石化有限公司 (Zhejiang Hualian Sunshine Petro-Chemical Co. Ltd.*), a company established in the PRC
“Jianwu Village”	Jianwu Village, Yang Xun Qiao Town, Shaoxing County, Zhejiang Province, China
“Jinggong”	精功集團有限公司 (Jinggong Group Co., Ltd.*), one of the Guarantors

“Land”	five (5) parcels of adjoined land located at Sunjia Qiao, Yang Xun Qiao Town, Shaoxing County, Zhejiang Province, PRC with a total site area of approximately 61,035 square metres
“Letter of Intent”	重組意向協議書 (Letter of Intent for Reorganisation*) entered into between the Company, Zhejiang Yongli and the Local Government on 6 December 2010
“Lingda”	浙江凌達實業有限公司 (Zhejiang Lingda Industry Co., Ltd.*), one of the Guarantors
“Local Government”	浙江省紹興縣楊汛橋鎮人民政府 (the People’s Government of Yang Xun Qiao Town, Shaoxing County, Zhejiang Province*)
“Mr. Sun and Mrs. Sun”	Mr. Sun Li Yong and Ms. Fang Xiao Jian
“Ms. Zhu”	Ms. Zhu Li Mei
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	shares, including Domestic Shares and H Shares, of the Company
“Selling Assets”	the land use rights of the Land and the factory buildings, office buildings and other constructed structures thereon with a total gross floor area of approximately 63,282 square metres
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sunjia Qiao”	Sunjia Qiao, Yang Xun Qiao Town, Shaoxing County, Zhejiang Province, PRC
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Technology Development Agreement”	the agreement dated 15 June 2011 entered into between the Company and CTDC;
“Three Resumption Conditions”	conditions set out by the GEM Listing Division in its letter to the Company dated 9 March 2009, upon satisfaction of which the trading in the Shares will be resumed

“Two Resumption Conditions”	conditions set out by the GEM Listing Division in its letter to the Company dated 15 February 2012, upon satisfaction of which the trading in the Shares will be resumed
“Xiongsheng and Xiongfeng”	浙江雄盛實業有限公司 (Zhejiang Xiongsheng Holding Co., Ltd.*) and 雄峰控股集團有限公司 (Xiongfeng Holding Group Co., Ltd.*), one of the Guarantors;
“Yatai”	紹興縣亞太投資有限公司 (Shaoxing Yatai Investment Co., Ltd.*) a company established in the PRC and is principally engaged in the business of investment
“Yatai Loan”	loans granted by Shaoxing Yatai to Gabriel under a guarantee provided by the Company on 18 August 2008
“Yonghe Cash Advance”	misappropriation of funds of the Company by Zhejiang Yonghe
“Zhejiang Daily News”	浙江日報
“Zhejiang Hongxing”	浙江宏興紡織有限公司 (Zhejiang Hongxing Textiles Co., Ltd.*), a company established in the PRC and is principally engaged in the manufacture and sales of knitted fabrics
“Zhejiang Sabrina”	浙江宏興莎美娜服裝有限公司 (Zhejiang Hongxing Sabrina Garments Ltd.*), a company established in the PRC and is principally engaged in the manufacture and sales of knitted and woven garments
“Zhejiang Yonghe”	浙江永禾實業有限公司 (Zhejiang Yonghe Enterprises Co., Ltd.*), a company established in the PRC and is principally engaged in the trading of petro-chemical products
“Zhejiang Yongli”	浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Ltd.*) a company established in the PRC, one of the Guarantors



“Zhejiang Yongli Thermal”	浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited*), a company established in the PRC
“Zhiye”	浙江置業房產集團有限公司 (Zhejiang Zhiye Real Estate Group Co., Ltd.*), one of the Guarantors;
“Zhu Loan”	loans granted by Ms. Zhu to Gabriel under a guarantee provided by the Company on 12 September 2008
“%”	per cent.

By Order of the Board  
**Zhejiang Yonglong Enterprises Co., Ltd.\***  
**Ru Guan Jun**  
*Chairman*

8 March 2012, Zhejiang, the PRC

*\* for identification purpose only*

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

*This announcement, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with 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 announcement 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 announcement misleading.*

*This announcement will remain on the “Latest Company Announcement” page of the GEM website for at least 7 days from the date of its publication and the website of the Company at <http://www.zj-yonglong.com>.*