



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

# FIRST QUARTERLY REPORT



\* For identification purpose only

**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.**

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

**HIGHLIGHTS**

*For the three months ended 31 March 2014,*

- Revenue of the Company increased from approximately RMB17.39 million to approximately RMB30.82 million, representing an increase of approximately 77.22% when compared to the corresponding period in 2013;
- Net loss was approximately RMB3.74 million; and
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2014.

**UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the three months ended 31 March 2014*

The board of directors (the “Board” or the “Directors”) of 浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd.\*) (the “Company”) is pleased to announce the unaudited results of the Company for the three months ended 31 March 2014 together with the comparative results for the corresponding period in 2013 as follows:

	<i>Notes</i>	<b>Three months ended</b>	
		<b>2014</b>	<b>2013</b>
		<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Revenue	3	<b>30,818</b>	17,390
Cost of sales		<b>(28,066)</b>	(18,136)
Gross profit (loss)		<b>2,752</b>	(746)
Other income and gains	3	<b>616</b>	45,316
Selling and distribution costs		<b>(264)</b>	(175)
Administration expenses		<b>(684)</b>	(2,761)
Financial costs	4	<b>(6,163)</b>	(5,854)
(Loss) profit before taxation		<b>(3,743)</b>	35,780
Income tax expenses	5	<b>-</b>	-
(Loss) Profit and total comprehensive (expenses) income for the period	6	<b><u>(3,743)</u></b>	<u>35,780</u>
		<b><i>RMB</i></b>	<b><i>RMB</i></b>
(Loss) earnings per share– basic and diluted	8	<b><u>(0.35) cents</u></b>	<u>3.36 cents</u>

## UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note(a))	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (Note (b))	Accumulated losses RMB'000 (Note (c))	Total RMB'000
At 1 January 2013	106,350	69,637	124,950	29,884	12,496	(281,042)	62,275
Transfer to reserve upon disposal of property	-	-	-	(11,115)	-	11,115	-
Total comprehensive income for the period	-	-	-	-	-	35,780	35,780
Balance at 31 March 2013	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>18,769</u>	<u>12,496</u>	<u>(234,147)</u>	<u>98,055</u>
At 1 January 2014	106,350	69,637	124,950	21,222	12,496	(226,226)	108,429
Total comprehensive expenses for the period	-	-	-	-	-	(3,743)	(3,743)
Balance at 31 March 2014	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>21,222</u>	<u>12,496</u>	<u>(229,969)</u>	<u>104,686</u>

## 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 ultimate holding company 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 Company's PRC statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's share capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset against accumulated losses or increase the share capital.
- (c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 31 March 2014 and 2013, 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 Company's books and records are maintained in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2013. The unaudited results of the Company are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and disclosure requirement of the GEM Listing Rules.

## **2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

The financial statements have been prepared in accordance with new and revised HKFRSs ("new and revised HKFRSs") issued by the HKICPA.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle <sup>1</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>2</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>3</sup>
Amendments to HKAS 19	Defined Benefit Plans – Employee contributions <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014. Early application is permitted.

<sup>2</sup> HKFRS 9, as amended in December 2013, amended the mandatory effective date of HKFRS 9. The mandatory effective date is not specified in HKFRS 9 but will be determined when the outstanding phases are finalised. However, application of HKFRS 9 is permitted.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016

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. REVENUE AND OTHER INCOME AND GAINS

Revenue 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 revenue for the period is as follows:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
Revenue		
Sales of woven fabrics	<b>25,960</b>	13,571
Subcontracting fee income	<b>4,858</b>	3,819
	<b><u>30,818</u></b>	<u>17,390</u>
Other operating income		
Interest income	<b>10</b>	23
Sundry income	<b>106</b>	-
Sales of scrap materials	<b>500</b>	428
Gain in disposal of assets held for sales ( <i>Note</i> )	<b>-</b>	44,865
	<b><u>616</u></b>	<u>45,316</u>

Note: The gain on disposal of assets held for sales represents disposal of certain buildings, investment properties and prepaid lease payments held by the Company in the PRC to the People's Government of Yang Xun Qiao Town, Shaoxing County "浙江省紹興縣楊汛橋鎮人民政府" ("Local Government") under the assets transfer agreement and the supplementary assets transfer agreement as signed between the Company and the Local Government on 30 December 2011 and 25 December 2012 respectively.

### 4. FINANCE COSTS

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
Imputed interest in non-current interest-free amount due to ultimate holding company	<b><u>6,163</u></b>	<u>5,854</u>

## 5. INCOME TAX EXPENSES

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profit Tax has been provided for the periods as the Company did not have any assessable profits subject to Hong Kong Profit Tax for the three months ended 31 March 2014 (three months ended 31 March 2013: Nil).

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% for both periods.

No provision for PRC Enterprise Income Tax was made for both periods ended 31 March 2014 and 2013 as there was no assessable profit derived from the PRC.

## 6. (LOSS) PROFIT FOR THE PERIOD

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2014</b>	2013
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
(Loss) profit for the period has been arrived at after charging:		
Depreciation and amortisation	<b><u>1,954</u></b>	<u>2,293</u>

## 7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2014.

## 8. (LOSS) EARNINGS PER SHARE

The calculation of the basic loss per share for the three months ended 31 March 2014 is based on the loss for the period of approximately RMB3,743,000 (2013: profit of approximately RMB35,780,000) and the weighted average of 1,063,500,000 ordinary shares issue during the two periods.

No diluted (loss) earnings per share have been presented for the two periods ended 31 March 2014 and 2013, as there was no diluting events existed during these periods.

## 9. RELATED PARTY TRANSACTIONS

During the period for the three months ended 31 March 2014, the Company had paid approximately RMB1,608,000 (2013: RMB1,703,000) to 浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited\*), a subsidiary of 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Limited\*)(“Zhejiang Yongli”), the ultimate holding company of the Company for electricity and steam provided to the Company for usage in the production.

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

For the three months ended 31 March 2014, the Company recorded a revenue of approximately RMB30.82 million, represents an increase of approximately 77.22 % when compared with the same period in 2013. It was contributed from the revenue of sales of woven fabrics and subcontracting fee income that increased sharply by approximately 91.29% and 27.20% respectively. Compared with the corresponding period in 2013, the revenue of sale of woven fabrics increased substantially as the Company had recommenced export sales since the second quarter of 2013 and sales to the local market also increased sharply by approximately 43.67%. Gross profit margin for the three months ended 31 March 2014 was approximately 8.93% while gross loss incurred in the same period of 2013. The overall increase in gross profit margin in 2014 mainly contributed from local sales and subcontracting fee income. Due to the improvement of product mix and the tight control of cost, gross profit margin increased accordingly. The selling and distributed costs for three months ended 31 March 2014 increased by approximately 51.11% when compared with the corresponding period in 2013 mainly due to transportation, salary and exhibition fees increased as the Company has recommenced the export sales since the second quarter of 2013. Administrative expenses dropped by approximately 75.23% mainly due to tight control of expenditure. Other income and gains dropped by approximately RMB44.70 million for the three months ended 31 March 2014 when compared with the corresponding period in 2013 as there was gains on disposal of old factory to the Local Government in 2013. Except for the finance cost of approximately RMB6.16 million in respect of imputed interest in non-current interest-free amount due to ultimate holding company, there was profit of approximately RMB2.42 million for the three months ended 31 March 2014. The respective loss and earnings per share for the three months ended 31 March 2014 and 2013 were approximately RMB0.35 cents and RMB3.36 cents respectively.

### Business and operation review

During the three months ended 31 March 2014, the Company successfully developed other overseas market such as Brazil and South Africa etc. The Directors expect that the economies in Europe and U.S. may not be recovered in a short periods. Therefore, sales to these markets will continue to be shrinking. On the other hand, the rising of raw materials cost and labour cost continue to impact the textile industry, therefore, the overall market sentiments were still poor. In order to minimize the market risk and maximize the interests of the shareholders, the sales effort will be placed in expanding the domestic market and diversifying the overseas market.

**Product research and development**

During the three months ended 31 March 2014, the Company continued to innovate and develop new product so as to meet the customers' need and enhance sales orders from customers.

**Sales and marketing**

During the three months ended 31 March 2014, the Company actively participated in various trade fairs held in PRC and overseas so as to gain exposure in the fabrics market and to popularise the Company's new products. The marketing strategy for year 2014 in respect of overseas market will emphasis on the market of developing country such as the Middle East, and South America etc, while still continue to keep strong position in the domestic market.

**Outlook**

The Directors expect that the textile industry will continue be impacted by the rising of raw materials cost, labour cost in year 2014 and therefore, the overall market sentiments were still poor. In additions, it is expected that the worldwide economies such as the U.S. and Europe will not be recovered in very soon, hence sales in these markets will continue be shrinking. The cash and bank balance of the Company as at 31 March 2014 was approximately RMB173.76 million and under the financial support from Zhejiang Yongli, the Directors expect that the Company has sufficient cash resources to meet its present and future cash flow requirements and is able to face with the challenge in 2014 and the near future.

**DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SECURITIES**

As at 31 March 2014, none of the directors, chief executives and supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

**SUBSTANTIAL SHAREHOLDERS**

At 31 March 2014, so far as it is known to the directors, chief executives or supervisors of the Company, the persons (not being a director, chief executive or supervisor of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO, or who is interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Company were as follows:

**Long positions in the shares of the Company*****Domestic shares of the Company***

<u>Name of shareholders</u>	<u>Capacity</u>	<u>Number of domestic shares held</u>	<u>Approximate percentage of interests in domestic shares</u>	<u>Approximate percentage of interests in total registered capital</u>
Zhejiang Yongli	Beneficial owner	564,480,000	96.00%	53.08%
Mr. Zhou Yongli	Interest in controlled corporation ( <i>Note 1</i> )	564,480,000	96.00%	53.08%
Ms. Xia Wanmei	Interest of spouse ( <i>Note 2</i> )	564,480,000	96.00%	53.08%

*Notes:*

1. Zhejiang Yongli Industry Group Co., Ltd. (“Zhejiang Yongli”) directly held 564,480,000 Domestic Shares. Mr. Zhou Yongli (“Mr. Zhou”) is holding approximately 88.40% of the shares in Zhejiang Yongli. By virtue of the SFO, Mr. Zhou is deemed to be interested in the 564,480,000 Domestic Shares held by Zhejiang Yongli.
2. Ms. Xia Wanmei (“Ms. Xia”) is the spouse of Mr. Zhou. By virtue of the SFO, Ms. Xia is deemed to be interested in the 564,480,000 Domestic Shares held by Zhejiang Yongli.

***H shares of RMB 0.10 each of the Company***

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of H shares held</b>	<b>Approximate percentage of interests in H shares</b>	<b>Approximate percentage of interests in total registered capital</b>
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.61%

Save as disclosed above, as at 31 March 2014, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

**COMPETING INTERESTS**

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

**AUDIT COMMITTEE**

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

The Audit Committee has reviewed the first quarterly results of the Company for the three months ended 31 March 2014.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

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

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

The Company did not purchase, sell or redeem any of the Company's listed securities during the three months ended 31 March 2014.

By Order of the Board

**He Lianfeng**

*Executive Director and Chief Executive Officer*

Zhejiang, the PRC, 15 May, 2014

*As at the date of this document, the executive directors of the Company are Mr. Wang Xinyi (Chairman), Ms He Lianfeng (Chief Executive Officer), Mr. Hu Hua Jun and Mr. Chen Jian Jiang; the non-executive director is Mr. Chen Dong Chun; the independent non-executive directors are Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu.*

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