



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**

2016

** For identification purpose only*

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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 2016,

- Revenue of the Company decreased from approximately RMB38.94 million to approximately RMB27.67 million, representing a drop of approximately 28.93% when compared to the corresponding period in 2015;
- Net loss was approximately RMB4.98 million; and
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2016.

UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2016

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 2016 together with the comparative results for the corresponding period in 2015 as follows:

	<i>Notes</i>	Three months ended	
		2016	2015
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	27,674	38,938
Cost of sales		(26,468)	(36,585)
Gross profit		1,206	2,353
Other income and gains	3	296	3,450
Selling and distribution costs		(752)	(530)
Administration expenses		(1,075)	(1,325)
Financial costs	4	(4,659)	(7,042)
Loss before taxation		(4,984)	(3,094)
Income tax expenses	5	-	-
Loss and total comprehensive expenses for the period	6	(4,984)	(3,094)
		<i>RMB</i>	<i>RMB</i>
Loss per share – basic and diluted	8	(0.47) cents	(0.29) cents

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 2015	106,350	69,637	124,950	23,715	12,496	(233,540)	103,608
Total comprehensive expenses for the period	-	-	-	-	-	(3,094)	(3,094)
Balance at 31 March 2015	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>23,715</u>	<u>12,496</u>	<u>(236,634)</u>	<u>100,514</u>
At 1 January 2016	106,350	69,637	124,950	32,401	12,496	(250,719)	95,115
Total comprehensive expenses for the period	-	-	-	-	-	(4,984)	(4,984)
Balance at 31 March 2016	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>32,401</u>	<u>12,496</u>	<u>(255,703)</u>	<u>90,131</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 the immediate and ultimate holding company of the Company.
- (b) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the Company is required to appropriate 10% of its after-tax profit (after offsetting prior years losses) to general reserve fund until the balance of the fund reaches 50% its registered capital and thereafter any further appropriation is optional. The general reserve fund can be utilised to offset prior years losses, or for conversion into registered capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such utilisation.
- (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 2016 and 2015, 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. Its immediate and ultimate holding company is 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd*) (“Zhejiang Yongli”), a company incorporated in the PRC.

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 2015. 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.

HKFRS 9 (2014)	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective date not yet been determined.

The directors of the Company anticipate that application of the other new and revised HKFRSs 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 and services rendered by the Company to outside customers, net of discounts and sales related taxes. An analysis of the Company's revenue and other income and gains for the period are as follows

	Three months ended	
	31 March	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Sales of woven fabrics	25,823	35,935
Subcontracting fee income	1,851	3,003
	<u>27,674</u>	<u>38,938</u>
Other operating income		
Interest income	32	1,197
Sundry income	101	231
Sales of scrap materials	163	41
Gain in disposal of old production machinery	-	1,981
	<u>296</u>	<u>3,450</u>

4. FINANCE COSTS

	Three months ended	
	31 March	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Imputed interest on non-current interest-free loan due to ultimate holding company	<u>4,659</u>	<u>7,042</u>

5. INCOME TAX EXPENSES

No provision for taxation has been made as the Company's income neither arises in, nor is derived from Hong Kong.

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 2016 and 2015.

6. LOSS FOR THE PERIOD

	Three months ended	
	31 March	
	2016	2015
	RMB'000	RMB'000
Loss for the period has been arrived at after charging:		
Depreciation and amortisation	1,837	1,818

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2016.

8. LOSS PER SHARE

The calculation of the basic loss per share for the three months ended 31 March 2016 is based on the loss for the period of approximately RMB4,984,000 (2015: loss of approximately RMB3,094,000) and the weighted average of 1,063,500,000 ordinary shares issue during both periods.

No diluted loss per share have been presented for the two periods ended 31 March 2016 and 2015, as there was no diluting events existed during both periods.

9. RELATED PARTY TRANSACTIONS

During the period for the three months ended 31 March 2016, the Company has the following related party transactions and continuing connected party transactions.

- (a) During the period for the three months ended 31 March 2016, the Company had paid approximately RMB1,215,000 (2015: RMB1,301,000) to 浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited*), a fellow subsidiary of the Company, for electricity and steam provided to the Company for the usage in the production.

The aforesaid transactions were conducted in accordance with the term of contract dated 11 May 2015 and were in the ordinary course of business of the Company.

- (b) During the period for the three months ended 31 March 2016, the Company had paid approximately RMB282 (2015: RMB7,800) to 浙江紹興永利印染有限公司 (Zhejiang Shaoxing Yongli Printing & Dyeing Company Limited*), a fellow subsidiary of the Company, for providing dyeing services to the Company.

The aforesaid transactions were in the ordinary course of business of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the three months ended 31 March 2016, the Company recorded a revenue of approximately RMB27.67 million, represents a decrease of approximately 28.93% when compared with the same period in 2015. It was mainly due to dropping of revenue from local markets. Export sales for the three months ended 31 March 2016 increased by approximately 65.05% when compared with the corresponding period in 2015. Gross profit dropped by approximately 48.75% mainly due to decrease of revenue from local markets. The selling and distributed costs for three months ended 31 March 2016 increased by approximately 41.89% when compared with the corresponding period in 2015 mainly due to exhibition fees increased sharply. Administrative expenses decreased by approximately 18.87% mainly due to decrease of staff retirement benefits fund contribution as it was adjusted during the period for overprovision made in 2015. During the three months ended 31 March 2016, other income and gains decreased by approximately RMB3.15 million which represents gains on disposal of old production machinery and bank interests income incurred for the three months ended 31 March 2015. Finance cost of approximately RMB4.66 million for the three months ended 31 March 2016 represents imputed interest in non-current interest-free loan due to ultimate holding company. The respective loss per share for the three months ended 31 March 2016 and 2015 were approximately RMB0.47cents and RMB0.29 cents respectively.

Business and operation review

During the three months ended 31 March 2016, export sales to Europe increased by approximately 43.27%, which were mainly from Italy, Germany and Turkey. In additions, the Company also successfully developed other overseas market in Asia and Africa during the three months ended 31 March 2016. The local market dropped by approximately 37.38% as most of the local customers are undergoing structure reorganisation and industry consolidation.

The garment and textile industry is a labour intensive industry. Over the years, high labour cost being one of the major problem of the industry. In additions, since 2012, the working-age population has been decreasing and most of the younger workers are not willing to join the industry. Therefore, employment of sufficient workers being another problem of the industry. In view of these problems, the fellow textile manufacturers and garment manufacturers are undergoing structure reorganisation and industry consolidation. The industry has been changed from concentration in mass production to quality and efficient production.

Product research and development

During the three months ended 31 March 2016, 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 2016, 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.

Outlook

The Directors expect that the textile industry will continue to be impacted by the high labour cost in year 2016. The increase of household income in China in recent years results in the boost in domestic consumption of consumer goods. Along with the increase in consumption power, the end-customers become more quality and price sensitive, in particular with respect to apparel. Therefore, the fellow textile manufacturers and garment manufacturers are undergoing structure reorganisation and industry consolidation. The industry has been changed from concentration in mass production to quality and efficient production. The Company is also planning to replace in high technology and efficiency production machinery and will place more efforts in product innovation. In addition, the global economic environment is expected to recover gradually in the next few years. Along with opening up of new markets and re-entering of the European market, the Directors see greater potential in the luxury fashion wear market in the PRC and overseas. The Company will place resources in production of high value-added products and continue the strategies of developing the domestic markets and overseas markets. The cash and bank balance of the Company as at 31 March 2016 was approximately RMB192.60 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 2016 and the near future.

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

As at 31 March 2016, Ms He Lianfeng, the executive Director and her spouse totally have approximately 0.039% of interest in Zhejiang Yongli, the ultimate holding company of the Company. Zhejiang Yongli is an associated corporation (within the meaning of Part XV of the SFO) by virtue of its being a holding company of the Company.

Save as disclosed above, as at 31 March 2016, 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 2016, 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 10% 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 ("Domestic Shares")

Name of shareholders	Capacity	Number of Domestic Shares held	Approximate percentage of interests in Domestic Shares	Approximate percentage of interests in total registered capital
Zhejiang Yongli	Beneficial owner	588,000,000	100.00%	55.29%
Mr. Zhou Yongli	Interest in controlled corporation (Note 1)	588,000,000	100.00%	55.29%
Ms. Xia Wanmei	Interest of spouse (Note 2)	588,000,000	100.00%	55.29%

Notes:

1. Zhejiang Yongli directly held 588,000,000 Domestic Shares. Mr. Zhou Yongli (“Mr. Zhou”) is holding approximately 94.25% of the shares in Zhejiang Yongli. By virtue of the SFO, Mr. Zhou is deemed to be interested in the 588,000,000 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 588,000,000 Domestic Shares held by Zhejiang Yongli.

H shares of RMB 0.10 each of the Company (“H Shares”)

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

Save as disclosed above, as at 31 March 2016, 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, Ms. Zhang Li and Mr. Wang Weisong. 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 2016.

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 2016.

By Order of the Board
Zhejiang Yonglong Enterprises Company Limited*
Wang Xinyi
Chairman

Zhejiang, the PRC, 13 May, 2016

As at the date of this document, the executive directors of the Company are Mr. Wang Xinyi (Chairman), Ms. He Lianfeng (Deputy Chairman and Chief Executive Officer) and Mr. Hu Hua Jun; the non-executive directors are Mr. Chen Dong Chun and Mr. Tang Guo Ping; the independent non-executive directors are Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong.

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