



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



**THIRD QUARTERLY
REPORT**

2016

** For identification purpose only*

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

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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 nine months ended 30 September 2016,

- Revenue of the Company dropped from approximately RMB138.31 million to approximately RMB120.98 million, representing a decrease of approximately 12.53% when compared to the corresponding period in 2015;
- Net loss was approximately RMB10.29 million; and
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2016.

UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 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 and nine months ended 30 September 2016 as follows:

	<i>Notes</i>	Three months ended		Nine months ended	
		30 September		30 September	
		2016	2015	2016	2015
		RMB'000	RMB'000	RMB'000	RMB'000
Revenue	3	57,977	55,609	120,976	138,307
Cost of sales		(50,071)	(48,362)	(108,694)	(120,932)
Gross profit		7,906	7,247	12,282	17,375
Other income and (loss) gains	3	(933)	147	(83)	5,413
Selling and distribution costs		(469)	(547)	(1,817)	(1,493)
Administrative expenses		(2,627)	(1,822)	(6,695)	(5,541)
Finance costs	4	(4,660)	(7,042)	(13,979)	(21,127)
Loss before taxation		(783)	(2,017)	(10,292)	(5,373)
Income tax expenses	5	-	-	-	-
Loss and total comprehensive expenses for the period	6	<u>(783)</u>	<u>(2,017)</u>	<u>(10,292)</u>	<u>(5,373)</u>
		RMB	RMB	RMB	RMB
Loss per share					
– basic and diluted	8	<u>(0.07) cents</u>	<u>(0.18) cents</u>	<u>(0.97) cents</u>	<u>(0.51) cents</u>

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Other reserve <i>RMB'000</i> <i>(Note a)</i>	Assets revaluation reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i> <i>(Note b)</i>	Accumulated losses <i>RMB'000</i> <i>(Note c)</i>	Total <i>RMB'000</i>
Balance at 1 January 2015	106,350	69,637	124,950	23,715	12,496	(233,540)	103,608
Total comprehensive expenses for the period	-	-	-	-	-	(5,373)	(5,373)
Balance at 30 September 2015	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>23,715</u>	<u>12,496</u>	<u>(238,913)</u>	<u>98,235</u>
Balance at 1 January 2016	106,350	69,637	124,950	32,401	12,496	(250,719)	95,115
Total comprehensive expenses for the period	-	-	-	-	-	(10,292)	(10,292)
Balance at 30 September 2016	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>32,401</u>	<u>12,496</u>	<u>(261,011)</u>	<u>84,823</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"), 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% of its registered share capital and thereafter any further appropriation is optional. The general reserve fund can be utilised to offset prior year 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 30 September 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 are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements 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.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Company anticipate that application of HKFRS 9 (2014) in the future may have significant impact on amounts reported in respect of the Company’s financial assets and financial liabilities. Regarding the Company’s financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Company anticipate that application of HKFRS 15 in the future may have significant impact on amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of that effect of HKFRS 15 until the Company performs a detailed review.

Detail description of HKFRS 9 (2014) and HKFRS 15 were disclosed in note 2 to the notes to the financial statement of the annual report for the year ended 31 December 2015.

The directors of the Company anticipate that, except as described above, the application of the other new and revised HKFRSs will have no material impacts on the results and the financial position of the Company.

3. REVENUE AND OTHER INCOME AND (LOSS) 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 (loss) gains for the period are as follows:

	Three months ended		Nine months ended	
	30 September 2016	2015	30 September 2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue				
Sales of woven fabrics	56,112	51,738	115,865	126,796
Sub-contracting fee income	1,865	3,871	5,111	11,511
	57,977	55,609	120,976	138,307
Other income and (loss) gains				
Interest income	28	9	79	1,496
Government subsidies (<i>Note</i>)	-	6	-	1,240
Sundry income	(6)	82	96	334
Sales of scrap materials	(1,172)	50	(475)	362
Gain on disposal of old production machinery	217	-	217	1,981
	(933)	147	(83)	5,413

Notes:

During the nine months ended 30 September 2015, government subsidies of approximately RMB1,240,000 represents (i) approximately RMB40,000 of tax waived for disposal of old production machinery during the period ended 30 September 2015; and (ii) approximately RMB50,000 and RMB1,150,000 awarded to the Company during the period ended 30 September 2015 for attending trade exhibition and disposal of low productivity machinery respectively. There is no unfulfilled condition or contingencies relating to these subsidies.

4. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Imputed interest on non-current interest-free amount due to ultimate holding company	<u>4,660</u>	<u>7,042</u>	<u>13,979</u>	<u>21,127</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 30 September 2016 and 2015.

6. LOSS FOR THE PERIOD

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the period has been arrived at after charging:				
Depreciation and amortisation	<u>1,696</u>	<u>1,821</u>	<u>5,371</u>	<u>5,457</u>

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three and nine months ended 30 September 2016 and 2015.

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	Three months ended 30 September		Nine months ended 30 September	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Loss for the purpose of calculating basic loss per share	<u>(783)</u>	<u>(2,017)</u>	<u>(10,292)</u>	<u>(5,373)</u>
Number of shares for the purpose of basic loss per share <i>(Note)</i>	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>
Weighted average number of shares for the purpose of calculating loss per share	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>

Note:

No diluted loss per share have been presented for the three months and nine months ended 30 September 2016 and 2015, as there was no diluting events existed during these periods.

9. RELATED PARTY TRANSACTIONS

During the periods, the Company had the following related party transaction and continuing connected party transaction with the related parties:

Name of related company	Nature	Nine months ended 30 September	
		2016 RMB'000	2015 RMB'000
Zhejiang Yongli Thermal Electricity (Note 1)	Purchase of electricity and steam for usage in the production	5,611	4,606
Zhejiang Yongli Printing & Dyeing (Note 2)	Purchase of dyeing services for usage in the production	14	57
Zhejiang Yongli Warp Knitting (Note 3)	Sales of woven fabrics	-	55

Notes:

- (1) 浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited*) (“Zhejiang Yongli Thermal Electricity”), is a fellow subsidiary of the company. The aforesaid transactions were conducted in accordance with the term of contract dated 11 May 2015 and were in the ordinary course of the business of the Company.

As at 30 September 2016, amount due to Zhejiang Yongli Thermal Electricity was approximately RMB3.90 million (2015: approximately RMB2.51 million) which was unsecured, interest-free and repayable on demand.

- (2) 浙江紹興永利印染有限公司 (Zhejiang Shaoxing Yongli Printing & Dyeing Co., Ltd*) (“Zhejiang Yongli Printing & Dyeing”), is a fellow subsidiary of the company. The aforesaid transactions were conducted in accordance with the term as agreed with both parties and were in the ordinary course of the business of the Company.

As at 30 September 2016, amount due to Zhejiang Yongli Printing & Dyeing was approximately RMB51,000 (2015: approximately RMB51,000) which was unsecured, interest-free and repayable on demand.

- (3) 浙江永利經編有限公司 (Zhejiang Yongli Warp Knitting Company Limited*) (Zhejiang Yongli Warp Knitting”), is a fellow subsidiary of the Company. The aforesaid transactions were conducted in accordance with the terms as agreed with both parties and were in the ordinary course of the business of the Company.

As at 30 September 2015, amount due from Zhejiang Yongli Warp Knitting was approximately RMB64,000 which was unsecured, interest-free and repayable on demand. The maximum balance outstanding during the period amounted to approximately RMB64,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the nine months ended 30 September 2016, the Company recorded a revenue of approximately RMB120.98 million, represents a decrease of approximately 12.53% when compared with the same period in 2015. It was mainly due to significant decrease in subcontracting fee income of approximately 55.60% as the Company has been concentrated in the business of manufacturing of woven fabrics. In additions, there was also a slight dropping in sales of woven fabrics from both local and overseas markets due to decrease of local demand and keen competition in overseas markets. The gross profit margin decreased from approximately 12.56% to approximately 10.15% which was mainly due to the significant decrease in subcontracting fee income and the keen competition that led to slight adjustment of selling price.

The selling and distributed costs for the nine months ended in September 2016 increased by approximately 21.70% when compared with the corresponding period in 2015 mainly due to exhibition fees sharply increased which was in line with the Company's strategies of expanding and developing of local and overseas markets. Administrative expenses increased by approximately 20.84% mainly due increase of staff salary, entertainment and high temperature charge during the nine months ended 30 September 2016.

Other expenses and loss of approximately RMB83,000 incurred during the nine months ended 30 September 2016 mainly due to loss on disposal of certain scrap materials. Except for the finance cost of approximately RMB13.98 million in respect of imputed interest in non-current interest-free loan due to ultimate holding company, there was net profit before finance cost of approximately RMB3.69 million for the nine months ended 30 September 2016. The respective loss per share for the nine months ended 30 September 2016 and 2015 were approximately RMB0.97 cents and RMB0.51 cents respectively.

Business and operation review

During the nine months ended 30 September 2016, export sales to Europe decreased by approximately 35.67%, while on the other hand, export sales to other overseas countries increased by approximately 89.56%. The new developed overseas customers mainly located in America, Asia and Africa. The local market dropped by approximately 9.53% 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.

Production facilities

During the nine months ended 30 September 2016 under review, the Company spent approximately RMB182,000 in additions of office and factory equipment.

Product research and development

During the nine months ended 30 September 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 nine months ended 30 September 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 reorganization and industry consolidation, i.e. supply size reform has been in progress. 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 30 September 2016 was approximately RMB199.77 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 SHARES OF THE COMPANY

As at 30 September 2016, Ms. He Lianfeng, an 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 being a holding company of the Company.

Save as disclosed above, as at 30 September 2016, none of the Directors, chief executives or supervisors of the Company had interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are require (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); or (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 30 September 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 are 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%	55.29%
Mr. Zhou Yongli	Interest in controlled corporation (<i>Note 1</i>)	588,000,000	100%	55.29%
Ms. Xia Wanmei	Interest of spouse (<i>Note 2</i>)	588,000,000	100%	55.29%

Notes:

1. Zhejiang Yongli directly held 588,000,000 Domestic Shares. Mr. Zhou Yongli (“Mr. Zhou”) is holding approximately 94.25% equity interest in 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.
3. For the purpose of internal restructuring, Zhejiang Yongli entered into a share transfer agreement (the “SPA”) with Guizhou Yongan Finance Holdings Company Ltd.* (貴州永安金融控股股份有限公司) (“Guizhou Yongan”) on 19 August 2016, pursuant to which Zhejiang Yongli shall transfer 588,000,000 domestic shares of the Company, representing approximately 55.29% of the issued share capital of the Company to Guizhou Yongan at a consideration of RMB164,640,000 (the “Share Transfer”). It is currently contemplated that the Share Transfer shall be completed within three months from the date of entering into the SPA. Upon completion of the Share Transfer, Guizhou Yongan will own approximately 55.29% of the issued share capital of the Company. As at the date of the announcement on 19 August 2016, Guizhou Yongan was owned as to 65% by Zhejiang Yongli and Zhejiang Yongli will remain to be a controlling shareholder of the Company after completion of the Share Transfer. Details of which were disclosed in the announcement as published by the Company on 19 August 2016.

H shares of RMB0.1 each of the Company (“H Shares”)

Name of shareholder	Capacity	Number of H Shares held	Approximate percentage of interests in H Shares in issue at 30 September 2016	Approximate percentage of interests in total issued share capital 30 September 2016
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.60%

At 30 September 2016, save as disclosed above, so far as was known to the Directors, chief executives and supervisors of the Company, no other person (other than the Directors, chief executives or supervisors of the Company) had an interest or short position in the shares or underlying shares which would fall to be disclosed under Division 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 with written terms of reference, which have been updated in accordance with the provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. 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. Zhang Li and Mr. Wang Weisong. Mr. Xu Wei Dong is the chairman of the Audit Committee.

The Audit Committee has reviewed the third quarterly results of the Company for the nine months ended 30 September 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 of the Company, all directors and supervisors of the Company confirmed that they have complied with the required standard and the code of conduct regarding securities transactions by directors and supervisors adopted by the Company.

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 nine months ended 30 September 2016.

By Order of the Board
Zhejiang Yonglong Enterprises Co., Ltd.
Wang Xinyi
Chairman

Zhejiang, the PRC, 11 November 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), Mr. Hu Hua Jun; the non-executive director of the Company are Mr. Chen Dong Chun and Mr. Tang Guo Ping; the independent non-executive directors of the Company are Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong.

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