

Interim Report 2021



YONGAN HOLDINGS

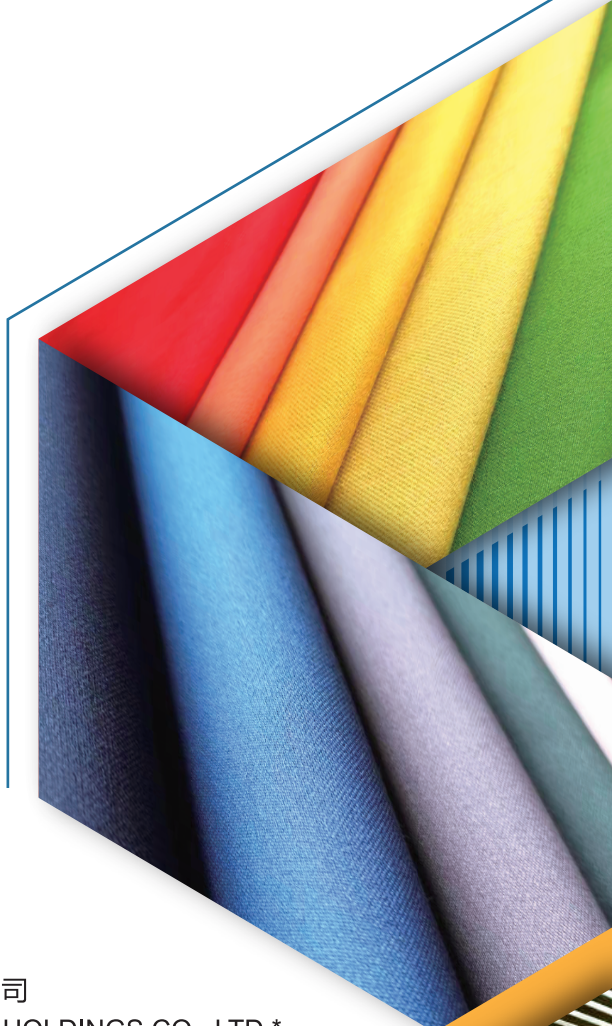
浙江永安融通控股股份有限公司

ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

Stock Code: 8211

* For identification purpose only



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This document, for which the directors of 浙江永安融通控股股份有限公司 (Zhejiang Yongan Rongtong Holdings 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 six months ended 30 June 2021,

- Revenue of the Group increased from approximately RMB36.69 million to approximately RMB56.50 million, representing a rise of approximately 48.53% when compared to the corresponding period in 2020;
- Net loss for the six months ended 30 June 2021 was approximately RMB12.50 million; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021.

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

For the six months ended 30 June 2021

The board of directors (the “Board” or the “Directors”) of 浙江永安融通控股股份有限公司 (Zhejiang Yongan Rongtong Holdings Co., Ltd.*) (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2021 together with the comparative results for the corresponding period in 2020 as follows:

		Three months ended		Six months ended	
		30 June		30 June	
		2021	2020	2021	2020
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
			(restated)		(restated)
Revenue	3	39,708	24,488	56,496	36,690
Cost of sales		<u>(39,329)</u>	<u>(23,960)</u>	<u>(56,270)</u>	<u>(35,423)</u>
Gross profit		379	528	226	1,267
Other income and gains	3	384	914	744	1,272
Selling and distribution costs		(463)	(342)	(766)	(647)
Administrative expenses		(5,435)	(7,915)	(8,368)	(10,685)
Share of losses of associates		(1,822)	(1,579)	(3,373)	(3,927)
Finance costs	5	<u>(495)</u>	<u>(1,753)</u>	<u>(971)</u>	<u>(3,505)</u>
Loss before taxation		(7,452)	(10,147)	(12,508)	(16,225)
Income tax credit (expenses)	6	<u>10</u>	<u>(18)</u>	<u>10</u>	<u>(48)</u>
Loss and total comprehensive expenses for the period	7	<u><u>(7,442)</u></u>	<u><u>(10,165)</u></u>	<u><u>(12,498)</u></u>	<u><u>(16,273)</u></u>
		RMB	RMB	RMB	RMB
Loss per share					
— basic and diluted	9	<u><u>0.70 cents</u></u>	<u><u>0.95 cents</u></u>	<u><u>1.17 cents</u></u>	<u><u>1.53 cents</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 June 2021*

		As at 30 June 2021 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2020 <i>RMB'000</i> <i>(Audited)</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	114,483	118,998
Right-of-use assets		5,798	5,892
Interests in associates		43,200	46,573
Financial asset at fair value through profit or loss		<u>24,715</u>	<u>24,757</u>
		<u>188,196</u>	<u>196,220</u>
CURRENT ASSETS			
Inventories		21,790	35,508
Trade and other receivables	<i>11</i>	51,531	29,944
Bank balances and cash		<u>26,780</u>	<u>31,635</u>
		<u>100,101</u>	<u>97,087</u>
CURRENT LIABILITIES			
Trade and other payables	<i>12</i>	22,360	17,630
Contract liabilities		10,458	8,587
Deferred income		159	159
Tax payable		<u>334</u>	<u>329</u>
		<u>33,311</u>	<u>26,705</u>
NET CURRENT ASSETS		<u>66,790</u>	<u>70,382</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>254,986</u>	<u>266,602</u>

		As at 30 June 2021 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2020 <i>RMB'000</i> <i>(Audited)</i>
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Deferred tax liabilities		10,909	10,919
Amount due to immediate holding company	13	17,207	16,236
Deferred income		<u>1,112</u>	<u>1,191</u>
		<u>29,228</u>	<u>28,346</u>
NET ASSETS			
		<u><u>225,758</u></u>	<u><u>238,256</u></u>
CAPITAL AND RESERVES			
Share capital		106,350	106,350
Reserves		<u>119,408</u>	<u>131,906</u>
		<u><u>225,758</u></u>	<u><u>238,256</u></u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
NET CASH USED IN OPERATING ACTIVITIES	<u>(5,003)</u>	<u>(7,177)</u>
Purchase of property, plant and equipment	(69)	(90)
Net cash outflow from disposal of a subsidiary	—	(4,302)
Dividend from financial assets at FVTPL	115	313
Interest received	<u>18</u>	<u>12</u>
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>64</u>	<u>(4,067)</u>
Repayment to immediate holding company	—	(11,000)
Government subsidy received	<u>84</u>	<u>1,908</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>84</u>	<u>(9,092)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,855)	(20,336)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>31,635</u>	<u>46,896</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, representing bank balances and cash	<u><u>26,780</u></u>	<u><u>26,560</u></u>

UNAUDITED CONDENSED CONSOLIDATED 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 2020	106,350	69,637	331,664	42,067	12,496	(314,912)	247,302
Total comprehensive expense for the period (restated)	—	—	—	—	—	(16,273)	(16,273)
Balance at 30 June 2020	<u>106,350</u>	<u>69,637</u>	<u>331,664</u>	<u>41,714</u>	<u>12,496</u>	<u>(331,185)</u>	<u>231,029</u>
Balance at 1 January 2021	106,350	69,637	349,487	43,535	12,496	(343,249)	238,256
Loss and total comprehensive expense for the period	—	—	—	—	—	(12,498)	(12,498)
Balance at 30 June 2021	<u>106,350</u>	<u>69,637</u>	<u>349,487</u>	<u>43,535</u>	<u>12,496</u>	<u>(355,747)</u>	<u>225,758</u>

Notes:

- (a) Other reserve represents the 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 and immediate holding company of the Company.
- (b) As stipulated by the 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 statutory surplus reserve fund until the balance of the fund reaches 50% of its registered capital and thereafter any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior year losses, or for conversion into registered capital on the condition that the statutory surplus 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 June 2021 and 2020, 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 principal activities of the Group are (i) the manufacture, and sale of woven fabrics; (ii) the provision of woven fabrics subcontracting services; and (iii) assets management services.

In the opinion of the Directors, the immediate parent of the Company is 貴州永安金融控股股份有限公司 (Guizhou Yongan Finance Holdings Company Ltd.*) (“Guizhou Yongan”), an enterprise established in the PRC, and the ultimate holding parent and ultimate controlling party of the Company is 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd*) (“Zhejiang Yongli”), which is established in the PRC.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company.

The Group has prepared the condensed consolidated financial statements in accordance with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The principal accounting policies used in the preparation of the unaudited consolidated results are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2020. The unaudited consolidated results of the Group are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by 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 the new and revised HKFRSs (“new and revised HKFRSs”) issued by the HKICPA.

The Group has not early applied the following new and amendments to HKFRSs and interpretation that have been issued but are not yet effective.

HKFRS 17	Insurance Contracts and related Amendments ²
Amendments to HKFRS 3	Reference to Conceptual Framework ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020)
	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ²
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ¹
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2022.

² Effective for annual periods beginning on or after 1 January 2023.

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of these new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

3. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the amounts received and receivable for goods sold and services rendered by the Group to external customers, net of sales related taxes. An analysis of the Group's revenue and other income and gains for the period are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(restated)		(restated)
Revenue from contracts with customers within the scope of HKFRS 15				
Disaggregated by major products or services lines				
Manufacture and sales of woven fabrics	33,311	23,740	49,585	35,525
Subcontracting fee income	6,397	748	6,911	868
Investment advisory service	—	—	—	297
	<u>39,708</u>	<u>24,488</u>	<u>56,496</u>	<u>36,690</u>
Disaggregation of revenue from contracts with customers by timing of recognition				
Timing of revenue recognition				
At a point in time	33,311	23,740	49,585	35,525
Over time	<u>6,397</u>	<u>748</u>	<u>6,911</u>	<u>1,165</u>
Total revenue from contract with customers	<u>39,708</u>	<u>24,488</u>	<u>56,496</u>	<u>36,690</u>
Other income and gains				
Dividend from financial asset at FVTPL	115	313	115	313
Bank interest income	6	7	18	12
Exchange difference	14	(10)	14	25
Government subsidies (<i>note</i>)	71	241	163	478
Refund of retirement benefit scheme contributions	—	235	126	235
Others	77	66	154	133
Sales of scrap materials	162	62	196	76
Gain from change in fair value of financial assets at FVTPL	<u>(61)</u>	<u>—</u>	<u>(42)</u>	<u>—</u>
	<u>384</u>	<u>914</u>	<u>744</u>	<u>1,272</u>

Notes:

- (1) Government subsidies of approximately RMB163,000 (2020: RMB478,000) was awarded to the Group during the six months ended 30 June 2021 included RMB84,000 (2020: RMB320,000) for encouraging enterprise development.

In March 2020, the Group received a government subsidy of approximately RMB1,589,000 for encouraging replacement of low productivity machinery and equipment. According to the audited result for the year ended 31 December 2020, the amount has been treated as deferred income and transferred to other income over the useful lives of the relevant assets. The policy has resulted in a credit to the other income of approximately RMB79,000 (2020: RMB158,000) in the current period and the respective period in 2020 has also been restated in accordance to the policy. As at 30 June 2021, an amount of approximately RMB1,271,000 (2020: RMB1,350,000) remains to be amortised.

- (2) Rental income of approximately RMB154,000 (2020: RMB132,000) is recognised. The Group leases out buildings under operating leases. The leases typically run for an initial period of 1 year. None of the leases includes variable lease payments.

4. SEGMENTAL INFORMATION

Information reported to the Board of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods sold or services delivered or provided.

Specifically, the Group's reportable segments and operating segments are as follows:

Woven fabric	—	Manufacture and sale of woven fabrics
Subcontracting services	—	Provision of subcontracting services
Asset management	—	Assets management and investment advisory services

(a) Segment revenues and results

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

	For the six months ended 30 June							
	Subcontracting							
	Woven fabric		services		Asset management		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(restated)							
Segment revenue	<u>49,585</u>	<u>35,525</u>	<u>6,911</u>	<u>868</u>	<u>—</u>	<u>297</u>	<u>56,496</u>	<u>36,690</u>
Segment profit (loss)	<u>(4,905)</u>	<u>(5,817)</u>	<u>(2,383)</u>	<u>(179)</u>	<u>115</u>	<u>313</u>	<u>(7,173)</u>	<u>(5,386)</u>
Unallocated corporate income							419	857
Unallocated corporate expenses							(1,410)	(4,264)
Share of losses of associates							(3,373)	(3,927)
Finance costs							<u>(971)</u>	<u>(3,505)</u>
Loss before taxation							<u>(12,508)</u>	<u>(16,225)</u>

The accounting policies of the operating segments are the same as the Group's accounting policies described in the annual financial statements of the Group for the year ended 31 December 2020. Segment profit (loss) represents the profit (loss) earned by each segment without allocation of bank interest income, exchange difference, government subsidies, refund of retirement benefit scheme contributions, sundry income, central administration costs, share of losses of associates and finance costs. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment.

(b) Geographical information

Information about the Group's revenue from continuing operation from external customers is presented based on the location of the operation. Segment information about these geographical markets are as follows:

Revenue from external customers:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
The PRC (country of domicile)	51,470	31,884
Europe	3,005	3,961
South America	1,551	739
Other overseas	470	106
	<u>56,496</u>	<u>36,690</u>

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Imputed interest on interest-free loan due to immediate holding company	<u>495</u>	<u>1,753</u>	<u>971</u>	<u>3,505</u>

6. INCOME TAX CREDIT (EXPENSES)

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current taxation				
— PRC Enterprise Income Tax	5	(18)	5	(48)
Deferred taxation				
— Current period	<u>5</u>	<u>—</u>	<u>5</u>	<u>—</u>
	<u>10</u>	<u>(18)</u>	<u>10</u>	<u>(48)</u>

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.

7. LOSS FOR THE PERIOD

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Loss for the period has been arrived at after charging:				
Staff cost (including supervisors', directors' and chief executive's emoluments):				
Salaries, wages and other benefits in kind	9,109	5,979	12,866	9,475
Retirement benefit scheme contributions	362	236	718	644
Total staff costs	9,471	6,215	13,584	10,119
Depreciation of right-of-use assets	47	47	94	94
Cost of inventories recognized as an expenses	32,488	23,140	49,134	34,541
Depreciation of property, plant and equipment	2,275	3,137	4,584	4,716
Research and development costs recognized as an expenses (note)	528	453	730	735
Loss from change on fair value of financial asset at fair value through profit and loss	61	—	42	—
Impair loss on trade receivables	—	2,638	2,551	2,633
Loss on disposal of a subsidiary	—	2,204	—	2,204
Reversal of allowance for inventories (included in cost of inventories recognised as expenses)	(1,244)	—	(1,244)	—

Note: Research and development costs includes staff costs of approximately RMB730,000 (2020: approximately RMB735,000) which have been included in the staff costs as disclosed above.

8. DIVIDEND PAID

The Directors do not recommend the payment of an interim dividend for the three and six months ended 30 June 2021 and 2020.

9. LOSS PER SHARE

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

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(restated)		(restated)
Loss for the purpose of calculating basic loss per share	<u>7,442</u>	<u>10,165</u>	<u>12,498</u>	<u>16,273</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 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 six months ended 30 June 2021 and 2020, as there was no diluting events existed during these periods.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period for the six months ended 30 June 2021, the Group spent approximately RMB69,000 (31 December 2020: approximately RMB90,000) for renovation of factory buildings and additions of office equipments.

11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 to 180 days (31 December 2020: 60 days to 180 days) to its trade customers. The Group does not hold any collateral or other credit enhancements over its trade and other receivables. The aged analysis of trade receivables, net of allowance for impairment of trade receivables and presented base on the revenue recognition dates, at the end of the reporting period is as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
0–60 days	31,932	18,367
61–90 days	248	328
91–120 days	515	256
121–365 days	7,616	3,893
	40,311	22,844
Other receivables		
Prepayments to suppliers	10,603	2,217
Other tax recoverable	—	196
Other receivables	617	757
Consideration receivable	—	3,930
	11,220	7,100
Total trade and other receivables	51,531	29,944

Included in other receivables as at 30 June 2021, has balance of approximately RMB485,000 (31 December 2020: approximately RMB626,000) is amount due from a fellow subsidiary in relation to certain property, plant and equipment renting to the fellow subsidiary. The balance is unsecured, interest-free and repayable upon invoice issued.

12. TRADE AND OTHER PAYABLES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Trade payables	15,480	9,068
Other tax payables	4,295	2,528
Accrued expenses and other payables	2,585	6,034
	22,360	17,630

- (i) The Group normally receives credit periods from suppliers ranging from 30 days to 90 days (31 December 2020: 30 days to 90 days). The Group has in place financial risk management policies to ensure that all payables are settled within the credit timeframe.

- (ii) An aged analysis of the trade payables at the end of the reporting periods based on invoice date is as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
0–60 days	7,678	4,024
61–90 days	3,228	1,389
91–365 days	1,631	705
Over 365 days	2,943	2,950
	<u>15,480</u>	<u>9,068</u>

13. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

Analysed for reporting purposes as:

	30 June 2021 RMB'000	31 December 2020 RMB'000
Non-current liability	<u>17,207</u>	<u>16,236</u>

On 23 December 2016, Zhejiang Yongli entered into an agreement of assignment of debt with Guizhou Yongan (“Assignment of Debt Agreement”), pursuant to which, the debt of approximately RMB239,677,000 owed by the Company to Zhejiang Yongli was assigned to Guizhou Yongan and Guizhou Yongan committed to continue the obligations and commitments under the original debt agreement that was entered into between the Company and Zhejiang Yongli on 13 September 2011.

Referring to the principal advances of approximately RMB239,677,000 in relation to the Assignment of Debt Agreement entered into on 23 December 2016, it had been initially reduced to its present value of approximately RMB20,724,000 based on the managements’ estimates of future cash payments with a corresponding adjustment of approximately RMB218,953,000, which was deemed as a contribution from the immediate holding company during the year ended 31 December 2016. The effective interest rate adopted for measurement at fair value at initial recognition of the advances from immediate holding company for the year was determined with reference to the prevailing market rates of interest for similar instruments with similar credit ratings and with reference to the timing and repayment based on the cash flow of the Company in the year ended 31 December 2016.

During the year ended 31 December 2020, the Group partially repaid the principal of RMB11,000,000 (2019: RMB6,426,000). On 30 November 2020, the Company and Guizhou Yongan entered into a supplemental debt agreement (“Supplemental Debt Agreement”), pursuant to which it was agreed that, subject to the fulfilment of conditions precedents, the repayment terms of the remaining principle have been revised as follows:

- (a) No repayment will be required in the first and second year from the date of the Supplementary Debt Agreement;
- (b) From the third to the seventh year from the date of the Supplementary Debt Agreement, a fixed repayment of RMB800,000 has to be repaid on or before 31 March of each year;

- (c) From the eighth year from the date of the Supplementary Debt Agreement onwards, the repayment shall not exceed 50% of the Company's operating cash flow for current year on an annual basis until the full repayment of debt.

Save for the above alterations, all other terms and conditions of the remaining advances from immediate holding company remain unchanged.

The modification of the repayment terms resulted in the extinguishment of the financial liability of the amount due to immediate holding company and the recognition of new financial liability.

On 30 November 2020, the carrying values of amount due to immediate holding company immediately before the modification were approximately RMB33,899,000. According to a valuation report issued by an independent valuer not connected with the Group, the fair values of the new liability immediately following the modification is approximately RMB16,076,000. These caused an increase of approximately RMB17,823,000 in other reserve in the consolidated statement of changes in equity impact during the year ended 31 December 2020.

Imputed interest on these advances had been computed at an original effective interest rate of 12.42% (2020: 18.22%). The amount is unsecured, interest-free.

14. CONNECTED AND RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in this document, the Group had the following related party transactions and continuing connected party transaction during the periods:

- (a) During the period for the six months ended 30 June 2021, the Group had paid approximately RMB4,624,000 (2020: RMB5,499,000) to Zhejiang Yongli for electricity charges paid by Zhejiang Yongli on behalf of the Group.

The aforesaid payments were made on behalf of the Group based on the actual costs incurred and were in the ordinary course of business of the Group.

- (b) During the six months ended 30 June 2021, the Group had paid approximately RMB80,000 (2020: approximately RMB94,000) to 浙江紹興永利印染有限公司 (Zhejiang Yongli Printing & Dyeing Co., Ltd.*), a fellow subsidiary of the Company for providing dyeing services to the Group.
- (c) During the six months ended 30 June 2021, the Group had received approximate RMB154,000 (2020: approximately RM132,000) from 紹興虹利化纖有限公司 (Shaoxing Hongli Fiber Co., Ltd.*), a fellow subsidiary of the Company for leasing of certain property, plant and equipment to it.
- (d) During the six months ended 30 June 2021, the Group had received approximately RMB1,000 (2020: nil) from 浙江永利經編股份有限公司 (Zhejiang Yongli Warp Knitting Co., Ltd.), a fellow subsidiary of the Company and approximately RMB22,000 (2020: nil) from 浙江永和建材有限公司 (Zhejiang Yonghe Building Materials Co., Ltd.*), a fellow subsidiary of the Company for purchase of woven fabrics from the Group respectively.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

Revenue and gross profit

During the six months ended 30 June 2021 (the “Current Period”), the Group recorded a revenue of approximately RMB56,496,000, representing an overall increase of approximately 48.53% when compared to the same period in 2020 mainly contributed from the respective increase of sales of woven fabrics and subcontracting fee income and the gross profit was approximately RMB226,000. Due to the long-lasting outbreak of the novel coronavirus (“COVID-19”) epidemic (the “Epidemic”) since 2020, most commercial activities in China and overseas countries were either suspended or seriously affected. Although China successfully stopping the Epidemic from widely few months later after the outbreak in early 2020, the overseas countries continue to be suffered by the Epidemic which caused the decline in demand of the product of the Group from both local and overseas customers. In addition, a substantial appreciation of the renminbi further impacted the unfavorable export in such severe situation. Furthermore, shortage of labour force due to labour structure adjustment led to increase of wages and rise of cost of raw materials continue to impact the Group and the peer manufacturers. As such, both domestic and export sales of woven fabrics of the Group were significantly affected and so do the selling price in both domestic and export sales of woven fabrics.

Other income and gains

Other income and gains dropped by approximately RMB528,000 or approximately 41.51% during the Current Period when compared to the same period in 2020 as the Group received government subsidies in 2020 from the local government authorities for encouragement of resumption of work after the Epidemic had been under controlled.

Selling and distribution cost

Selling and distribution cost increased by approximately RMB119,000 or approximately 18.39% during the Current Period when compared to the same period in 2020 was in line with the increase of revenue during the Current Period.

Administrative expenses

Administrative expenses decreased by approximately RMB2,317,000 or approximately 21.68% during the Current Period when compared to the same period in 2020 mainly due to loss incurred in disposal of a subsidiary in 2020.

Share of loss of associates

Share of loss of associates of approximately RMB3,373,000 represents share of loss from Beijing Tepia Technology Co., Ltd.* (北京太比雅科技股份有限公司) (“Tepia”), a company incorporated in the PRC and is listed on the NEEQ (Stock Code: 838941) which the Group has acquired and interest in 41.67% since 20 August 2019. Share of loss of associates decreased by approximately RMB554,000 or approximately 14.11% for the Current Period when compared with the same period in 2020, mainly due to the improvement of the result of Tepia for the Current Period. During the Current Period, the revenue of Tepia increased by approximately RMB4,396,000 or approximately 49.24% when compared to the same period in 2020 as some of the projects could not be carried out as planned in 2020 due to the outbreak of Epidemic in China in early 2020 which caused the restriction of commercial and social activities. After China has successfully stopped the Epidemic from widely after few months since the outbreak in early 2020, most of the commercial activities in China has been resumed as normal in 2021. During the Current Period, Tepia mainly continued to undergo the projects from 2019 and 2020 as new projects from the relevant government departments normally opened for bidding from the second to third quarter of the relevant year. During Current Period, selling expenses decreased by approximately RMB521,000 or 8.05% when compared to the same period in 2020 mainly due to decrease in staff salary. Administrative expenses increased by approximately RMB213,000 or approximately 5.02% when compared to the same period in 2020 mainly due to increase of cost in research and development.

Finance cost

Finance cost of approximately RMB971,000 for the Current Period represents imputed interest in interest free loan due to immediate holding company, Guizhou Yongan. In April 2020, the Company repaid RMB11 million to Guizhou Yongan and on 30 November 2020, the Company entered into a supplemental debt agreement (the “Supplemental Debt Agreement”) with Guizhou Yongan. Due to the Supplement Debt Agreement, the interest free loan has been modified according to HKFRS 9, details of which were disclosed in annual report for the year ended 31 December 2020. The respective imputed interest immediately before and after 30 November 2020 on the advance had been computed at an effective interest rate of 18.22% and 12.42% (January 2020 to June 2020:18.22%). In this regard, finance cost for the Current Period decreased significantly by approximately RMB2,534,000 or approximately 72.3% when compared to the same period in 2020.

Loss for the year

Loss for the Current Period was approximately RMB12,498,000, decreased by approximately RMB3,775,000 or 23.20% when compared to the same period in 2020 mainly due to decrease in share of loss of associates and finance cost as explained above.

Loss per share

The respective loss per share for the Current Period and 2020 were approximately RMB1.17 cents and approximately RMB1.53 cents respectively.

Interest in associates

Interest in associates of approximately RMB43.2 million which represents the 41.67% of interest in Tepia as at 30 June 2021, decreased by approximately RMB3.37 million when compared with the balance as at 31 December 2020 mainly due to share of loss of associates of approximately RMB3.37 million for the six months ended 30 June 2021, details of which were discussed under the previous paragraph “share of loss of associates”.

Inventories

As at 30 June 2021 inventories was approximately RMB21.79 million (31 December 2020: approximately RMB35.51 million) which representing aggregation of inventories in various status being raw materials, working-in-progress and finished good of woven fabrics. There was no material changes in raw materials as at 30 June 2021 when compared with that as at 31 December 2020. Finished good of woven fabrics as at 30 June 2021 decreased by approximately RMB15.47 million or approximately 61.67% when compared with balance as at 31 December 2020 mainly due to increase of both domestic and overseas sales in the second quarter of 2021. Work-in-progress as at 30 June 2021 increased by approximately RMB1.79 million or approximately 20.71% when compared with that as at 31 December 2020 mainly due to increase of production volume in order to meet the increase of sales orders.

Trade and other receivables

As at 30 June 2021, trade and other receivables was approximately RMB51.53 million (31 December 2020: approximately RMB29.94 million) increased by approximately RMB21.59 million or approximately 72.09% when compared with that as at 31 December 2020 mainly due to (i) trade receivables increased sharply by approximately RMB17.47 million or approximately 76.46% as a result of sales increased during the second quarter of 2021; and (ii) prepayment to suppliers increased by approximately RMB8.39 million or approximately 378.3% as more purchase orders on raw materials were made so as to meet production volume increased.

Bank balances and cash

At as 30 June 2021, bank balances and cash was approximately RMB26.78 million (31 December 2020: approximately RMB31.64 million), representing a drop of approximately RMB4.86 million when compared with that as at 31 December 2020 mainly due to prepayment to suppliers increased.

Trade and other payables

As at 30 June 2021, trade and other payables was approximately RMB22.36 million (31 December 2020: approximately RMB17.63 million), representing an increase of approximately RMB4.73 million or approximately 26.83% mainly due to increase in purchase of raw materials as a result of increase in production volume during the period ended 30 June 2021.

Contract liabilities

As at 30 June 2021, contract liabilities represents receipt in advance from customers was approximately RMB10.46 million (31 December 2020: approximately RMB8.59 million), representing an increase of approximately RMB1.87 million or approximately 21.79% mainly due to more sales order were received during the second quarter of 2021.

Deferred income

As at 30 June 2021, deferred income of approximately RMB1.27 million (31 December 2020: approximately RMB1.35 million) represents part of the government subsidy of approximately RMB1,589,000 which was received by the Group in 2020 for encouraging replacement of low productivity machinery and equipment. The amount of approximately RMB1,589,000 has been recognised as deferred income and transferred to other income over the useful lives of the relevant assets. During the six months ended 30 June 2021, an amount of approximately RMB79,000 (30 June 2020: approximately RMB158,000) was credit to the other income in the current period according to this policy. As at 30 June 2021, the amount of approximately RMB1.27 million (31 December 2020: approximately RMB1.35 million) remains to be amortised.

Amount due to immediate holding company

As at 30 June 2021, amount due to immediate holding company, Guizhou Yongan was approximately RMB17.21 million (31 December 2020: approximately RMB16.24 million), representing an increase of approximately RM0.97 million or 5.98% mainly due to effect of imputed interest during the six months ended 30 June 2021, details of which were discussed in the above paragraph of “finance cost”.

Business and operation review

Manufacture and sales of woven fabrics and provision of woven fabrics subcontracting services

The textile sector is the Group's main business. During the Current Period, both domestic and export sales of woven fabrics increased by approximately RMB14.06 million or approximately 39.58% and subcontracting fee income also increased by approximately RMB6.04 million or approximately 696.2% mainly due to commercial activities has been resumed as normal in China in 2021 after China has successfully stopping the Epidemic widely after few months since the outbreak of COVID-19 in early January 2020 in China. However, the long-lasting outbreak of the Epidemic in some overseas countries since 2020 and the rise of tension between China and the U.S. continued to impact to the export sales of the Group. In addition, the appreciation of the renminbi in 2020 also impact the unfavorable export in such severe situation. Furthermore, shortage of labour force due to the labour structure adjustment continue to impact the Group and the peer manufacturers. In this regard, the Group has continued to implement various measures and actions including development of new sales channels for increasing the exposure of the Group's product to potential customers and research and development of new and high quality product so as to attract high profile customers etc. In addition, further to launch of the COVID-19 vaccines and increase of the vaccination population globally, the Directors expect that the business environment ahead will continue to be tough and uncertain as many countries are still being exposed to the risk of having a new wave of coronavirus outbreak. Due to the expectation that the challenging business environment may persist at least in the coming few quarters, the Group understands that it is important to preserve its financial strength. In this regard, measures will continue to be carried out to increase efficiency, reduce cost and improve liquidity.

Water management-related business by associates

In 2021, Tepia mainly engaged in small and medium-sized reservoirs as the starting point, focusing on "small water conservancy projects", make full use of existing customers and technology accumulation, for Water Conservancy, Water government customers, to provide small water conservancy project operation and maintenance management scheme design, management system development, equipment installation and commissioning, aerial three-dimensional data, property management, repair and maintenance. Tepia's performance in 2021 has further improved somewhat from the previous year.

During the reporting period, Tepia expanded its business area to the field of industrial circulating water treatment. Through equipment based on electrochemical and electromagnetic mixing physical technology, it solves the problems of industrial circulating water fouling, corrosion, bacteria and algae breeding, and can help customers achieve water saving, energy saving and consumption reduction. The business is mainly aimed at enterprise customers in electric power, chemical industry, iron and steel and machinery manufacturing industries. At present, Tepia has expanded some customers, however due to a certain time lag in equipment delivery and acceptance, income has not yet been confirmed during the Current Period.

Product research and development

During the six months ended 30 June 2021, the Group 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 six months ended 30 June 2021, the Group actively prepared for participating in various trade fairs to be held in PRC so as to gain exposure in the fabrics market and to popularise the Group's new products.

OUTLOOK

Further to launch of the COVID-19 vaccines and increase of the vaccination population globally, there are many countries still being exposed to the risk of having a new wave of coronavirus outbreak. The Board expected that it will be a long road for the market to resume its growth momentum and let consumers rebuild their confidence on spending even if the virus can be later under control. Furthermore, the increase in tension between China and the United States, the Directors anticipate that the market demand for the woven fabrics in the future will be highly volatile and it takes time for the Group's business volume to be fully restored to the pre-pandemic level. Due to the expectation that the challenging business environment may persist at least in the coming few quarters, the Group understands that it is important to preserve its financial strength. In this regard, measures will continue to be carried out by the Group to increase efficiency, reduce cost and improve liquidity. Capital expenditures will be managed in a very prudent manner without compromising the needs for strategic investments in key areas. The year of 2021 is still full of challenges.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During six months ended 30 June 2021, the Group financed its operations mainly by internally generated cash and financial support from Guizhou Yongan, the immediate holding company of the Company.

As at 30 June 2021, the Group's current assets and net current assets were approximately RMB100.10 million (31 December 2020: approximately RMB97.09 million) and approximately RMB66.79 million (31 December 2020: approximately RMB70.38 million) respectively. The Group's gearing ratio, represented by the ratio of the interest free loan due to immediate holding company over shareholders' equity, was approximately 7.62% (31 December 2020: 6.81%). The liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was approximately 3.01 (31 December 2020: 3.64).

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

As at 30 June 2021, the Group did not have any capital commitments (31 December 2020: nil) and significant investments held (31 December 2020: nil).

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any significant contingent liabilities (31 December 2020: nil).

CHARGES ON GROUP ASSETS

As at 30 June 2021, the Group has no charges on Group assets (31 December 2020: nil).

MATERIAL DISPOSALS

During the six months ended 30 June 2021, the Group did not have any material disposal. (31 December 2020: a wholly owned subsidiary with an original investment cost of RMB10,000,000 was disposed, details of which was discussed in the annual report for the year ended 31 December 2020.)

SEGMENTAL INFORMATION

Segmental information of the Group is set out in note 4.

EMPLOYEE AND EMOLUMENT POLICIES

As at 30 June 2021, the Company had 285 employees (31 December 2020: 312), comprising 3 (31 December 2020: 2) in research and development, 9 (31 December 2020: 3) in sales and marketing, 215 (31 December 2020: 256) in production, 32 (31 December 2020: 38) in quality control, 5 (31 December 2020: 5) in management, and 21 (31 December 2020: 8) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

FOREIGN EXCHANGE EXPOSURE

The Group operates in the PRC with most of the transactions denominated and settled in RMB. However, foreign currencies, mainly United States Dollars, Euro and Hong Kong Dollars, are required to settle the Group's expenses and additions on plant and equipment. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government, if necessary, the Group will use forward contracts, foreign currency borrowings or other means to hedge its foreign currency exposure. The Group considers it has no material foreign exchange risk.

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 30 June 2021, 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. Ms. Wang Ai Yu, a supervisor of the Company ("Supervisor"), is a manager of the internal audit department of Zhejiang Yongli. Zhejiang Yongli and Guizhou Yongan are associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO"))) by virtue of being a holding company of the Company.

Save as disclosed above, as at 30 June 2021, none of the Directors, Supervisors or chief executives 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 he/she is taken or deemed to have 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 June 2021, so far as it is known to the Directors or chief executive or Supervisors of the Company, the interests and short positions of person in the shares or underlying shares of the Company, other than the interest of the Directors or Supervisors, which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or who is interested directly or indirectly in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any 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
Guizhou Yongan	Beneficial owner	588,000,000	100.00%	55.29%
Zhejiang Yongli	Interest in controlled corporation (<i>Note</i>)	588,000,000	100.00%	55.29%
Mr. Zhou Yongli	Interest in controlled corporation (<i>Note</i>)	588,000,000	100.00%	55.29%
Ms. Xia Wanmei	Interest of spouse (<i>Note</i>)	588,000,000	100.00%	55.29%

Notes:

- (1) On 8 April 2021, the Company received a notice from Guizhou Yongan that 588,000,000 Domestic Shares has been pledged to an independent third party, China Zheshang Bank Co., Ltd., Shaoxing Branch (“CZBank”) as a security for a loan of RMB50 million as provided by CZBank to Zhejiang Yongli, details of which were disclosed in the announcement dated 8 April 2021 of the Company. As at the date of this document, the 588,000,000 Domestic Shares still have been pledged to CZBank for security of the bank loan granted to Zhejiang Yongli.
- (2) Mr. Zhou Yongli and his spouse Ms. Xia Wanmei, own approximately 94.25% and approximately 3.49% in Zhejiang Yongli respectively. Zhejiang Yongli owns 65% in Guizhou Yongan. Mr. Zhou Yongli and Ms. Xia Wanmei are therefore deemed to be interested in the 588,000,000 domestic shares of the Company held by Guizhou Yongan, representing 55.29% of the total issued share capital of the Company.

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	Approximate percentage of interests in total issued share capital 30 June 2021
			30 June 2021	June 2021
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.61%

Saved as disclosed above, at 30 June 2021, 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) has 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 Group under the period under review and up to the date of this document.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) with written terms of reference in compliance with Rule 5.28 and 5.29 of the GEM Listing Rules and code provision C3.3 of the Corporate Governance (“CG”) Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. At the date of this document, the Audit Committee has three members comprising the three independent non-executive Directors, Mr. Yu Weidong, Mr. Yuan Lingfeng and Mr. Zhu Weizhou. Mr. Yu Weidong and Mr. Yuan Lingfeng were appointed as independent non-executive Directors and member of Audit Committee of the Company on 30 July 2021 for taking up the position of Mr. Leng Peng and Ms. Wu Yuejuan due to their resignation on 30 July 2021. Mr. Yu Weidong is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited first quarterly results and interim results of the Group for the three months ended 31 March 2021 and the six months ended 30 June 2021 respectively and is of the opinion that such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure had been made.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2021, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the “Code Provision”) as set out in Appendix 15 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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 Group.

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

Neither the Company nor its subsidiaries purchase, sell or redeem any of the Company’s listed securities during the six months ended 30 June 2021.

By Order of the Board
Zhejiang Yongan Rongtong Holdings Co., Ltd.
Lou Lijiang
Chairman

Zhejiang, the PRC, 13 August, 2021

As at the date of this document, the executive directors of the Company are Mr. Lou Lijiang (Chairman), Ms. He Lianfeng (Chief Executive Officer) and Mr. Hu Hua Jun; the non-executive director of the Company is Mr. Ma Jinsong; the independent non-executive directors of the Company are Mr. Yu Weidong, Mr. Yuan Lingfeng and Mr. Zhu Weizhou.

This document will remain on the “Latest Listed Company Information” page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its publication and on the Company’s website at <http://www.zj-yongan.com>.

* For identification purpose only