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**Yongsheng Advanced Materials Company Limited**

**(永盛新材料有限公司)**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3608)**

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

**FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE  
2014**

Revenue decreased by 38.3% to RMB685.6 million.

Gross profit increased by 3.9% to RMB63.6 million.

Gross profit margin increased by 3.8 percentage points to 9.3%.

Profit for the period increased by 30.2% to RMB25.1 million.

Net profit margin increased by 2.0 percentage points to 3.7%.

Profit attributable to shareholders increased by 37.9% to RMB21.3 million.

The board (the “Board”) of directors (the “Directors”) of Yongsheng Advanced Materials Company Limited (the “Company”) is pleased to present the unaudited consolidated statement of comprehensive income of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014, consolidated statement of changes in equity, condensed consolidated cash flow statement, together with the audited comparative figures for the corresponding period in 2013, the unaudited consolidated balance sheet of the Group as at 30 June 2014 together with audited comparative figures as at 31 December 2013.

## UNAUDITED CONSOLIDATED BALANCE SHEET

*As at 30 June 2014*

		(audited)
	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2014</b>	2013
<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Land use rights	<b>31,647</b>	31,781
Property, plant and equipment	<b>127,281</b>	131,063
Intangible assets	<b>6,281</b>	7,006
Deferred income tax assets	<b>7,252</b>	8,573
	<b>172,461</b>	178,423
<b>Current assets</b>		
Inventories	<b>93,925</b>	113,162
Trade and bills receivables	<b>110,698</b>	126,105
Prepayments, deposits and other receivables	<b>44,690</b>	20,058
Amount due from related party	<b>323</b>	–
Financial assets at fair value through profit or loss	<b>697</b>	757
Restricted cash	<b>47,567</b>	118,387
Cash and cash equivalents	<b>83,696</b>	166,559
	<b>381,596</b>	545,028
<b>Total assets</b>	<b>554,057</b>	723,451

		(audited)
		As at
		31 December
		2013
	As at	RMB'000
	30 June	RMB'000
	2014	RMB'000
	Note	RMB'000
<b>EQUITY</b>		
Share capital		3,165
Share premium		235,512
Other reserves		(33,976)
Retained earnings		108,824
		<u>313,525</u>
Equity attributable to shareholders of the Company		292,507
Non-controlling interests		24,634
		<u>317,141</u>
<b>Total equity</b>		<b><u>338,509</u></b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	11	25,000
Other non-current liabilities		13,132
		<u>38,132</u>
		<u>12,729</u>
<b>Current liabilities</b>		
Trade and bills payables	9	116,829
Advances from customers		8,084
Accruals and other current liabilities	10	27,278
Current portion of other non-current liabilities		807
Amounts due to related parties	19	7,513
Current income tax liabilities		11,096
Borrowings	11	196,571
		<u>368,178</u>
		<u>202,819</u>
<b>Total liabilities</b>		<b><u>406,310</u></b>
<b>Total equity and liabilities</b>		<b><u>723,451</u></b>
<b>Net current assets</b>		<b><u>176,850</u></b>
		<u>178,777</u>
<b>Total assets less current liabilities</b>		<b><u>355,273</u></b>
		<u>351,238</u>

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		(audited)
		2014
	<i>Note</i>	<i>RMB'000</i>
		2013
		<i>RMB'000</i>
Revenue	4	685,615
Cost of sales	13	<u>(621,992)</u>
<b>Gross profit</b>		61,227
Other (losses)/gains, net	12	(25)
Selling expenses		(7,956)
Administrative expenses		<u>(18,598)</u>
<b>Operating profit</b>		<u>34,730</u>
Finance income	14	2,471
Finance costs	14	<u>(5,248)</u>
Finance costs, net	14	<u>(2,777)</u>
<b>Profit before income tax</b>	13	24,997
Income tax expense	15	<u>(5,696)</u>
<b>Profit for the period</b>		<u>19,301</u>
<b>Other comprehensive income:</b>		
Items that may be reclassified to profit or loss		
– Currency translation differences		<u>(321)</u>
<b>Other comprehensive income for the period, net of tax</b>		<u>(171)</u>
<b>Total comprehensive income for the period</b>		<u><u>18,980</u></u>

		(audited)
		2013
	<b>2014</b>	2013
	<b>RMB'000</b>	<b>RMB'000</b>
	<i>Note</i>	<i>RMB'000</i>
<b>Profit attributable to:</b>		
Shareholders of the Company	<b>21,314</b>	15,461
Non-controlling interests	<b>3,825</b>	3,840
	<u><b>25,139</b></u>	<u>19,301</u>
<b>Total comprehensive income attributable to:</b>		
Shareholders of the Company	<b>21,143</b>	15,140
Non-controlling interests	<b>3,825</b>	3,840
	<u><b>24,968</b></u>	<u>18,980</u>
		(restated)
	<b>2014</b>	2013
	<b>RMB</b>	<b>RMB</b>
<b>Earnings per share for profit attributable to the shareholders of the Company</b>		
– Basic	<i>17(a)</i> <b>0.05</b>	0.05
– Diluted	<i>17(b)</i> <b>0.05</b>	0.05
		(audited)
	<b>2014</b>	2013
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Dividends</b> (paid and proposed)	<i>18</i> <b>–</b>	–

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to shareholders of the Company						
	Note	Share capital and Share premium RMB'000	Other Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2013		238,677	(33,680)	87,510	292,507	24,634	317,141
Comprehensive income							
Profit for the period		–	–	21,314	21,314	3,825	25,139
Other comprehensive income							
Currency translation differences		–	(171)	–	(171)	–	(171)
Total comprehensive income		–	(171)	21,314	21,143	3,825	24,968
Transactions with equity holders							
Acquisition of non-controlling interests		–	(125)	–	(125)	(475)	(600)
Dividends paid to non-controlling interests		–	–	–	–	(3,000)	(3,000)
Total transactions with equity holders		–	(125)	–	(125)	(3,475)	(3,600)
Balance at 30 June 2014		<u>238,677</u>	<u>(33,976)</u>	<u>108,824</u>	<u>313,525</u>	<u>24,984</u>	<u>338,509</u>

Attributable to shareholders of the Company

<i>Note</i>	<b>Share capital and Share premium</b>	<b>Other Reserves</b>	<b>Retained earnings</b>	<b>Total</b>	<b>Non- controlling interests</b>	<b>Total equity</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Audited:</i>						
Balance at 31 December 2012	160,413	(34,815)	49,601	175,199	16,133	191,332
Comprehensive income						
Profit for the period	–	–	15,461	15,461	3,840	19,301
Other comprehensive income						
Currency translation differences	–	(321)	–	(321)	–	(321)
Total comprehensive income	–	(321)	15,461	15,140	3,840	18,980
Transactions with equity holders						
Issuance of new shares	5	–	–	5	–	5
Total transactions with equity holders	5	–	–	5	–	5
Balance at 30 June 2013	<u>160,418</u>	<u>(35,136)</u>	<u>65,062</u>	<u>190,344</u>	<u>19,973</u>	<u>210,317</u>

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014

		(audited)
	<b>2014</b>	2013
	<b>30 June</b>	30 June
<i>Note</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Net cash generated from/(used in) operating activities	<b>19,372</b>	(94,096)
Net cash generated from investing activities	<b>69,794</b>	236,715
Net cash used in financing activities	<u><b>(172,344)</b></u>	<u>(206,046)</u>
Net decrease in cash and cash equivalents	<b>(83,178)</b>	(63,427)
Cash and cash equivalents at beginning of the period	<b>166,559</b>	75,700
Effect of foreign exchange rate changes on cash and cash equivalents	<u><b>315</b></u>	<u>(287)</u>
Cash and cash equivalents at end of the period	<u><b>83,696</b></u>	<u>11,986</u>



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*(Expressed in Renminbi unless otherwise indicated)*

## 1. General information

Yongsheng Advanced Materials Company Limited (the “Company”) was incorporated in the Cayman Islands on 19 April 2012 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company’s registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company and its subsidiaries (the “Group”) are principally engaged in the developing and manufacturing of polyester filament yarns, the provision of dyeing services of differentiated polyester filament fabric and trading of textile raw materials and products in the People’s Republic of China (the “PRC”) (the “Listing Businesses”). The directors consider the ultimate holding company of the Company is Ever Thrive Global Limited (“Ever Thrive”), a company incorporated in the BVI and controlled by Mr. Li Cheng (the “Controlling Shareholder”).

The Company’s shares have been listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 27 November 2013.

These condensed consolidated interim financial information are presented in Renminbi (“RMB”), unless otherwise stated.

These condensed consolidated interim financial information have been approved for issue by the Company’s Board of Directors on 27 August 2014.

The Group’s condensed consolidated interim financial information is unaudited, but has been reviewed by the Company’s Audit Committee.

## 2. Basis of preparation

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim financial reporting”, issued by the International Accounting Standards Board (“IASB”).

The preparation of the unaudited condensed consolidated interim financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

The unaudited condensed consolidated interim financial information includes the financial information of the Company and its subsidiaries, Yongsheng Advanced Materials (BVI) Limited, Yongsheng Advanced Materials (HK) Limited, Hangzhou Xiaoshan Yongsheng Foreign Trading Company Limited (“Hangzhou Yongsheng Trading”), Nantong Yongsheng Fiber Advanced Materials Company Limited (“Nantong Yongsheng”), Hangzhou Huvis Yongsheng Chemical Fiber Company Limited (“Yongsheng Chemical Fiber”), Yongsheng Dyeing and Finishing Company Limited (“Yongsheng Dyeing”) and Yongsheng (HK) International Co., Limited (“Yongsheng Trading (HK)”). Except as disclosed in note 21, the direct/indirect percentage holding remain the same with the Group’s financial statements for the year ended 31 December 2013.

The unaudited condensed consolidated interim financial information should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2013. The Group’s policies on financial risk management were set out in the financial statements included in the Company’s 2013 Annual Report and there have been no significant changes in the financial risk management policies for the six months ended 30 June 2014.

The Group’s unaudited consolidated interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2013. The unaudited condensed consolidated interim financial information and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

### **3. Significant accounting policies**

Except as described below, the accounting policies applied in the preparation of this unaudited condensed consolidated interim financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2013.

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2014 and are applicable for the Group:

- IAS 32 (Amendment) Financial instruments: Presentation – Offsetting financial assets and financial liabilities
- IFRS 10, IFRS 12 and IAS 27 (Amendment) – Investment entities
- IAS 36 (Amendment) Impairment of assets – Recoverable amount disclosures for non-financial assets
- IAS 39 (Amendment) Financial instruments: Recognition and measurement
- IFRIC 21 Levies

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The adoption of the above new and amended standards did not have any significant impact on the Group's unaudited condensed consolidated interim financial information.

***Amendments to IAS 32, Offsetting financial assets and financial liabilities***

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the group's interim financial report as they are consistent with the policies already adopted by the group.

***Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities***

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the group's interim financial report as the Company does not qualify to be an investment entity.

***Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets***

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. These amendments do not have an impact on the group's interim financial report as they are consistent with the policies already adopted by the group.

***Amendments to IAS 39, Novation of derivatives and continuation of hedge accounting***

The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the group's interim financial report as the group has not novated any of its derivatives.

***IFRIC 21, Levies***

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the group's interim financial report as the guidance is consistent with the group's existing accounting policies.

In addition, the IASB also published a number of new standards, amendments to standards and interpretations which are effective for the financial year beginning after 1 January 2014 and have not been early adopted by the Group. Management is assessing the impact of such new standards, amendments to standards and interpretations and will adopt the relevant standards, amendments to standards and interpretations in the subsequent periods as required.

#### **4. Revenue and segment information**

##### ***(i) Revenue***

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Sales are shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, the type of transaction and the specifics of each arrangement.

Sales of goods and materials are recognised on the transfer of the significant risks and rewards of ownership, which generally coincides with the time when the Group has delivered goods to the customers and collectability of the related receivables is reasonably assured.

##### ***(ii) Segment reporting***

The chief operating decision-makers have been identified as the executive directors. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. Directors have determined the operating segment based on these reports.

Directors consider the business from a business perspective, and assesses the performance of the business segment based on profit before income tax without allocation of finance income/(costs).

The amount provided to directors with respect to total assets is measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of segment.

The Group's operations are mainly organised under the following business segments:

- Trading: Trading of textile raw materials and products;
- Production: Production of polyester filament yarns;
- Processing: The dyeing processing of differentiated polyester filament yarn.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, trade and bills receivables, prepayments, deposits and other receivables, other financial asset, amounts due from related parties, restricted cash, cash and cash equivalents. Unallocated assets mainly comprise corporate cash and amounts due from related parties.

Segment liabilities mainly comprise operating liabilities, amounts due to related parties and borrowings. Unallocated liabilities mainly comprise accruals and amounts due to related parties.

**(a) Revenue**

	<b>Six months ended</b>	
	<b>30 June 2014 RMB'000</b>	30 June 2013 RMB'000
Trading	465,602	890,940
Production	152,271	160,034
Processing	67,742	59,868
	<u>685,615</u>	<u>1,110,842</u>

**(b) Segment information**

The segment information provided to directors for the reportable segments for the six months ended 30 June 2014 is as follows:

<b>Business segment</b>	<b>For the six months ended 30 June 2014</b>			
	<b>Trading RMB'000</b>	<b>Production RMB'000</b>	<b>Processing RMB'000</b>	<b>Total RMB'000</b>
<b>Revenue</b>				
Sales of products	615,850	142,560	67,742	826,152
Sales of raw materials	–	9,711	–	9,711
Inter-segment sales	(150,248)	–	–	(150,248)
Revenue from external customers	465,602	152,271	67,742	685,615
<b>Results</b>				
Segment gross profit	11,763	28,678	23,183	63,624
Segment operating profit	2,863	21,178	18,187	42,228
Unallocated expense				(6,322)
Total operating profit				35,906
Finance income				2,471
Finance costs				(5,248)
Profit before income tax				<u>33,129</u>

<b>Business segment</b>	<b>As at 30 June 2014</b>			<b>Total RMB'000</b>
	<b>Trading RMB'000</b>	<b>Production RMB'000</b>	<b>Processing RMB'000</b>	
Segment assets	<u>216,628</u>	<u>184,445</u>	<u>236,755</u>	<u>637,828</u>
Unallocated assets				61,494
Inter-segment elimination				<u>(145,265)</u>
Total assets				<u><u>554,057</u></u>
Segment liabilities	176,781	119,923	63,109	359,813
Unallocated liabilities				1,000
Inter-segment elimination				<u>(145,265)</u>
Total liabilities				<u><u>215,548</u></u>

The segment information provided to directors for the reportable segments for 2013 is as follows:

<b>Business segment</b>	<b>For the six months ended 30 June 2013</b>			
	<b>Trading RMB'000</b>	<b>Production RMB'000</b>	<b>Processing RMB'000</b>	<b>Total RMB'000</b>
<b>Revenue</b>				
Sales of products	1,078,194	156,675	59,868	1,294,737
Sales of raw materials	–	4,342	–	4,342
Inter-segment sales	<u>(187,254)</u>	<u>(983)</u>	<u>–</u>	<u>(188,237)</u>
Revenue from external customers	890,940	160,034	59,868	1,110,842
<b>Results</b>				
Segment gross profit	<u>14,159</u>	<u>26,685</u>	<u>20,383</u>	<u>61,227</u>
Segment operating profit	4,491	20,666	15,151	40,308
Unallocated expense				<u>(5,578)</u>
Total operating profit				34,730
Finance income				5,205
Finance costs				<u>(14,938)</u>
Profit before income tax				<u><u>24,997</u></u>

Business segment	As at 31 December 2013			Total <i>RMB'000</i>
	Trading <i>RMB'000</i>	Production <i>RMB'000</i>	Processing <i>RMB'000</i>	
Segment assets	<u>312,617</u>	<u>257,675</u>	<u>234,978</u>	<u>805,270</u>
Unallocated assets				87,903
Inter-segment elimination				<u>(169,722)</u>
Total assets				<u><u>723,451</u></u>
Segment liabilities	268,976	160,631	140,406	570,013
Unallocated liabilities				6,019
Inter-segment elimination				<u>(169,722)</u>
Total liabilities				<u><u>406,310</u></u>

## 5. Property, plant and equipment

### (a) Acquisition of property, plant and equipment

During the six months ended 30 June 2014, the Group acquired items of property, plant and equipment with a cost of RMB1,224,000 (for the six months ended 30 June 2013: RMB2,317,000).

### (b) Disposal of property, plant and equipment

Property, plant and equipment with a net book value of RMB292,000 were disposed during the six months ended 30 June 2014 (for the six months ended 30 June 2013: RMB1,699,000).

## 6. Inventories

	As at 30 June 2014 <i>RMB'000</i>	As at 31 December 2013 <i>RMB'000</i>
Finished goods	76,368	104,361
Raw materials	22,935	11,752
Work in progress	2,738	3,044
<i>Less: provision</i>	<u>(8,116)</u>	<u>(5,995)</u>
	<u><b>93,925</b></u>	<u><b>113,162</b></u>

For the six months ended 30 June 2014, the cost of inventories recognised as cost of sales amounted to approximately RMB572,342,000 (for the six months ended 30 June 2013: RMB1,047,196,000).

For the six months ended 30 June 2014, the Group has recognised losses of approximately RMB2,204,000, for the write-down of inventories to their net realisable value. For the six months ended 30 June 2013, the Group realised provision for inventory write-down of approximately RMB940,000. These amounts have been included in the cost of sales in the consolidated statement of comprehensive income.

## 7. Trade and bills receivables

	As at 30 June 2014 <i>RMB'000</i>	As at 31 December 2013 <i>RMB'000</i>
Trade receivables	64,778	94,006
Bills receivable	<u>51,468</u>	<u>37,207</u>
	<b>116,246</b>	131,213
<i>Less: Provision for impairment</i>	<u>(5,548)</u>	<u>(5,108)</u>
Trade receivables – net	<u><b>110,698</b></u>	<u><b>126,105</b></u>



The Group's sales are normally made on credit terms of 30-90 days. Ageing analysis of trade receivables based on invoice date was as follows:

	As at <b>30 June</b> <b>2014</b> <i>RMB'000</i>	As at 31 December 2013 <i>RMB'000</i>
Trade receivables:		
Less than 3 months	<b>22,625</b>	71,694
3 months to 6 months	<b>34,045</b>	10,546
6 months to 1 year	<b>1,112</b>	5,451
More than 1 year	<b>5,939</b>	6,315
	<u><b>63,721</b></u>	<u>94,006</u>

#### 8. Prepayments, deposits and other receivables

	As at <b>30 June</b> <b>2014</b> <i>RMB'000</i>	As at 31 December 2013 <i>RMB'000</i>
Prepayment to suppliers	<b>39,689</b>	13,609
Deposits and other receivables	<b>4,127</b>	3,179
Interest receivables	<b>594</b>	2,841
Prepaid expense	<b>482</b>	766
	<u><b>44,892</b></u>	<u>20,395</u>
<i>Less: provision for impairment</i>	<u><b>(202)</b></u>	<u>(337)</u>
Prepayments, deposits and other receivables - net	<u><b>44,690</b></u>	<u>20,058</u>

**9. Trade and bills payables**

	<b>As at 30 June 2014 <i>RMB'000</i></b>	<b>As at 31 December 2013 <i>RMB'000</i></b>
Trade payables	<b>81,753</b>	116,829
Bills payable	<b>12,904</b>	–
	<b><u>94,657</u></b>	<b><u>116,829</u></b>

As at 30 June 2014, bills payables represented bank acceptance notes issued by the Group with maturity within six months.

Ageing analysis of trade and bills payables based on invoice date was as follows:

	<b>As at 30 June 2014 <i>RMB'000</i></b>	<b>As at 31 December 2013 <i>RMB'000</i></b>
Less than 6 months	<b>90,607</b>	109,898
6 months to 1 year	<b>501</b>	5,104
More than 1 year	<b>3,549</b>	1,827
	<b><u>94,657</u></b>	<b><u>116,829</u></b>

## 10. Accruals and other current liabilities

	As at 30 June 2014 <i>RMB'000</i>	As at 31 December 2013 <i>RMB'000</i>
Accruals	3,282	8,860
Accrued payroll	5,094	6,001
Value-added and other taxes payable	4,224	5,838
Pension and other social welfare payables	5,015	5,033
Payables for purchase of property, plant and equipment	–	674
Deposits	463	244
Others	4	628
	<u>18,082</u>	<u>27,278</u>

## 11. Borrowings

	As at 30 June 2014 <i>RMB'000</i>	As at 31 December 2013 <i>RMB'000</i>
<b>Non-current</b>		
Non-current portion of long-term bank borrowings	–	25,000
<b>Current</b>		
Current portion of long-term bank borrowings	–	46,000
Short-term bank borrowings	58,075	150,571
	<u>58,075</u>	<u>196,571</u>
<b>Total borrowings</b>	<u>58,075</u>	<u>221,571</u>
Representing:		
Unsecured	21,075	41,395
Pledged ( <i>i</i> )	37,000	180,176
	<u>58,075</u>	<u>221,571</u>

- (i) As at 30 June 2014, bank borrowings of RMB37,000,000 were pledged by buildings with net book value of RMB35,730,000 and land use rights with net book value of RMB12,480,000.

As at 31 December 2013, bank borrowings of RMB86,471,000 were pledged by restricted bank deposits of RMB91,273,000, bank borrowings of RMB5,705,000 were pledged by restricted cash and bills receivable of RMB6,430,000 and RMB200,000 respectively and bank borrowings of RMB88,000,000 were pledged by buildings with net book value of RMB43,903,000 and land use rights with net book value of RMB27,137,000.

## 12. Other (losses)/gains, net

	Six months ended	
	30 June 2014 RMB'000	30 June 2013 RMB'000
Subsidy income (a)	–	258
Rental income	578	–
Foreign exchange (losses)/gains (Note 16)	(786)	411
Government grant	554	341
Commission income	93	551
(Losses)/gains on disposal of property, plant and equipment, net	(94)	106
Fair value (losses)/gains on financial assets		
at fair value through profit or loss	(60)	18
Losses on disposal of financial assets		
at fair value through profit or loss	–	(382)
Others	(310)	504
	<hr/>	<hr/>
Other (losses)/gains, net	<b>(25)</b>	<b>1,807</b>

- (a) Subsidy income primarily represents tax refund by local Taxation Bureau to encourage the Group's business growth and other subsidies granted by the Bureau of Finance in Hangzhou and Nantong, the PRC.

### 13. Profit before income tax

Profit before income tax is arrived at after changing/(crediting):

	Six months ended	
	30 June	30 June
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Changes in inventories of finished goods and work in progress	28,299	44,562
Raw materials consumed and consumable used	561,158	976,855
Employee benefit expenses, including directors' emoluments		
Salaries, bonus and other welfares	19,778	16,811
Defined contribution plans	884	879
Social Security insurance	1,995	1,291
	<u>22,657</u>	<u>18,981</u>
Depreciation and amortisation	5,573	6,396
Provision for impairment of receivables	305	13
Office rental (operating leases in respect of land and buildings)	686	796
Listing expenses	–	4,306
Provision for/(Realisation of) write-down of inventories	2,204	(940)
	<u>2,204</u>	<u>(940)</u>

### 14. Finance costs, net

	Six months ended	
	30 June	30 June
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank borrowings	4,752	15,057
Net exchange losses/(gains) on financing activities ( <i>Note 16</i> )	496	(119)
	<u>5,248</u>	<u>14,938</u>
Total finance cost		
Interest income from cash and cash equivalents, restricted cash deposits and other financial asset	(2,471)	(5,205)
	<u>(2,471)</u>	<u>(5,205)</u>
Total finance income		
	<u>(2,471)</u>	<u>(5,205)</u>
Net finance cost	<u>2,777</u>	<u>9,733</u>

## 15. Income tax expense

	Six months ended	
	30 June 2014 <i>RMB'000</i>	30 June 2013 <i>RMB'000</i>
Current income tax		
– Enterprise income tax	6,669	6,473
Deferred income tax	1,321	(777)
	<u>7,990</u>	<u>5,696</u>

### (a) Cayman Islands income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

### (b) Hong Kong profits tax

Enterprises incorporated in Hong Kong are subject to profits tax rates of 16.5% (2013: 16.5%).

### (c) PRC corporate income tax

Enterprises incorporated in the PRC are generally subject to income tax rates of 25% (2013: 25%) except for enterprises with approval for preferential rate (Note (d) below).

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits based on existing legislations, interpretations and practices.

Since the deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the year when the assets is realised or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and liabilities of the Group's subsidiaries located in the PRC.

### (d) Tax effect of reduced tax rate

Certain subsidiaries of the Group enjoyed preferential income tax rates and have obtained approvals from the relevant tax authorities in the PRC. Yongsheng Dyeing and Finishing Company Limited obtained the certificate of qualifying as “advanced technology company” in 2012 and is subject to 15% corporate income tax rate for three years from 2012 to 2014.

The effective corporate income tax rate for the companies with tax preferential treatment are as follows:

	<b>Six months ended</b>	
	<b>30 June 2014</b>	30 June 2013
Yongsheng Dyeing and Finishing Company Limited	<u><u>15%</u></u>	<u><u>15%</u></u>

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the six months ended 30 June 2014 and 30 June 2013.

**(e) PRC withholding income tax**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from the date when these subsidiaries became foreign owned enterprises in the PRC. As at 30 June 2014, deferred tax liabilities of approximately RMB6,054,000 (2013: RMB4,836,000) has not been recognized for withholding tax that would be payable on the unremitted earnings of the Group's subsidiaries in the PRC, as the directors do not intend to declare any dividends out of these unremitted earnings for the subsidiaries.

**16. Net foreign exchange (losses)/gains**

The exchange differences (charged)/credited in the consolidated statement of comprehensive income are included as follows:

	<b>Six months ended</b>	
	<b>30 June 2014</b>	30 June 2013
	<b>RMB'000</b>	RMB'000
Other (losses)/gains, net ( <i>Note 12</i> )	<b>(786)</b>	411
Net exchange (losses)/gains on financing activities ( <i>Note 14</i> )	<u><b>(496)</b></u>	<u>119</u>
	<u><u><b>(1,282)</b></u></u>	<u><u>530</u></u>

## 17. Earnings per share

### (a) Basic

Basic earnings per share for the six months ended 30 June 2014 is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue. In determining the weighted average number of ordinary shares in issue during the six months ended 30 June 2013, the 297,327,010 shares issued and allotted through capitalisation of the share premium account of the Company upon Listing on 27 November 2013 have been regarded as if these shares were in issue since 1 January 2012.

	Six months ended	
	30 June 2014	30 June 2013
Profit attributable to the shareholders of the Company (RMB'000)	21,314	15,461
Weighted average number of ordinary shares in issue (2013 as restated)	<u>400,000,000</u>	<u>300,000,000</u>
Basic earnings per share (RMB per share) (2013 as restated)	<u>0.05</u>	<u>0.05</u>

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The fully diluted earnings per share for the six months ended 30 June 2014 and 2013 are the same as the basic earnings per share as there are no dilutive potential ordinary shares.

## 18. Dividends

The Directors have resolved not to declare payment of interim dividend for six months ended 30 June 2014.

No dividends has been paid or declared by the Company for the six months ended 30 June 2013.



## 19. Related party transactions

The Directors are of the view that the following companies are related parties of the Group:

Name	Relationship with the Group
Hangzhou Yongsheng Group Limited ("Yongsheng Group")	Controlled by the Controlling Shareholders
HUVIS Corporation and its subsidiary	Joint venture partner and its subsidiary
Hangzhou Xiaoshan HongChang Chemical Fiber Co.,Ltd.	Controlled by Mr. Li Zhihong, one of the individual shareholders of the Group

The Group had the following significant transactions with related parties:

### (a) Transactions with related parties

#### (i) Purchase of goods

	Six months ended	
	30 June 2014 <i>RMB'000</i>	30 June 2013 <i>RMB'000</i>
HUVIS Corporation and its subsidiary	21,129	29,039
Hangzhou Xiaoshan HongChang Chemical Fiber Co.,Ltd.	—	4,174
	<u>21,129</u>	<u>33,213</u>

#### (ii) Rental income

	Six months ended	
	30 June 2014 <i>RMB'000</i>	30 June 2013 <i>RMB'000</i>
Yongsheng Group	<u>323</u>	<u>440</u>

*(iii) Storage fee paid to related parties*

	Six months ended	
	30 June	30 June
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Yongsheng Group	<u>62</u>	<u>211</u>

*(iv) Purchase of property, plant and equipment from related parties*

	Six months ended	
	30 June	30 June
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Yongsheng Group	<u>353</u>	<u>–</u>

**(b) Period end balances arising from related party transactions**

	As at	As at
	30 June	31 December
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Due from related parties		
Non-trade:		
Yongsheng Group	<u>323</u>	<u>–</u>
Due to related parties		
Trade:		
HUVIS Corporation	<u>5,559</u>	<u>7,513</u>

All trade balances with related parties are unsecured and bear no interest.

All non-trade balances with related parties are unsecured, repayable on demand and bear no interest.

## 20. Fair Values

All financial instruments are carried at amounts not materially different from their fair values at the balance sheet dates.

## 21. Business combination

On 1 March 2014, Yongsheng Dyeing further acquired 2% equity interests of Nantong Yongsheng from a management team member of Nantong Yongsheng at a cash consideration of RMB600,000 immediately before his resignation. The unaudited carrying amount of the non-controlling interests on the date of acquisition amounted to RMB475,000. The difference between the consideration paid and the acquired non-controlling interests amounting to RMB125,000 was credited into other reserve. Upon completion of the acquisition, the Group's indirect interest in Nantong Yongsheng has increased from 90% to 92%.

## 22. Commitments

### Operating lease commitments

The Group leases certain office premises under non-cancellable operating lease agreements.

The Group's future aggregate minimum lease payments to be paid under non-cancellable operating leases were as follows:

	As at 30 June 2014 <i>RMB'000</i>	As at 31 December 2013 <i>RMB'000</i>
Not later than 1 year	1,126	1,066
1 – 2 years	1,027	596
2 – 3 years	136	399
	<u>2,289</u>	<u>2,061</u>

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. BUSINESS REVIEW AND PROSPECTS

The board (the “Board”) of directors (the “Directors”) of Yongsheng Advanced Materials Company Limited (the “Company” and its subsidiaries, the “Group” or “Yongsheng Advanced Materials”) is pleased to present the unaudited interim results of the Group for the six months ended 30 June 2014 (the “Period under Review”).

### **Business Review**

During the first half of 2014, despite instability persisted in the macro-economy, major developed economies gradually showed signs of slow recovery under the stimulation of various policies. At the same time, the PRC economy also maintained a stable and medium growth. According to the data of National Bureau of Statistics of China, from January to June 2014, the GDP of China represented a year-on-year growth of 7.4% and even a 7.5% growth in the second quarter, a year-on-year growth rate that outperformed market expectation. On the other hand, as affected by the rising domestic production costs and weak market demand, the international competitiveness of the PRC textile industry reduced significantly. The operating environment was difficult and it dragged down the overall sales of the Group with some adjustments. However, utilising its excellent research and development capabilities and the sales strategy of focusing on products with higher gross profit margin, the Group recorded a stable growth in terms of gross profit margin of each business segment, hence the significant improvement in profit of the Group during the Period under Review.

For the Period under Review, total revenue of the Group was RMB685.6 million, representing a decrease of 38.3% from RMB1,110.8 million of the same period of last year. During the Period under Review, the Group continued to develop its two business segments with higher gross profit margin – the production of polyester filament yarn and the dyeing or processing of differentiated polyester filament fabric. Overall gross profit increased by 3.9% to RMB63.6 million as compared with the same period in 2013. Overall gross profit margin increased by 3.8 percentage points to 9.3% from 5.5% in the first half of 2013. Among which, gross profit margin of polyester filament yarn production business and dyeing and processing business amounted to 19.7% and 34.2% respectively, increased by 2.5 percentage points and 0.2 percentage points respectively as compared with the same period of last year. Profit for the period amounted to

RMB25.1 million, representing an increase of 30.2% from RMB19.3 million in the same period in 2013. Profit attributable to shareholders of the Company grew significantly by 37.9% to RMB21.3 million as compared with RMB15.5 million in the same period in 2013. The increase in profit was mainly attributable to the decrease in net finance cost and the increase in overall gross profit of the Group (which was mainly attributable to the increase in gross profit of dyeing and processing of differentiated polyester fabric business and polyester filament yarn production business). During the Period under Review, revenue from the development and production of polyester filament yarn, the dyeing and processing of polyester filament fabric and trading of textile-related products accounted for 20.8%, 9.9% and 69.3% of the Group's total revenue respectively. Operating profit of these business segments accounted for 50.1%, 43.1% and 6.8% of the Group's total operating profit respectively.

### **Production of Polyester Filament Yarn**

The Group is a developer and manufacturer of regular and differentiated polyester filament yarn in the PRC, and it gradually began to focus on the production and sales on differentiated polyester filament yarn products since 2013. Differentiated polyester filament yarn is generally custom-made for specific textures or qualities, with higher gross profit margin than regular products. For the Period under Review, segment revenue of the Group's polyester filament yarn production decreased by 8.4% to RMB28.1 million as compared with the same period of last year. It was mainly attributable to the Group's downward adjustment to the price of differentiated products in order to gain larger market share and the decrease in sales of regular products. The aforesaid reason was consistent with the Group's strategy of focusing on differentiated products with higher gross profit margin. Percentage of segment revenue of differentiated polyester filament yarn products during the Period under Review increased to 82.4%, and revenue from regular products decreased to 17.6% accordingly. Gross profit margin of the Group's differentiated products reached 22.1%. Coupled with the increase in sales of higher-margin regular polyester filament yarn products, segment profit increased by 5.2% to RMB28.1 million from the same period in 2013, and gross profit margin increased by 2.5 percentage points to 19.7% as compared with the same period of last year.

## **Dyeing and Processing of Differentiated Polyester Fabric**

The Group mainly provides fabric dyeing and processing services to customers in the textile-processing segment, or makes use of the differentiated polyester fabric sourced by the Group for further dyeing and processing products, including various types of synthetic chamois leather. To capture the opportunities from industry consolidation, the Group has continued to improve the processing and dyeing technology during the Period under Review. The Group improved the dyeing quality of differentiated polyester fabric, and further increased the market share of the products successfully. For the Period under Review, revenue from the dyeing and processing business increased by 13.2% to RMB67.7 million, which offset the decrease in revenue from production of polyester filament yarn and textile-related products trading business. Processing volume in dyeing and processing activity increased by 2.6% to 17.3 million meters from the same period of last year. Benefiting from the decrease in plant operation scale and the production costs of the dyeing and processing service, segment gross profit margin was stabilized at 34.2%.

## **Trading of Textile-Related Products**

The Group mainly trades textile-related products, including cotton, wood pulp, cotton pulp, fabrics and cotton yarn, PET/Nylon chips, PTA, MEG, as well as chemical fiber materials like polyester filament yarn and staple fibers. During the Period under Review, influenced by the continuous sluggish domestic trading environment and weak prices in trading products, revenue of the trading segment of the Group amounted to RMB475.3 million, an 46.9% decrease from the same period in 2013. However, the Group implemented the trading risk control measures in 2014, such as the reduction of low margin trading and lowered trading volume, as well as shortened inventory turnover period. These measures enabled segment profit margin to increase slightly by 1.0 percentage points to 2.6% from the same period in 2013. During the first half of 2014, the textile producers increased the demand for premium grade polyester filament yarns, thereby boosting the trading volume of polyester filament yarn. Gross profit margin of the trading of chemical fiber materials of the Group (including polyester filament yarn and staple fibers) also increased by 1.6 percentage points to 5.3% as compared with the same period in 2013.

## **Prospects**

The year 2014 is the “Year of Reform” in China, its domestic economy is going through an adjustment phase. While facing factors like continuous increase in labour costs, downward price pressure and intensified international competition, the PRC textile industry development is migrating towards high-quality and high-efficiency. According to the data of Ministry of Industry and Information Technology, from January to June 2014, the industrial value-added of enterprises above designated size represented a year-on-year growth of 6.9%. Although there was a slowdown in the growth rate, the industry’s profitability remained stable. Along with the accelerated pace of urbanization development, income of urban and rural residents also maintained a steady growth, and consumers’ pursuance for high-quality life has boomed the demand for mid to high-end textile products. These are all beneficial to the stable and progressive development of the PRC textile industry in the second half of the year.

In the second half of 2014, the Group remains prudently optimistic on the outlook of the industry development. The Group will carry out practical development strategies to actively seize development opportunities to meet market challenges. Amongst which, the Group has implemented a sewage treatment project in its dyeing facilities in Hangzhou, Zhejiang Province, which is expected to be completed by the end of 2014. The implementation of the project is going to improve the energy-saving and water circulation measures of the existing plant in the future, thereby reducing the production costs of the Group. In the future, the Group will continue to focus on the development of two advantageous businesses – polyester filament yarn production and the dyeing and processing of differentiated polyester filament fabric. The Group will capitalize on the core technological advantages of differentiated products, enhance the research and development of products and technology to improve product competitiveness and secure market share, in order to broaden its business coverage and improve profitability.

## II. FINANCIAL REVIEW

### Revenue and gross profit

The following table sets forth a breakdown of the Group's revenue and gross profit by our business segment for the Period under Review:

Revenue	Six months ended 30 June			
	2014 <i>RMB'000</i>	% of sales	2013 <i>RMB'000</i>	% of sales
1) Textile-related products trading <i>(Note)</i>	<b>475,313</b>	<b>69.3%</b>	895,282	80.6%
2) Polyester filament yarn production <i>(Note)</i>	<b>142,560</b>	<b>20.8%</b>	155,692	14.0%
– Differentiated	<b>117,529</b>	<b>17.2%</b>	122,065	11.0%
– Regular	<b>25,031</b>	<b>3.6%</b>	33,627	3.0%
3) Dyeing and processing	<b>67,742</b>	<b>9.9%</b>	59,868	5.4%
	<b>685,615</b>	<b>100.0%</b>	1,110,842	100.0%

*Note:* Revenue of trading business included sales of raw materials in the polyester filament yarn production business of RMB9,711,000 (2013: RMB4,342,000).

Revenue of the Group in 2014 was RMB685.6 million, representing a decrease of 38.3% in revenue. The decrease was mainly contributed by the decrease in revenue of RMB420.0 million in our textile-related products trading business, decrease in revenue of polyester filament yarn production business of RMB13.1 million, offset by an increase in dyeing and processing revenue business by RMB7.9 million. Details of the fluctuations of revenue in each business segment are discussed separately in the section below.



Gross profit	Six months ended 30 June			
	2014	GP	2013	GP
	RMB'000	%	RMB'000	%
1) Textile-related products trading	12,341	2.6%	14,136	1.6%
2) Polyester filament yarn production	28,100	19.7%	26,708	17.2%
– Differentiated	25,998	22.1%	26,009	21.3%
– Regular	2,102	8.4%	699	2.1%
3) Dyeing and processing	23,183	34.2%	20,383	34.0%
	<b>63,624</b>	<b>9.3%</b>	<b>61,227</b>	<b>5.5%</b>

Gross profit of the Group in 2014 was RMB63.6 million, representing an increase of 3.9%, mainly contributed by the increase in gross profit of RMB1.4 million and RMB2.8 million in our polyester filament yarn production business and dyeing and processing business respectively, offset by a decrease in gross profit of RMB1.8 million in our textile-related products trading business. Details of the fluctuations of gross profit in each business segment are discussed separately in the section below.

### 1) Trading business

Revenue	Six months ended 30 June			
	2014	% of sales	2013	% of sales
	RMB'000		RMB'000	
a) Cotton textile materials (Note i)	206,214	43.4%	230,676	25.8%
b) Chemical raw materials (Note ii)	220,148	46.3%	627,210	70.0%
c) Chemical fiber materials (Note iii)	48,951	10.3%	36,810	4.1%
d) Others	–	–	586	0.1%
	<b>475,313</b>	<b>100%</b>	<b>895,282</b>	<b>100%</b>

Gross Profit	Six months ended 30 June			
	2014 RMB'000	GP Margin	2013 RMB'000	GP Margin
a) Cotton textile materials (Note i)	7,773	3.8%	9,993	4.3%
b) Chemical raw materials (Note ii)	1,994	0.9%	2,759	0.4%
c) Chemical fiber materials (Note iii)	2,574	5.3%	1,352	3.7%
d) Others	—	—	32	5.5%
	<u>12,341</u>	<u>2.6%</u>	<u>14,136</u>	1.6%

*Note i:* Cotton textile materials include cotton, wood pulp, cotton pulp, fabrics and cotton yarn.

*Note ii:* Chemical raw materials include PET/Nylon chips, PTA and MEG.

*Note iii:* Chemical fiber materials include polyester filament yarn and staple fibers.

Revenue and gross profit of textile-related products trading business in 2014 were RMB475.3 million and RMB12.3 million respectively, representing a decrease of 46.9% and 12.7% respectively, mainly comprise of the following:

- i) Sales volume in cotton textile materials decreased from approximately 19,800 tonnes to 15,800 tonnes and the average selling price increased from approximately RMB11,700/tonne to RMB13,100/tonne. We observed fewer trading opportunities of cotton in the market during 2014 as compared to 2013 due to the effect of the cotton reserve policy to maintain stability of cotton price. We maintained a stable gross profit margin of 3.8% in 2014 as compared to 4.3% in 2013 in the trading of cotton textile materials.
- ii) Sales volume in a chemical raw materials decreased from approximately 76,900 tonnes to 38,000 tonnes and the average selling price decreased from approximately RMB8,200/tonne to RMB5,800/tonne. We observed fewer trading opportunities in PET/Nylon chips and PTA in the market during 2014 as compared with 2013. We recorded a gross profit margin of 0.9% as compared to 0.4% in 2013 in the trading of chemical raw materials.

iii) Sales volume in chemical fiber materials increased from approximately 1,300 tonnes to 2,400 tonnes and the average selling price decreased from approximately RMB27,700/tonne to RMB20,500/tonne. Due to the increase in demand for premium grade polyester filament yarns for production, trading volume for polyester filament yarn increased in 2014. We recorded a gross profit margin of 5.3% as compared to 3.7% in 2013 in the trading of chemical fiber materials.

**2) Polyester filament yarn production business**

Revenue	Six months ended 30 June			
	2014 <i>RMB'000</i>	% of <i>sales</i>	2013 <i>RMB'000</i>	% of <i>sales</i>
Differentiated	117,529	82.4%	122,065	78.4%
Regular	25,031	17.6%	33,627	21.6%
	<u>142,560</u>	<u>100%</u>	<u>155,692</u>	<u>100%</u>

Gross Profit	Six months ended 30 June			
	2014 <i>RMB'000</i>	GP <i>Margin</i>	2013 <i>RMB'000</i>	GP <i>Margin</i>
Differentiated	25,998	22.1%	26,009	21.3%
Regular	2,102	8.4%	699	2.1%
	<u>28,100</u>	<u>19.7%</u>	<u>26,708</u>	<u>17.2%</u>

Revenue and gross profit of polyester filament yarn production business in 2014 were RMB142.6 million and RMB28.1 million respectively, representing a decrease of 8.4% and increase of 5.2% respectively, mainly comprise of the following:

The decrease in polyester filament yarns sales by RMB13.1 million was mainly attributable to the decrease in sales of regular products of RMB8.6 million. Consistent with our strategy to focus on differentiated products with higher gross profit margin, the percentage of the revenue derived from sales of differentiated polyester filament yarn increased from 78.4% for 2013 to 82.4% for 2014. As a result, our gross profit margin increased from 17.2% in 2013 to 19.7% in 2014.

- i) Sales volume in differentiated polyester filament yarn increased 6.6% from approximately 6,100 tonnes to 6,500 tonnes. The average selling price decreased from approximately RMB19,900/tonne to RMB18,000/tonne as we lower the price of differentiated products in order to earn more market share. Due to the above reason, the revenue for differentiated polyester filament yarn decreased in 2014. Despite the decrease in revenue, we also launched new products during the 1st half of 2014. Since a significant portion of cost of sales represented raw materials costs for PET/Nylon chips and POY, the general decrease in raw materials price benefit our production. We maintained a stable gross profit margin of 22.1% as compared to 21.3% in 2013 in differentiated polyester filament yarn.
- ii) Sales volume in regular polyester filament yarn decreased 20.7% from approximately 2,900 tonnes to 2,300 tonnes. Consistent with our strategy to focus on differentiated products, we sold less regular products during the year 2014. We produced and sold regular products mainly for the purpose of utilizing our production facilities to keep the plant and machineries at the best working status and to share manufacturing fixed costs such as depreciation of plant and equipment. We maintained a gross profit margin of 8.4% as compared to 2.1% in 2013 in the regular polyester filament yarn mainly because we focused production and sales of certain types of regular polyester filament yarn which have higher gross profit margin.

### 3) *Dyeing and processing business*

Revenue	Six months ended 30 June			
	2014 <i>RMB'000</i>	% of <i>sales</i>	2013 <i>RMB'000</i>	% of <i>sales</i>
Processing activity	44,979	66.4%	39,072	65.3%
Direct sales	22,763	33.6%	20,796	34.7%
	<u>67,742</u>	<u>100%</u>	<u>59,868</u>	<u>100%</u>

  

Gross Profit	Six months ended 30 June			
	2014 <i>RMB'000</i>	GP <i>Margin</i>	2013 <i>RMB'000</i>	GP <i>Margin</i>
Processing activity	19,065	42.4%	14,964	38.3%
Direct sales	4,118	18.1%	5,419	26.1%
	<u>23,183</u>	<u>34.2%</u>	<u>20,383</u>	<u>34.0%</u>

Revenue and gross profit of dyeing and processing business in 2014 were RMB67.7 million and RMB23.2 million respectively, representing an increase of 13.2% and 13.7%, respectively mainly comprise of the following:

- i) Processing volume in dyeing and processing activity increased 2.6% from approximately 16,874,000 meters to approximately 17,305,000 meters. The average processing income remained stable at RMB2.6/meter in 2014 as compared to RMB2.3/meter in 2013. We achieved a gross profit margin of 42.4% as compared to 38.3% in 2013 in the processing activity because of the economy of scale in operation of the plant and decrease in costs of production as part of the energy savings and water recycle initiatives.
- ii) Sales volume in direct sale remain stable at approximately 1,989,000 meters in 2014 as compared to approximately 1,930,000 meters in 2013. The average selling price for direct sale remained stable at RMB11.4/meter in 2014 as compared to RMB10.8/meter in 2013. We achieved a gross profit margin of 18.1% as compared to 26.1% in 2013 for direct sales mainly due to the increase in unit cost of fabric.

### **Other (losses)/gains, net**

Other net (losses)/gains decreased by RMB1.8 million from gains of RMB1.8 million for 2013 to losses of RMB0.03 million for 2014, primarily due to (1) the marking of foreign exchange losses on our accounts receivables and payables not denominated in RMB (mainly in USD) mainly related to our trading activities of RMB0.8 million for 2014 as compared to foreign exchange gain for 2013 of RMB0.4 million mainly as a result of (a) the company records net trade payables denominated in USD on average for 2014, and (b) the depreciation of RMB, our functional currency, against USD during 2014, leading to foreign exchange losses resulted from net trade payables in USD; and (2) a decrease in commission income of RMB0.5 million received in 2014.

### ***Selling expenses***

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Selling expenses total	<b><u>7,956</u></b>	<b><u>9,706</u></b>

Selling expenses decreased by RMB1.8 million, or 18.0% from RMB9.7 million for 2013 to RMB8.0 million for 2014, primarily attribute to decrease in transportation and storage cost as we conducted more intermediary trade during 2014 in which we purchased goods from overseas and then sold to our customers outside the PRC, and on average we incurred less transportation and storage costs by conducting intermediary trading than importing or trading within the PRC.

### ***Administrative expenses***

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Administrative expenses total	<b><u>19,736</u></b>	<b><u>18,598</u></b>

Administrative expenses increased by RMB1.1 million, or 6.1% from RMB18.6 million for 2013 to RMB19.7 million for 2014 primarily due to (i) the increase in staff costs to reward employees as a result of the improvement in profitability of the Group for 2014, and (ii) increase in professional fees and auditors' remuneration of RMB1.4 million, offset by the decrease in listing expenses of RMB4.3 million.

### ***Finance costs, net***

Net finance costs decreased significantly by RMB6.9 million, or 71.6% from RMB9.7 million for 2013 to RMB2.8 million for 2014, primarily due to decrease in interest expenses on bank borrowings by RMB10.3 million, mainly as a result of the decrease in bank borrowings of RMB163.5 million from 31 December 2013 to 30 June 2014 according to our strategy to repay bank borrowings with excess cash balances during 2014, offset by a decrease in interest income from cash and cash equivalents and restricted cash deposits of RMB2.7 million mainly as a result of decrease in the aggregate balance by RMB153.7 million from 31 December 2013 to 30 June 2014.

### ***Profit before income tax***

Profit before income tax increased from RMB25.0 million for 2013 to RMB33.1 million for 2014 by RMB8.1 million or 32.5%, which was mainly due to (1) decrease in net finance costs by RMB6.9 million, and (2) increase in gross profit by RMB2.4 million.

### ***Income tax expenses***

Income tax expense increased by 40.3% from 2013 to 2014, which was larger than the increase of profit before income tax of 33.1% due to the accrual for withholding income tax for 2014.

### ***Total comprehensive income***

As a result of the foregoing, our total comprehensive income increased by RMB6.0 million, or 31.5% from RMB19.0 million for 2013 to RMB25.0 million for 2014. Our net profit margin before interest and tax and net profit margin increased from 3.1% and 1.7% respectively for 2013 to 5.2% and 3.7% respectively for 2014, mainly as a result of decrease in net finance costs and our increased gross profit margin from 5.5% to 9.3% due to the improvement of gross profit margin of production activities.

## Property, plant and equipment

Property, plant and equipment as at 30 June 2014 decreased by RMB3.8 million, or 2.9% as compared to 31 December 2013, mainly attributable to depreciation of RMB4.7 million offset by additions of RMB1.2 million, mainly for plant and machinery for production.

## Inventories

	<b>30 June 2014 RMB'000</b>	31 December 2013 RMB'000
Trading inventories	<b>60,311</b>	84,268
Finished goods	<b>16,057</b>	20,093
Raw materials	<b>22,935</b>	11,752
Work in progress	<b>2,738</b>	3,044
	<b>102,041</b>	119,157
<i>Less: provision</i>	<b>(8,116)</b>	(5,995)
	<b>93,925</b>	113,162
Inventory turnover days ( <i>Note</i> )	<b>27 days</b>	27 days

*Note:* Inventory turnover days equals to the average of beginning and ending inventory balances of the period divided by revenue of the year and multiplied by the total number of days for the respective period.

Inventories as at 30 June 2014 decreased by RMB19.2 million, or 17.0% as compared to 31 December 2013, mainly due to decrease in trading inventories by RMB24.0 million as a result of decrease in trading revenue by RMB420.5 million for 2014 as compared to 2013.

Inventory turnover days remain stable at 27 days for six months ended 30 June 2014 and 27 days for year ended 31 December 2013.



## Trade and bills receivables

	<b>30 June 2014 RMB'000</b>	31 December 2013 RMB'000
Trade receivables	<b>64,778</b>	94,006
Bills receivable	<b>51,468</b>	37,207
	<b>116,246</b>	131,213
<i>Less: Provision for impairment</i>	<b>(5,548)</b>	(5,108)
Trade and bills receivables – net	<b>110,698</b>	126,105
Debtors' turnover days ( <i>Note</i> )	<b>20 days</b>	32 days

*Note:* Debtors' turnover days equals to the average of the beginning and ending trade receivable balances of the period divided by revenue and multiplied by the total number of days for the respective period.

Trade and bills receivable as at 30 June 2014 decreased by RMB15.4 million, or 12.2% as compared to 31 December 2013, mainly attributable to the decline in revenue by RMB425.2 million for the six months ended 30 June 2014 as compared to the six months ended 30 June 2013 as a result of decrease in trading revenue.

Debtors' turnover days decreased from 32 days for year ended 31 December 2013 to 20 days for six months ended 30 June 2014 mainly due to the decrease in trade receivable by approximately 33.4% due to changes in method of settlement by bills receivable, offset by decline in revenue for the first half of 2014 by approximately 38.3%.

## Trade and bills payables

	<b>30 June 2014 RMB'000</b>	31 December 2013 RMB'000
Trade payables	<b>81,753</b>	116,829
Bills payable	<b>12,904</b>	–
	<b>94,657</b>	116,829
Creditors' turnover days ( <i>Note</i> )	<b>31 days</b>	43 days

*Note:* Creditors' turnover days equal to the average of the beginning and ending trade payable and amounts due to related parties balances of the period divided by cost of sales and multiplied by the actual number of days in respective period.

Trade and bills payable as at 30 June 2014 decreased by RMB22.2 million, or 19.0% as compared to 31 December 2013, mainly attributable to the decline in revenue by RMB425.2 million for the six months ended 30 June 2014 as compared to the six months ended 30 June 2013 as a result of decrease in trading revenue.

Creditors' turnover days decreased from 43 days in 2013 to 31 days in 2014, mainly due to decrease in trading revenue during period resulted in the decrease in trade payable by 30.0%, offset by decline in cost of sales for the period ended 2014 by approximately 40.7%.

### **Prepayments, deposits and other receivables**

Prepayments, deposits and other receivables increased from RMB20.1 million in 2013 to RMB44.7 million in 2014 due to: (i) increase in prepayment to suppliers of RMB21.5 million by Hangzhou Yongsheng Trading, mainly for chemical fiber products; and (ii) prepaid construction costs for the new production facilities in Nantong Yongsheng amounted to RMB4.9 million.

### **Advances from customers**

Advances from customers increased from RMB8.1 million as at 31 December 2013 to RMB18.1 million as at 30 June 2014 by RMB10.0 million mainly as increase in advances from customers for sales of chemical fiber products in 2014 where we received letter of credit from customers and converted part of them into cash before the completion of sales, which also contributed to increase in advances from customers.

### **Capital Structure**

The Company's issued share capital as at 30 June 2014 is HK\$4,000,000 divided into 400,000,000 shares of HK\$0.01 each.

The Group adopts a prudent treasury policy, and its debt to equity ratio (calculated by dividing the total interest-bearing borrowings by total equity) as at 30 June 2014 was approximately 21.0% (31 December 2013: approximately 69.9%). The current ratio (calculated as current assets divided by current liabilities) as at 30 June 2014 was approximately 1.86 times (31 December 2013: approximately 1.48 times).

## Liquidity, financial resources, and use of the IPO proceeds

As at 30 June 2014, the total amount of the borrowings by the Group was RMB58.1 million (31 December 2013: RMB221.6 million). The Group settled borrowings in the amount of approximately RMB163.5 million for the six months ended 30 June 2014. The Group's cash and bank balances, including restricted cash, amounted to RMB131.3 million (31 December 2013: RMB284.9 million). The Group has received net proceeds of HK\$81.5 million (approximately RMB63.7 million) from issuance of ordinary shares under the share offer on 27 November 2013. The Group has utilised approximately RMB23.4 million of the net proceeds as at 30 June 2014 and intends to apply the remaining net proceeds in the manner consistent with that disclosed in the announcement of the Company dated 26 November 2013 in respect of the share offer.

## Pledge of Group's assets

As at 30 June 2014, bank borrowings of RMB37,000,000 were pledged by buildings with net book value of RMB35,730,000 and land use rights with net book value of RMB12,480,000.

## Operating lease commitments

The Group's future aggregate minimum lease payments to be paid under non-cancellable operating leases were as follows:

	<b>As at 30 June 2014 RMB'000</b>	<b>As at 31 December 2013 RMB'000</b>
Not later than 1 year	<b>1,126</b>	1,066
1 – 2 years	<b>1,027</b>	596
2 – 3 years	<b>136</b>	399
	<b><u>2,289</u></b>	<b><u>2,061</u></b>

## Capital commitments and contingent liabilities

As at 30 June 2014, the Group has no material capital commitments or contingent liabilities.

## **Material acquisition and disposals**

Save as disclosed in note 21 of the interim financial information, the Group did not have any material acquisition or disposal of subsidiaries or associates during the Period under Review.

## **Exposure to fluctuations in exchange rates and related hedge**

Most transactions of the Group are settled in Renminbi (“RMB”) since the operations of the Group are mainly carried out in the PRC, and the major subsidiaries of the Group are operating in a RMB environment and the functional currency of the major subsidiaries is RMB. The reporting currency of the Group is RMB. The Group carried on trading of textile products from overseas and most of the transactions were settled in United States Dollars.

The Group’s cash and bank deposits are predominantly in RMB. The Company will pay dividends in Hong Kong Dollars if dividends are declared. The Directors are of the view that RMB is relatively stable against the other currencies and the Group will closely monitor the fluctuations in exchange rates, and that hedging by means of derivative instruments is therefore not necessary. RMB is currently not a freely convertible currency. A portion of the Group’s RMB revenue or profit may be converted into other currencies to meet foreign currency obligations of the Group such as the payment of dividends, if declared.

## **Employee benefits and remuneration policies**

As at 30 June 2014, the Group had a total of 539 employees (31 December 2013: 504). The employees of the Group were remunerated based on their experience, qualifications, the Group’s performance and the prevailing market conditions. During the Period under Review, staff costs (including Directors’ remunerations) amounted to RMB22.7 million (30 June 2013: RMB19.0 million). Moreover, the share option scheme of the Company (the “Scheme”) was adopted on 7 November 2013 to retain staff members who have made contributions to the success of the Group. During the Period under Review, no share options were granted to any persons including Directors or employees of the Group under the Scheme.

As required by the PRC regulations on social insurance, the Group participates in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance.

## **SIGNIFICANT INVESTMENTS HELD**

There were no significant investments held by the Company as at 30 June 2014.

## **DIVIDEND POLICY**

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2014. The Board intends to commence paying appropriate dividends in subsequent financial periods on the condition that the Company's business operations, financial and cashflow position, capital expenditures and other related considerations are appropriate. In particular, the Company must be assured that financial resources available at that time will be sufficient to achieve sustained and favourable long-term growth and completed investment projects that will create shareholder value.

## **PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY**

There was no purchase, sale or redemption of the Company's listed shares by the Company or its subsidiaries during the Period under Review.

## **CORPORATE GOVERNANCE CODE**

The Board has adopted the code provisions of the Corporate Governance Code (the "Code Provisions") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Period under Review.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as its code of conduct regarding securities transactions by the Directors. After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standards as set out in the Model Code during the Reporting Period.

## **AUDIT COMMITTEE**

The Audit Committee currently comprises three independent non-executive directors, namely Ms. Wong Wai Ling (Chairlady), Mr. James Shiping Wang and Dr. Wang Huaping. The Audit Committee has reviewed the interim results and this announcement of the Group for the Period under Review and discussed internal controls and financial reporting matters with management.

## **PUBLICATION OF RESULTS ANNOUNCEMENT**

This results announcement is published on the websites of the Company ([www.chinaysgroup.com](http://www.chinaysgroup.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). An interim report for the Period under Review containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the websites of the Company and the Stock Exchange in due course.

By order of the Board  
**Yongsheng Advanced Materials Company Limited**  
**Li Cheng**  
*Chairman and Executive Director*

Hong Kong, 27 August 2014

*As at the date of this announcement, the executive Directors are Mr. Li Cheng, Mr. Zhao Jidong, Mr. Li Conghua and Mr. Ma Qinghai; and the independent non-executive Directors are Ms. Wong Wai Ling, Mr. Shiping James Wang and Dr. Wang Huaping.*