



浙江永隆實業股份有限公司

ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*

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

Stock Code: 8211

THIRD QUARTERLY REPORT

2013



* For identification purpose only

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

HIGHLIGHTS

For the nine months ended 30 September 2013,

- Turnover of the Company increased from approximately RMB99.50 million to approximately RMB142.84 million, representing an increase of approximately 43.56% when compared to the corresponding period in 2012;
- Net profit was approximately RMB37.46 million; and
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2013.

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2013

The board of directors (the “Board” or the “Directors”) of 浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd.*) (the “Company”) is pleased to announce the unaudited results of the Company for the three months and nine months ended 30 September 2013 as follows:

	<i>Notes</i>	Three months ended		Nine months ended	
		30 September		30 September	
		2013	2012	2013	2012
		RMB'000	<i>RMB'000</i>	RMB'000	<i>RMB'000</i>
Turnover	3	67,818	35,058	142,840	99,495
Cost of sales		(58,772)	(31,268)	(127,636)	(85,239)
Gross profit		9,046	3,790	15,204	14,256
Other income and gains	3	435	147	46,113	1,230
Selling and distribution costs		(195)	(24)	(441)	(86)
Administrative expenses		(1,702)	(1,312)	(5,852)	(7,898)
Finance costs	4	(5,854)	(5,854)	(17,561)	(17,561)
Profit (loss) before taxation		1,730	(3,253)	37,463	(10,059)
Income tax expenses	5	-	-	-	-
Profit (loss) and total comprehensive income (expenses) for the period	6	1,730	(3,253)	37,463	(10,059)
		RMB	<i>RMB</i>	RMB	<i>RMB</i>
Earnings (loss) per share					
– basic and diluted	8	0.16 cents	(0.31) cents	3.52 cents	(0.95) cents

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital RMB' 000	Share premium RMB' 000	Other reserve RMB' 000 (Note a)	Assets revaluation reserve RMB' 000	Statutory surplus reserve RMB' 000 (Note b)	Accumulated losses RMB' 000 (Note c)	Total RMB' 000
Balance at 1 January 2012	106,350	69,637	124,950	27,115	12,496	(263,408)	77,140
Total comprehensive expenses for the period	-	-	-	-	-	(10,059)	(10,059)
Balance at 30 September 2012	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>27,115</u>	<u>12,496</u>	<u>(273,467)</u>	<u>67,081</u>
Balance at 1 January 2013	106,350	69,637	124,950	29,884	12,496	(281,042)	62,275
Transfer from assets revaluation reserve for revalued land and buildings disposed during the period	-	-	-	(11,115)	-	11,115	-
Total comprehensive income for the period	-	-	-	-	-	37,463	37,463
Balance at 30 September 2013	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>18,769</u>	<u>12,496</u>	<u>(232,464)</u>	<u>99,738</u>

Notes:

- (a) Other reserve represents dividends waived by the holders of domestic shares, net of tax effect and the deemed contribution arising from the discounting of the non-current interest-free loan from ultimate holding company of the Company.
- (b) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), when distributing the net profit for each year, the Company (after conversion to a limited liability company) shall set aside 10% of its net profit after taxation (based on the Company's PRC statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's share capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset against accumulated losses or increase the share capital.
- (c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 30 September 2013 and 2012, no reserves were available for distribution due to accumulated losses being noted.

Notes:

1. BASIS OF PREPARATION

The Company is a joint stock limited company established in the PRC and the H Shares of the Company are listed on the GEM of the Stock Exchange.

The Company is principally engaged in the research and development, manufacture, and sale of woven fabrics.

The Company's books and records are maintained in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The Company has prepared the condensed financial statements in accordance with the applicable disclosure required by the GEM Listing Rules and with Hong Kong Accounting Standards ("HKAS") as issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2012. The unaudited results are prepared in accordance with accounting principles generally accepted in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

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

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

Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ¹
HKFRS 9	Financial Instruments ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ¹

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 January 2015

The directors of the Company anticipate that application of the other new and revised standards and amendments will have no materials impact on the results and the financial position of the Company.

3. TURNOVER AND OTHER OPERATING INCOME

Turnover represents the net amounts received and receivable for goods sold by the Company to outside customers, net of sales related taxes.

An analysis of the Company's turnover and other operating income for the period is as follows :

	Three months ended 30 September		Nine months ended 30 September	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Turnover				
Sales of woven fabrics	52,367	20,357	111,218	58,304
Sub-contracting fee income	15,451	14,701	31,622	41,191
	<u>67,818</u>	<u>35,058</u>	<u>142,840</u>	<u>99,495</u>
Other operating income				
Interest income	11	5	34	27
Government grants	-	320	-	426
Sundry income	12	-	12	14
Sales of scrap materials	412	1,113	1,202	1,998
Gain on disposal of assets held for sales (Note)	-	-	44,865	-
Loss on disposal of plant and machinery	-	(1,291)	-	(1,235)
	<u>435</u>	<u>147</u>	<u>46,113</u>	<u>1,230</u>

Notes:

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

4. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Imputed interest on non-current interest-free amount due to ultimate holding company	<u>5,854</u>	<u>5,854</u>	<u>17,561</u>	<u>17,561</u>

5. INCOME TAX EXPENSES

No provision for Hong Kong Profit Tax has been provided for the periods as the Company did not have any assessable profits subject to Hong Kong Profit Tax for the three and nine months ended 30 September 2013 (three and nine months ended 30 September 2012: Nil).

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Company is 25% from 1 January 2008 onwards.

The Company's tax loss brought forward from prior years exceed the estimated assessable profits for the three and nine months ended 30 September 2013 and 2012, therefore, no provision for the PRC Enterprise Income Tax was made for the three and nine months ended 30 September 2013 and 2012.

6. PROFIT (LOSS) FOR THE PERIOD

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Profit (loss) for the period has been arrived at after charging:				
Depreciation and amortisation	<u>2,252</u>	<u>4,130</u>	<u>6,605</u>	<u>15,975</u>

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three and nine months ended 30 September 2013 and 2012.

8. EARNINGS (LOSS) PER SHARE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Profit (loss) for the purpose of calculating basic earnings (loss) per share	<u>1,730</u>	<u>(3,253)</u>	<u>37,463</u>	<u>(10,059)</u>
Number of shares for the purpose of basic earnings (loss) per share (<i>Note</i>)	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>
Weighted average number of shares for the purpose of calculating earnings (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 earnings (loss) per share have been presented for the three months and nine months ended 30 September 2013 and 2012, as there was no diluting events existed during these periods.

9. RELATED PARTY TRANSACTIONS

During the period for the nine months ended 30 September 2013, the Company had paid approximately RMB6,250,000 (2012: RMB7,465,000) to 浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited*), a subsidiary of 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Limited*) (“Zhejiang Yongli”), ultimately holding company of the Company and Mr. Xia Xian Fu is a common director of the Company and it, for electricity and steam provided to the Company for usage in the production.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the nine months ended 30 September 2013, the Company recorded a turnover of approximately RMB142.84 million, represents an increase of approximately 43.56% when compared with the same period in 2012. It is mainly contributed from sales of woven fabrics which raised by approximate 90.76% when compared with the same period in 2012 as the Company has recommenced export sales since the second quarter of 2013. Gross profit margin for the nine months ended 30 September 2013 and 2012 was approximately 10.64% and 14.33% respectively. Since the third quarter in 2012, the textile industry has been facing the impact of rising of raw material cost, labour cost. Therefore, the gross profit margin in 2013 dropped when compared with that in 2012. In addition, the gross profit margin mainly contributed from subcontracting fee income as it did not involve the cost of raw materials. The selling expenses and distribution costs increased sharply in 2013 when compared with that in 2012 because salary and sampling fee increased in order to prepare for the export business that has been recommenced since the second quarter of 2013. The administrative expenses for the nine months ended 30 September 2013 decreased by approximately 25.91% when compared with the corresponding period in 2012 mainly due to decrease of legal and professional fees. Other income and gains increased sharply by approximately RMB45 million when compared with the corresponding period in 2012 mainly contributed from the gain on disposal of old factory to the Local Government under the reorganization plan in 2010. Earnings and loss per share for the nine months ended 30 September 2013 and 2012 were approximately RMB3.52 cents and RMB0.95 cents respectively.

Business and operation review

In view of the financial problem in Europe and U.S., the foreign markets have been shrinking. However, the market in the Middle-East, South America and Eastern Europe provides another business opportunity to the Company, export sales to these markets has been commenced since the second quarter of 2013. Since the third quarter in 2012, the local textile industry has been facing the impact of rising of raw materials cost, labour cost and therefore, the overall market sentiments were still poor. Therefore, the Company recommenced the export sales in the second quarter of 2013. In order to maximise the interests of the shareholders and although the market sentiments were still poor, the Company will continue to focus on both domestic and overseas markets and sales efforts will be placed in expanding these markets.

Production facilities

During the nine months ended 30 September 2013 under review, the Company spent approximately RMB44,000 in additions of office and factory equipment and approximately RMB69,000 in updating of plant and machinery.

Product research and development

During the nine months ended 30 September 2013, the Company continued to innovate and develop new product so as to meet the customers' need and enhance sales orders from customers.

Sales and marketing

During the nine months ended 30 September 2013, the Company actively participated in various trade fairs held in PRC and overseas so as to gain exposure in the fabrics market and to popularise the Company's new products.

OUTLOOK

Since the third quarter in 2012, the textile industry has been facing the impact of rising of raw materials cost, labour cost and therefore, the overall market sentiments were poor. Hence, the impact was reflected since the year end of 2012 to early 2013 of the Company. In additions, the financial problems in the US and Europe, the worldwide economies and the textile industry will continue be impacted in 2013. After disposal of the old factory of the Company in March 2013, the cash and bank balance as at 30 September 2013 was approximately RMB167.67 million and under the financial support from Zhejiang Yongli, the Company has sufficient cash resources to meet its present and future cash flow requirements. The board of directors expects that the Company is able to face with the challenge in 2013 and the near future.

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

As at 30 September 2013, none of the directors, chief executives or supervisors of the Company had any interest and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)(the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); 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 5.68 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2013, so far as it is known to the directors, chief executives or supervisors of the Company, the persons (not being a director, chief executive or supervisor of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO, or who is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Company were as follows:

Long positions in the shares of the Company*Domestic shares of the Company (“Domestic Shares”)*

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

Notes:

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

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

Name of shareholder	Capacity	Number of H Shares held	Approximate percentage of interests in H Shares in issue at 30 September 2013	Approximate percentage of interests in total issued share capital 30 September 2013
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.60%

At 30 September 2013, save as disclosed above, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO or who is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Company.

COMPETING INTERESTS

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

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) in May 2002 with written terms of reference, which have been updated in accordance with the provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors, Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu. Mr. Xu Wei Dong is the chairman of the Audit Committee.

The Audit Committee has reviewed the third quarterly results of the Company for the nine months ended 30 September 2013.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2013.

By Order of the Board
Zhejiang Yonglong Enterprises Co., Ltd.*
Ru Guan Jun
Chairman

Zhejiang, the PRC, 14 November, 2013

As at the date of this document, the executive directors of the Company are Mr. Ru Guan Jun, Mr. Xia Xian Fu, Mr. Hu Hua Jun and Mr. Chen Jian Jiang; the non-executive director is Mr. Chen Dong Chun; the independent non-executive directors are Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu.

** For identification purpose only*