



浙江永隆實業股份有限公司

ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*

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

Stock Code: 8211

FIRST QUARTERLY REPORT

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 three months ended 31 March 2013,

- Turnover of the Company decreased from approximately RMB26.66 million to approximately RMB17.39 million, representing a decrease of approximately 34.76% when compared to the corresponding period in 2012;
- Net profit was approximately RMB35.78 million; and
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2013.

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 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 ended 31 March 2013 together with the comparative results for the corresponding period in 2012 as follows:

		Three months ended	
		31 March	
	<i>Notes</i>	2013	2012
		RMB'000	RMB'000
			(restated)
Turnover	3	17,390	26,657
Cost of sales		<u>(18,136)</u>	<u>(25,300)</u>
Gross (loss) profit		(746)	1,357
Other income and gains	3	45,316	313
Selling and distribution costs		(175)	(37)
Administration expenses		(2,761)	(2,931)
Financial costs	4	<u>(5,854)</u>	<u>(5,854)</u>
Profit (loss) before taxation		35,780	(7,152)
Income tax expenses	5	<u>-</u>	<u>-</u>
Profit (loss) and total comprehensive income (expenses) for the period	6	<u>35,780</u>	<u>(7,152)</u>
		RMB	RMB
Profit (loss) per share– basic and diluted	8	<u>3.36 cents</u>	<u>0.67 cents</u>

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital RMB' 000	Share premium RMB' 000	Other reserve RMB' 000 (Note(a))	Assets revaluation reserve RMB' 000	Statutory surplus reserve RMB' 000 (Note (b))	Accumulated losses RMB' 000 (Note (c))	Total RMB' 000
At 1 January 2012	106,350	69,637	124,950	27,115	12,496	(263,408)	77,140
Total comprehensive expenses for the period	-	-	-	-	-	(7,152)	(7,152)
Balance at 31 March 2012	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>27,115</u>	<u>12,496</u>	<u>(270,560)</u>	<u>69,988</u>
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	-	-	-	-	-	35,780	35,780
Balance at 31 March 2013	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>18,769</u>	<u>12,496</u>	<u>(234,147)</u>	<u>98,055</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 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 31 March 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 (i) the manufacture, and sale of woven fabrics, and (ii) provision of subcontracting services.

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

The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2012. The unaudited results of the Company are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and disclosure requirement of the GEM Listing Rules.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The financial statements have been prepared in accordance with 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 INCOME AND GAINS

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 for the period is as follows

	Three months ended	
	31 March	
	2013	2012
	RMB'000	RMB'000
Turnover		
Sales of woven fabrics	13,571	15,333
Subcontracting fee income	3,819	11,324
	<u>17,390</u>	<u>26,657</u>
Other income and gains		
Interest income	23	18
Sundry income	-	14
Sales of scrap materials	428	281
Gain on disposal of assets held for sales (<i>Note</i>)	44,865	-
	<u>45,316</u>	<u>313</u>

Note: 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	
	31 March	
	2013	2012
	RMB'000	RMB'000
Imputed interest in non-current interest-free amount due to ultimate holding company	<u>5,854</u>	<u>5,854</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 months ended 31 March 2013 (three months ended 31 March 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.

No provision for PRC Enterprise Income Tax has been provided for the period as the Company had no estimated assessable profit arising in or derived from the PRC during the three months ended 31 March 2013 (three months ended 31 March 2012: Nil).

6. PROFIT (LOSS) FOR THE PERIOD

	Three months ended	
	31 March	
	2013	2012
	RMB'000	RMB'000
Profit (loss) for the period has been arrived at after charging:		
Depreciation and amortisation	<u>2,293</u>	<u>5,630</u>

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2013.

8. PROFIT (LOSS) PER SHARE

The calculation of the basic profit per share for the three months ended 31 March 2013 is based on the profit for the period of approximately RMB35,780,000 (2012: loss of approximately RMB 7,152,000) and the weighted average of 1,063,500,000 ordinary shares issue during the two periods.

No diluted profit (loss) per share have been presented for the two periods ended 31 March 2013 and 2012, as there was no diluting events existed during these periods.

9. RELATED PARTY TRANSACTIONS

During the period for the three months ended 31 March 2013, the Company had paid approximately RMB1,703,000 (2012: RMB2,114,000) 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”), the ultimately holding company of the Company 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 three months ended 31 March 2013, the Company recorded a turnover of approximately RMB 17.39 million, represents a decrease of approximately 34.76% when compared with the same period in 2012. It is mainly because both of the turnovers of sales of woven fabrics and subcontracting fee income decreased by approximately 11.49% and 66.28% respectively. Since the third quarter in 2012, the textile industry has been facing the increasing 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. The sales turnover dropped in 2013 mainly due to decrease of sales volume while there was no change in average selling prices. The decrease of sales order for the three months ended 31 March 2013 led to production volume also dropped by approximately 36.64% which caused the overall production overhead increased. As a result, gross loss of approximately RMB0.75 million incurred during the three months ended 31 March 2013. Selling expenses in 2013 increased by approximately RMB0.14 million mainly due to increasing of sampling cost. There is no material change in administrative expenses in 2013. Other income and gains increased sharply by approximately RMB45 million when compared with the corresponding period in 2012 mainly contributed by the gain on disposal of old factory to the Local Government. Profit and loss per share for the three months ended 31 March 2013 and 2012 were approximately RMB3.36 cents and RMB0.67 cents respectively.

Business and operation review

In view of the financial problems in Europe and the U.S., the foreign markets have been shrinking. Since the third quarter in 2012, the local textile industry has been facing the increasing of raw materials cost, labour cost and therefore, the overall market sentiments were poor. However, compared with the shrinking of overseas market, the Company will continue to focus on the domestic market and sales efforts will be placed in expanding domestic market shares. During the three months ended 31 March 2013, the Company has not commenced the export business.

Production facilities

During the three months ended 31 March 2013, the Company spent approximately RMB 30,000 in upgrade of office and factory equipment.

Product research and development

During the three months ended 31 March 2013, the Company continued to innovate and develop new product so as to meet the customers' need and enhance sales orders from customers.

Outlook

Since the third quarter in 2012, the textile industry has been facing the increasing 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 will continue be affected, the textile industry will also continue be impacted in 2013. After disposal of the old factory of the Company in March 2013, the cash and bank balance of the Company as at 31 March 2013 was approximately RMB157.23 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 31 March 2013, none of the directors, chief executives or supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed, to have such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 31 March 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

<u>Name of shareholders</u>	<u>Capacity</u>	<u>Number of domestic shares held</u>	<u>Approximate percentage of interests in domestic shares</u>	<u>Approximate percentage of interests in total registered capital</u>
Zhejiang Yongli	Beneficial owner	564,480,000	96.00%	53.08%
Mr. Zhou Yongli	Interest in controlled corporation (<i>Notes 1</i>)	564,480,000	96.00%	53.08%
Ms. Xia Wanmei	Interest of spouse (<i>Notes 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 RMB0.10 each of the Company

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

Save as disclosed above, as at 31 March 2013, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

COMPETING INTERESTS

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

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) in May 2002 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 first quarterly results of the Company for the three months ended 31 March 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, 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 three months ended 31 March 2013.

By Order of the Board
Ru Guan Jun
Chairman

Zhejiang, the PRC, 15 May, 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.

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