



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)

INTERIM REPORT



2012

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

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

HIGHLIGHTS

For the six months ended 30 June 2012,

- Turnover of the Company increase from approximately RMB55.06 million to approximately RMB64.44 million, representing an increase of approximately 17.03% when compared to the corresponding period in 2011;
- Net loss for the six months ended 30 June 2012 was approximately RMB6.81 million; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012.

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

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 six months ended 30 June 2012 as follows:

	<i>Notes</i>	Three months ended 30 June		Six months ended 30 June	
		2012	2011	2012	2011
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	37,780	41,494	64,437	55,060
Cost of sales		(28,671)	(39,602)	(53,971)	(52,465)
Gross profit		9,109	1,892	10,466	2,595
Other operating income	3	770	12,530	1,083	18,989
Selling expenses		(25)	(51)	(62)	(121)
Administrative and operating expenses		(861)	(2,477)	(2,154)	(3,688)
Legal and professional fees	5	(2,794)	-	(4,432)	-
Finance costs	6	(5,853)	(1,540)	(11,707)	(4,623)
(Loss) profit before taxation		346	10,354	(6,806)	13,152
Income tax expenses	7	-	-	-	-
(Loss) profit and total comprehensive (expenses) income for the period	8	346	10,354	(6,806)	13,152
		RMB	RMB	RMB	RMB
(Loss) earnings per share – basic and diluted	10	0.03 cents	0.97 cents	(0.64) cents	1.23 cents

UNAUDITED STATEMENT OF FINANCIAL POSITION*At 30 June 2012*

	<i>Notes</i>	As at 30 June 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	114,881	125,635
Prepaid lease payments		<u>7,302</u>	<u>7,443</u>
		122,183	133,078
CURRENT ASSETS			
Inventories		12,138	9,977
Trade and other receivables	12	47,520	57,553
Prepaid lease payments		188	141
Bank balances and cash		<u>30,138</u>	<u>31,269</u>
		89,984	98,940
Assets classified as held for sale	13	<u>39,526</u>	<u>39,526</u>
		129,510	138,466
CURRENT LIABILITIES			
Amount due to a related company	14	106	27
Trade and other payables	15	31,661	56,492
Provision		<u>10,000</u>	<u>10,000</u>
		41,767	66,519
NET CURRENT ASSETS			
		<u>87,743</u>	<u>71,947</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		209,926	205,025
NON CURRENT LIABILITIES			
Amount due to the immediate and ultimate holding company	16	<u>139,592</u>	<u>127,885</u>
NET ASSETS			
		<u>70,334</u>	<u>77,140</u>
CAPITAL AND RESERVES			
Share capital		106,350	106,350
Reserves		<u>(36,016)</u>	<u>(29,210)</u>
SHAREHOLDERS' FUNDS			
		<u>70,334</u>	<u>77,140</u>

UNAUDITED CONDENSED CASH FLOW STATEMENT

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash used in operating activities	(810)	(5,168)
Net cash used in investing activities	(321)	(1,129)
Net cash from financing activities	<u>-</u>	<u>17,978</u>
Net (decrease) increase in cash and cash equivalents	(1,131)	11,681
Cash and cash equivalents at beginning of the period	<u>31,269</u>	<u>1,706</u>
Cash and cash equivalents at end of the period, representing bank balances and cash	<u>30,138</u>	<u>13,387</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 (Note b)	Statutory surplus reserve RMB' 000 (Note c)	Accumulated (losses) profits RMB' 000	Total RMB' 000
Balance at 1 January 2011	106,350	69,637	7,880	24,315	12,496	(660,975)	(440,297)
Total comprehensive income for the period	-	-	-	-	-	13,152	13,152
Balance at 30 June 2011	<u>106,350</u>	<u>69,637</u>	<u>7,880</u>	<u>24,315</u>	<u>12,496</u>	<u>(647,823)</u>	<u>(427,145)</u>
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	-	-	-	-	-	(6,806)	(6,806)
Balance at 30 June 2012	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>27,115</u>	<u>12,496</u>	<u>(270,214)</u>	<u>70,334</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 the immediate and ultimate holding 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 June 2012 and 2011, 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 Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2011. The unaudited results are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by the HKICPA and disclosure requirements of the GEM Listing Rules.

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

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

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

Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ¹
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
HKFRS 9	Financial Instruments ²
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
Amendments to Hong Kong Accounting Standard ("HKAS") 1	Presentation of Items of Other Comprehensive Income ³
HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹

HKAS 28 (as revised in 2011) Amendments to HKAS 32	Investments in Associates and Joint Ventures ¹ Offsetting Financial Assets and Financial Liabilities ⁴
HK(International Financial Reporting Interpretation Committee (“IFRIC”)) – Interpretation (“Int”) 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013.

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

³ Effective for annual periods beginning on or after 1 July 2012.

⁴ Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The directors of the Company are in the process of assessing the impact from application of the new standard on the results and the financial position of the Company.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Other than disclosed above, 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		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sales of woven fabrics	22,614	28,609	37,947	37,988
Sub-contracting fee income	15,166	12,885	26,490	17,072
	<u>37,780</u>	<u>41,494</u>	<u>64,437</u>	<u>55,060</u>
Other operating income				
Gain on disposal of plant and machinery	56	1,062	56	1,385
Interest income	4	1	22	2
Sundry income	-	-	14	-
Government grants (<i>Note i</i>)	106	2,462	106	2,462
Sales of scrap materials	604	506	885	1,136
Other debts waived by a creditor	-	-	-	5,505
Provision for a claim over-provided (<i>Note ii</i>)	-	8,499	-	8,499
	<u>770</u>	<u>12,530</u>	<u>1,083</u>	<u>18,989</u>

Notes:

- (i) Government grants of approximately RMB2,462,000 were awarded to the Company during the six months ended 30 June 2011 as financial support to enterprises that had financial difficulties.
- (ii) The amount of approximately RMB8,499,000 represents provision for finance costs payable to Ms. Zhu Li Mei ("Ms. Zhu") over-provided and written off during the six months ended 30 June 2011 after an agreement had been signed with Ms. Zhu on 16 June 2011.

4. SEGMENTAL INFORMATION

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

Specifically, the Company's reportable segments under HKFRS 8 are as follows:

Woven fabric - Research and development, manufacture and sale of woven fabrics

Sub-contracting services - Provision of sub-contracting services

(a) Segment revenues and results

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

	For the six months ended 30 June					
	Woven fabric		Sub-contracting services		Total	
	2012	2011	2012	2011	2012	2011
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Turnover	<u>37,947</u>	<u>37,988</u>	<u>26,490</u>	<u>17,072</u>	<u>64,437</u>	<u>55,060</u>
Segment results	<u>2,648</u>	<u>3,748</u>	<u>7,061</u>	<u>(2,166)</u>	<u>9,709</u>	1,582
Unallocated corporate income (expenses)						
- gain on disposal of plant and machinery					56	1,385
- interest income					22	2
- sundry income					14	-
- government grants					106	2,462
- other debts waived by a creditor					-	5,505
- provision for a claim over-provided					-	8,499
- legal and professional fees					(4,432)	-
- others					(574)	(1,660)
- finance costs					(11,707)	(4,623)
(Loss) profit before taxation					<u>(6,806)</u>	<u>13,152</u>

The accounting policies of the reportable segments are the same as the Company's accounting policies described in the annual financial statements of the Company for the year ended 31 December 2011. Segment results represents the results of each segment without allocation of gain on disposal of plant and machinery, interest income, sundry income, government grants, other debts waived by a creditor, provision for a claim over-provided, legal and professional fees and finance costs. This is the measure reported to the chief operating decision maker of the Company for the purposes of resource allocation and performance assessment.

(b) Geographical information

The Company's markets and production are located in the PRC. All of the Company's revenue from external customers are situated in the PRC. As a result, no geographical segment information is presented.

5. LEGAL AND PROFESSIONAL FEES

The legal and professional fees of approximately RMB4.43 million for the six months ended 30 June 2012 represents professional service fees paid for (i) preparation of resumption of trading of shares of the Company on the GEM of the Stock Exchange as trading of shares of the Company had been suspended since 24 October 2008 and resumed on 13 March 2012, details are set out in the announcement of the Company dated 8 March 2012, and (ii) preparation of the relevant documents for the very substantial disposal and continuing connected transactions as set out in the circular of the Company dated 24 February 2012.

6. FINANCE COSTS

	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings wholly repayable within five years	-	1,540	-	4,623
Imputed interest on non-current interest-free amount due to the immediate and ultimate holding company	<u>5,853</u>	-	<u>11,707</u>	-
	<u><u>5,853</u></u>	<u><u>1,540</u></u>	<u><u>11,707</u></u>	<u><u>4,623</u></u>

7. 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 six months ended 30 June 2012 (three and six months ended 30 June 2011: 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 losses brought forward from prior years exceed the estimated assessable profits for the three and six months ended 30 June 2012 and 2011, therefore, no provision for the PRC Enterprise Income Tax was made for the three and six months ended 30 June 2012 and 2011.

8. (LOSS) PROFIT FOR THE PERIOD

	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Loss) profit for the period has been arrived at after charging:				
Depreciation and amortisation	<u>5,615</u>	<u>6,249</u>	<u>11,245</u>	<u>12,807</u>

9. DIVIDEND PAID

The Directors do not recommend the payment of an interim dividend for the three and six months ended 30 June 2012 and 2011.

10. (LOSS) EARNINGS PER SHARE

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

	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Loss) earnings for the purpose of calculating basic (loss) earnings per share	<u>346</u>	<u>10,354</u>	<u>(6,806)</u>	<u>13,152</u>
Number of shares for the purpose of basic (loss) earnings per share <i>(Note)</i>	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>
Weighted average number of shares for the purpose of calculating (loss) earnings per share	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>	<u>1,063,500,000</u>

Note:

No diluted (loss) earnings per share have been presented for the three months and six months ended 30 June 2012 and 2011, as there was no diluting events existed during these periods.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period for the six months ended 30 June 2012, the Company spent approximately RMB0.42 million (31 December 2011: RMB6 million) on additions of property, plant and equipment.

12. TRADE AND OTHER RECEIVABLES

The Company allows an average credit period of 60 to 120 days to its trade customers. The aged analysis of trade receivables net of impairment losses at the respective balance sheet dates is as follows:

	30 June 2012	31 December 2011
	<i>RMB'000</i>	<i>RMB'000</i>
0 – 60 days	26,939	53,924
61 – 90 days	4,858	159
91 – 365 days	15,002	1,609
Over 365 days	-	42
	46,799	55,734
Prepayments, deposits and other receivables	721	1,819
Total trade and other receivables	47,520	57,553

13. ASSETS CLASSIFIED AS HELD FOR SALE

On 30 December 2011, the Company and the People's Government of Yang Xun Qiao Town, Shaoxing County* “紹興縣楊汛橋鎮人民政府” (the “Local Government”) entered into an assets transfer agreement (“Assets Transfer Agreement”), pursuant to which the Local Government has agreed to acquire and the Company agreed to dispose certain buildings, investment properties and prepaid lease payments (the “Selling Assets”) at a total consideration of RMB79,772,200, details of which were set out in the circular dated 24 February 2012. Resolutions for approval of the Assets Transfer Agreement and the proposed transactions to be made in relation to disposal of the Selling Assets were duly passed by the shareholders of the Company by way of poll at an extraordinary general meeting held on 11 April 2012. Disposal of the Selling Assets will be completed on or before 30 September 2012 in accordance with the terms of the Assets Transfer Agreement. As of the date of this document, the transaction is still in progress.

14. AMOUNT DUE DUE TO A RELATED COMPANY

The amount is interest-free, unsecured and repayable on demand.

15. TRADE AND OTHER PAYABLES

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Trade payables	14,922	32,815
Receipt in advance	3,919	3,438
Other tax payables	6,699	12,222
Accrued expenses and other payables	6,121	8,017
	<u>31,661</u>	<u>56,492</u>

- (i) The Company normally receives credit periods from suppliers ranging from 30 days to 90 days.
- (ii) An aged analysis of the trade payables at the end of the reporting periods based on invoice date is as follows:

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
0 – 60 days	8,916	18,915
61 – 90 days	2,807	5,163
91 – 365 days	3,153	461
Over 365 days	46	8,276
	<u>14,922</u>	<u>32,815</u>

16. AMOUNT DUE TO THE IMMEDIATE AND ULTIMATE HOLDING COMPANY

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Balance brought forward	127,885	-
Amount due before the effect of discounting	-	239,677
Effect of discounting	-	(117,070)
Imputed interest for the relevant periods	11,707	5,278
	<u>139,592</u>	<u>127,885</u>

The amount due is unsecured, interest-free and not repayable until 12 September 2015. The carrying value of the amount due to the immediate and ultimate holding company as at 30 June 2012 and 31 December 2011 were stated at discounted present value with an imputed interest rate of 14.35% per annum.

17. RELATED PARTY TRANSACTIONS

During the period for the six months ended 30 June 2012, the Company had the following transactions with the related parties:

Name of related party	Nature	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Zhejiang Yongli Thermal (Note i)	Electricity	4,568	3,367
	Steam	<u>187</u>	<u>198</u>

Notes:

- (i) 浙江永利熱電有限公司(Zhejiang Yongli Thermal Electricity Company Limited*) (“Zhejiang Yongli Thermal”) is a subsidiary of 浙江永利實業集團有限公司(Zhejiang Yongli Industry Group Limited*) (“Zhejiang Yongli”), which has become the immediate and ultimate holding company of the Company since 9 March 2012 and Mr. Xia Xian Fu is a common director of the Company and it.
- (ii) The aforesaid transactions were in the ordinary course of business of the Company and on normal commercial terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30 June 2012, the Company recorded a turnover of approximately RMB64.44 million, represents an increase of approximately 17.03% when compared with the same period in 2011. It is mainly because turnovers of subcontracting fee income increased by approximately 55.17%. Since 24 December 2010, Zhejiang Yongli became a substantial shareholder of the Company, under the financial support of Zhejiang Yongli, the Company has gradually resumed operation to the normal status before the financial crisis incurred in 2008. Gross profit margin for the six months ended 30 June 2012 and 2011 was approximately 16.24% and 4.71% respectively. The increase in gross profit margin mainly due to lower production cost was achieved from the following factors: (i) the merge of old and new factories of the Company in March 2011 reduced the logistic and labour cost; (ii) during the year ended 31 December 2011, the Company spent approximately RMB6 million in upgrading, replacement and renovation of plant and machinery to improve the production capacity and efficiency. Therefore, the production volume increased and the production cost reduced as a result of the scale of production; (iii) the agreed supply of electricity and steam at a lower rate from 2012 to 2014 from Zhejiang Yongli Thermal enhanced the Company a stable supply of electricity and steam and a lower cost of production. The selling and administrative expenses for the six months ended 30 June 2012 decreased sharply when compared with the corresponding period in 2011 mainly due to tighter operation control was adopted. Net loss of approximately RMB6.81 million incurred during the six months ended 30 June 2012 mainly due to finance cost of approximately RMB11.71 million was estimated in respect of imputed interest on non-current interest-free amount due to Zhejiang Yongli and the legal and professional fees of approximately RMB4.43 million paid for (i) preparation of resumption of trading of shares of the Company on the GEM of the Stock Exchange, and (ii) preparation of the relevant documents for the very substantial disposal and continuing connected transactions as set out in the circular of the Company dated 24 February 2012. The aggregate amount of the above finance cost and legal and professional fees was approximately RMB16.14 million. Despite of the net loss for the six months ended 30 June 2012 of approximately RMB6.81 million, the Board considers that the Company's overall financial positions are healthy and the Board remains positive on the prospects of the Company. The Board would like to emphasis that the Company's financial position remains stable and has sufficient cash resources to meet its present and future cash flow requirements. As at 30 June 2012, the bank balance and cash of the Company was approximately RMB30.14 million. Other operating income for the six months ended 30 June 2012 dropped by approximately RMB17.91 million when compared with the corresponding period in 2011 mainly because there were gain on disposal of plant and machinery of approximately RMB1.34 million, government grants of approximately RMB2.46 million, other debts waived by a creditor of approximately RMB5.5 million and provision for a claim over-provided of approximately RMB8.5 million in 2011. Loss and profit per share for the six months ended 30 June 2012 and 2011 were approximately RMB0.64 cents and RMB1.23 cents respectively.

Business and operation review

In view of the financial problem in Europe and U.S., the foreign markets is dropping and shrinking. However, the local demand is keeping increase. The Company will focus on the domestic market and sales efforts will be placed in expanding domestic market shares and continuing to consolidate the military fabric production. During the six months ended 30 June 2012, the Company has not commenced the export business. The sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB12.34 million during the six months ended 30 June 2012, which represents approximately 19.16% on the total turnover.

Production facilities

During the six months ended 30 June 2012 under review, the Company spent approximately RMB11,000 in additions of office and factory equipment and approximately RMB405,000 in upgrading of plant and machinery.

Product research and development

During the six months ended 30 June 2012, the Company continued to innovate and develop new product so as to meet the customers' need and enhance sales orders from customers.

OUTLOOK

Since 24 December 2010, Zhejiang Yongli became a substantial shareholder of the Company, a number of reorganisation activities, as set out in the announcement of the Company dated 29 December 2010, started to activate, such as the transfer of the installed machinery and equipment from the Company's production plant at Sunjia Qiao to the Company's existing production plant at Jianwu Village, the disposal of the old factory of the Company as located at Sunjia Qiao and entered into a three-years agreement with Zhejiang Yongli Thermal for supplying electricity and steam to the Company. Further details are set out in the circular of the Company dated 24 February 2012. The above activities (i) ensure that the Company will have additional working capital for operation in the near future, (ii) enable the Company to have sufficient supply of electricity and steam over the next three years, (iii) insulate the Company from the potential increase and fluctuation in the market rate and therefore (iv) enable the Company to stay competitive in the competitive fabric industry. As at the date of this document, the Company has completed all the reorganisation activities. In view of the financial problems in the US and Europe, the worldwide economies will continue be affected, hence it will continue be a challenge to the industry of the textile in 2012. The Directors believe that base on the above reorganisation activities, the experience of the management and the well established infrastructure of the Company, the Company is well equipped to face with the challenge.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During six months ended 30 June 2012, the Company financed its operations mainly by internally generated cash and financial support from the immediate and ultimate holding company, Zhejiang Yongli. After the debt agreements (details are set out in the announcement of the Company dated 19 October 2011) entered into between the Company and the guarantors from July 2011 to September 2011, the bank borrowings were either repaid by the guarantors or repaid in advance by Zhejiang Yongli. In addition, according to the debt agreement entered into between the Company and Zhejiang Yongli on 13 September 2011, the Company is required to repay Zhejiang Yongli commencing from the fifth anniversary after the signing of the debt agreement provided that the amount to be repaid shall not exceed 50% of the operating cash flow of the year on annual basis until the full repayment of the debt. The Board expects that these debt agreements would improve the Company's financial position, and increase the Company's short-term working capital. In addition, this arrangement would provide the Company with the flexibility to repay any debt amount at any time within five years after 13 September 2011. Furthermore, Zhejiang Yongli signed a one-year (from 1 November 2011 to 31 October 2012) financial support letter on 31 October 2011 and further extended it to 30 June 2013 by signing a letter dated 30 November 2011. Both letters confirm that it is the present intention of Zhejiang Yongli to provide financial support for the continuing operations of the Company so as to enable the Company to meet its liabilities as fall due and carry on its business without a significant impact of operations in the said period. The two financial support letters help ensure that the Company will have sufficient capital till 30 June 2013, in addition to the Company's own cash flow from operation.

As at 30 June 2012, the Company's current assets and net current assets (liabilities) were approximately RMB89.98 million (31 December 2011: approximately RMB98.94 million) and approximately RMB87.74 million (31 December 2011: approximately RMB71.95 million) respectively. The liquidity ratio of the Company, represented by the ratio of current assets over current liabilities, was approximately 2.15 (31 December 2011: 1.49).

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

As at 30 June 2012, the Company had no commitments (31 December 2011: Nil) for capital expenditure and significant investments (31 December 2011: Nil).

MATERIAL ACQUISITIONS/DISPOSALS

During the six months ended 30 June 2012, the Company did not have any material acquisitions/disposals.

SEGMENTAL INFORMATION

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

EMPLOYEE AND EMOLUMENT POLICIES

As at 30 June 2012, the Company had 475 employees (31 December 2011: 505), comprising 3 (31 December 2011: 4) in research and development, 2 (31 December 2011: 3) in sales and marketing, 433 (31 December 2011: 470) in production, 26 (31 December 2011: 16) in quality control, 5 (31 December 2011: 5) in management, and 6 (31 December 2011: 7) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

As at 30 June 2012, the Company did not have any significant contingent liabilities.

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

As at 30 June 2012, the interests and short positions of the Directors, chief executives and supervisors 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 (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 to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company

Name of Directors	Type of interests	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares in issue as at 30 June 2012	Approximate percentage of interests in total issued share capital as at 30 June 2012
Mr. Sun Jian Feng	Personal	Beneficial owner	5,880,000	1%	0.55%
		Interest of spouse (Note 1)	550,000,000	93.54%	51.72%
Mr. Xia Xue Nian	Personal	Beneficial owner	5,880,000	1%	0.55%

Note:

- Mr. Sun Jian Feng is the spouse of Ms. Chen Yen Yung ("Ms. Chen"). By virtue of the SFO, Mr. Sun Jian Feng is therefore deemed to be interested in the 550,000,000 domestic shares that Ms. Chen is deemed to be interested in under the agreement dated 8 March 2012 entered into between Zhejiang Yongli, Ms. Chen and Goldfame Investment Holdings Limited ("Goldfame Investment"), a company incorporated in the BVI with limited liability on 11 November 2011, and beneficially owned by Ms. Chen to form a consortium (the "Agreement"). Further details are set out in the circular of the Company dated 25 April 2012.

As at 4:00 p.m. on Wednesday, 16 May 2012, being the latest time and date for acceptance of the share offers as set out in the composite document dated 25 April 2012, the offeror group did not receive any valid acceptances for the domestic shares of the Company under the domestic share offer but received valid acceptances in respect of a total of 1,980,500 H shares under the H share offer, representing approximately 0.19% of the entire issued share capital of the Company as at 16 May 2012. On 25 June 2012, Ms. Chen received an instruction from Zhejiang Yongli to dispose of the shares of Goldfame Investment to an independent third party who was independent of the offeror group, in order to dispose of the 1,980,500 H Shares. The shares of Goldfame Investment were disposed and effective on 25 July 2012, the Agreement was terminated simultaneously by the relevant parties on 25 July 2012.

At 30 June 2012, save as disclosed above, none of the Directors, chief executives or supervisors of the Company had interest or short position 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 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 June 2012, 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*

Name of shareholders	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares in issue as at 30 June 2012	Approximate percentage of interests in total issued share capital as at 30 June 2012
Zhejiang Yongli	Beneficial owner	550,000,000	93.54%	51.72%
	Interest of a party to an agreement to acquire interests in the Company required to be disclosed under section 317(1)(a) and section 318 of the SFO (<i>Note 1</i>)	5,880,000	1%	0.55%
Mr. Zhou	Interest in controlled corporation (<i>Note 2</i>)	550,000,000	93.54%	51.72%
	Interest of a party to an agreement to acquire interests in the Company required to be disclosed under section 317(1)(a) and section 318 of the SFO (<i>Note 1</i>)	5,880,000	1%	0.55%
Ms. Xia	Interest of spouse (<i>Note 3</i>)	550,000,000	93.54%	51.72%
	Interest of a party to an agreement to acquire interests in the Company required to be disclosed under section 317(1)(a) and section 318 of the SFO (<i>Note 1</i>)	5,880,000	1%	0.55%
Ms. Chen	Interest of a party to an agreement to acquire interests in the Company required to be disclosed under section 317(1)(a) and section 318 of the SFO (<i>Note 1</i>)	550,000,000	93.54%	51.72%
	Interest of spouse (<i>Note 4</i>)	5,880,000	1%	0.55%
Goldfame Investment	Interest of a party to an agreement to acquire interests in the Company required to be disclosed under section 317(1)(a) and section 318 of the SFO (<i>Note 1</i>)	555,880,000	94.54%	52.72%

Notes:

- Under Section 317 of the SFO, Zhejiang Yongli, Ms. Chen and Goldfame Investment entered into an agreement dated 8 March 2012 to form a consortium, pursuant to which each of Ms. Chen and Goldfame Investment becomes a party acting in concert with Zhejiang Yongli, and Goldfame Investment will make the H share offer on behalf of Zhejiang Yongli. And given Mr. Sun Jian Feng, a Director, is the spouse of Ms. Chen, Mr. Sun Jian Feng, who is interested in 5,880,000 domestic shares, is deemed to be a party acting in concert with Zhejiang Yongli.
- Zhejiang Yongli directly held 550,000,000 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 550,000,000 domestic shares held by Zhejiang Yongli.
- 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 550,000,000 domestic shares held by Zhejiang Yongli.
- Ms. Chen is the spouse of Mr. Sun Jian Feng. By virtue of the SFO, Ms. Chen is therefore deemed to be interested in the 5,880,000 domestic shares held by Mr. Sun Jian Feng.
- As at 4:00 p.m. on Wednesday, 16 May 2012, being the latest time and date for acceptance of the share offers as set out in the composite document dated 25 April 2012, the offeror group did not receive any valid acceptances for the domestic shares of the Company under the domestic share offer but received valid acceptances in respect of a total of 1,980,500 H shares under the H share offer, representing approximately 0.19% of the entire issued share capital of the Company as at 16 May 2012. On 25 June 2012, Ms. Chen received an instruction from Zhejiang Yongli to dispose of the shares of Goldfame Investment to an independent third party who was independent of the offeror group, in order to dispose of the 1,980,500 H Shares. The shares of Goldfame Investment were disposed and effective on 25 July 2012, the Agreement was terminated simultaneously by the relevant parties on 25 July 2012.

H shares of RMB0.1 each of the Company

Name of shareholder	Capacity	Number of H shares held	Approximate percentage of interests in H shares in issue at 30 June 2012	Approximate percentage of interests in total issued share capital at 30 June 2012
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.60%

At 30 June 2012, 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 under 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. Lu Guo Qing, Mr. Zong Pei Min and Mr. Zhu Yu Lin. Mr. Lu Guo Qing is the chairman of the Audit Committee.

The Audit Committee has reviewed the interim results of the Company for the six months ended 30 June 2012.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2012, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the “Code Provision”) as set out in Appendix 15 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

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

The Company did not purchase, sell or redeem any of the Company’s listed securities during the six months ended 30 June 2012.

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

Zhejiang, the PRC, 14 August, 2012

As at the date of this document, the executive directors of the Company are Mr. Ru Guan Jun, Mr. Xia Xian Fu, Mr. Sun Jian Feng, Mr. Xia Xue Nian; the independent non-executive directors are Mr. Zhu Yu Lin, Mr. Zong Pei Min and Mr. Lu Guo Qing.

** For identification purpose only*