



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)*



# 2014

Stock Code: 8211

## INTERIM REPORT



*\* 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 six months ended 30 June 2014,

- Revenue of the Company increased from approximately RMB75.02 million to approximately RM89.64 million, representing an increase of approximately 19.48% when compared to the corresponding period in 2013;
- Net loss for the six months ended 30 June 2014 was approximately RMB4.01 million; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014.

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

For the six months ended 30 June 2014

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 2014 as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	3	<b>58,820</b>	57,632	<b>89,638</b>	75,022
Cost of sales		<b>(51,077)</b>	(50,728)	<b>(79,143)</b>	(68,864)
Gross profit		<b>7,743</b>	6,904	<b>10,495</b>	6,158
Other income and gains	3	<b>256</b>	362	<b>872</b>	45,678
Selling and distribution costs		<b>(225)</b>	(71)	<b>(489)</b>	(246)
Administrative expenses		<b>(1,878)</b>	(1,389)	<b>(2,562)</b>	(4,150)
Finance costs	5	<b>(6,164)</b>	(5,853)	<b>(12,327)</b>	(11,707)
(Loss) profit before taxation		<b>(268)</b>	(47)	<b>(4,011)</b>	35,733
Income tax expenses	6	-	-	-	-
(Loss) profit and total comprehensive (expenses) income for the period	7	<b>(268)</b>	(47)	<b>(4,011)</b>	35,733
		<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
(Loss) earnings per share – basic and diluted	9	<b>(0.03) cents</b>	(0.004) cents	<b>(0.38) cents</b>	3.36 cents

**UNAUDITED STATEMENT OF FINANCIAL POSITION***At 30 June 2014*

		<b>As at 30 June 2014 RMB'000 (Unaudited)</b>	As at 31 December 2013 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>10</i>	<b>100,181</b>	103,696
Prepaid lease payments		<b>6,926</b>	7,020
		<b>107,107</b>	110,716
<b>CURRENT ASSETS</b>			
Inventories		<b>20,459</b>	14,333
Trade and other receivables	<i>11</i>	<b>52,938</b>	48,984
Prepaid lease payments		<b>188</b>	188
Bank balances and cash		<b>173,527</b>	168,883
		<b>247,112</b>	232,388
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>12</i>	<b>53,174</b>	51,188
Amounts due to related companies	<i>13</i>	<b>1,426</b>	612
Provision		<b>10,000</b>	10,000
		<b>64,600</b>	61,800
<b>NET CURRENT ASSETS</b>		<b>182,512</b>	170,588
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>289,619</b>	281,304
<b>NON-CURRENT LIABILITIES</b>			
Amount due to ultimate holding company	<i>14</i>	<b>185,201</b>	172,875
<b>NET ASSETS</b>		<b>104,418</b>	108,429
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>106,350</b>	106,350
Reserves		<b>1,932</b>	2,079
		<b>104,418</b>	108,429

**UNAUDITED CONDENSED CASH FLOW STATEMENT**

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Net cash from operating activities	<b>4,867</b>	27,190
Net cash (used in) from investing activities	<b>(223)</b>	88,822
Net increase in cash and cash equivalents	<b>4,644</b>	116,012
Cash and cash equivalents at beginning of the period	<b>168,883</b>	43,253
Cash and cash equivalents at end of the period, representing bank balances and cash	<b><u>173,527</u></b>	<u>159,265</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 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	-	-	-	-	-	35,733	35,733
Balance at 30 June 2013	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>18,769</u>	<u>12,496</u>	<u>(234,194)</u>	<u>98,008</u>
Balance at 1 January 2014	106,350	69,637	124,950	21,222	12,496	(226,226)	108,429
Total comprehensive expenses for the period	-	-	-	-	-	(4,011)	(4,011)
Balance at 30 June 2014	<u>106,350</u>	<u>69,637</u>	<u>124,950</u>	<u>21,222</u>	<u>12,496</u>	<u>(230,237)</u>	<u>104,418</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 June 2014 and 2013, 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 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 2013. 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 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 HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle <sup>1</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>2</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>3</sup>
Amendments to HKAS 19	Defined Benefit Plans – Employee contributions <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014. Early application is permitted.

<sup>2</sup> HKFRS 9, as amended in December 2013, amended the mandatory effective date of HKFRS 9. The mandatory effective date is not specified in HKFRS 9 but will be determined when the outstanding phases are finalised. However, application of HKFRS 9 is permitted.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016

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. REVENUE AND OTHER INCOME AND GAINS

Revenue 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 Revenue and other income and gains for the period is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Revenue				
Sales of woven fabrics	<b>51,286</b>	45,280	<b>77,246</b>	58,851
Sub-contracting fee income	<b>7,534</b>	12,352	<b>12,392</b>	16,171
	<b>58,820</b>	57,632	<b>89,638</b>	75,022
Other income and gains				
Gain on disposal of assets held for sales ( <i>Note</i> )	-	-	-	44,865
Interest income	<b>6</b>	-	<b>16</b>	23
Sundry income	-	-	<b>106</b>	-
Sales of scrap materials	<b>250</b>	362	<b>750</b>	790
	<b>256</b>	362	<b>872</b>	45,678

*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. 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	-	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 and operating segment:

	For the six months ended 30 June					
	Woven fabric		Sub-contracting services		Total	
	2014	2013	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	<u>77,246</u>	<u>58,851</u>	<u>12,392</u>	<u>16171</u>	<u>89,638</u>	<u>75,022</u>
Segment results	<u>6,682</u>	<u>(2,037)</u>	<u>1,780</u>	<u>5,842</u>	<u>8,462</u>	<u>3,805</u>
Unallocated corporate income (expenses)						
- gain on disposal of assets held for sales					-	44,865
- interest income					16	23
- sundry income					106	-
- legal and professional fees					-	(365)
- others					(268)	(888)
- finance costs					(12,327)	(11,707)
(Loss) profit before taxation					<u>(4,011)</u>	<u>35,733</u>

The accounting policies of the operating 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 2013. Segment results represents the results of each segment without allocation of interest income, sundry income, central administration costs 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**

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

	Six months ended			
	30 June 2014		30 June 2013	
	Revenue <i>RMB'000</i>	Results <i>RMB'000</i>	Revenue <i>RMB'000</i>	Result <i>RMB'000</i>
PRC	53,567	7,137	44,771	4,952
The Middle East	19,146	(119)	30,251	(1,147)
Others	16,925	1,444	-	-
	<u>89,638</u>	<u>8,462</u>	<u>75,022</u>	<u>3,805</u>
Unallocated other corporate income		122		44,888
Unallocated corporate expenses		(268)		(1,253)
Financial cost		<u>(12,327)</u>		<u>(11,707)</u>
(Loss) profit before taxation		<u>(4,011)</u>		<u>35,733</u>

**5. FINANCE COSTS**

	Three months ended		Six months ended	
	30 June		30 June	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Imputed interest on non-current interest-free loan due to ultimate holding company	<u>6,164</u>	<u>5,853</u>	<u>12,327</u>	<u>11,707</u>

**6. INCOME TAX EXPENSES**

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for both periods. 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 2014 (three and six months ended 30 June 2013: 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% for both periods.

No provision for PRC Enterprise Income Tax was made for both periods ended 30 June 2014 and 2013 as there was no assessable profit derived from the PRC.

**7. (LOSS ) PROFIT FOR THE PERIOD**

	Three months ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
	<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>1,954</u>	<u>2,060</u>	<u>3,908</u>	<u>4,353</u>

**8. DIVIDEND PAID**

The Directors do not recommend the payment of an interim dividend for the three and six months ended 30 June 2014 and 2013.

**9. (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	
	2014	2013	2014	2013
	<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>(268)</u>	<u>(47)</u>	<u>(4,011)</u>	<u>35,733</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 2014 and 2013, as there was no diluting events existed during these periods.

**10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT**

During the period for the six months ended 30 June 2014, the Company spent approximately RMB300,000 (31 December 2013: RMB93,000) on additions of property, plant and equipment.

**11. 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 allowance for impairment of trade receivables and presented base on invoice date which approximates the respective recognition dates, at the ended of the reporting period is as follows:

	<b>30 June 2014 RMB'000</b>	31 December 2013 RMB'000
0 – 60 days	33,478	34,923
61 – 90 days	2,514	4,808
91 – 120 days	1,093	129
121 – 365 days	8,551	659
Over 365 days	1,667	-
	<u>47,303</u>	<u>40,519</u>
Prepayments, deposits and other receivables	<u>5,635</u>	<u>8,465</u>
Total trade and other receivables	<u><b>52,938</b></u>	<u><b>48,984</b></u>

**12. TRADE AND OTHER PAYABLES**

	<b>30 June 2014 RMB'000</b>	31 December 2013 RMB'000
Trade payables	31,354	34,432
Receipt in advance	590	3,554
Other tax payables	2,344	5,940
Accrued expenses and other payables	18,886	7,262
	<u>53,174</u>	<u>51,188</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:

	<b>30 June 2014 RMB'000</b>	31 December 2013 RMB'000
0 – 60 days	<b>17,210</b>	24,354
61 – 90 days	<b>1,654</b>	1,203
91 – 365 days	<b>6,383</b>	3,020
Over 365 days	<b>6,107</b>	5,855
	<b><u>31,354</u></b>	<u>34,432</u>

### 13. AMOUNTS DUE TO RELATED COMPANIES

The amounts are interest-free, unsecured and repayable on demand.

### 14. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The Company and 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd\*) (“Zhejiang Yongli”) signed a debt restructuring agreement on 13 September 2011 with the following repayment terms:

- (1) The Company shall owe the sum of approximately RMB239,677,000 (before the effect of discounting) to Zhejiang Yongli, and Zhejiang Yongli shall permanently abandon any claim against the Company for the repayment of debt amounting to RMB187,090,000, which will be compensated by the Local Government by way of government subsidies;

- (2) The Company agreed to repay Zhejiang Yongli, commencing from the fifth anniversary after the signing of the debt restructuring agreement provided that the amount to be repaid shall not exceed 50% of the operating cash flow of the year on an annual basis until the full repayment of the debt;
- (3) Unless obtaining prior written agreement from both parties, Zhejiang Yongli shall not demand any early repayment of the debt notwithstanding the occurrence of one or a multiple of material adverse event(s) affecting Zhejiang Yongli's repayment capability, such as, among other things, serious operation problems, deterioration in financial situation and material litigation;
- (4) No interest would be charged to the Company during the repayment period;
- (5) Zhejiang Yongli undertakes to assume all the contingent debts of the Company incurred at all times and permanently abandon any claim against the Company for the repayment of such contingent debts of the Company; and
- (6) The amount is unsecured, interest-free and will not be repayable until 12 September 2016. The carrying value of the amount due to ultimate holding company as at 31 December 2013 and 30 June 2014 was stated at discounted present value with an imputed interest rate of 14.3% per annum.

## 15. RELATED PARTY TRANSACTIONS

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

- (a) The balances with related parties and ultimate holding company are set out in Notes 13 and 14 respectively.
- (b) During the period for the six months ended 30 June 2014, the Company had paid approximately RMB3,796,000 (2013: RMB 4,025,000) to 浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited\*), a subsidiary of Zhejiang Yongli, 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.

- (c) During the period for the six months ended 30 June 2014, the Company had paid approximately RMB70,000 (2013: Nil) to 浙江紹興永利印染有限公司 (Zhejiang Shaoxing Yongli Dyeing Company Limited\*), a subsidiary of Zhejiang Yongli, ultimately holding company of the Company for provision of dyeing services to the Company for usage in the production.

The aforesaid transactions were conducted in accordance with the term as agreed with both parties and were in the ordinary course of the business of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

For the six months ended 30 June 2014, the Company recorded a revenue of approximately RMB89.64 million, represents an increase of approximately 19.48% when compared with the same period in 2013. It was mainly contributed from the revenue of sales of woven fabrics that increased by approximately 31.26% when compared with the corresponding period in 2013. In addition, revenue from sales of woven fabrics to both domestic markets and overseas markets increased by approximately 43.97% and 19.24% respectively. Due to the improvement of product mix and as a result of the tight control over cost, gross profit margin increased from 8.21% to 11.71%. The selling expenses increased sharply in 2014 when compared with that in 2013 was in line with the increase of revenue. The administrative expenses for the six months ended 30 June 2014 decreased by approximately 38.26% when compared with the corresponding period in 2013 mainly due to tighter control over expenditure was adopted. Other income and gains dropped by approximately RMB44.81 million when compared with the corresponding period in 2013 mainly because there was gains on disposal of old factory to the Local Government in 2013. Except for the finance cost of approximately RMB12.33 million in respect of imputed interest in non-current interest-free loan from ultimate holding company, there was operating profit of approximately RMB8.32 million for the six months ended 30 June 2014. The respective loss and earnings per share for the six months ended 30 June 2014 and 2013 were approximately RMB0.38 cents and RMB3.36 cents respectively.

### Business and operation review

During the six months ended 30 June 2014, the Company successfully developed other overseas market in America, Africa and Asia etc. The Directors expect that the economies in Europe and U.S. may not be recovered in a short periods. Therefore, sales to these markets will continue be shrinking. On the other hand, the rising of raw materials cost and labour cost continue to impact the textile industry, therefore, the overall market sentiments were still poor. In order to minimise the market risk and maximise the interests of the shareholders, the sales effort will continued be placed in expanding the domestic market and diversifying the overseas market.

### Product research and development

During the six months ended 30 June 2014, 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 six months ended 30 June 2014, the Company actively participated in various trade fairs held in PRC and overseas so as to gain exposure in the fabrics market and to popularize the Company's new products.



## **OUTLOOK**

The Directors expect that the textile industry will continue be impacted by the rising of raw materials cost, labour cost in year 2014 and therefore, the overall market sentiments were still poor. In additions, it is expected that the worldwide economies such as the U.S. and Europe will not be recovered in very soon, hence sales in these markets will continue be shrink. The cash and bank balance of the Company as at 30 June 2014 was approximately RMB173.53 million and under the financial support from Zhejiang Yongli, the Directors expect that the Company has sufficient cash resources to meet its present and future cash flow requirements and is able to face with the challenge in 2014 and the near future.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

During six months ended 30 June 2014, the Company financed its operations mainly by internally generated cash and financial support from ultimate holding company, Zhejiang Yongli.

As at 30 June 2014, the Company's current assets and net current assets were approximately RMB247.11 million (31 December 2013: approximately RMB232.39 million) and approximately RMB182.51 million (31 December 2013: approximately RMB170.59 million) respectively. The liquidity ratio of the Company represented by the ratio of current assets over current liabilities, was approximately 3.83 (31 December 2013: 3.76).

## **CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS**

As at 30 June 2014, the Company had no commitments (31 December 2013: Nil) for capital expenditure and significant investments held (31 December 2013: Nil).

## **CONTINGENT LIABILITIES**

As at 30 June 2014, the Company did not have any significant contingent liabilities (31 December 2013: Nil).

## **CHARGES ON COMPANY ASSETS**

As at 30 June 2014, the Company has no charges on company assets (31 December 2013: Nil).

## **MATERIAL ACQUISITIONS/DISPOSALS**

During the six months ended 30 June 2014, 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 2014, the Company had 588 employees (31 December 2013: 568), comprising 4 (31 December 2013: 3) in research and development, 17 (31 December 2013: 8) in sales and marketing, 505 (31 December 2013: 497) in production, 50 (31 December 2013: 48) in quality control, 6 (31 December 2013: 6) in management, and 6 (31 December 2013: 6) 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.

## DIRECTORS’ CHIEF EXECUTIVES’ AND SUPERVISORS’ INTERESTS IN SHARES OF THE COMPANY

At 30 June 2014, none of the Directors, chief executives or supervisors of the Company had any interests or 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 (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 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

**SUBSTANTIAL SHAREHOLDERS**

At 30 June 2014, 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 5% 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	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*

Name of shareholder	Capacity	Number of H shares held	Approximate percentage of interests in H shares in issue at 30 June 2014	Approximate percentage of interests in total issued share capital at 30 June 2014
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.60%

At 30 June 2014, 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 5% 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. 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 interim results of the Company for the six months ended 30 June 2014.

## **CORPORATE GOVERNANCE PRACTICES**

During the six months ended 30 June 2014, 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 2014.

By Order of the Board  
**Zhejiang Yonglong Enterprises Co., Ltd.**  
**Wang Xinyi**  
*Chairman*

Zhejiang, the PRC, 14 August, 2014

*As at the date of this document, the executive directors of the Company are Mr. Wang Xinyi (Chairman), Ms. He Lianfeng (Deputy Chairman and Chief Executive Officer), Mr. Hu Hua Jun and Mr. Chen Jian Jiang; the non-executive director of the Company is Mr. Chen Dong Chun; the independent non-executive directors of the Company are Mr. Xu Wei Dong, Mr. Li Hui Peng and Mr. Qin Fu.*

*\* For identification purpose only*