
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zhejiang Yonglong Enterprises Co., Ltd.* (the "Company"), you should at once hand this circular and the accompanying form of proxy and reply slip to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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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)

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the
Independent Board Committee and Independent Shareholders**



Alliance Capital Partners Limited
同人融資有限公司

A letter from the Board is set out on pages 4 to 14 of this circular. A letter from the Independent Board Committee is set out on page 15 of this circular.

A letter from Alliance Capital Partners Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 26 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at the Conference Room of the Office Building of the Company at Yangxun Qiao Town, Keqiao Qu, Shaoxing, Zhejiang Province, the PRC, at 10:00 a.m. on Friday, 31 July 2015 or any adjournment thereof is set out on pages 32 to 34 of this circular. A reply slip and a proxy form for use at the extraordinary general meeting are enclosed.

Whether or not you propose to attend the meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same, for holders of H shares of the Company, to the Company's share registrar, Union Registrars Limited at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong and for holders of domestic shares of the Company, to the Company's legal address at Yangxun Qiao Town, Keqiao Qu, Shaoxing, Zhejiang Province, the PRC as soon as possible and in any event not later than 24 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" page of the website of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at www.hkgem.com for at least 7 days from the date of its posting and on the website of the Company at www.zj-yonglong.com.

16 June 2015

* For identification purpose only

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

| | |
|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “2011 Agreement” | the electricity and steam supply agreement dated 30 December 2011 entered into between the Company and Zhejiang Yongli Thermal in respect of, among others, the supply of electricity and steam from Zhejiang Yongli Thermal to the Company |
| “Agreement” | the electricity and steam supply agreement dated 11 May 2015 entered into between the Company and Zhejiang Yongli Thermal in respect of, among others, the supply of electricity and steam from Zhejiang Yongli Thermal to the Company |
| “Alliance Capital” or “Independent Financial Adviser” | Alliance Capital Partners Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and its proposed Annual Caps |
| “Announcement” | the announcement of the Company dated 11 May 2015 |
| “Annual Cap(s)” | the maximum annual amount of the Continuing Connected Transactions to be transacted for each of the three years ending 31 December 2017 |
| “associate(s)” | has the meaning ascribed to it under the GEM Listing Rules |
| “Board” | the board of Directors |
| “CAGR” | compound annual growth rate |
| “Company” | 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 PRC |
| “connected person(s)” | has the meaning ascribed to it under the GEM Listing Rules |
| “Continuing Connected Transactions” | those continuing connected transactions contemplated under the Agreement |
| “Directors” | director(s) of the Company |

DEFINITIONS

| | |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Domestic Share(s)” | domestic shares of nominal value RMB0.10 each in the capital of the Company |
| “EGM” | an extraordinary general meeting of the Company to be held to consider the ordinary resolution to be proposed to approve, <i>inter alia</i> , the Agreement, the transactions contemplated thereunder and the proposed Annual Caps |
| “GEM” | the Growth Enterprise Market |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on the GEM of the Stock Exchange |
| “H Share(s)” | overseas listed foreign shares in the ordinary share capital of the Company, with a nominal value of RMB0.10 each, which are listed on the GEM and traded in Hong Kong dollars |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Independent Board Committee” | an independent committee of the Board established for the purpose of reviewing the Continuing Connected Transactions |
| “Independent Shareholders” | Shareholders other than Zhejiang Yongli and its associates |
| “Independent Third Party(ies)” | party(ies) who and whose ultimate beneficial owners are third parties independent of the Company and connected persons (as defined under the GEM Listing Rules) of the Company |
| “kW” | kilowatt |
| “Latest Practicable Date” | 12 June 2015, being the latest practicable date for the purpose of ascertaining certain information contained in this circular |
| “p.a.” | per annum |
| “Percentage Ratios” | the percentage ratios under Rule 19.07 of the GEM Listing Rules, other than the equity capital ratio and profits ratio |
| “PRC” | the People’s Republic of China |
| “RMB” | Renminbi, the lawful currency of the PRC |

DEFINITIONS

| | |
|---------------------------|-----------------------------------------------------------------------------------------------------|
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | ordinary share(s) of RMB0.10 each in the share capital of the Company |
| “Shareholder(s)” | the holder(s) of the Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Supervisor(s)” | the supervisors of the Company |
| “Zhejiang Yongli” | 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd.*), a company established in the PRC |
| “Zhejiang Yongli Thermal” | 浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited*), a company established in the PRC |
| “%” | per cent. |

For illustrative purposes of this circular only and unless otherwise stated, translation of Renminbi into Hong Kong dollars is based on the exchange rate of RMB1.00 = HK\$1.27 (such conversion shall not be construed as a representation that amounts in RMB were or may have been converted into HK\$ using such exchange rate or any other exchange rate or at all).

LETTER FROM THE BOARD



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)

Board of Directors

Executive Directors:

Mr. Wang Xinyi (*Chairman*)
Ms. He Lianfeng (*Deputy Chairman*
and Chief Executive Officer)
Mr. Hu Hua Jun

Legal Address:

Yangxun Qiao Town
Keqiao Qu, Shaoxing
Zhejiang Province
The People's Republic of China

Non-executive Directors:

Mr. Chen Dong Chun
Mr. Tang Guo Ping

Place of business in Hong Kong:

Suites 3306-12, 33rd Floor
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Independent non-executive Directors:

Mr. Xu Wei Dong
Ms. Zhang Li
Mr. Wang Weisong

16 June 2015

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

References are made to the announcements of the Company dated 10 January 2012 and 11 April 2012 and the circular of the Company dated 24 February 2012 in relation to, among others, the 2011 Agreement. Pursuant to the 2011 Agreement, Zhejiang Yongli Thermal provided electricity and steam to the Company for the three years ended 31 December 2014. Reference is also made to the Announcement. As the 2011 Agreement has expired on 31 December 2014, the Company and Zhejiang Yongli Thermal entered into the Agreement so as to continue to regulate the provision of electricity and steam by Zhejiang Yongli Thermal to the Company thereunder.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information regarding the Agreement and the Annual Caps together with a notice of EGM.

II. THE AGREEMENT

Date

11 May 2015

Parties

- (i) the Company; and
- (ii) Zhejiang Yongli Thermal.

Particulars of the Agreement

Pursuant to the Agreement, Zhejiang Yongli Thermal agreed to supply electricity and steam to the Company at an average rates of RMB0.49 kW per hour and RMB170 per ton respectively for a term commencing from 1 January 2015 up to 31 December 2017 at the following rate:

- (1) for the period from 1 January 2015 to 31 December 2015, Zhejiang Yongli Thermal will supply to the Company not more than 17,000,000 kW electricity amounting to RMB8,330,000 (equivalent to approximately HK\$10,579,100) and not more than 2,200 tons of steam amounting to RMB374,000 (equivalent to approximately HK\$474,980), with a total amount of RMB8,704,000 (equivalent to approximately HK\$11,054,080);
- (2) for the period from 1 January 2016 to 31 December 2016, Zhejiang Yongli Thermal will supply to the Company not more than 20,000,000 kW electricity amounting to RMB9,800,000 (equivalent to approximately HK\$12,446,000) and not more than 2,400 tons of steam amounting to RMB408,000 (equivalent to approximately HK\$518,160), with a total amount of RMB10,208,000 (equivalent to approximately HK\$12,964,160); and
- (3) for the period from 1 January 2017 to 31 December 2017, Zhejiang Yongli Thermal will supply to the Company not more than 30,000,000 kW electricity amounting to RMB14,700,000 (equivalent to approximately HK\$18,669,000) and not more than 2,600 tons of steam amounting to RMB442,000 (equivalent to approximately HK\$561,340), with a total amount of RMB15,142,000 (equivalent to approximately HK\$19,230,340).

LETTER FROM THE BOARD

Pricing and Payment Term

The price bureau of Zhejiang Province delivers the grid electricity sales price table of Zhejiang Province (浙江省電網銷售電價表) (“Grid Table”) to the Company from time to time when there is adjustment to the electricity price. The notice of adjustment to electricity price issued by the price bureau of Zhejiang Province (浙江省物價局關於電價調整有關事項的通知) in April 2015 sets out the Grid Table which indicates the average unit price charged by the relevant government authority in providing electricity to the Company (“Government Electricity Price”). Coal is used to generate electricity while steam is a by-product of electricity. The Price Coordination Committee of Heat Supply in Keqiao Qu, Shaoxing City (紹興市柯橋區供熱價格協調工作委員會) issues the benchmark reference price for coal and heats (i.e. steam) (煤價和供熱基準參考價) to the suppliers monthly (“Steam Reference Price”) which regulates the prices charged by the steam suppliers.

The average rates for kW per hour of electricity and each ton of steam offered by Zhejiang Yongli Thermal were determined with reference to the prevailing market prices of electricity and steam in the local area (being not more than the rates as prescribed by the relevant government authorities) and these rates were the same as the average electricity and steam rates of the three years ended 31 December 2014 quoted by Zhejiang Yongli Thermal. Pursuant to the Agreement, such rates can be adjusted in accordance with the on-grid electricity tariffs and the price prescribed by the relevant price bureau in the PRC for provision of steam and the rates payable by the Company to Zhejiang Yongli Thermal under the Agreement shall be no less favourable than the rates from Independent Third Parties.

The average electricity and steam rates of RMB0.49 kW per hour and RMB170 per ton respectively were arrived at after arm’s length negotiations between the Company and Zhejiang Yongli Thermal. The average electricity rate offered by Zhejiang Yongli Thermal will be adjusted in the event that the Government Electricity Price falls below RMB0.49 kW per hour. The Government Electricity Price increased from RMB0.67 kW per hour in 2012 to RMB0.70 kW per hour in 2014, representing a premium of approximately 36.73% to 42.86% as compared to the price offered by Zhejiang Yongli Thermal. Therefore, the average electricity rate charged by Zhejiang Yongli Thermal for the three years ended 31 December 2014 had not been adjusted by the Government Electricity Price during the same period. Based on the information currently available to the Directors, there is no such factor which led the Directors to believe that the Government Electricity Price in the three years ending 2017 will be more favourable than the average electricity rate offered by Zhejiang Yongli Thermal. The average steam rate offered by Zhejiang Yongli Thermal will be adjusted in accordance with the Steam Reference Price issued monthly. As the Steam Reference Price may be adjusted from time to time, Zhejiang Yongli Thermal and the Company determined the average steam rate based on the three-year average steam rate offered by Zhejiang Yongli Thermal for the three years ended 31 December 2014. Based on the abovementioned reasons, the Directors consider that it is reasonable and in the interests of the Company and its Shareholders to enter into the Agreement with the flat average electricity and steam rates of RMB0.49 kW per hour and RMB170 per ton.

LETTER FROM THE BOARD

The actual fees shall be payable by the Company to Zhejiang Yongli Thermal within 90 days after the end of each month and will be calculated on a monthly basis based on the actual consumption of the amount of electricity and steam (as the case may be) in the previous month and can be adjusted by and determined with reference to the following:

- (a) the unit price per kW electricity per hour to be offered by Zhejiang Yongli Thermal to the Company will be no less favourable than the Government Electricity Price. Accordingly, in the event that there is reduction in the Government Electricity Price, the electricity rates offered by Zhejiang Yongli Thermal may be adjusted accordingly; and
- (b) the unit price per ton of steam to be provided by Zhejiang Yongli Thermal to the Company shall not exceed the Steam Reference Price. In the event that there is reduction in the Steam Reference Price, the steam rates offered by Zhejiang Yongli Thermal may be adjusted accordingly to the effect that such rates will not exceed the Steam Reference Price.

The Company has adopted the following measures to monitor the pricing and terms of the transactions contemplated under the Agreement and ensure that the transactions contemplated thereunder will be conducted on normal commercial terms:

- (a) monitoring the Government Electricity Price to ensure that the rates offered by Zhejiang Yongli Thermal will not be higher than the Government Electricity Price monthly;
- (b) monitoring the Steam Reference Price monthly; and
- (c) adhering to the relevant internal control measures of the Company on connected transactions to ensure that the production department of the Company will monitor the prices and terms of electricity offered by Zhejiang Yongli Thermal monthly shall be no less favourable than the Government Electricity Price and the steam rates offered by Zhejiang Yongli Thermal monthly shall not exceed the Steam Reference Price. Upon receiving the invoices from Zhejiang Yongli Thermal for the provision of electricity and steam, the production department of the Company will check whether such rates exceed the Government Electricity Price and the Steam Reference Price. In such case, the relevant staff of the production department will notify the Board and negotiate with Zhejiang Yongli Thermal to adjust the rates such that the actual rates will not exceed the Government Electricity Price and the Steam Reference Price. The adjusted rates will then be submitted to the Board for approval.

LETTER FROM THE BOARD

Historical Figures

The amount of the relevant transactions under the 2011 Agreement for the three financial years ended 31 December 2014 were approximately RMB9,134,000, RMB8,335,000 and RMB7,874,000 respectively (equivalent to approximately HK\$11,600,180, HK\$10,585,450 and HK\$9,999,980 respectively). For the year ended 31 December 2014, the Company purchased 15,434,900 kW of electricity and 2,206 tons of steam from Zhejiang Yongli Thermal respectively.

Proposed Annual Caps

The table below sets out the Company's proposed usage of electricity and steam and the Annual Caps for the three years ending 31 December 2017:

| | For the year ending 31 December | | |
|--------------------------------------------------|---------------------------------|-------------------|-------------------|
| | 2015 | 2016 | 2017 |
| Electricity from Zhejiang Yongli Thermal: | | | |
| Consumption (kW) | 17,000,000 | 20,000,000 | 30,000,000 |
| Transaction amount (RMB) | 8,330,000 | 9,800,000 | 14,700,000 |
| Government | | | |
| Consumption (kW) | 3,531,800 | 3,668,603 | 1,938,355 |
| Transaction amount (RMB) | 2,542,896 | 2,641,394 | 1,395,616 |
| Steam from Zhejiang Yongli Thermal: | | | |
| Consumption (tons) | 2,200 | 2,400 | 2,600 |
| Transaction amount (RMB) | 374,000 | 408,000 | 442,000 |
| Proposed Annual Caps (RMB) | 8,704,000 | 10,208,000 | 15,142,000 |

LETTER FROM THE BOARD

The Company has recommenced its export sales since 2013 and it continues to place sales efforts in expanding the domestic markets and exploring other overseas markets such as South America, Eastern Europe, Africa and other Asian countries. In order to increase the production output and to meet future market demands, the Company intends to replace production machines with lower efficiencies by end of 2015 with new and advanced production machines. In addition, according to the National Bureau of Statistics of China, the per capita disposal income of urban households in China is predicted to be approximately RMB42,800 in 2019 (with a CAGR of 8.2% from 2014 to 2019), which results in the boost in domestic consumption of consumer goods. Along with the increase in consumption power, the end-customers become more quality and price sensitive, in particular with respect to apparel. The textile industry has a mature industry chain, and plays a significant role in the Chinese economy. Over time, China has shifted from low-end products to focus on high value-added products. Also, the global economic environment is expected to recover gradually in the next few years; and the Company will continue to place sales efforts in expanding the domestic market and diversifying the overseas markets. As such, the Directors see greater potential in the luxury fashion wear market in the PRC and overseas and expect that going forward, the Company will produce thicker and higher density fabrics for each of the three years ending 31 December 2017. The usage of electricity depends on the composition, such as thickness and density of the fabrics manufactured. Thicker and higher density fabrics require higher usage of electricity as opposed to thinner and lower density fabrics.

The Directors expect that the usage of electricity provided by Zhejiang Yongli Thermal will be increased for each of the three years ending 31 December 2017 since the Company will (i) shift its focus towards the production of thicker and higher end fabrics; (ii) reduce the consumption of electricity from the relevant local government gradually as Zhejiang Yongli Thermal offers a more favourable rate when comparing to the Government Electricity Price; and (iii) replace lower efficiencies production machines with new and advanced production machines thereby enhances the production output of the Company.

During the period of replacing production machines in 2015, the Company expects that the production volume will increase slightly while the consumption of electricity provided by Zhejiang Yongli Thermal will increase by approximately 10% as the Company intends to produce thicker and higher density fabrics in 2015 as compared to 2014. As for 2016 and 2017, the production volume and the usage of electricity provided by Zhejiang Yongli Thermal are expected to have higher growth in view of the targeted completion of replacement of new production machines and the production of thicker and higher density fabrics in view of the positive prospect of the luxury fashion market stated above. As a result of the increase in the usage of electricity, the transaction amount for the supply of electricity by Zhejiang Yongli Thermal will record an annual increase of approximately 17.6% and approximately 50% respectively for 2016 and 2017 which is in line with the increase in usage of electricity provided by Zhejiang Yongli Thermal for 2016 and 2017.

LETTER FROM THE BOARD

The steam is mainly used for employees' and production ancillary facilities, accordingly, the changes in the number of employees would affect the consumption of steam by the Company. Following the replacement of production machines and in order to meet the expected increase of production volume and sales turnover, the Company plans to employ 5, 10 and 15 additional workers and sales staff for the three years ending 31 December 2017 respectively, which would affect the consumption of steam as it was mainly for the daily usage of the employees of the Company. The Company expects that the consumption of steam from Zhejiang Yongli Thermal will remain relatively stable for 2015 and there will be an average growth of approximately 8.71% per annum for 2016 and 2017. As a result of the increase in the usage of steam, the transaction amount for the supply of steam by Zhejiang Yongli Thermal will also record an average increase of approximately 8.71% per annum for 2016 and 2017.

The Company expects to produce approximately 30,000,000 meters, 33,200,000 meters and 40,000,000 meters of fabrics for the three years ending 31 December 2017 respectively. The production capacity for 2015 is estimated with reference to the historical production volume of the Company for the three years ended 31 December 2014, current orders received by the Company and the production output of the Company in the first quarter of 2015 on the basis of the production capacity of the existing production machines of the Company. The production capacity for 2016 and 2017 are estimated with reference to the expected annual growth in production volume of the Company on the basis of the production capacity of the existing production machines and such additional new and advanced production machines as may be replaced by the Company in 2015. The annual growth rate of production capacity of the Company is expected to be approximately 10.7% and approximately 20% for 2016 and 2017 respectively which is less than the annual growth rate of the Annual Cap of approximately 17% and approximately 48% for 2016 and 2017 respectively which is mainly attributable to (i) the Company's plan to produce thicker and higher density fabrics in the three years ending 31 December 2017 as the Company sees positive prospect in the luxury fashion market as stated above, thereby increases each year's usage of electricity despite a lower increase of production volume; and (ii) the Company intends to purchase electricity from Zhejiang Yongli Thermal on a priority basis in view of the preferred rate offered, and purchase additional electricity as needed from the relevant local government and thereby, gradually reduces consumption of electricity from government.

LETTER FROM THE BOARD

The Annual Caps regarding the Agreement for each of the three financial years ending 31 December 2015, 31 December 2016 and 31 December 2017 will not exceed RMB8,704,000, RMB10,208,000 and RMB15,142,000 respectively (equivalent to approximately HK\$11,054,080, HK\$12,964,160 and HK\$19,230,340 respectively). The Annual Caps have been determined with reference to (i) the annualized usage of electricity and steam by the Company and the amount of relevant transactions under the 2011 Agreement for the three financial years ended 31 December 2014; (ii) the market price of the electricity and steam; and (iii) the current production plan in accordance with the current production capacity and the expected increase in production volume of the Company. In estimating the annualized expected usage in 2015 to 2017, it is expected that the consumption of electricity and steam will increase in line with the expected increase in production volume. The Company and Zhejiang Yongli Thermal will enter into new agreement and the Company will comply with the applicable GEM Listing Rules if the transactions under the Agreement exceed the Annual Caps.

Zhejiang Yongli Thermal will continue to supply electricity and steam to the Company for the period from 1 January 2015 to the date of the EGM. However, the Directors expect that the amount for transactions thereunder will not exceed 5% under the relevant Percentage Ratios and the total consideration will be less than HK\$3,000,000 and therefore fall within the de minimis threshold under Chapter 20 of the GEM Listing Rules and would hence be exempted from reporting, announcement and Independent Shareholders' approval requirements. If the amount of transactions exceed the aforesaid de minimis threshold during such period, the Company will take necessary steps to ensure compliance with all applicable rules under Chapter 20 of the GEM Listing Rules.

Conditions

The Agreement is conditional upon the Company obtaining approval of the Independent Shareholders at the EGM in respect of, *inter alia*, the Agreement and the transactions contemplated thereunder.

Reasons for and benefits of the entering into of the Agreement

The Company is a joint stock limited company incorporated in the PRC and the H Shares of which are listed on GEM. The Company is principally engaged in (i) the manufacture and sale of woven fabrics; and (ii) provision of subcontracting services.

Zhejiang Yongli Thermal is principally engaged in the provision of (i) electricity to the local government and group companies, and (ii) steam, a by-product of electricity production, to the local enterprises and its group companies. The provision of electricity and steam services is in the usual and ordinary course of business of Zhejiang Yongli Thermal.

LETTER FROM THE BOARD

The Company has been purchasing electricity from the local government. However, as the local government will limit the usage of electricity from time to time, the Company also purchases electricity from Zhejiang Yongli Thermal as a member of the group company of Zhejiang Yongli to ensure a stable electricity supply for its production needs. In addition, Zhejiang Yongli Thermal is the only steam supplier in Yangxun Qiao. The average unit price of the electricity supplied by Zhejiang Yongli Thermal is no less favourable than that offered by the local government and the unit price of steam supplied by Zhejiang Yongli Thermal will not exceed the Steam Reference Price. As such, since the 2011 Agreement has expired on 31 December 2014 and in order to (i) enhance a stable supply of electricity and steam for the production of the Company, (ii) insulate the Company from the potential increase and fluctuations in the market rate of electricity and steam, and (iii) enable the Company to stay competitive in the fabric industry, the Board believes that it is for the benefit of the Company to enter into the Agreement.

The Directors have also confirmed that the terms of the Agreement have been determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) are of the view that the terms of the Agreement (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and that the Agreement is on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

Save and except for Mr. Wang Xinyi who is the son-in-law of Mr. Zhou Yongli, the controlling shareholder of Zhejiang Yongli, and has abstained from voting on relevant board resolutions approving the Agreement, none of the Directors has a material interest in the transaction contemplated under the Agreement.

III. GEM LISTING RULES IMPLICATIONS

Zhejiang Yongli Thermal is a subsidiary of Zhejiang Yongli, the holding company of the Company interested in approximately 53.08% of the total issued share capital of the Company and therefore Zhejiang Yongli and its associates are connected persons of the Company under the GEM Listing Rules.

The entering into of the Continuing Connected Transactions shall constitute continuing connected transactions of the Company and will therefore be subject to the requirements under Chapter 20 of the GEM Listing Rules.

As the maximum amount of the Continuing Connected Transactions will exceed 5% under one or more of the Percentage Ratios and the annual consideration is more than HK\$10,000,000, the transactions contemplated thereunder are therefore subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 20 of the GEM Listing Rules.

LETTER FROM THE BOARD

IV. INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising the independent non-executive Directors has been formed for advising the Independent Shareholders on the terms and conditions of the Agreement and the Annual Caps. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder (including the Annual Caps) has been set out on page 15 of this circular.

Alliance Capital has been appointed as Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the same. The letter is set out in the section headed “Letter from Alliance Capital” of this circular.

V. EGM

As at the Latest Practicable Date, Zhejiang Yongli is interested in 564,480,000 Domestic Shares, representing approximately 53.08% of the total issued share capital of the Company and is therefore a connected person of the Company. In view of the interest of Zhejiang Yongli and its associates in the transactions contemplated under the Agreement, Zhejiang Yongli and its associates, interested in 53.08% of the total issued share capital of the Company, will abstain from voting at the EGM on the resolution in respect of the Agreement and the Annual Caps. The votes taken at the EGM will be taken by poll, the results of which will be announced after the EGM.

A notice convening the EGM to be held at the Conference Room of the Office Building of the Company at Yangxun Qiao Town, Keqiao Qu, Shaoxing, Zhejiang Province, the PRC at 10:00 a.m. on Friday, 31 July 2015 or any adjournment thereof is set out on pages 32 to 34 of this circular.

In order to determine the identity of the Shareholders entitled to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 1 July 2015 to Friday, 31 July 2015 (both days inclusive), during such period no share transfer will be registered. All transfer documents accompanied by the relevant share certificates, must be lodged with the Company’s share registrars, Union Registrars Limited at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong by no later than 4:00 p.m. on Tuesday, 30 June 2015.

If you intend to attend the EGM, please complete and return the accompanying reply slip in accordance with the instructions printed thereon as soon as possible and in any event by not later than Saturday, 11 July 2015.

LETTER FROM THE BOARD

Whether or not you propose to attend the meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same, for holder of H Shares, to the Company's share registrar, Union Registrars Limited at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong and for holders of Domestic Shares, to the Company's legal address at Yangxun Qiao Town, Keqiao Qu, Shaoxing, Zhejiang Province, the PRC as soon as possible and in any event not later than 24 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

VI. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 15 which contains its recommendation to the Independent Shareholders on the terms of the Agreement and the Annual Caps, and the letter of advice from Alliance Capital, the text of which is set out on pages 16 to 26 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders. The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the ordinary resolution approving the Agreement and the Annual Caps.

The Directors believe that the proposed resolution above is in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend all Shareholders to vote in favour of such resolution which will be proposed at the EGM.

VII. FURTHER INFORMATION

Your attention is drawn to the additional information set out in the Appendix to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

Legal Address:

Yangxun Qiao Town

Keqiao Qu, Shaoxing

Zhejiang Province

The People's Republic of China

16 June 2015

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Agreement with the Annual Caps, details of which are set out in the letter from the Board in the circular dated 16 June 2015 (the "Circular") to the Shareholders, in which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

Having taken into account terms of the Agreement and the advice and recommendation of Alliance Capital, we consider that the terms of the Agreement with the Annual Caps are fair and reasonable so far as the interests of the Independent Shareholders are concerned and the Agreement is conducted in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the EGM to approve the Agreement with the Annual Caps.

Xu Wei Dong

Yours faithfully,

Zhang Li

Wang Weisong

Independent Board Committee

LETTER FROM ALLIANCE CAPITAL

The following is the text of the letter of advice received from Alliance Capital Partners Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the Agreement and its proposed Annual Caps which has been prepared for the purpose of inclusion in this circular.



Alliance Capital Partners Limited
同人融資有限公司

Alliance Capital Partners Limited
Unit 318, 3/F, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

16 June 2015

*To the Independent Board Committee and the Independent Shareholders
of Zhejiang Yonglong Enterprises Co., Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions under the Agreement, details of which are set out in the Letter from the Board contained in the circular dated 16 June 2015 (the “Circular”) of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Zhejiang Yongli Thermal (the counterparty to the Agreement) is a subsidiary of Zhejiang Yongli, the controlling shareholder with approximately 53.08% interest in the total issued share capital of the Company. Therefore, Zhejiang Yongli and its associates are regarded as connected persons of the Company under the GEM Listing Rules. The transactions under the Agreement constitute continuing connected transactions of the Company and will therefore be subject to the requirements under Chapter 20 of the GEM Listing Rules.

As the maximum amount of the proposed Annual Caps in the Agreement for the three years ending 31 December 2017 will exceed 5% under one or more of the Percentage Ratios and the annual consideration is more than HK\$10,000,000 the transactions contemplated thereunder are therefore subject to the requirements of reporting, announcement, Independent Shareholders’ approval and annual review under Chapter 20 of the GEM Listing Rules.

LETTER FROM ALLIANCE CAPITAL

An Independent Board Committee, comprising the independent non-executive Directors, namely Messrs. Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong, has been established by the Company to advise the Independent Shareholders on whether the terms of the Agreement and their respective proposed Annual Caps for the three years to 31 December 2017 are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Mr. Wang Xinyi, who is the son-in-law of Mr. Zhou Yongli, the controlling Shareholder of Zhejiang Yongli, abstained from voting on relevant board resolutions approving the Agreement.

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on statements, information and representations referred to in the Circular as well as information and representations provided to us by the Directors. We have assumed that all such information and representations provided by the Directors, for which they are solely responsible, are true and accurate at the time when they were made. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to doubt the truth and accuracy of the information and representations provided to us and have been advised by the Directors that no material facts have been withheld or omitted from the information provided and/or referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, for the purpose of this exercise conducted any independent verification of the information included in the Circular and/or those provided to us by the management of the Company nor have we conducted any form of investigation into the businesses, affairs of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Agreement (including their respective proposed Annual Caps), we have taken into account the following principal factors and reasons:

1. Background of and reasons for entering into the Agreement

As set out in the Letter from the Board, the Company is a joint stock limited company incorporated in the PRC and the H shares of which are listed on the GEM. The Company is principally engaged in (i) the manufacture and sale of woven fabrics; and (ii) provision of subcontracting services.

Zhejiang Yongli Thermal is principally engaged in the provision of (i) electricity to the local government and group companies; and (ii) steam, a by-product of electricity production, to the local enterprises and its group companies.

LETTER FROM ALLIANCE CAPITAL

Prior to Zhejiang Yongli becoming a controlling shareholder of the Company, the Company had to rely solely from the local government for electricity supply. So far as steam is concerned, the Company purchased steam from Zhejiang Yongli Thermal as the later was (and still is) the only steam supplier in Yangxun Qiao. Since Zhejiang Yongli became a shareholder of the Company in December 2010 and, as one of the group company of Zhejiang Yongli, the Company, which has been purchasing electricity from the local government, is allowed to use electricity from Zhejiang Yongli Thermal. We understand from the management of the Company that the local government limits the usage of electricity from time to time. With a view to ensure a stable electricity supply for production needs, the Company began to purchase electricity from Zhejiang Yongli Thermal from December 2011. On 30 December 2011, the Company and Zhejiang Yongli Thermal entered into 2011 Agreement pursuant to which Zhejiang Yongli Thermal agreed to supply electricity and steam to the Company for a term up to 31 December 2014.

The average rates offered by Zhejiang Yongli Thermal to the Company on electricity and steams are RMB0.49 kW per hour and RMB 170 per ton respectively for the three years ended 31 December 2014. The above rates were determined with the reference prices made by the Price Bureau of Zhejiang Province (浙江省物價局) and the Price Coordination Committee of Heat Supply in Keqiao Qu, Shaoxing (紹興市柯橋區供熱價格協調工作委員會), both are government authorities. In addition, under the 2011 Agreement, the above rates could be adjusted but would not be higher than those provided by the Independent Third Parties and above mentioned government authorities.

LETTER FROM ALLIANCE CAPITAL

The below table sets out the historical usage and transaction amounts on the electricity and steam for the three years ended 31 December 2014:

| | For the year ended 31 December 2012 | For the year ended 31 December 2013 | For the year ended 31 December 2014 |
|------------------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|
| Electricity - Zhejiang Yongli Thermal | | | |
| Consumption (kW) | 17,979,660 | 16,116,520 | 15,434,900 |
| Transaction amount (RMB) | 8,759,323 | 7,851,638 | 7,519,567 |
| Average rate (RMB/kW) | 0.49 | 0.49 | 0.49 |
| Electricity - Government | | | |
| Consumption (kW) | 5,147,675 | 6,114,779 | 4,817,383 |
| Transaction amount (RMB) | 3,472,786 | 4,127,231 | 3,360,994 |
| Average rate (RMB/kW) | 0.67 | 0.67 | 0.70 |
| Total consumption of electricity (kW) | 23,127,335 | 22,231,299 | 20,252,283 |
| Total transaction amount of electricity (RMB) | 12,232,109 | 11,978,869 | 10,880,561 |
| Steam | | | |
| Consumption (tons) | 1,937 | 3,136 | 2,206 |
| Transaction amount (RMB) | 374,775 | 483,567 | 354,471 |
| Average rate (RMB/ton) | 193 | 154 | 161 |
| Total transaction amount for electricity and steam (RMB) with Zhejiang Yongli Thermal | 9,134,098 | 8,335,205 | 7,874,038 |

LETTER FROM ALLIANCE CAPITAL

The Company purchased electricity from Zhejiang Yongli Thermal on a priority basis as a preferred rate was offered. During the past three years, in the event that Zhejiang Yongli Thermal was unable to meet the Company's demand, the Company would purchase additional electricity as needed from the Keqiao Power Supply Division of the Shaoxing Power Supply Bureau (紹興電力局柯橋供電分局) (the "Keqiao Power Supply Division"), the electricity supplier owned by the government. Therefore, the Company had approximately 25% of electricity consumption purchased from the Keqiao Power Supply Division each year for the three years ended 31 December 2014. We have discussed with the Directors about the production volume and the historical usage of electricity and steam. We noted that the production volume recorded an average growth of approximately 3.0% p.a. for the three years ended 31 December 2014 but the total usage of electricity and steam represented approximately an average decrease of 5.5% p.a. during the same period. We understand this was due to the composition of the fabric products being produced. The production of thicker and higher density fabrics requires higher usage of electricity and vice versa. According to historical production records provided by the Company, thicker fabrics with higher density were produced in 2012 than 2013 and 2014; therefore, the usage on electricity higher in 2012 while its actual production volume was lower. Steam was mainly used for employees' and production ancillary facilities. The average growth rates of steam usage were 16.12% p.a. during the three years ended 31 December 2014. The numbers of employees for each of the three year ended 31 December 2014 were 459, 568 and 557 respectively. As the steam is mainly for the daily usage of employees, the changes of number of employees would affect the volume of steam used. Based on the above, we concur with the Directors' view that the Company had followed the terms under the 2011 Agreement and transactions with Zhejiang Yongli Thermal were conducted in the usual and ordinary course of the business of the Company.

As the 2011 Agreement expired on 31 December 2014, the Company entered the Agreement on 11 May 2015 in order to (i) ensure a stable supply of electricity and steam for the production of the Company; (ii) insulate the Company from the potential increase and fluctuations in the market rate of electricity and steam; and (iii) enable the Company to stay competitive in the fabric industry.

LETTER FROM ALLIANCE CAPITAL

2. Principal terms of the Agreement

The table below summarises the principal terms of the Agreement:

| | |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Date: | 11 May 2015 |
| Parties: | The Company; and Zhejiang Yongli Thermal |
| Service: | Zhejiang Yongli Thermal agreed to supply electricity and steam to the Company. |
| Term: | Three years to 31 December 2017 |
| Rates: | Electricity: RMB0.49kW per hour on average; and Steam: RMB170 per ton on average |
| Payment Terms: | <p>The actual fees shall be payable by the Company to Zhejiang Yongli Thermal within 90 days after the end of each month and will be calculated on a monthly basis based on the actual consumption of the amount of electricity and steam in the previous month and can be adjusted by and determined with the reference to the following:</p> <ul style="list-style-type: none">(a) the unit price per kW per hour of electricity to be offered by Zhejiang Yongli Thermal to the Company will be no less favourable than the Government Electricity Price. Accordingly, in the event that there is a reduction in the Government Electricity Price, the electricity rates offered by Zhejiang Yongli Thermal will be adjusted accordingly; and(b) the unit price per ton of steam to be provided by Zhejiang Yongli Thermal to the Company shall not exceed the Steam Reference Price issued by the Price Coordination Committee of Heat Supply in KeqiaoQu, Shaoxing. In the event there is a reduction in the Steam Reference Price, the steam rates offered by Zhejiang Yongli Thermal will be adjusted accordingly, so that rates paid by the Company will not exceed the Steam Reference Price. |

LETTER FROM ALLIANCE CAPITAL

Pricing policy: The average rates of electricity and steam were determined with the reference prices made by the Price Bureau of Zhejiang Province and the Price Coordination Committee of Heat Supply in KeqiaoQu, Shaoxing, respectively. The electricity rates can be adjusted in accordance with the on-grid electricity tariffs and the price prescribed by Price Bureau of Zhejiang Province. For provision of steam and the rates payable by the Company to Zhejiang Yongli Thermal under the Agreement, it shall be no less favourable than the benchmark reference price issued by the Price Coordination Committee of Heat Supply in KeqiaoQu, Shaoxing.

The price bureau of Zhejiang Province delivers the Grid Table to the Company from time to time when there is an adjustment to the electricity price. The latest notice of adjustment to electricity price issued by the price bureau of Zhejiang Province (浙江省物價局關於電價有關事項的通知) was in April 2015 setting out the Grid Table which indicates Government Electricity Price. Coal is used to generate electricity while steam is a by-product of electricity. The Price Bureau of Zhejiang Province and the Price Coordination Committee of Heat Supply in Keqiao Qu, Shaoxing City, which regulates the prices charged by the steam suppliers, issues the Steam Reference Price on a monthly basis.

We have obtained from the Company sample invoices issued in 2012 to 2014 in respect of the Company's purchase of electricity from Zhejiang Yongli Thermal and Keqiao Power Supply Division. We noted from the sample invoices that the rates of electricity charged by Zhejiang Yongli Thermal were more favourable than those stipulated by Keqiao Power Supply Division. The Directors also confirmed that the average rate of electricity from local government increased from RMB0.67 kW per hour to RMB0.70 kW per hour from 2012 to 2014, which represented a premium of approximately 36.73% to 42.86% as compared to the price offered by Zhejiang Yongli Thermal.

As Zhejiang Yongli Thermal is the only steam supplier in the area, we note that the average rates of steam charged by Zhejiang Yongli Thermal did not exceed those set by the above mentioned government authorities. In order to ensure that the electricity and steam prices offered by Zhejiang Yongli Thermal will be no less favourable than those offered by the government owned suppliers, we understand that the Company has adopted the following internal control procedures to ensure the transactions with Zhejiang Yongli Thermal will be conducted in accordance with the pricing policy as set out by the Company:

- (a) monitoring the Government Electricity Price to ensure that the rates offered by Zhejiang Yongli Thermal will not be higher than the Government Electricity Price monthly;
- (b) monitoring the Steam Reference Price monthly;

LETTER FROM ALLIANCE CAPITAL

- (c) ensuring that the production department of the Company will monitor the prices and terms of electricity offered by Zhejiang Yongli Thermal shall be no less favourable than the government owned supplier and the steam rates offered by Zhejiang Yongli Thermal shall not exceed the Steam Reference Price .Upon receiving the invoices from Zhejiang Yongli Thermal for the provision of electricity and steam, the production department of the Company will check whether such rates exceed the Government Electricity Price and the Steam Reference Price. In the event of that happening, the relevant staff of the production department will notify the Board and negotiate with Zhejiang Yongli Thermal to adjust the rates such that the actual rates will not exceed the Government Electricity Price and the Steam Reference Price. The adjusted rates will then be submitted to the Board for approval.

With the above mentioned internal control procedures to ensure that prices offered by Zhejiang Yongli Thermal are no less favourable than those reference prices made by the government authorities, we are of the view that the internal control system currently adopted by the Company is adequate.

Having considered the above, we concur with the Directors' view that the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM ALLIANCE CAPITAL

3. Annual Caps

The following table sets out the proposed usage of electricity and steam and Annual Caps in respect of the Agreement as confirmed by the Directors:

| | For the year ending 31 December 2015 | For the year ending 31 December 2016 | For the year ending 31 December 2017 |
|------------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|-----------------------------------------|
| Electricity | | | |
| Consumption (kW) | 17,000,000 | 20,000,000 | 30,000,000 |
| Transaction amount (RMB) | 8,330,000 | 9,800,000 | 14,700,000 |
| Average rate (RMB/kW) | 0.49 | 0.49 | 0.49 |
| Electricity - Government | | | |
| Consumption (kW) | 3,531,800 | 3,668,603 | 1,938,355 |
| Transaction amount (RMB) | 2,542,896 | 2,641,394 | 1,395,616 |
| Average rate (RMB/kW) | 0.72 | 0.72 | 0.72 |
| Total consumption of electricity (kW) | 20,531,800 | 23,668,603 | 31,938,355 |
| Total transaction amount of electricity (RMB) | 10,872,896 | 12,441,394 | 16,095,616 |
| Steam | | | |
| Consumption (tons) | 2,200 | 2,400 | 2,600 |
| Transaction amount (RMB) | 374,000 | 408,000 | 442,000 |
| Average rate (RMB/ton) | 170 | 170 | 170 |
| Total transaction amount for electricity and steam (RMB) with Zhejiang Yongli Thermal | 8,704,000 | 10,208,000 | 15,142,000 |

The above tables shows the average rates of (i) electricity of RMB0.49 kW per hour and (ii) steam of RMB170 per ton under the Agreement for the three years ending 31 December 2017, which are the same as for the year ended 31 December 2014. The Directors also confirmed that the average rate of electricity from the Keqiao Power Supply Division increased from RMB0.67 kW per hour to RMB0.72 kW per hour from 2012 to the first quarter of 2015. The average rates of electricity and steam for the three years ending 31 December 2017 were determined with reference to, among others, the average electricity and steam rates for the three years ended 31 December 2014. We note that the average electricity rate of RMB0.49 kW per hour offered by Zhejiang Yongli Thermal had remained unchanged for the three years ended 31 December 2014 and the average rate of steam price was RMB170 per ton for the same period. According to the National Bureau Statistics of China, the inflation rate was approximately 2.68% in 2013. We are of the view that by entering into the Agreement with Zhejiang Yongli Thermal with the flat average unit price, the Company will be able to hedge inflation risk; consequently, the average rates of electricity and steam adopted in determining the Annual Caps are in our view reasonable.

LETTER FROM ALLIANCE CAPITAL

According to the Letter from the Board, the Directors estimate that the annual transaction amounts for the three years ending 31 December 2017 will not exceed the Annual Caps of RMB8,704,000, RMB10,208,000 and RMB15,142,000 respectively (equivalent to approximately HK\$11,054,080, HK\$12,964,160 and HK\$19,230,340 respectively), representing an average growth rate of approximately 32.81% p.a. It was assumed that the Company will purchase electricity from Zhejiang Yongli Thermal as much as it can supply, because of the preferred rates.

We have reviewed and discussed the production plan with the Directors. We understand the Company plans to start replacing the production machines with lower efficiency in 2015. These machines were acquired in 2002 and had been used for over 13 years. The Company also recommenced export sales in 2013 and had started to develop overseas markets such as South America, Eastern Europe, Africa and other Asian countries and the Directors are of the view that by replacing with the new and advanced production machines will increase the outputs to meet the future market demands. The customers of the Company are mainly garment factories, fabric trading companies and textile manufacturing companies in the PRC and overseas. During the period of replacing the production machines, the Company expects a slight increase in the production volume but approximately 10.00% increase in the usage of electricity in 2015 comparing to 2014. We understand this is because the Company plans to produce thicker and heavier fabric products in 2015; thereby resulting in a higher increase in electricity consumption despite a slower increase of production volume. The replacement of production machines is expected to be completed at the end of 2015.

It is estimated that the annual growth rates of electricity purchases from Zhejiang Yongli Thermal are 17.6% and 50.0% in 2016 and 2017, after the replacement of the production machines. We have also discussed with the Company about its business development plan. According to the National Bureau of Statistics of China, the per capita disposal income of urban households in China is predicted to be the approximately RMB42,800 in 2019 (with a CAGR of 8.2% from 2014 to 2019), which results in the boost in domestic consumption of consumer goods. Along with the increase in consumption power, the end-customers become more quality and price sensitive, in particular with respect to apparel. The textile industry has a mature industry chain, and plays a significant role in the Chinese economy. Over time, China has shifted from low-end products to focus on high value-added products. The global economic environment expects to recover gradually in the next few years; and the Company will continue to place the sales efforts in expanding the domestic market and diversifying the overseas markets. The Directors see greater potential on the luxury fashion wear market in the PRC and overseas; therefore, the Company targets to produce thicker and higher-end fabric in the future. Having considered (i) the Company will focus on the luxury fashion market in both the PRC and overseas, which means the products are mainly thicker and higher-end fabrics and (ii) the positive prospect of the luxury fashion market, we concur with the Directors' view that the increase in expected electricity usage is fair and reasonable.

LETTER FROM ALLIANCE CAPITAL

As the major use for steam is for employees' and production ancillary facilities; usage of steam for the three years ending 31 December 2017 is expected have an average growth rate of approximately 8.71% p.a. This was due to (i) increase number of the workers and (ii) increase use of production ancillary facilities in order to meet the expected increase of the production volume. The Company currently has 525 employees and plans employ additional 5, 10, 15 workers and sales staff for the three years ended 31 December 2017. As a result, we are of the view that the consequential increase in expected steam usage is fair and reasonable.

In determining the Annual Caps for the three years to 2017, the Directors have taken into the consideration (i) the annualised usage of electricity and steam by the Company and the amount of relevant transactions under the 2011 Agreement for the three financial years ended 31 December 2014; (ii) the price of the electricity and steam; and (iii) the production plan in accordance with the expected increase in production volume of the Company. In this regard, we are of the opinion that the basis for determining the proposed Annual Caps with respect to the Company's expected consumption of electricity and steam is fair and reasonable.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that (i) the entering of the Agreement is in the ordinary and usual course of business of the Company, on normal commercial terms (or on terms no less favourable to the Company than those available from independent third party suppliers), and on terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the basis for determining the proposed annual cap amounts for the above Agreement are fair and reasonable. Consequently, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Agreement (including their respective proposed Annual Caps) at the upcoming general meeting.

Yours faithfully,
For and on behalf of
Alliance Capital Partners Limited

David Tsang
SFC CE No. ACH258

Dixi He
SFC CE No. AVH102

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS**(i) Directors, supervisors and chief executives of the Company**

As at the Latest Practicable Date, the interests and short positions of the Directors, chief executives or Supervisors of the Company 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 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange are as follows:

As at the Latest Practicable Date, Ms. He Lianfeng, an executive Director and her spouse are interested in approximately 0.039% in Zhejiang Yongli, the ultimate holding company of the Company, of which, Ms. He Lianfeng and her spouse have contributed RMB43,500 and RMB190,000, representing approximately 0.007% and 0.032% of the total registered capital of Zhejiang Yongli, respectively. Zhejiang Yongli is an associated corporation (within the meaning of Part XV of the SFO) by virtue of being a holding company of the Company.

Save as disclosed above, as at the Latest Practicable Date, 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 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

(ii) Substantial Shareholders

As at the Latest Practicable Date, so far as it was known to the Directors, chief executives and Supervisors of the Company, the interests and short positions of the persons other than the interests of the Directors, chief executives or Supervisors of the Company in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to section 336 of the SFO, or otherwise notified to the Company were as follows:

Long positions in the Shares

| Name of shareholders | Class of Shares | Capacity | Number of Shares held | Approximate percentage of shareholding in the relevant class of share capital | Approximate percentage of shareholding in the total issued share capital |
|----------------------------------------------------------------|-----------------|------------------------------------------------|-----------------------|-------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Zhejiang Yongli | Domestic Shares | Beneficial owner | 564,480,000 | 96.00% | 53.08% |
| Mr. Zhou Yongli ("Mr. Zhou") | Domestic Shares | Interest in controlled corporation (Note 1) | 564,480,000 | 96.00% | 53.08% |
| Ms. Xia Wanmei ("Ms. Xia") | Domestic Shares | Interest of spouse (Note 2) | 564,480,000 | 96.00% | 53.08% |
| Wing Hing Holdings (HK) Investment Limited ("Wing Hing") | H Shares | Beneficial owner | 208,540,000 | 43.86% | 19.60% |

Notes:

1. Zhejiang Yongli directly held 564,480,000 Domestic Shares. Mr. Zhou is holding approximately 94.25% equity interests 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 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.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, chief executives and Supervisors of the Company, no other person (other than the Directors, chief executives or supervisors of the Company) 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.

(iii) Other interests

As at the Latest Practicable Date, other than (i) Mr. Chen Dong Chun, a non-executive Director, who is also a director of Wing Hing; (ii) Mr. Tang Guo Ping, a non-executive Director, who is an assistant to the chairman of Zhejiang Yongli and (iii) Ms. Wang Ai Yu, a Supervisor, who is a manager of the finance department of Zhejiang Yongli, none of the Directors or Supervisors is a director or employee of the substantial Shareholders of the Company.

3. INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interests in any assets which have since 31 December 2014 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company.

4. INTERESTS IN CONTRACT OR ARRANGEMENT

None of the Directors or Supervisors was materially interested in any contract or arrangement entered into by the Company subsisting at the date of this circular which was significant in relation to the business of the Company.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, Supervisors or controlling Shareholders or any of their respective associates has any interest in business which competes with or may compete with the business of the Company or has any other conflict of interests which any person has or may have with the Company.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company since 31 December 2014, the date to which the latest published audited financial statements of the Company were made up.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors has entered into any service contract with the Company which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

8. EXPERT

- (a) The following is the qualifications of Alliance Capital, which has given opinions or advices which are contained in this circular:

| Name | Qualifications |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Alliance Capital Partners Limited | a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO |

- (b) As at the Latest Practicable Date, Alliance Capital did not have any shareholding, direct or indirect, in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.
- (c) Alliance Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its names in the form and context in which it is included.

- (d) As at the Latest Practicable Date, Alliance Capital did not have any direct or indirect interests in any assets which have since 31 December 2014 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company.
- (e) The letter and recommendation from Alliance Capital are given as of the date of this circular for incorporation herein.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except Saturdays and public holidays) at Suites 3306-12, 33rd Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the articles of association of the Company;
- (b) the letter from the Independent Board Committee as set out in this circular;
- (c) the letter from Alliance Capital as set out in this circular;
- (d) the written consent of Alliance Capital as referred to in paragraph 8 above;
- (e) the 2011 Agreement;
- (f) the Agreement; and
- (g) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “EGM”) of Zhejiang Yonglong Enterprises Co., Ltd.* (the “Company”) will be held at the Conference Room of the Office Building of the Company at Yangxun Qiao Town, Keqiao Qu, Shaoxing, Zhejiang Province, the People’s Republic of China (the “PRC”) on Friday, 31 July 2015 at 10:00 a.m. for the purpose of considering and if thought fit, pass with or without modifications, the following resolution as ordinary resolution of the Company:-

ORDINARY RESOLUTION

1. **“THAT:**

- (i) the electricity and steam supply agreement (the “Agreement”) entered into between the Company and 浙江永利熱電有限公司(Zhejiang Yongli Thermal Electricity Company Limited*)(“Zhejiang Yongli Thermal”) on 11 May 2015 in respect of the supply of electricity and steam by Zhejiang Yongli Thermal to the Company (a copy of which marked “A” has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (ii) the maximum limit of the amount involved under the Agreement for the three financial years ending 31 December 2015, 31 December 2016 and 31 December 2017 shall not exceed RMB8,704,000, RMB10,208,000 and RMB15,142,000 respectively; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (iii) any director of the Company be and is hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he/she may in his/her discretion consider necessary or desirable or expedient for the purpose of or in connection with the Agreement and to make and agree such variations of a non-material nature in or to the terms of the Agreement as he/she may in his/her discretion consider to be desirable and in the interests of the Company.

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

Zhejiang, the PRC, 16 June 2015

Notes:

1. The H shares (“H Shares”) register of members of the Company will be closed from 1 July 2015 to 31 July 2015 (both days inclusive), during which period no transfer of H Shares will be effected. The shareholders of H Shares whose names appeared on the register of members of the Company at 4:00 p.m. on Tuesday, 30 June 2015 will be entitled to attend and vote at the EGM.
2. Any shareholder of H Shares and domestic shares (“Domestic Shares”) entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxies to attend and vote at the EGM on his/her behalf in accordance with the Articles of Association of the Company. A proxy need not be a holder of H Shares or Domestic Shares.
3. In order to be valid, the proxy form and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be delivered, for holders of H shares, to the office of the share registrar of the Company in Hong Kong (“Company’s Share Registrar”), Union Registrars Limited at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong and for holders of Domestic Shares, to the Company’s legal address at Yangxun Qiao Town, Keqiao Qu, Shaoxing, Zhejiang Province, the PRC not less than 24 hours before the time for holding the EGM (or any adjourned meeting thereof) or 24 hours before the time appointed for taking the poll.
4. Holders of H Shares and Domestic Shares or their proxies shall produce their identity documents when attending the EGM.
5. Holders of H Shares and Domestic Shares who intend to attend the EGM shall complete and lodge the reply slip for attending the meeting at the Company’s Share Registrar and the Company’s legal address, respectively on or before Saturday, 11 July 2015. The reply slip may be delivered to the Company by hand, by post or by fax (at fax No.: (86) 575-84576060).
6. The EGM is not expected to take more than half a day. Shareholders or their proxies attending the EGM shall bear their own traveling and accommodation expenses.

NOTICE OF EXTRAORDINARY GENERAL MEETING

7. The legal address of the Company and the details of the secretarial office of the Board are as follows:-

Yangxun Qiao Town
Keqiao Qu, Shaoxing
Zhejiang Province
The PRC
Tel: (86) 575-84069469
Fax: (86) 575-84576060
Postal Code: 312028
Contact person: Mr. Hu Hua Jun.

8. As required under the Rules (the “GEM Listing Rules”) Governing the Listing of Securities on the Growth Enterprises Market (“GEM”) of The Stock Exchange of Hong Kong Limited, the above resolution will be decided by way of poll.

As at the date of this notice, the executive Directors are Mr. Wang Xinyi (Chairman), Ms. He Lianfeng (Deputy Chairman and Chief Executive Officer) and Mr. Hu Hua Jun; the non-executive Directors are Mr. Chen Dong Chun and Mr. Tang Guo Ping; and the independent non-executive Directors are Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong.

This notice, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this notice 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 notice misleading.

This notice will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company’s website at www.zj-yonglong.com.

** For identification purpose only*