THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult a licensed securities dealer 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.**, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, licensed securities dealer or other agents through whom the sale was effected for transmission to the purchaser or transferee.

永隆實業
ENTERPRISES
Yonglong

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)

VERY SUBSTANTIAL DISPOSAL
AND
CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial advisor to the Company

川盟融資有限公司
Chanceton Capital Partners Limited

Independent Financial Adviser to
the Independent Board Committee and Independent Shareholders

廣發融資（香港）有限公司
GF CAPITAL (HONG KONG) LIMITED

A letter from the Board is set out on pages 4 to 15 of this circular. A letter from the Independent Board Committee is set out on page 16 of this circular.

A letter from GF Capital (Hong Kong) Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 29 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Yangxun Qiao Town, Shaoxing County, Zhejiang Province, the PRC, at 10:30 a.m. on Wednesday, 11 April 2012 or any adjournment thereof is set out on pages 79 to 81 of this circular. A proxy form for use in the extraordinary general meeting is 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 to the office of the share registrar of the Company in Hong Kong, Union Registrars Limited at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lokhart Road, Wanchai, Hong Kong as soon as possible and in any event not later than 24 hours before the time appointed for holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for 7 days from the date of this circular and the website of the Company at http://www.zj-yonglong.com.

24 February 2012

* *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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

Pages

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

"Articles"	the articles of association of the Company;
"Announcement"	the announcement made by the Company dated 10 January 2012 and 16 January 2012, respectively;
"Annual Cap(s)"	the maximum annual amount of the Continuing Connected Transaction to be transacted for each of the three years ending 31 December 2014;
"associates"	has the meanings ascribed in the GEM Listing Rules;
" Assets Transfer Agreement"	the assets transfer agreement dated 30 December 2011 entered into between the Company and the Purchaser to dispose of the Selling Assets;
"Board"	the board of Directors of the Company;
"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"	has the meanings ascribed in the GEM Listing Rules;
"Consideration"	the total consideration of RMB79,772,200 (equivalent to approximately HK$98,119,806) for the Selling Assets under the Assets Transfer Agreement;
"continuing connected transaction"	has the same meaning ascribed thereto under the GEM Listing Rules;
"Continuing Connected Transaction"	the transaction contemplated under the Electricity and Steam Supply Agreement;
"Director(s)"	director(s) of the Company, including the independent non-executive directors of the Company;
"Disposal"	the disposal of the Selling Assets by the Company to the Purchaser pursuant to the terms and conditions of the Assets Transfer Agreement;
"Domestic Share(s)"	domestic shares of nominal value RMB0.1 each in the capital of the Company;
"Domestic Shareholder(s)"	holders of the Domestic Shares;
"EGM"	an extraordinary general meeting to be convened and held at the Conference Room of the Company at Yangxun Qiao Town, Shaoxing County, Zhejiang Province, the PRC, at 10:30 a.m. on Wednesday, 11 April 2012 to consider, and if though fit, approve the proposed Assets Transfer Agreement, the proposed Electricity and Steam Supply Agreement and proposed Annual Caps;

"Electricity and Steam Supply Agreement"	the electricity and steam supply agreement dated 30 December 2011 and entered into between the Company and Zhejiang Yongli Thermal in respect of the provision of electricity and steam from Zhejiang Yongli Thermal to the Company;
"GEM"	the Growth Enterprise Market of the Stock Exchange;
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the GEM;
"Gabriel"	浙江加佰利控股集團有限公司 Zhejiang Gabriel Holdings Group Company Ltd.*, a company established in the PRC;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"HK Valuer"	Avista Valuation Advisory Limited, an independent property valuer in Hong Kong;
"H Share(s)"	overseas listed foreign share(s) of nominal value RMB0.1 each in the capital of the Company which are listed on GEM and subscribed for in Hong Kong dollars;
"H Shareholder(s)"	holders of H shares;
"Independent Board Committee"	the independent board committee comprising all of the independent non-executive directors of the Company, namely Mr. Zhu Yu Lin, Mr. Zong Pei Min and Mr. Lu Guo Qing established to advise the Independent Shareholders in regard of the Continuing Connected Transaction;
"Independent Financial Adviser "	GF Capital (Hong Kong) Limited, a licensed corporation carrying out type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Electricity and Steam Supply Agreement and the proposed Annual Caps;
"Independent Shareholders"	shareholders of the Company other than Zhejiang Yongli and its associates;
"Jianwu Village"	Jianwu village, Yang Xun Qiao town, Shaoxing County, Zhejiang Province, China;
"kW"	kilowatt;
"Land"	five (5) parcels of adjoined land located at Sunjia Qiao, Yang Xun Qiao Town, Shaoxing County, Zhejiang Province, PRC with a total site area of approximately 61,035 square metres set out in the section headed "INFORMATION OF THE SELLING ASSETS" in this circular;

"Latest Practicable Date"	22 February 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular;
"Mr. Sun"	Mr. Sun Li Yong;
"Mrs. Sun"	Ms. Fang Xiao Jian, the spouse of Mr. Sun;
"Percentage Ratios"	the percentage ratios as set out in Rule 19.07 of the GEM Listing Rules;
"PRC"	the People's Republic of China;
"Purchaser"	紹興縣楊汛橋鎮人民政府 (The People's Government of Yang Xun Qiao Town, Shaoxing County*);
"Remaining Group"	the Company immediately after the Disposal;
"RMB"	Renminbi, the lawful currency of the PRC;
"Selling Assets"	the land use rights of the Land and the factory buildings, office buildings and other constructed structures thereon with a total gross floor area of approximately 63,282 square metres;
"SFO"	Securities and Futures Ordinance (Chapter 571, the laws of Hong Kong);
"Share(s)"	Domestic Shares and H Shares;
"Shareholders"	Domestic Shareholders and H Shareholders;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Supervisor(s)"	supervisor(s) including the independent supervisors of the Company;
"Yang Xun Qiao Town" or "Yangxun Qiao Town"	楊汛橋鎮 (Yangxun Qiao Town)
"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; and
"%"	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$1.23 (such conversion shall not be constaned as a representation that amounts in RMB were or may have been converted into HK$ using such exchange rate or any other exchange rate or at all).

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. Ru Guan Jun
Mr. Xia Xian Fu
Mr. Sun Jian Feng
Mr. Xia Xue Nian

Independent non-executive Directors:
Mr. Zhu Yu Lin
Mr. Zhong Pei Min
Mr. Lu Guo Qing

Legal Address:
Yangxun Qiao Town
Shaoxing County
Zhejiang Province
The People's Republic of China

Place of business in Hong Kong:
Suites 06-12, 33/F
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

24 February 2012

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL
AND
CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement in relation to among other thing, the transactions contemplated under the Assets Transfer Agreement and the Electricity and Steam Supply Agreement.

The purpose of this circular is:-

(i) to give further information on the Assets Transfer Agreement;

(ii) to give further information on the Electricity and Steam Supply Agreement and the Annual Caps in relation to the Continuing Connected Transaction;

(iii) to set out the opinion of the Independent Financial Adviser in respect of the Electricity and Steam Supply Agreement and the Annual Caps in relation to the Continuing Connected Transaction; and

(iv) to set out the recommendation of the Independent Board Committee in respect of the Electricity and Steam Supply Agreement and the Annual Caps in relation to the Continuing Connected Transaction.

1. THE ASSETS TRANSFER AGREEMENT

Introduction

On 30 December 2011, the Company and the Purchaser entered into the Assets Transfer Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Company has conditionally agreed to dispose of the Selling Assets at a total Consideration of RMB79,772,200 (equivalent to approximately HK$98,119,806).

Date

30 December 2011

Parties

Vendor:	The Company
Purchaser:	紹興縣楊汛橋鎮人民政府 (The People's Government of Yang Xun Qiao Town, Shaoxing County*)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Purchaser and the ultimate beneficial owner(s) of the Purchaser are third parties independent of the Company and its connected persons.

Subject of the Disposal

Pursuant to the Assets Transfer Agreement, the Purchaser has conditionally agreed to acquire and the Company has conditionally agreed to dispose of the Selling Assets comprising the land use rights of the Land and the factory buildings, office buildings and other constructed structures thereon with a total gross floor area of approximately 63,282 square metres.

** For identification purpose only*

Consideration

Pursuant to the Assets Transfer Agreement, the total Consideration of RMB79,772,200 (equivalent to approximately HK$98,119,806) shall be paid in cash by the Purchaser to the Company in one payment or by installments where the last installment should not be later than 30 September 2012, being the latest date for completion of the public auction or listing-for-sale process of the Selling Assets (the "Auction") to be conducted by the Purchaser. Pursuant to the Assets Transfer Agreement, both the Company and the Purchaser agreed that (i) regardless of the success or failure of the Auction to be conducted by the Purchaser, the Purchaser is still obligated to pay in full the Consideration to the Company on or before 30 September 2012; and (ii) no adjustment shall be made to the Consideration regardless of the final sale price of the Auction to be conducted by the Purchaser.

The Consideration of RMB 79,772,200 (equivalent to approximately HK$98,119,806) for the Disposal was arrived at after arm's length negotiation between the Company and the Purchaser. In arriving such Consideration, the Company has made reference to (1) the appraised value of the Selling Assets prepared by the HK Valuer; and (2) the local government policies in Shaoxing County (紹興縣) in relation to the compensation for demolition and relocation.

The Company has engaged the HK Valuer, a valuation company independent from the Company, to appraise the market value of the Selling Assets as at 30 September 2011. According to the HK Valuer, market value represents the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. To determine the value of the Selling Assets, the HK Valuer has employed the basis of depreciated replacement cost and has appraised that the market value of the Selling Assets was RMB59,977,000 (equivalent to approximately HK$73,771,710) as at 30 September 2011 in a draft report and RMB59,116,800 (equivalent to approximately HK$72,713,664) as at 31 December 2011 in the updated valuation report (the text of which is set out in appendix III to this circular).

Pursuant to the Assets Transfer Agreement, the Consideration was determined with reference to the local government policies in Shaoxing County in relation to the compensation for demolition and relocation. To the best knowledge of the Directors, the compensation for demolition and relocation for the Disposal amounts to approximately RMB13,636,749 (equivalent to approximately HK$16,773,201).

Therefore, the Consideration before the deduction of the compensation for demolition and relocation represents a premium of RMB19,795,200 (equivalent to approximately HK$24,348,096), approximately 33%, to the appraised value as at 30 September 2011 of the Selling Assets in the draft report prepared by the HK Valuer, and a premium of RMB20,655,400 (equivalent to approximately HK$25,406,142), approximately 34.94%, to the appraised value as at 31 December 2011 of the Selling Assets in the updated valuation report prepared by the HK Valuer. Also, the Consideration after deduction of the compensation for demolition and relocation amounts to approximately RMB66,135,451 (equivalent to approximately HK$81,346,604), representing a premium of approximately RMB6,158,451 (equivalent to approximately HK$7,574,894), approximately 10.26%, to the appraised value as at 30 September 2011 of the Selling Assets in the draft report prepared by the HK Valuer, and representing a premium of approximately RMB7,018,651 (equivalent to approximately HK$8,632,940), approximately 11.87%, to the appraised value as at 31 December 2011 of the Selling Assets in the updated valuation report prepared by the HK Valuer.

The Company and the Purchaser will be responsible for their own relevant tax payable or expenses incurred by the Disposal. The Company will be responsible for the joint tax payable or expenses incurred by the Disposal, except for those the Purchaser is required to pay according to the relevant regulations.

The Directors are of the view that the Disposal and the terms of the Assets Transfer Agreement (including the amount of the Consideration) are fair and reasonable and, taking into account the reasons set out below, are in the interests of the Company and the Shareholders as a whole.

Condition precedent

Completion shall be conditional upon satisfaction of obtaining the approval from the Shareholders on the Assets Transfer Agreement and all transactions contemplated thereunder at the EGM in compliance with the requirement of the GEM Listing Rules.

Transfer of the legal title of the Selling Assets to the Purchaser

The Company will assist the Purchaser to apply to the relevant PRC government bodies to complete the transfer of the legal title of the Selling Assets to the Purchaser as a result of the Disposal immediately after the Assets Transfer Agreement becoming effective.

INFORMATION ON THE SELLING ASSETS

The Selling Assets includes the land use right of the Land and factory buildings, office buildings and other constructed structures thereon. The Land comprises five (5) parcels of adjoined land located at Sunjia Qiao, Yang Xun Qiao Town, Shaoxing County, Zhejiang Province, PRC, with a total site area of approximately 61,035 square metres. Details of which are as follows:

No.	Document No.	Site area *approximately (m^2)*	Use	Land use term
1.	Shaoxing County Guo Yong (2002) Zi Di No. 7-12	13,440	Industrial	Expiring on 6 September 2048
2.	Shaoxing County Guo Yong (2002) Zi Di No. 7-18	13,798	Industrial	Expiring on 8 July 2052
3.	Shaoxing County Guo Yong (2002) Zi Di No. 7-19	6,362	Industrial	Expiring on 8 July 2052
4.	Shaoxing County Guo Yong (2002) Zi Di No. 7-17	12,476	Industrial	Expiring on 17 June 2052
5.	Shaoxing County Guo Yong (2002) Zi Di No. 7-22	14,959	Industrial	Expiring on 11 August 2052
	Total	61,035		

The buildings and constructed structures on the Land include eight workshop buildings, a composite office building, a storage building, a dormitory building, a boiler room, a guard house and other constructed structures with a total gross floor area of approximately 63,282 square metres. The Selling Assets is free from any charge or mortgage.

The Company has terminated the operation of the Selling Assets since February 2011 and the Selling Assets has been vacant after the transfer of its installed machinery and equipments to the Company's existing production plant at Jianwu Village in March 2011.

No net profit (both before and after taxation and extraordinary items) was attributable to the Selling Assets in the 2008, 2009 and 2010 financial years.

INFORMATION ON THE PURCHASER

The Purchaser is a governmental authority responsible for the administration of state assets owned or contributed by authorities, institutions and state-owned enterprises in Yang Xun Qiao Town, Shaoxing County.

FINANCIAL EFFECT OF THE DISPOSAL

Based on the unaudited net book value of the Selling Assets of approximately RMB39,526,000 (equivalent to approximately HK$48,616,980) as at 30 June 2011 and the expectation that the expected net proceeds of the Disposal after deducting direct transaction costs, business and land appreciation taxes and to be received is approximately RMB62,149,000 (equivalent to approximately HK$76,443,270) *(Note 1)*, the Company is expected to enhance its cash flow and to recognise an expected gain (after deducting direct transaction costs, business and land appreciation taxes) of approximately RMB22,623,000 (equivalent to approximately HK$27,826,290) as a result of the Disposal. The exact amount of gain from the Disposal will be calculated on the basis of the relevant figures upon completion of the Disposal and therefore will be different from the above amount.

Based on the unaudited pro forma statement of financial position of the Remaining Group as set out in Appendix II to this circular, the total assets of the Remaining Group would increase by approximately RMB22,623,000 (equivalent to approximately HK$27,826,290) and the total liabilities of the Remaining Group would increase by approximately RMB5,656,000 (equivalent to approximately HK$6,956,880), assuming the Disposal had been completed on 30 June 2011.

Note 1: Business and land appreciation taxes amounting to approximately RMB16,973,000 (equivalent to approximately HK$20,876,790) estimated in appendix II may be waived. Income tax of approximately RMB5,656,000 (equivalent to approximately HK$6,956,880) to be incurred from the Disposal may be partially or completely offset by the Company's tax losses, subject to the approval from the relevant tax authorities, therefore no offsetting of income tax is assumed.

REASONS FOR AND BENEFITS OF THE DISPOSAL

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

Directors consider that the reasons for the Disposal are (1) to improve the production cost efficiency of the Company; and (2) to realise an expected gain as a result of the Disposal.

In order to improve the production cost efficiency of the Company, the Company has terminated the operation of the Selling Assets since February 2011 and in March 2011 all the 195 units of 2,300 mm wide-band jet looms and the accessory production lines owned by the Company in the Selling Assets were completely moved to the Company's existing production plant at Jianwu Village and were tested. According to the management's view, the merge, while keeping the same level of output and stability of products, has greatly reduced the production cost and administration cost as a result of the approximately fifty percent of reduction of the use of factory building areas, land, production-related and living-related equipments and facilities. Logistic cost between the two factories has been reduced to approximately zero. Processing lines in the Company has been reduced from four to two, with the corresponding cut in management staff. Various management costs have been decreased substantially. The total number of employees was reduced from 712 in January 2011 to 493 in February 2011. In April 2011, the operation of all installed machinery and equipments was proved normal. Since April 2011, the Selling Assets has been vacant. Since the relocation of the machinery and equipments has been completed, the Directors are of the view that the Disposal will not cause any material impact to the operation of the Company.

Another benefit of the Disposal is that the Company could realise an expected gain as a result of the Disposal. The Selling Assets has been classified as "Assets Held for Sale" in the Company's 2010 annual report. On 29 December 2010, a resolution was passed by the board of directors of the Company to dispose of certain buildings, investment properties and prepaid lease payments. On 30 August 2011, the Company entered into a memorandum of understanding with the Purchaser in respect of the Disposal. The land use right of the five (5) parcels of adjoined land in the Selling Assets will be purchased back by the Purchaser based on the relevant price before the end of 2011 and the buildings will be compensated. According to the Assets Transfer Agreement, the total consideration is RMB79,772,200 (equivalent to approximately HK$98,119,806) and therefore the Company could realise an expected gain from the Disposal.

Having taken into consideration (a) the Company's production cost efficiency after reallocating resources in the Selling Assets to the Company's existing factory at Jianwu Village; and (b) the Consideration which is favourable as compared to the appraised value of the Selling Assets as at 30 September 2011 prepared by the HK Valuer and the unaudited net book value of the Selling Assets as at 30 June 2011, the Disposal represents a good opportunity for the Company to realise an expected gain (after deducting direct transaction costs, business and land appreciation taxes *(Note 1)* of approximately RMB22,623,000 (equivalent to approximately HK$27,826,290) from the disposal of the Selling Assets. The Directors are of the view that the Disposal and the terms of the Assets Transfer Agreement (including the amount of the Consideration) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The net proceeds of the Disposal after deducting direct transaction costs, business and land appreciation taxes *(Note 1)*, is estimated to be approximately RMB62,149,000 (equivalent to approximately HK$76,443,270). The Company intends to apply the net proceeds of the Disposal as general working capital.

Note 1: Business and land appreciation taxes amounting to approximately RMB16,973,000 (equivalent to approximately HK$20,876,790) estimated in appendix II may be waived. Income tax of approximately RMB5,656,000 (equivalent to approximately HK$6,956,880) to be incurred from the Disposal may be partially or completely offset by the Company's tax losses, subject to the approval from the relevant tax authorities, therefore no offsetting of income tax is assumed.

2. THE ELECTRICITY AND STEAM SUPPLY AGREEMENT

On 30 December 2011, the Company and Zhejiang Yongli Thermal entered into the Electricity and Steam Supply Agreement for a term of three years from 2012 to 2014.

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Zhu Yu Lin, Mr. Zhong Pei Min and Mr. Lu Guo Qing, has been established to advise the Independent Shareholders as to whether the terms under the Electricity and Steam Supply Agreement and the basis of the Annual Caps are fair and reasonable and whether such transactions are in the interests of the Company and the Shareholders as a whole. GF Capital (Hong Kong) Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

Date: 30 December 2011

Parties: (1) Zhejiang Yongli Thermal; and
(2) the Company

Term: Three years commencing from 1 January 2012

Rates: Electricity supply at RMB0.47 kW per hour on average; and
steam supply at RMB220 per ton on average

The rates, which were exclusive of tax, were determined based on arm's length negotiations with reference to the prevailing market prices of electricity and steam suppliers in the local area. Pursuant to the Electricity and Steam Supply Agreement, the rate of electricity supply can be adjusted and will not be higher than those provided to the Company by independent third parties. Zhejiang Yongli Thermal is the only steam supplier in Yangxun Qiao, Shaoxing County. Pursuant to the Electricity and Steam Supply Agreement, the rate of steam supply can be adjusted and will not be higher than the rate as announced by relevant government authority from time to time. The Directors consider that the rates as well as the terms and conditions are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Amount: (1) From 1 January 2012 to 31 December 2012, Zhejiang Yongli Thermal will supply electricity not more than 35,500,000 kW amounting to RMB16,685,000 (equivalent to approximately HK$20,522,550) and will supply not more than 2,050 ton of steam amounting to RMB451,000 (equivalent to approximately HK$554,730), with a total of RMB17,136,000 (equivalent to approximately HK$21,077,280), to the Company;

(2) From 1 January 2013 to 31 December 2013, Zhejiang Yongli Thermal will supply electricity not more than 36,000,000 kW amounting to RMB16,920,000 (equivalent to approximately HK$20,811,600) and will supply not more than 2,200 ton of steam amounting to RMB484,000 (equivalent to approximately HK$595,320), with a total of RMB17,404,000 (equivalent to approximately HK$21,406,920), to the Company; and

(3) From 1 January 2014 to 31 December 2014, Zhejiang Yongli Thermal will supply electricity not more than 38,000,000 kW amounting to RMB17,860,000 (equivalent to approximately HK$21,967,800) and will supply not more than 2,500 ton of steam amounting to RMB550,000 (equivalent to approximately HK$676,500), with a total of RMB18,410,000 (equivalent to approximately HK$22,644,300), to the Company.

Annual Caps: RMB17,136,000 (equivalent to approximately HK$21,077,280) in 2012; RMB17,404,000 (equivalent to approximately HK$21,406,920) in 2013; and RMB18,410,000 (equivalent to approximately HK$22,644,300) in 2014

The Annual Caps have been determined with reference to the annualized usage and fees of electricity and steam of the Company. The annualized usage of electricity and steam is based on the existing conditions that the manufacturing operation of the Company is gradually resumed to the prior level prevailing before the Company's financial crisis in 2008 and the current production plan in accordance with the current production capacity and the expected increase in sales revenue. In estimating the annualized usage in 2013 and 2014, it is expected that the consumption of electricity and steam will increase in line with the expected increase in production volume. With regard to the above basis, the Directors consider that the Annual Cap for each of the three years ending 31 December 2014 is fair and reasonable and in the interest of the Company and the Shareholders as a whole. Pursuant to the Electricity and Steam Supply Agreement, new agreements will be signed if the Annual Caps are exceeded.

The Electricity and Steam Supply Agreement is conditional upon the Company obtaining the approval of the Independent Shareholders at the EGM.

INFORMATION ON ZHEJIANG YONGLI THERMAL

Zhejiang Yongli Thermal is a company established in the PRC and is principally engaged in the provision of electricity to the local government and its group companies, and of 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.

INFORMATION ON ZHEJIANG YONGLI

Zhejiang Yongli is a company established in the PRC and is principally engaged in manufacture of knitwear and textile products and has made investments in power, hotel, building materials, real estate and finance and insurance businesses.

REASONS FOR ENTERING INTO THE ELECTRICITY AND STEAM SUPPLY AGREEMENT

The transaction amount in respect of the provision of electricity and steam by Zhejiang Yongli Thermal to the Company amounted to a total of RMB638,000 (equivalent to approximately HK$784,740), RMB3,565,000 (equivalent to approximately HK$4,384,950), and RMB5,994,000 (equivalent to approximately HK$7,372,620) during the first three, six, and nine months in 2011 respectively, as disclosed and reported in the Company's 2011 first quarterly, interim, and third quarterly reports. Since the total annual consideration was expected to be less than HK$10,000,000 and none of the applicable Percentage Ratios with reference to the continuing connected transaction in 2011 was expected to be more than 25%, the continuing connected transaction in 2011 is not subject to the Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The Company seeks to secure more electricity and steam supply from Zhejiang Yongli Thermal between 1 January 2012 and 31 December 2014 for the following reasons.

The terms of the Electricity and Steam Supply Agreement were negotiated on an arm's length basis and on normal commercial terms between Zhejiang Yongli Thermal and the Company. Before Zhejiang Yongli has become a controlling shareholder of the Company, the Company has to purchase the electricity from the local government and purchase steam from Zhejiang Yongli Thermal as it is the only steam supplier in Yangxun Qiao. Since Zhejiang Yongli became a shareholder of the Company in December 2010, a number of reorganization activities, as set out in the announcement of the Company dated 29 December 2010, started to activate, such as the transfer of the installed machinery and equipment from the Company's production plant at Sunjia Qiao to the Company's existing production plant at Jianwu Village and the disposal of the Selling Assets. As one of a 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. Compared with the electricity supply from the independent third party, the average unit price as provided from Zhejiang Yongli Thermal is no less favourable than that from the independent third party. The long duration of the Electricity and Steam Supply Agreement and the two agreed average prices would (1) ensure that the Company will have a sufficient supply of electricity and steam over the next three years, (2) insulate the Company from the potential increase and fluctuations in the market rate, and therefore (3) enable the Company to stay competitive in the competitive fabric industry.

In the meantime, from 1 January 2012 and thereon, to ensure a sufficient supply of electricity and steam at stable prices, the Company will use the electricity and steam, which are crucial to the daily operation of the Company, from Zhejiang Yongli Thermal for a few weeks or months, while ensuring that the extent of such use will not require the Independent Shareholders' approval under the GEM Listing Rules.

GEM LISTING RULES IMPLICATIONS

a) The Assets Transfer Agreement

Since at least one of the applicable Percentage Ratios calculated under Chapter 19 of the GEM Listing Rules in respect of the Disposal is more than 75%, the Disposal constitutes a very substantial disposal of the Company and is therefore subject to reporting, announcement, circular and Shareholder's approval requirements under the GEM Listing Rules. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the Purchaser nor its ultimate beneficial owners hold any Share and no Shareholder has a materially different interest in the Disposal. No Shareholder is required to abstain from voting on the resolution(s) to be proposed at the EGM to approve the Disposal and the transactions contemplated there under at the EGM.

b) The Electricity and Steam Supply Agreement

As Zhejiang Yongli Thermal is a subsidiary of Zhejiang Yongli and Zhejiang Yongli is a shareholder of the Company directly holding 310,000,000 Domestic Shares, which is approximately 29.15% of the existing issued share capital of the Company, Zhejiang Yongli and its associates are connected persons of the Company under the GEM Listing Rules. As such, the transactions under the Electricity and Steam Supply Agreement constitutes a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Since the total annual consideration exceeds HK$10,000,000 and at least one of the applicable Percentage Ratios with reference to the proposed Annual Caps of the Continuing Connected Transaction is more than 25%, the Electricity and Steam Supply Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

An EGM will be convened to obtain the Independent Shareholders' approval for the Electricity and Steam Supply Agreement. Zhejiang Yongli and its associates will abstain from voting in relation to the resolution approving the Electricity and Steam Supply Agreement at the EGM.

Except for the following, none of the Directors has any material interest in the Electricity and Steam Supply Agreement and all of them are entitled to vote on the relevant board resolutions. Xia Xian Fu is an executive director of the Company and also a legal representative and director of Zhejiang Yongli Thermal, and is therefore deemed to have a material interest in the Electricity and Steam Supply Agreement. Pursuant to Rule 20.59(19), Xia Xian Fu has abstained from voting in relation to the board resolution approving the Electricity and Steam Supply Agreement.

The total shareholding of the parties who are required to abstain from voting in the resolution to approve the Electricity and Steam Supply Agreement is approximately 29.15%.

THE EGM

The Company will convene an EGM for the purposes of considering and, it thought fit, approving the Disposal and Continuing Connected Transaction. All votes of the Shareholders at the EGM must be taken by poll in accordance with the Articles of Association.

A notice convening the EGM to be held at 10:30 a.m. on Wednesday, 11 April 2012 at YangXun Qiao Town, Shaoxing county, Zhejiang Province, the PRC is set out on pages 79 to 81 of this circular. A reply slip and a proxy form for the EGM is enclosed herewith. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying proxy form in accordance with the instructions set out therein to the Company's H Share registrar in Hong Kong, Union Registrars Limited at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Pursuant to Rule 17.47(4), the votes to be taken at the EGM will be taken by poll, the results of which will be announced after the EGM.

RECOMMENDATION

The Directors (including members of the Independent Board Committee after considering the advice of the Independent Financial Adviser) consider that the Assets Transfer Agreement and the terms of the Electricity and Steam Supply Agreement and the basis of Annual Caps are in the interest of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. The Directors therefore recommened that the Shareholders vote in favour of the resolutions to be proposed at the EGM to approve the Assets Transfer Agreement and the transactions contemplated thereunder and that the Independent Shareholders vote in favour of the resolution to approve the terms of the Electricity and Steam Supply Agreement and the basis of Annual Caps.

The text of the letter from the Independent Board Committee in respect of the Continuing Connected Transaction is set out on page 16 of this circular. The text of the letter from the Independent Financial Adviser, containing its opinion and the principal factors and reasons taken into account in arriving at its opinion on the Continuing Connected Transaction is set out on pages 17 to 29 of this circular.

GENERAL

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.*
Ru Guan Jun
Chairman

* *For identification purpose only*

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 TRANSACTION

We refer to the circular dated 24 February 2012 (the "Circular") of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Electricity and Steam Supply Agreement and the basis of the Annual Caps are fair and reasonable as far as the interests of the Company and the Shareholders taken as a whole are concerned.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 15 of the Circular and the letter from the Independent Financial Adviser as set out on pages 17 to 29 of the Circular which contains, inter alia, its advice and recommendation to us and the Independent Shareholders regarding the terms of the Electricity and Steam Supply Agreement together with the principal factors and reasons for its advice and recommendation.

Having taken into account the advice and recommendation of the Independent Financial Adviser, we consider that the terms of the Electricity and Steam Supply Agreement and the basis of the Annual Caps are fair and reasonable so far as the interest of the Independent Shareholders are concerned and to conduct the Continuing Connected Transaction under the Electricity and Steam Supply Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders should vote in favour of the resolutions to be proposed to approve the Continuing Connected Transaction.

Yours faithfully,
For and on behalf of
Independent Board Committee
Zhu Yu Lin **Zhong Pei Min** **Lu Guo Qing**

** For identification purpose only*

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser which has been prepared for inclusion in this circular.

廣發融資(香港)有限公司
GF CAPITAL (HONG KONG) LIMITED
Suites 2301-2305 & 2313, COSCO Tower
183 Queen's Road Central
Hong Kong

To the Independent Board Committee and the Independent Shareholders 24 February 2012

Dear Sirs,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Electricity and Steam Supply Agreement and the Annual Caps, particulars of which are set out in the letter from the Board (the "Letter from the Board") of this circular to the Shareholders dated 24 February 2012 (the "Circular"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 30 December 2011, the Company and Zhejiang Yongli Thermal entered into the Electricity and Steam Supply Agreement in respect of the Continuing Connected Transaction for a term of three years from 2012 to 2014.

As Zhejiang Yongli Thermal is a subsidiary of Zhejiang Yongli and Zhejiang Yongli is a shareholder of the Company directly holding 310,000,000 Domestic Shares, representing approximately 29.15% of the existing issued share capital of the Company, Zhejiang Yongli and its associates are connected persons of the Company under the GEM Listing Rules. Therefore, the Continuing Connected Transaction constitutes a continuing connected transaction under Chapter 20 of the GEM Listing Rules.

Since the total annual consideration exceeds HK$10,000,000 and at least one of the applicable Percentage Ratios with reference to the proposed Annual Caps of the Continuing Connected Transaction is more than 25%, the Electricity and Steam Supply Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Independent Board Committee comprising, Mr. Zhu Yu Lin, Mr. Zong Pei Min and Mr. Lu Guo Qing, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the terms of Electricity and Steam Supply Agreement and the basis of the Annual Caps. We, GF Capital (Hong Kong) Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the Directors and/or management of the Company were true, accurate and complete in all material aspects at the time they were made and continue to be true, accurate and complete in all material aspects as at the date of the Circular. We have also relied on our discussion with the Directors and/or the management of the Company regarding the Company and the terms of the Electricity and Steam Supply Agreement. The Directors have declared in a responsibility statement set out in the Appendix to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and/or the management of the Company respectively in the Circular were reasonably made after due enquiry.

We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or management of the Company. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Zhejiang Yongli Thermal and their respective associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Electricity and Steam Supply Agreement and the Annual Caps, we have considered the following principal factors and reasons:

1. Background of and reasons for entering into the Electricity and Steam Supply Agreement

- Information on the Company

As set out in the Letter from the Board, the Company is principally engaged in the research and development, manufacture and sale of woven fabrics. Continuous and steady supply of electricity and steam are crucial to the Company's manufacturing process and daily operations.

Set out below is an extract of the Company's operating results and financial positions for each of the two years ended 31 December 2010 and the six months ended 30 June 2011 from the annual report for the year ended 31 December 2011 ("**2011 Annual Report**") and the interim report for the six months ended 30 June 2011 (the "**2011 Interim Report**") of the Company, respectively:

	For the six months ended 30 June	For the year ended 31 December	
	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	*(audited)*	*(audited)*
Turnover			
- sales of woven fabrics	37,988	53,518	58,598
- subcontracting fee income	17,072	32,179	33,433
	55,060	85,697	92,031
Cost of sales	(52,465)	(122,096)	(123,594)
Gross profit/(loss)	2,595	(36,399)	(31,563)
Other operating income	18,989	1,855	1,375
Selling and distribution costs	(121)	(502)	(1,605)
Administrative expenses	(3,688)	(13,128)	(11,499)
Impairment loss recognized in respect of various assets	-	(3,914)	(7,641)
Loss on misconducts of directors	-	(3,246)	(3,524)
Finance costs	(4,623)	(52,336)	(43,224)
Profit/(loss) before taxation	13,152	(107,670)	(97,681)
Income tax credit	-	1,202	1,132
Profit/(loss) for the period	13,152	(106,468)	(96,549)

	As at 30 June 2011
	RMB'000
	(unaudited)
Non-current assets	138,284
Current assets	76,809
Assets classified as held for sale	39,526
Current liabilities	(681,764)
Net current liabilities	(565,429)
Net liabilities	(427,145)

As disclosed in the 2010 Annual Report, the Company reported a loss of approximately RMB106.5 million for the year ended 31 December 2010 and had net current liabilities of approximately RMB588.9 million and a capital deficiency of approximately RMB440.3 million as at 31 December 2010. This condition indicated the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue operation as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the Directors were of the opinion that the Company will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period given that:

(i) there would be debt restructuring of the Company's liabilities, details of which were set out in 2010 Annual Report;

(ii) a Shareholder would provide financial support to the Company to meet the Company' s liabilities and commitments as and when it falls due; and

(iii) the Directors anticipate that the Company would generate positive cash flows from its operations.

Accordingly, the Directors were of the opinion that it was appropriate to prepare the financial statements on a going concern basis. Should the Company be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the financial statements. For further details on the Company's financial statements and its latest financial position, Shareholders are advised to read the 2010 Annual Report, 2011 Interim Report and the quarterly report for the nine months ended 30 September 2011 of the Company.

For the year ended 31 December 2010

For the year ended 31 December 2010, the turnover of the Company amounted to approximately RMB85.7 million, representing a decrease of approximately 6.9% as compared with that of the prior year. The decrease in turnover of the Company was mainly due to the reduction in turnover from "sales of woven fabrics" from approximately RMB58.6 million in 2009 to approximately RMB53.5 million in 2010. The misconduct of the former directors in 2008 caused shortage of cash flow of the Company for purchase of raw materials for manufacturing. In order to maintain the operation and reduce the burden of cash flow problem, the Company then focused on another business division, namely "provision of subcontracting services". The subcontracting services fee income for each of the two years ended 31 December 2010 and 2009 were approximately RMB32.2 million and RMB33.4 million respectively. The profit margin from "provision of subcontracting services" was low. The Company temporarily suspended export sales due to insufficient working capital for the purchase of raw materials for manufacturing. The gross loss of the Company amounted to approximately RMB36.4 million. Cost of sales was high as certain obsolete inventories were disposed of and only about 85% of production capacity was utilised in 2010 which led to an increase in fixed production overhead. Wages, salary and staff benefit were high under the new labour ordinance implemented in PRC in 2008. Selling expenses for the year decreased by approximately 68.7% when compared with that of the prior year, which was in line with the decrease in export sales in 2010. Administrative expenses increased by approximately 14.2% when compared with that of the prior year as about RMB2 million of penalty was incurred for late payment of various local tax in 2010. Finance costs increased by approximately 21.1% mainly due to penalty payable for bank borrowings over-due in 2010.

As a result of the above, the loss of the Company amounted to approximately RMB106.5 million for the year ended 31 December 2010 as compared to a loss of approximately RMB96.5 million in the prior year.

For the six months ended 30 June 2011

For the six months ended 30 June 2011, the turnover of the Company amounted to approximately RMB55.1 million, representing a sharp increase of approximately 93.2% when compared with the prior period. The increase in turnover of the Company was mainly due to the increase in the turnover of "sales of woven fabrics" and "subcontracting services fee income" by approximately 64.6% and 215.2% respectively when compared with that of the prior period. Since 24 December 2010, Zhejiang Yongli has become a substantial shareholder of the Company. Under the financial support of Zhejiang Yongli, the Company has been gradually returned to the major business division of sales of woven fabrics. Under the cost control adopted in early 2011, the Company recorded a gross profit of approximately RMB2.6 million and the administrative expenses and selling expenses decreased by approximately 15.4% and 28.4% respectively when compared with that of the prior year. Finance cost decreased by approximately 83.9% when compared with that with prior year as most of the bank loans were repaid by the guarantors.

As a result of the above, the profit of the Company amounted to approximately RMB13.2 million for the six months ended 30 June 2011 as compared to a loss of approximately RMB56.3 million in the prior period.

As at 30 June 2011, the Company had unaudited current assets (together with assets classified as held for sale) of approximately RMB116.3 million and unaudited current liabilities of approximately RMB681.8 million, representing net current liabilities of approximately RMB565.4 million. As at 30 June 2011, the amounts due to guarantors of the Company was approximately RMB528.2 million and the Company had a capital deficiency of approximately RMB427.1 million. Per the announcement published by the Company on 17 February 2012, the Company received a letter dated 15 February 2012 from the listing division of the Stock Exchange with responsibility for GEM in relation to the Company's resumption proposal submitted on 23 December 2011 and the subsequent submissions. Pursuant to the letter, the Stock Exchange agreed to allow the resumption of trading in the Shares on GEM upon satisfaction of two resumption conditions. For further details on the latest development of the resumption of trading in the Shares, Shareholders are advised to read the announcement of the Company dated 17 February 2012.

- Information on Zhejiang Yongli Thermal

As set out in the Letter from the Board, Zhejiang Yongli Thermal is principally engaged in the provision of electricity to the local government and its group companies, and of steam, a by-product of electricity, to the local enterprises and its group companies.

- Reasons for entering into the Electricity and Steam Supply Agreement

As set out in the Letter from the Board, before Zhejiang Yongli has become a controlling shareholder of the Company, the Company has to purchase electricity from the local government and steam from Zhejiang Yongli Thermal as it is the only steam supplier in Yangxun Qiao. Since Zhejiang Yongli became a shareholder of the Company in December 2010, a number of reorganization activities, as set out in the announcement of the Company dated 29 December 2010, started to activate, such as the transfer of the installed machinery and equipment from the Company's production plant at Sunjia Qiao to the Company's existing production plant at Jianwu Village and the disposal of the Selling Assets. As one of the group companies of Zhejiang Yongli, the Company, which has been purchasing electricity from the local government, is allowed to purchase electricity from Zhejiang Yongli Thermal. Compared with the electricity supply from the independent third party, the average unit price as provided from Zhejiang Yongli Thermal is no less favourable than that from the independent third party. Upon our enquiry, we understand from the management of the Company that the local government will limit the usage of electricity from time to time in peak season and since February 2011, the Company commenced to purchase electricity from Zhejiang Yongli Thermal, the Directors considered that Zhejiang Yongli Thermal has supplied the electricity and steam in a stable manner as required by the Company and the Company is able to maintain production steadily. Further, the provision of electricity and steam to the Company is in the usual and ordinary course of business of Zhejiang Yongli Thermal. The Directors were satisfied with the past performance of Zhejiang Yongli Thermal in 2011.

Based on the above, we concur with the Directors' view that the entering into of the Electricity and Steam Supply Agreement would

(i) ensure and secure the Company to have a sufficient and stable supply of electricity and steam over the next three years which are crucial to the Company's manufacturing process and daily operations (given the legally-binding minimum quantity as committed by Zhejiang Yongli Thermal annually);

(ii) with agreed average prices of electricity and steam to insulate the Company from the potential increase and fluctuations of rates of electricity and steam from the market rate as the rates of electricity and steam can be adjusted but will be not higher than those provided by Independent Third Parties; and

(iii) and therefore enable the Company to stay relatively competitive in the competitive fabric industry.

Based on the foregoing, and taking into account the pre-existing and established customer-supplier relationship between the Company and Zhejiang Yongli Thermal, we consider that the entering into of the Electricity and Steam Supply Agreement and the Continuing Connected Transaction are in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Electricity and Steam Supply Agreement

Date	:	30 December 2011
Parties involved	:	Zhejiang Yongli Thermal; and the Company
Term	:	Three years commencing from 1 January 2012
Rates	:	Electricity supply at RMB0.47kW per hour on average; and Steam supply at RMB220 per ton on average

- Pricing terms

As set out in the Letter from the Board, the rates of electricity and steam which were exclusive of tax, were determined based on arm's length negotiations with reference to the prevailing market prices of electricity and steam suppliers in the local area. Pursuant to the Electricity and Steam Supply Agreement, the rate of electricity supply can be adjusted and will not be higher than those provided to the Company by independent third parties. As set out in the Letter from the Board, Zhejiang Yongli Thermal is the only steam supplier in Yangxun Qiao, Shaoxing County, pursuant to the Electricity and Steam Supply Agreement, the rate of steam supply can be adjusted and will not be higher than the rate as announced by relevant government authority from time to time.

We have obtained from the Company certain sample invoices issued in 2011 in respect of the Company's purchase of electricity from Zhejiang Yongli Thermal and from other independent third parties. We noted from the sample invoices that the rates of electricity charged by Zhejiang Yongli Thermal were comparable to that of the independent third parties. For steam. As set out in the Letter from the Board, as Zhejiang Yongli Thermal is the only supplier in the region and the Company did not purchase steam from other independent third parties, there was no comparable transaction. We noted that the average rates of steam charged by Zhejiang Yongli Thermal did not exceed those set by the relevant government authority.

In addition, as the Electricity and Steam Supply Agreement do not have the provisions of restricting the Company from purchasing electricity and steam from any independent third party, we consider this could provide commercial flexibility to the Company as it can purchase electricity and steam from any independent third party as and when the Company considers to be appropriate.

- Payment terms

Regarding the payment terms, we understand and are confirmed by the Company that the transaction amount in relation to the supply of electricity under the Electricity and Steam Supply Agreement will be payable monthly, which is similar to those to be paid by the Company to independent third parties. For steam, there was no comparable transaction, as such, we have reviewed the 2010 Annual Report and noted that the payment terms under the Electricity and Steam Supply Agreement are in line with the normal commercial practice of the Company, where the Company was granted by its suppliers with credit periods ranging from 30 to 90 days for its trade payables.

Having considered the above, we are of the view that the terms of the Electricity and Steam Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Annual Caps

The following table sets out the Annual Caps in respect of the Electricity and Steam Supply Agreement and the historical transaction amount for the year ended 31 December 2011 as confirmed by the Directors:

	historical transaction amount for the year ended 31 December 2011	For the year ending 31 December 2012	For the year ending 31 December 2013	For the year ending 31 December 2014
- electricity	RMB7,634,000 (equivalent to approximately HK$9,389,820)	RMB16,685,000 (equivalent to approximately HK$20,522,550)	RMB16,920,000 (equivalent to approximately HK$20,811,600)	RMB17,860,000 (equivalent to approximately HK$21,967,800)
- steam	RMB 306,000 (equivalent to approximately HK$376,380)	RMB451,000 (equivalent to approximately HK$554,730)	RMB484,000 (equivalent to approximately HK$595,320)	RMB550,000 (equivalent to approximately HK$676,500)
Total amount	RMB 7,940,000 (equivalent to approximately HK$9,766,200)	RMB17,136,000 (equivalent to approximately HK$21,077,280)	RMB17,404,000 (equivalent to approximately HK$21,406,920)	RMB18,410,000 (equivalent to approximately HK$22,644,600)

As set out in the Letter from the Board, the Annual Caps have been determined with reference to the annualized usage and fees of electricity and steam of the Company. The annualized usage of electricity and steam is based on the existing conditions that the manufacturing operation of the Company is gradually resumed to the prior level prevailing before the Company's financial crisis in 2008 and the current production plan in accordance with the current production capacity and the expected increase in sales revenue. In estimating the annualized usage in 2013 and 2014, it is expected that the consumption of electricity and steam will increase in line with the expected increase in production volume. We have discussed with the management of the Company and reviewed the underlying assumptions in determining the Annual Caps and we noted that the Annual Caps have made reference to the expected rates and the expected consumption volume of electricity and steam, respectively. Hence, in order to assess the fairness and reasonableness of the Annual Caps, we have reviewed the expected rates and the expected consumption volume of electricity and steam, respectively.

The following table is a summary of the average rates and annualized usage of electricity and steam under the Electricity and Steam Supply Agreement as set out in the Letter from the Board:

	historical amount for the year ended 31 December 2011	For the year ending 31 December 2012	For the year ending 31 December 2013	For the year ending 31 December 2014
Average rates				
- electricity (RMB/kW)	0.47	0.47	0.47	0.47
- steam (RMB/ton)	208	220	220	220
Consumption volume				
- electricity (kW)	16,144,400	35,500,000	36,000,000	38,000,000
- steam (ton)	1,470	2,050	2,200	2,500

As shown from above, the average rate of electricity under the Electricity and Steam Supply Agreement for the three years ending 31 December 2014 was the same as that for the year ended 31 December 2011. The average steam rate under the Electricity and Steam Supply Agreement for the three years ending 31 December 2014 was maintained at RMB220 per ton, representing an increase of approximately 5.8% as compared with that for 2011. According to the National Bureau Statistics of China, the inflation rate and the prices for water, electricity and fuels rose by approximately 5.4% and 0.7% respectively in 2011, as compared with that of 2010. We are of the view that the average rates of electricity and steam adopted in determining the Annual Caps are reasonable.

We noted that the increase in the Annual Caps for the three years ending 31 December 2014 was mainly attributable to the expected increase in the consumption volume of electricity and steam respectively. As advised by the management of the Company, the significant increase in the expected consumption volume of electricity for the year ending 31 December 2012 as compared to the actual consumption volume of electricity for the year ended 31 December 2011 was due to the expected gradual resumption of manufacturing operations of the Company back to a prior level prevailing before the Company's financial crisis in 2008. As disclosed in 2010 Annual Report, the misconduct of the former Directors in 2008 caused shortage of cash flow of the Company for purchase of raw materials for manufacturing. The Company temporarily suspended export sales due to insufficient working capital for the purchase of raw materials for manufacturing. As advised by the management of the Company, the manufacturing operations of the Company were disrupted during the period due to the misconduct of former Directors in 2008. According to the announcements of the Company dated 29 December 2010 and 18 October 2011 respectively, the Company, Zhejiang Yongli and the local government entered into a letter of intent on 6 December 2010 for the proposed reorganisation of the Company by Zhejiang Yongli with the support from the local government and the Company had entered into debt agreements with the Company's creditors to settle most of the Company's debt caused by the Company's financial crisis in 2008. It is expected that manufacturing operations of the Company will be resumed gradually.

From 2012 to 2014, the compound annual growth rates of the expected consumption volume of electricity and steam were approximately 3.5% and 10.4% respectively. We have reviewed and discussed the production plan of the Company and the underlying bases and assumptions with the management of the Company and as set out in the Letter from the Board, based on the existing conditions that the manufacturing operations of the Company is gradually resumed to the prior level prevailing before the Company's financial crisis in 2008, it is noted that the increase in the expected consumption volume of electricity and steam for the three years ending 31 December 2014 is in line with the increase in the estimated production volume of woven fabrics and the provision of subcontracting services. From 2012 onwards, it is also expected that the Company will be able to maintain its production and normal operations given the aforementioned proposed reorganisation of the Company by Zhejiang Yongli with the support from the local government and the entering into of debt agreements between the Company and its creditors to settle most of the Company's debt caused by the Company's financial crisis in 2008. And having considered that, for the six months ended 30 June 2011, the revenue of the Company increased by approximately 93.2% as compared with that of the same period in 2010 and the turnaround profit position of the Company from loss since 2008, it is expected that the consumption volume of electricity and steam will increase with the growth of revenue of the Company accordingly. We are of the view that the expected consumption volume of electricity and steam adopted in determining the Annual Caps is reasonable.

Based on the above, we are of the view that the bases of the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

4. Measures to ensure compliance with the GEM Listing Rules

In compliance with the annual review requirements under Chapter 20 of the GEM Listing Rules, the Company will comply with the following during the term of the Electricity and Steam Supply Agreement:

(i) each year the independent non-executive Directors must review the Continuing Connected Transaction and confirm in the Company's annual report and accounts that the Continuing Connected Transaction have been entered into:

- in the ordinary and usual course of business of the Company;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- in accordance with the Electricity and Steam Supply Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

(ii) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) confirming that the Continuing Connected Transaction:

- have received the approval of the Board;
- are in accordance with the pricing policies of the Company if the Continuing Connected Transaction involve provision of goods or services by the Company;
- have been entered into in accordance with the relevant agreement governing the Continuing Connected Transaction; and
- have not exceeded the Annual Caps;

(iii) the Company will allow, and will procure that Zhejiang Yongli will provide, the auditors of the Company with sufficient access to the relevant records of the Continuing Connected Transaction for the purpose of reporting on the Continuing Connected Transaction. The Directors must state in the annual report whether its auditors have confirmed the matters stated in paragraph (ii) above; and

(iv) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the GEM Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (i) and/or (ii) above respectively.

Having considered, in particular, (i) the restriction of the value of the Continuing Connected Transaction by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Continuing Connected Transaction and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transaction and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the principal factors above, we consider that the Continuing Connected Transaction is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, the terms of the Electricity and Steam Supply Agreement are of normal commercial terms, together with the Annual Caps, are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we also advise, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Electricity and Steam Supply Agreement, the Continuing Connected Transaction and the Annual Caps.

Yours faithfully,
For and on behalf of
GF Capital (Hong Kong) Limited

Danny Wan
Managing Director and Head of Corporate Finance

Harry Yu
Director

1. FINANCIAL INFORMATION ON THE COMPANY

Details of the financial information of the Company for each of the three financial years ended 31 December 2010 respectively and for the six months ended 30 June 2011 have been set out in the Company's annual reports for each of the three financial years ended 31 December 2010 and its interim reports for the six months ended 30 June 2011. All these financial statements have been published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at http://www.zj-yonglong.com.

2. STATEMENT OF INDEBTEDNESSES

At the close of business on 31 December 2011, being the latest practicable date prior to the printing of this circular, the Company had outstanding loan payable to shareholder of approximately RMB127,885,000, repayable after 5 years after inception of the loan on 13 September 2011. The gross amount of the shareholder's loan outstanding as at 31 December 2011, before the effect of discounting, was amounted to approximately RMB 239,677,000.

Litigation

As at 31 December 2011, the Company had outstanding provision for litigation of approximately RMB10,000,000. The provision is made based on the final judgment issued by the relevant court. Further details of the provision and litigation were included in the Company's financial statements for the year ended 31 December 2010.

Save as aforesaid or as otherwise disclosed herein, and apart from normal trade payables, the Company did not have outstanding at the close of business on 31 December 2011 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present available financial resources, the banking and other facilities presently available and proceeds from the Disposal, the Company will have sufficient working capital for its business for at least the next twelve months from the date of this circular in the absence of unforeseen circumstances.

4. MATERIAL ADVERSE CHANGE

The Directors confirm that they are not aware of any material adverse change in the financial or trading position of the business or the prospects of the Company since 31 December 2010, being the date to which the latest audited financial statements of the Company were made up.

5. PROPERTY INTERESTS AND PROPERTY VALUATION

The HK Valuer has valued the Selling Assets as at 31 December 2011 and is of the opinion that the value of the Selling Assets as at such date was an amount of RMB59,116,800. The full text of the valuation report is set out in Apprendix III to this circular.

The statement below shows the reconciliation of aggregate amounts of certain properties and lease prepayments as reflected on the audited financial statement as at 31 December 2010 with the valuation of the Selling Assets as at 31 December 2011 as set out in Appendix III to this circular.

	RMB
Net book value of property interest of the Company as at 31 December 2010	
Buildings and structures	36,276,000
Lease prepayments	3,250,000
	39,526,000
Movement for the period from 1 January 2011 to 31 December 2011	
Add: addition during the period (unaudited)	—
Less: depreciation during the period (unaudited)	—
Less: amortisation during the period (unaudited)	—
Net book value as at 31 December 2011 (unaudited)	39,526,000
Valuation surplus (unaudited)	19,590,800
Valuation of properties as at 31 December 2011	59,116,800

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

The Remaining Group consists of the Company immediately after the Disposal and is principally engaged in the research and development, manufacture and sale of woven fabrics. The following financial information for the six months ended 30 June 2011 is based on the financial information of the Remaining Group as set out in Appendix II headed "Unaudited pro forma financial information of the remaining group" (which has been prepared in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules for the purpose of illustrating the effect of the proposed Disposal on the financial position of the Remaining Group as if the proposed Disposal had been completed on 30 June 2011 and the results of the Remaining Group as if the proposed Disposal had been completed on 1 January 2011) to this circular.

For the six months ended 30 June 2011

FINANCIAL REVIEW

For the six months ended 30 June 2011, the Remaining Group recorded a turnover of approximately RMB55.06 million, represents a sharp increase of approximately 93.22% when compared with the same period in 2010. It is mainly because both of the turnovers of sales of woven fabrics and subcontracting services fee income increased approximately 64.59% and 215.21% respectively when compared with the same period in 2010. Since 24 December 2010, Zhejiang Yongli has become a substantial shareholder of the Remaining Group. Under the financial support of Zhejiang Yongli, the Remaining Group has been gradually returned to the major business division of sales of woven fabrics. Under the cost control adopted in early 2011, the Remaining Group recorded a gross profit of approximately RMB2.60 million and the administrative expenses and selling expenses decreased by approximately 15.40% and 28.40% respectively. Finance cost decreased by approximately 83.91% as most of the bank loans were repaid by the guarantors.

BUSINESS AND OPERATION REVIEW

Since 24 December 2010, Zhejiang Yongli has become a substantial shareholder of the Remaining Group. Under the financial support of Zhejiang Yongli, the Remaining Group has been gradually returned to the major business division of sales of woven fabrics. In view of the financial problem in Europe and the U.S., the overseas markets have been shrinking. However, the local demand has been increasing. The business of the Remaining Group will focus on the domestic market and the sales efforts will be put on expanding domestic market shares and continuously consolidating the military fabric production. During the six months ended 30 June 2011, the Remaining Group did not restart the export sales business. The sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB6.67 million during the six months ended 30 June 2011, which represents approximately 12.11% of the total turnover.

PRODUCTION FACILITIES

During the six months ended 30 June 2011 under review, the Remaining Group spent approximately RMB68,000 in upgrade of office and factory equipment, approximately RMB2,044,000 in replacement of plant and machinery and approximately RMB1,078,000 in renewal of factory buildings.

PRODUCT RESEARCH AND DEVELOPMENT

During the six months ended 30 June 2011, the Remaining Group continued to innovate and develop new products so as to meet the customers' need and enhance sales orders from customers. With reference to the announcement dated 18 October 2011, the Remaining Group entered into Technology Development Agreement with China Textiles Development Center ("CTDC") (紡織產品開發中心) on 15 June 2011, whereby both parties agreed to develop new types of woven fabric material through a long-term cooperation in the areas including the application of raw material, fabric manufacturing art craft and product design. CTDC is a national enterprise, and a national grade textile product development and promotion institute. Cooperation with CTDC will strengthen the Remaining Group's position and capability in research and development and increase the Remaining Group's technology component. The Remaining Group will also obtain long-term research and development support from CTDC to develop new technology and accelerate the development and application of new technology. Through the technology development agreement to cooperate with CTDC will strengthen the market competitiveness of the Remaining Group.

EVENTS AFTER THE REPORTING PERIOD

With reference to the announcement of the Company dated 29 December 2010, the Company, Zhejiang Yongli and 浙江省紹興縣楊汛橋鎮人民政府 the People's Government of Yang Xun Qiao Town Shaoxing County, Zhejiang Province (the "Local Government") entered into a letter of intent on 6 December 2010 for the proposed reorganisation of the Company by Zhejiang Yongli with the support from the Local Government (the "Restructuring Proposal"). Zhejiang Yongli is a company established in the PRC.

The principal terms of the letter of intent are set out below:

(i) Shareholding reorganisation

Zhejiang Yongli agreed to participate in the auction of the 564,480,000 shares held by Mr. and Mrs. Sun (representing approximately 53.08% of the total issued shares of the Company) for the purpose of becoming interested in not less than 29.90% of the shareholding in the Company.

(ii) Debt restructuring

In consideration of consents from all the Company's creditors to waive, and to abandon any claim against the Company for, 35% of the indebtedness owing by the Company to each of them, Zhejiang Yongli agreed, upon the change of the controlling shareholder, to undertake and warrant repayment on behalf of the Company of the remaining 65% to its creditors (together with any incidental liabilities) within 2 years from the date on which the Company's indebtedness becomes due.

Zhejiang Yongli will be responsible for the liabilities of not more than RMB10,000,000. Regarding any liabilities in excess of RMB10,000,000, the Local Government will assist Zhejiang Yongli in full settlement thereof by way of governmental subsidies.

(iii) Business reorganisation

Upon Zhejiang Yongli becoming the controlling shareholder, it agrees to proceed with reorganisation of the Company for the benefit of the shareholders in compliance with the stipulations made by China Securities Regulatory Commission, the Securities and Futures Commission and the Stock Exchange, and to carry on the business of the Company as a going concern with the coordination of the Local Government.

(iv) Reorganisation support

The Local Government agrees to offer assistance to Zhejiang Yongli in reorganisation of the Company, and to indemnify Zhejiang Yongli any losses suffered throughout the reorganisation process. Such reorganisation support policy will be implemented and completed within 5 years after Zhejiang Yongli has become a controlling shareholder and hence commences reorganisation of the Company. In this relation, the Local Government will, at the cost of not more than RMB50,000,000 use its endeavours to assist Zhejiang Yongli to become a controlling shareholder.

The Local Government is responsible for, inter alia, procuring the creditors of the Company to agree waiver of , and abandonment of any claim for, 35% of the indebtedness due and owing by the Company to each of them in order that reorganisation of the Company will not be affected and its liabilities will not be increased. The Local Government will provide Zhejiang Yongli with full support in respect of any losses suffered by Zhejiang Yongli as a result of the Local Government's failure to discharge the foregoing responsibilities.

Subsequent to the signing of the letter of intent for the Restructuring Proposal:

(a) On 25 December 2010, the Company received confirmation from 中國證券登記結算有限責任公司 China Securities Depository and Clearing Corporation Ltd.* that 310,000,000 shares (representing approximately 29.15% of the total issued shares of the Company) were transferred from Mr. Sun to Zhejiang Yongli with effect from 24 December 2010. Zhejiang Yongli has become a controlling shareholder of the Company since then.

(b) The signed letter of intent regarding reorganisation of the Company from the relevant banks, pursuant to which the banks consent to abandon the right of any claim against the Company should Zhejiang Yongli or the Company repay 65% of the indebtedness due and owing by the Company with the remaining 35% to be borne by the Company' s guarantors under the bank loan arrangements between the banks and the Company, being the creditors of the Company as referred to in the letter of intent.

(c) The signed letters of undertaking from these guarantors addressed to the Company and the relevant banks, pursuant to which they consent to waive, and abandon any claim against the Company for, the remaining 35% of the indebtedness due and owing by the Company if 65% of the Company' s indebtedness is to be repaid.

(d) The Remaining Group entered into debt restructuring agreements with each of the Remaining Group's five creditors ("Guarantors"), namely (1) Zhejiang Xiongsheng Holding Co., Ltd. * "浙江雄盛實業有限公司" ("Xiongsheng") and Xiongfeng Holding Group Co., Ltd. * "雄峰控股集團有限公司" ("Xiongfeng"), (2) Zhejiang Lingda Industry Co., Ltd. * "浙江淩達實業有限公司" ("Lingda"), (3) Zhejiang Zhiye Real Estate Group Co., Ltd. * "浙江置業房產集團有限公司" ("Zhiye"), (4) Jinggong Group Co., Ltd. * "精功集團有限公司" ("Jinggong") and (5) Zhejiang Yongli on 20 July 2011, 15 August 2011, 17 August 2011, 13 September 2011 and 15 August 2011 respectively to settle the Remaining Group's debts owed to these creditors. Each of the five creditors agreed to waive a portion of debt and to permanently abandon any claim against the Remaining Group for the repayment of such portion of the debt from the Remaining Group. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies. The breakdowns of these debt restructuring agreements are summarized in the table below:

		Amount to be settled on the relevant date of the respective agreement	Debt settlement according to Debt Agreements			Debt owed to the Creditor after Debt Agreements
	Creditor		Waived by the creditor	Settled with * governmental support	Settled by Zhejiang Yongli	
1	Xiongsheng & Xiongfeng	122,753,300	42,963,600	43,135,700	36,654,000	0
2	Lingda	21,563,100	7,547,085	7,577,300	6,438,715	0
3	Zhiye	19,985,518	6,994,931	7,022,900	5,967,687	0
4	Jinggong	118,633,119	52,687,592	33,391,200	32,554,327	0
5	Zhejiang Yongli	312,157,176	58,132,465	95,962,550	158,062,161	239,676,890
	Total : (RMB)	595,092,213	176,764,418	187,089,650	239,676,890	239,676,890

* Settled initially by Zhejiang Yongli and subsequently compensated by the Local Government by way of governmental subsidies.;

The Remaining Group also entered into a debt restructuring agreement with Zhejiang Yongli on 13 September 2011 with the following repayment terms:

(1) The Remaining Group shall owe the sum of approximately RMB239,677,000 (as shown in the table above) to Zhejiang Yongli, and Zhejiang Yongli shall permanently abandon any claim against the Remaining Group for the repayment of debt amounting to approximately RMB187,089,000, which was cleared as a result of government support (as shown in the table above);

(2) The Remaining Group agreed to repay Zhejiang Yongli, commencing from 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 annually 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 incurred during the repayment period; and

(5) Zhejiang Yongli undertakes to assume all the contingent debts of the Remaining Group incurred at all times and permanently abandon any claim against the Remaining Group for the repayment of such contingent debts of the Remaining Group.

OUTLOOK

Due to the misconduct of certain former directors in 2008, the Remaining Group encountered a financial crisis which led to a shortage of cash flow for settlement of trade debts and bank borrowings. As a result, there were several litigations against the Remaining Group and for management purposees, the operation of the Remaining Group has to be reorganized into two divisions, that are, sales of woven fabric and provision of subcontracting services.

With reference to the announcement of the Company dated 29 December 2010, the Company, Zhejiang Yongli and the Local Government entered into a letter of intent on 6 December 2010 for the proposed reorganisation of the Company by Zhejiang Yongli with the support from the Local Government (the "Restructuring Proposal"). Zhejiang Yongli is a company established in the PRC. The principal terms of the letter of intents are set out in the previous section headed "Events after the reporting period".

Subsequent to the letter of intent signed for the Restructuring Proposal, Zhejiang Yongli has become a controlling shareholder of the Remaining Group since 24 December 2010. Thereafter, Zhejiang Yongli recommended Mr. Ru Guan Jun and Mr. Xia Xian Fu to be executive directors of the Remaining Group and Mr. Ru Guan Jun to be the Chairman of the Board of Directors and they were appointed accordingly at the extraordinary general meeting held on 11 March 2011. From 20 July 2011 to 13 September 2011, the Remaining Group entered into debt agreements with each of the five guarantors of the Remaining Group as set out in the previous section headed "Events after the reporting period". After that, each of the five guarantors agreed to waive a portion of debt and to permanently abandon any claim against the Remaining Group for the repayment of the same amount of the debt from the Remaining Group. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies.

In addition, with the net proceeds of the Disposal, the Remaining Group's cash flow is enhanced and the Remaining Group would continue to focus on manufacture and sale of woven fabrics.

In view of the above changes and arrangement and based on the experience of the management and the well established infrastructure of the Remaining Group, the directors believe that the Remaining Group will overcome the challenges and achieve sustainable business growth as before.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 30 June 2011, although the Remaining Group reported a profit of approximately RMB30,119,000 for the period then ended 30 June 2011, it had net current liabilities of approximately RMB548,462,000 and a capital deficiency of approximately RMB410,178,000 as at 30 June 2011. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Remaining Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liability in the normal course of business. Nevertheless, the directors of the Remaining Group are of the opinion that the Remaining Group will have sufficient working capital to meet its financial obligations as and when they fall due for at least the next twelve months from 30 June 2011 given that:

(i) the debt restructuring of the Remaining Group's liabilities, details of which are stated in the section headed "Events after the reporting period" above this section headed "Outlook";

(ii) a shareholder of the Remaining Group will provide financial support to the Remaining Group to meet the Remaining Group's liabilities and commitments as and when it falls due; and

(iii) the Directors anticipate that the Remaining Group will generate positive cash flows from its operations.

Accordingly, the Directors are of the opinion that it is appropriate to prepare the financial statements for the six months ended 30 June 2011 on a going concern basis. Should the Remaining Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the financial statements for the six months ended 30 June 2011. Based on the unaudited pro forma financial statement as at 30 June 2011, since there was a negative equity attributable to equity holders of the Company of RMB410,178,000 (equivalent to approximately HK$504,518,940 at 30 June 2011, calculation of gearing ratio is not applicable.

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

As at 30 June 2011 and 31 December 2010, the Remaining Group had no material capital commitments or significant investments.

CONTINGENT LIABILITIES

At the date of the interim report for the six months ended 30 June 2011, a number of lawsuits and claims were lodged against the Remaining Group which remain outstanding.

(i) Legal action of banks

Due to the impact of the financial crisis of Gabriel, (i) as at 30 June 2011, the total amount of bank loans was approximately RMB53,818,000 from the relevant banks could not be renewed as usual upon their maturity due to the reason that guarantors (including Gabriel, Mr. and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee. In addition, due to the financial problems encountered by the Company, the Company cannot repay the above bank loans and bills upon maturity. In view of the above, the relevant banks have taken legal actions against the Company. At the date of the interim report for the six months ended 30 June 2011, the amounts have been fully settled by the Guarantors on behalf of the Remaining Group.

(ii) Overdue trade creditors

Following the misappropriation of funds by certain former directors of the Company in 2008, the Company was facing with short term financing problems and as such the Company was unable to meet payments to certain suppliers. Legal action was taken by six suppliers against the Company for a total amount of approximately RMB1,048,000. All cases were settled following the subsequent settlement of all amounts in 2011 by the Remaining Group.

(iii) Outstanding construction fees

On 15 January 2008, the Company entered into a construction contract for the construction of a warehouse and staff quarters for a total contract amount of RMB66,000,000. The construction contract was terminated in 2008 following financial difficulties faced by the Company as a result of the misappropriation of funds. In October 2008, both parties agreed that the total cost would be approximately RMB63,315,000 which was based on the percentage of completion of the project and approximately RMB3,961,000 should be paid by the Company. Legal action was taken against the Company following the amount being unsettled and in accordance with the judgment dated 21 October 2009, the Company was liable to the outstanding construction fee of RMB3,961,000 plus court related expenses. At the date the interim report for the six months ended 30 June 2011, the amounts have been fully settled.

(iv) Staff quarters

On 8 May 2008, the Company entered into an agreement for the construction of two quarters which were completed on 17 December 2008. Due to the financial difficulties faced by the Company, the outstanding balance of RMB5,180,000 construction costs was not settled by the Company. The contractors took legal action against the Company and a judgment dated 30 April 2010 conferred that the Company was liable for the outstanding construction costs plus interest and court related expenses. At the date of the interim report for the six months ended 30 June 2011, the amounts have been fully settled.

(v) During the year ended 31 December 2008, the Company acted as a guarantor for loans granted by Ms. Zhu Li Mei ("Ms. Zhu") to Gabriel in the principal amount of approximately RMB20,000,000. Following the default on repayment from Gabriel, a court order received by the Company in June 2009 from Hangzhou Xiacheng District People's Court (杭州下城區人民法院) ruled that certain land and buildings of the Company would be frozen. The frozen assets were released following the subsequent settlement of the amount in 2011.

MATERIAL ACQUISITIONS/ DISPOSALS

During the six months ended 30 June 2011, the Remaining Group did not have any material acquisitions/ disposals.

SEGMENTAL INFORMATION

Information reported to the board of directors of the Remaining Group, 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 Remaining Group's reportable segments under HKFRS 8 are as follows:

Woven fabric	- Research and development, manufacture and sale of woven fabrics
Sub-contracting services	- Provision of sub-contracting services

(a) Segment revenues and results

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

	For the six months ended 30 June					
	Woven fabric		Sub-contracting services		Total	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	*RMB'000* (restated)	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000* (restated)
Turnover	**37,988**	23,080	**17,072**	5,416	**55,060**	28,496
Segment results	**3,748**	(16,657)	**(2,166)**	(6,948)	**1,582**	(23,605)
Unallocated corporate income						
- Gain on disposal of plant and machinery					**1,385**	-
- Interest income					**2**	3
- Government grants					**2,462**	-
- Other debts waived by a creditor					**5,505**	-
- Provision for a claim over-provided					**8,499**	-
Unallocated corporate expenses						
- Impairment loss recognised in respect of other receivables					**-**	(857)
- Loss on misconducts of directors					**-**	(1,623)
- Depreciation of investment properties					**-**	(415)
- Others					**(1,660)**	(1,095)
- Finance costs					**(4,623)**	(28,737)
Profit (loss) before taxation					**13,152**	(56,329)

Segment results represents the results of each segment without allocation of gain on disposal of plant and machinery, interest income, government grants, other debts waived by a creditor, provision for a claim over-provided, impairment loss recognised in respect of other receivables, loss on misconducts of directors, depreciation of investment properties, directors' remuneration, central administration costs and finance costs. This is the measure reported to the chief operating decision maker of the Remaining Group for the purposes of resource allocation and performance assessment.

(b) Geographical information

During the six months ended 30 June 2011 and 2010, the Remaining Group's operations are located in the PRC only.

The Remaining Group's revenue from external customers by geographical location of revenue from external customers is detailed below:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
The PRC (country of domicile)	**55,060**	28,496

CHARGES ON REMAINING GROUP'S ASSETS

At the end of the reporting period, certain assets of the Remaining Group were pledged to secure banking facilities granted to the Remaining Group as follows:

	30 June	31 December
	2011	2010
	RMB'000	*RMB'000*
Assets classified as held for sales	**-**	9,993

EMPLOYEE AND EMOLUMENT POLICIES

At 30 June 2011, the Remaining Group had 514 employees (31 December 2010: 759), comprising 5 (31 December 2010: 6) in research and development, 3 (31 December 2010: 7) in sales and marketing, 439 (31 December 2010: 688) in production, 54 (31 December 2010: 49) in quality control, 4 (31 December 2010 : 3) in management, and 9 (31 December 2010: 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 Remaining Group operates in the PRC with most of the transactions denominated and settled in Renminbi ("RMB"). however, foreign currencies, mainly United State Dollars, Euro and Hong Kong Dollars, are required to settle the Remaining Group's expenses and additions on plant and equipment. Since 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 Remaining Group has used forward contracts, foreign currency borrowings and other means to hedge its foreign currency exposure. The Remaining Group considers it has no material foreign exchange risk to the Remaining Group.

For the year ended 31 December 2010

BUSINESS AND OPERATION REVIEW

Prior to 2008, the Company mainly focused on the manufacturing and sales of woven fabrics. Due to the misconduct of some of the former directors of the Company in 2008, the Company encountered cash flow problems. In order to solve the cash flow problems and maintain a stable production capacity and operations, the Company accepted more existing and new customers to provide their raw materials to the Company for further processing so as to minimise the trade payables balance by providing such subcontracting services. Accordingly, for management purposes, the Company is currently organised into two operating divisions – sales of woven fabric and provision of subcontracting services. During the year under review, sales of woven fabric was approximately RMB53.52 million representing a drop of approximately 8.67% when compared with that in 2009. Due to the financial crisis of the Company, the export sales market had been temporarily suspended as the Company has insufficient cash flow to purchase raw materials for manufacturing. Turnover from provision of subcontracting services for the two years ended 2010 and 2009 were approximately RMB32.18 million and RMB33.43 million respectively. During the year ended 31 December 2010, the sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB7.13 million, which represented approximately 8.32% of the total turnover. Compared with the operation status of fellow manufacturers in the local region, the Company is at a normal status. Provided that the external environment will not continue to worsen, under realistic estimation, the Company should be able to maintain its production and operation normally.

PRODUCTION FACILITIES

During the year ended 31 December 2010 under review, the Company did not have any material acquisition or disposal of production facilities.

On 29 December 2010, a resolution was passed by the board of directors of the Company to dispose of certain buildings, investment properties and prepaid lease payments (the "Disposal"). On 30 August 2011, the Company has entered into a memorandum of understanding with the People's Government of Yang Xun Qiao Town, Shaoxing County, Zhejiang Province "浙江省紹興縣楊汛橋鎮人民政府" ("Local Government") in respect of the Disposal. Pursuant to the agreement, the Disposal will be completed before the end of 2011.

PRODUCT RESEARCH AND DEVELOPMENT

Although the Company has encountered a financial crisis since the year ended 31 December 2008, the Company continued to innovate and develop new products so as to meet the customers'needs and enhance sales orders from customers for the year ended 31 December 2010.

Sales and marketing

During the year under review, the Company continued to participate in various trade fairs held in the PRC so as to gain exposure in the fabrics market and to popularise the Company's new products.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Company reported a loss of approximately RMB106,468,000 for the year ended 31 December 2010 and had net current liabilities of approximately RMB588,855,000 and a capital deficiency of approximately RMB440,297,000 as at 31 December 2010. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue operation as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Company will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 December 2010 given that:

(i) the debt restructuring of the Company's liabilities, details of which are set out in Note 38 to the financial statements for the year ended 31 December 2010,

(ii) a shareholder of the Company will provide financial support to the Company to meet the Company's liabilities and commitments as and when it falls due; and

(iii) the directors of the Company anticipate that the Company will generate positive cash flows from its operations.

Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the financial statements for the year ended 31 December 2010 on a going concern basis. Should the Company be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the financial statements for the year ended 31 December 2010.

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

At 31 December 2010, the Company had no commitments (2009: Nil) for capital expenditure.

CONTINGENT LIABILITIES

At the date of the annual report for the year ended 31 December 2010, a number of lawsuits and claims were lodged against the Company which remain outstanding.

(i) Legal action of banks

At 31 December 2010, the total amount of bank loans was RMB121,680,000, in which loans in an aggregate amount of approximately RMB91,547,000 from four relevant banks could not be renewed as usual upon their maturity due to the reason that guarantors (including Gabriel, Mr. and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee; and (b) At 31 December 2010, total bills payable amounting to RMB30,980,000 could not be renewed as usual upon their maturity due to the same reason as mentioned above. In addition, due to financial problems encountered by the Company, the Company could not repay the above bank loans and bills upon maturity. In view of the above, the relevant banks have taken legal actions against the Company. At the date of the annual report for the year ended 31 December 2010, the amounts have been fully settled by the Guarantors on behalf of the Company.

(ii) Overdue trade creditors

Due to the cash flow problem of the Company in 2008, the Company was facing with short term financing problems and as such the Company was unable to meet payments of certain suppliers. Legal action was taken by six suppliers against the Company for a total amount of approximately RMB1,446,000. All cases were settled following the subsequent settlement in 2011.

(iii) Outstanding construction fees

On 15 January 2008, the Company entered into a construction contract for the construction of a warehouse and staff quarters for a total contract amount of RMB66,000,000. The construction contract was terminated in 2008 following financial difficulties faced by the Company as a result of the misappropriation of funds. In October 2008, both parties agreed that the total construction cost would be approximately RMB63,315,000 which was based on the percentage of completion of the project and approximately RMB3,961,000 should be paid by the Company. Legal action was taken against the Company following the amount being unsettled and in accordance with the judgment dated 21 October 2009, the Company was liable to the outstanding construction fee of RMB3,961,000 plus court related expenses. At the date of the annual report for the year ended 31 December 2010, the amounts have been fully settled.

(iv) Staff quarters

On 8 May 2008, the Company entered into an agreement for the construction of two quarters which was completed on 17 December 2008. Due to a financial difficulties faced by the Company, the outstanding balance of RMB5,180,000 construction costs was not settled by the Company. The contractors took legal action against the Company and a judgment dated 30 April 2010 conferred that the Company was liable to the outstanding construction costs plus interest and court related expenses. At the date of the annual report for the year ended 31 December 2010, the amounts have been fully settled.

(v) During the year ended 31 December 2008, the Company acted as a guarantor for loans granted by Ms. Zhu to Gabriel in the principal amount of RMB20,000,000. Following the default on repayment from Gabriel, a court order received by the Company in June 2009 from Hangzhou Xiacheng District People's Court (杭州下城區人民法院) ruled that certain land and buildings of the Company would be frozen. The frozen assets were released following the subsequent settlement of the amount.

MATERIAL ACQUISITIONS/ DISPOSALS

During the year ended 31 December 2010, the Company did not have any material acquisitions/ disposals.

On 29 December 2010, the Company entered into a memorandum of understanding to dispose of certain buildings, investment properties and prepaid lease payments to the People's Government of Yang Xun Qiao Town, Shaoxing County, Zhejiang Province "浙江省紹興縣楊汛橋鎮人民政府" ("Local Government"). Pursuant to the preliminary agreement, the transaction will be completed before the end of 2011.

As at 31 December 2010, the non-current assets classified as held for sale represent certain buildings, investment properties and prepaid lease payments held for own use and capital appreciation with carrying values of approximately RMB28,892,000, RMB7,384,000 and RMB3,250,000 respectively. As of the date of this document, the transaction was still in progress.

SEGMENTAL INFORMATION

Segmental information of the Company is set out in Note 11 to the financial statements for the year ended 31 December 2010.

CHARGES ON COMPANY ASSETS

The details of pledge of assets of the Company is set out in Note 35 to the financial statements for the year ended 31 December 2010.

EMPLOYEE AND EMOLUMENT POLICIES

At 31 December 2010, the Company had 759 employees (2009: 886), comprising 6 (2009: 5) in research and development, 7 (2009: 7) in sales and marketing, 688 (2009: 802) in production, 49 (2009: 61) in quality control, 3 (2009: 4) in management, and 6 (2009: 7) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

FOREIGN EXCHANGE EXPOSURE

The Company operates in the PRC with most of the transactions denominated and settled in Renminbi ("RMB"). However, foreign currencies, mainly United States Dollars ("USD"), Euro and Hong Kong Dollars, are required to settle the Company's expenses and additions on plant and equipment and all the direct export sales of the Company are denominated in USD. Since 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 and other means to hedge its foreign currency exposure. The Company considers it has no material foreign exchange risk to the Company.

For the year ended December 2009

BUSINESS AND OPERATION REVIEW

Prior to 2008, the Company mainly focused on the research and development, manufacturing and sales of woven fabrics. During the year ended 31 December 2009, due to the misconduct of some of the former directors as set out in Note 13 to the financial statements to the Company encountered cash flow problems. In order to solve the cash flow problems and maintain a stable production capacity and operations, the Company accepted more existing and new customers to provide their raw materials to the Company for further processing so as to minimise the trade payables balance by providing such sub-contracting services. Accordingly, for management purposes, the Company is currently organised into two operating divisions – sales of woven fabric and provision of sub-contracting services. During the year under review, sales of woven fabric was approximately RMB58.60 million representing a drop of approximately 81.64% when compared with that of 2008. It was mainly due to the significant decrease in export sales by approximately 95.03% as a result of global financial turmoil in 2009. In addition, due to the financial crisis of the Company, the export sales market had to be temporarily suspended as the Company has insufficient cash flow to purchase raw materials for manufacturing. Turnover from provision of sub-contracting services for the year ended 31 December 2009 and 2008 were approximately RMB33.43 million and RMB5.86 million respectively. During the year ended 31 December 2009, the sales turnover to the People's Republic of China (the "PRC") government for manufacturing uniform of the military was approximately RMB11.47 million, which represented approximately 12.46% of the total turnover. Compared with the operation status of fellow manufacturers in the local region, the Company is at a normal status. Provided that the external environment will not continue to worsen, under realistic estimation, the Company should be able to maintain its production and operation normally.

PRODUCTION FACILITIES

During the year ended 31 December 2009 under review, the Company did not have material acquisition or disposal of production facilities.

PRODUCT RESEARCH AND DEVELOPMENT

Although the Company has encountered a financial crisis since the year ended 31 December 2008, the Company continued to innovate and develop new products so as to meet the customers'needs and enhance sales orders from customers for the year ended 31 December 2009.

SALES AND MARKETING

During the year under review, the Company continued to participate in various trade fairs held in the PRC so as to gain exposure in the fabrics market and to popularise the Company's new products.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Company reported a loss of approximately RMB96,549,000 for the year 31 December 2009 and net current liabilities of approximately RMB549,921,000 and a capital deficiency of approximately RMB337,436,000 as at 31 December 2009. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue operation as a going concern and therefore it may be unable to realise its assets and discharge its liability in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Company will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the date of publication of the annual report for the year ended 31 December 2009 given that:

(i) the debt restructuring of the Company's liabilities, details of which are stated in Note 37 to the financial statements for the year ended 31 December 2009;

(ii) a shareholder of the Company will provide financial support to the Company to meet the Company's liabilities and commitments as and when it falls due; and

(iii) the directors of the Company anticipate that the Company will generate positive cash flows from its operations.

Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the financial statements for the year ended 31 December 2009 on a going concern basis. Should the Company be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the financial statements for the year ended 31 December 2009.

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

At 31 December 2009, the Company had no commitments (2008: RMB56,000) for capital expenditure.

CONTINGENT LIABILITIES

At the date of the annual report for the year ended 31 December 2009, a number of lawsuits and claims were lodged against the Company which remains outstanding.

(i) Legal action of banks

(a) At 31 December 2009, the total amount of bank loans was RMB366,719,000, in which loans in an aggregate amount of RMB93,861,000 from three relevant banks could not be renewed as usual upon their maturity due to the reason that guarantors (including Gabriel, Mr. and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee; and

(b) At 31 December 2009, total bills payable amounting to RMB81,000,000 could not be renewed as usual upon their maturity due to the same reason as mentioned above. In addition, due to financial problems encountered by the Company, the Company could not repay the above bank loans and bills upon maturity. In view of the above, the relevant banks have taken legal actions against the Company. At the date of the annual report for the year ended 31 December 2009, the amounts have been fully settled by the Guarantors on behalf of the Company.

(ii) Overdue trade creditors

Due to the cash flow problem of the Company, the Company was facing with short term financing problems and as such the Company was unable to meet payments of certain suppliers. Legal action was taken by six suppliers against the Company for a total amount of approximately RMB1,378,000. All cases were settled following the subsequent settlement in 2011.

(iii) Outstanding construction fees

On 15 January 2008, the Company entered into a construction contract for the construction of a warehouse and staff quarters for a total contract amount of RMB66,000,000. The construction contract was terminated in 2008 following financial difficulties faced by the Company as a result of the misappropriation of funds. In October 2008, both parties agreed that the total construction cost would be approximately RMB63,315,000 which was based on the percentage of completion of the project and approximately RMB3,961,000 should be paid by the Company. Legal action was taken against the Company following the amount being unsettled and in accordance with the judgment dated 21 October 2009, the Company was liable to the outstanding construction fee of RMB3,961,000 plus court related expenses. At the date of the annual report for the year ended 31 December 2009, the amounts have been fully settled.

(iv) Staff quarters

On 8 May 2008, the Company entered into an agreement for the construction of two quarters which was completed on 17 December 2008. Due to the financial difficulties faced by the Company, the outstanding balance of RMB5,180,000 construction costs was not settled by the Company. The contractors took legal action against the Company and a judgment dated 30 April 2010 conferred that the Company was liable for the outstanding construction costs plus interest and court related expenses. At the date of the annual report for the year ended 31 December 2009, the amounts have been fully settled.

(v) During the year ended 31 December 2008, the Company acted as a guarantor for loans granted by Ms. Zhu to Gabriel in the principal amount of approximately RMB20,000,000. Following the default on repayment from Gabriel, a court order received by the Company in June 2009 from Hangzhou Xiacheng District People's Court (杭州下城區人民法院) ruled that certain land and buildings of the Company would be frozen. The frozen assets were released following the subsequent settlement of the amount.

MATERIAL ACQUISITIONS/ DISPOSALS

During the year ended 31 December 2009, the Company did not have any material acquisitions/ disposals .

SEGMENTAL INFORMATION

Segmental information of the Company is set out in Note 11 to the financial statements for the year ended 31 December 2009.

CHARGES ON COMPANY ASSETS

The details of the pledge of assets of the Company is set out in Note 34 to the financial statements for the year ended 31 December 2009.

EMPLOYEE AND EMOLUMENT POLICIES

At 31 December 2009, the Company had 886 employees (2008: 1,298), comprising 5 (2008: 11) in research and development, 7 (2008: 54) in sales and marketing, 802 (2008: 987) in production, 61 (2008: 230) in quality control, 4 (2008: 6) in management, and 7 (2008: 10) 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 ("USD"), Euro and Hong Kong Dollars, are required to settle the Company's expenses and additions on plant and equipment and all the direct export sales of the Company are denominated in USD. Since 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 and other means to hedge its foreign currency exposure. The Company considers it has no material foreign exchange risk to the Company.

For the Year ended 31 December 2008

BUSINESS AND OPERATION REVIEW

In prior years, the Company mainly focused on the manufacturing and sales of woven fabrics. During the year ended 31 December 2008, due to the misconduct of some former directors of the Company as set out in Note 13 to the financial statements. the Company encountered cash flow problems. In order to solve the cash flow problems and maintain a stable production capacity and operations, the Company accepted more existing and new customers to provide their raw materials to the Company for further processing so as to minimise the trade payables balance by providing such sub-contracting services. Accordingly, for management purposes, the Company is currently organised into two operating divisions – sales of woven fabric and provision of subcontracting services. During the year under review, sales of woven fabric was approximately RMB319.13 million representing a drop of approximately 16.89% when compared with that in 2007. Due to global financial turmoil in 2008, export sales decreased significantly by approximately 49.67%. In addition, due to the financial crisis of the Company, the export sales market has to be temporarily suspended as the Company has insufficient cash flow to purchase raw materials for manufacturing. Turnovers from provision of subcontracting services for the two years ended 2008 and 2007 were approximately RMB5.86 million and RMB9.07 million respectively. During the year ended 31 December 2008, the sales turnover to the PRC government for manufacturing uniform of the military was approximately RMB46.65 million, which represented approximately 18.79% of the total domestic sales. Compared with the operation status of fellow manufacturers in the local region, the Company is at a normal status. Provided that the external environment will not continue to worsen, under realistic estimation, the Company should be able to maintain its production and operation normally.

PRODUCTION FACILITIES

During the year ended 31 December 2008, the Company did not have any material acquisition or disposal of production facilities.

PRODUCT RESEARCH AND DEVELOPMENT

Although the Company has encountered financial crisis during the year ended 31 December 2008, the Company continued to innovate and develop new products so as to meet the customers' needs and enhance sales orders from customers for the year ended 31 December 2008.

SALES AND MARKETING

During the year under review, the Company continued to participate in various trade fairs held in the PRC so as to gain exposure in the fabrics market and to popularize the Company's new products.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Company reported a loss of approximately RMB517,790,000 for the year ended 31 December 2008 and net current liabilities of approximately RMB481,866,000 and a capital deficiency of approximately RMB244,283,000 as at 31 December 2008. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the Directors are of the opinion that the Company will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period for the year ended 31 December 2008 given that:

(i) the debt restructuring of the Company's liabilities, details of which are set out in Note 39 to the financial statements for the year ended 31 December 2008;

(ii) a shareholder of the Company will provide financial support to the Company to meet the Company's liabilities and commitments as and when it falls due; and

(iii) the Directors anticipate that the Company will generate positive cash flows from its operations.

Accordingly, the Directors are of the opinion that it is appropriate to prepare the financial statements for the year ended 31 December 2008 on a going concern basis. Should the Company be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments have not been reflected in the financial statements for the year ended 31 December 2008.

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

At 31 December 2008, the Company had no commitments (2007: RMB747,000) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

Fund Raising Activities

On 19 September 2007, a placing agreement (the "Placing Agreement") was entered into between the Company and OSK Asia Securities Limited (the "Placing Agent"), pursuant to which, the Company agreed to appoint the Placing Agent and the Placing Agent agreed to act as placing agent for the purpose of procuring, as agent for the Company, subscribers for up to 880,000,000 new H shares of the Company at a price of HK$ 0.55 per share, on a best effort basis by 31 March 2008 (the "Placing"). As amended and supplemented by a supplemental agreement on 28 March 2008 (the "Supplemental Agreement") entered into between the Company and the Placing Agent, the Company and the Placing Agent agreed to extend the Long Stop Day, being the last day on which conditions precedent for the Placing Agreement are fulfilled, to 31 July 2008.

The Company was notified by the Placing Agent that the shares of the Company have not been successfully placed by the Long Stop Day. Accordingly, the Placing Agreement (as amended by the Supplemental Agreement) has been lapsed on 31 July 2008 with immediate effect, and the parties to the Placing Agreement agreed not to proceed with the Placing. For further details, please refer to the Company's announcements dated 20 September 2007, 28 March 2008 and 31 July 2008.

CONTINGENT LIABILITIES

At the date of the annual report for the year ended 31 December 2008, a number of lawsuits and claims were lodged against the Company which remain outstanding.

(i) Legal action of banks

(a) At 31 December 2008, the total amount of bank loans was RMB393,650,000, in which loans in an aggregate amount of RMB93,861,000 from four relevant banks could not be renewed as usual upon their maturity due to the reason that guarantors (including Gabriel, Mr. and Mrs. Sun and other third parties) could not continue to undertake their obligations under the guarantee; and

(b) At 31 December 2008, total bills payable amounting to RMB42,500,000 could not be renewed as usual upon their maturity due to the same reason as mentioned above. In addition, due to financial problems encountered by the Company, the Company could not repay the above bank loans and bills upon maturity. In view of the above, the relevant banks have taken legal actions against the Company. At the date of the annual report for the the year ended 31 December 2008, the amounts have been fully settled by the Guarantors on behalf of the Company.

(ii) Overdue trade creditors

Due to the cash flow problem of the Company, the Company was facing with short term financing problems and as such was unable to meet payments of certain suppliers. Legal action was taken by six suppliers against the Company for a total amount of approximately RMB734,000. All cases were completed following the subsequent settlement in 2011.

(iii) Outstanding construction fees

On 15 January 2008, the Company entered into a construction contract for the construction of a warehouse and staff quarters for a total contract amount of RMB66,000,000. The construction contract was terminated in 2008 following financial difficulties faced by the Company. In October 2008, both parties agreed that the total construction cost would be approximately RMB63,315,000 which was based on the percentage of completion of the project and approximately RMB3,961,000 should be paid by the Company. Legal action was taken against the Company following the amount being unsettled and in accordance with the judgment dated 21 October 2009, the Company was liable to the outstanding construction fee of RMB3,961,000 plus court related expenses. At the date of the annual report for the year ended 31 December 2008, the amounts have been fully settled.

(iv) Staff quarters

On 8 May 2008, the Company entered into an agreement for the construction of two quarters which was completed on 17 December 2008. Due to the financial difficulties faced by the Company, the outstanding balance of RMB5,180,000 construction costs was not settled by the Company. The contractors took legal action against the Company and a judgment dated 30 April 2010 conferred that the Company was liable to the outstanding construction costs plus interest and court related expenses. At the date of the annual report for the year ended 31 December 2008, the amounts have been fully settled.

(v) During the year ended 31 December 2008, the Company acted as a guarantor to secure loans granted to Gabriel from Ms. Zhu (the "Zhu Loan") and Shaoxing Yatai Investment Co., Ltd. 紹興縣亞太投資有限公司 ("Yatai") (the "Yatai Loan") for an amount of RMB20,000,000 and RMB20,000,000 respectively, both are independent third parties of the Company.

(a) On 21 September 2008, the Zhu Loan has been expired and Gabriel was unable to repay the loan to Ms. Zhu. On 19 June 2009, the Company received a writ from the Hangzhou Xiacheng District People's Court (杭州市下城區人民法院) in relation to a claim for the outstanding amount of the Zhu Loan by Ms. Zhu against Gabriel, the Company and Mr. Sun for the outstanding overdue borrowings principal plus the interest and liquidated damages in the amount of approximately RMB21,731,000. On 20 October 2009, the Company received a civil judgment issued by the Hangzhou Xiacheng District People's Court, pursuant to which Gabriel is liable to repay the sum of outstanding principal of RMB16,700,000 and the interest and liquidated damages amount of approximately RMB2,412,000, as a guarantor, the Company is jointly and severally liable to the above sum. During the year ended 31 December 2008, provision has been made in respect of the default payment for the amount of approximately RMB17,883,000, which including interest and liquidated damages of approximately RMB1,183,000 together with the outstanding principal of RMB16,700,000.

(b) On 18 October 2008, the Yatai Loan has been expired and Gabriel was unable to repay the loan to Yatai. On 18 August 2009, the Company received a writ from Shaoxing Intermediate People's Court (紹興市中級人民法院) in relation to a claim of the outstanding Yatai Loan by Yatai against Gabriel and the Company for the outstanding overdue borrowings principal plus the interest and legal fees in the amount of approximately RMB30,280,000. On 9 October 2009, a civil mediation was issued by the Shaoxing Intermediate People's Court, pursuant to which Gabriel is liable to repay the sum of outstanding principal of RMB20,000,000, the interest for the period between 18 September 2008 to 20 October 2009 and legal fees amount of RMB200,000, as a guarantor, the Company is jointly and severally liable to a sum of RMB10,000,000.

(c) The Company has signed an agreement with Ms. Zhu Li Mei on 16 June 2011 which provides that, after Ms. Zhu has obtained repayment of a portion of debts through the winding up procedure of Gabriel and the court enforcement against the Company respectively, the Company shall pay all outstanding amount to Ms. Zhu totalling approximately RMB13,000,000 before 20 June 2011. At the date of the annual report for the year ended 31 December 2008, the Company has settled the accumulated debts due to Ms. Zhu in the amount of approximately RMB16,154,000 which included the above mentioned amount of approximately RMB13,000,000 and the cost incurred in relation to such litigation. Furthermore, in respect of another creditor of the Company, Yatai, the Company will settle an outstanding debt in the maximum sum of RMB10,000,000 according to the civil affair mediation letter issued by the local court at Shaoxing County in Zhejiang Province on 9 October 2009. At date of the issuance of the annual report for the year ended 31 December 2008, the Yatai Loan has yet to be settled.

MATERIAL ACQUISITIONS/ DISPOSALS

During the year ended 31 December 2008, the Company did not have any material acquisitions/ disposals.

SEGMENTAL INFORMATION

Segmental information of the Company are set out in Note 11 to the financial statements for the year ended 31 December 2008.

CHARGES ON COMPANY ASSETS

The details of pledge of assets of the Company are set out in Note 36 to the financial statements for the year ended 31 December 2008.

EMPLOYEE AND EMOLUMENT POLICIES

At 31 December 2008, the Company had 1,298 employees (2007: 1,462), comprising 11 (2007: 12) in research and development, 54 (2007: 46) in sales and marketing, 987 (2007: 1,174) in production, 230 (2007: 211) in quality control, 6 (2007: 10) in management, and 10 (2007: 9) 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 ("USD"), Euro and Hong Kong Dollars, are required to settle the Company's expenses and additions on plant and equipment and all the direct export sales of the Company are denominated in USD. Since 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 and other means to hedge its foreign currency exposure. The Company considers it has no material foreign exchange risk to the Company.

The following is the text of a letter prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Remaining Group.

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

24 February 2012

The Directors
Zhejiang Yonglong Enterprises Co. Ltd.
Yangxun Qiao Town,
Shaoxing County,
Zhejiang Province,
The People's Republic of China

Dear Sirs,

We report on the unaudited pro forma financial information, ("the Unaudited Pro Forma Financial Information") of Zhejiang Yonglong Enterprises Co., Ltd. ("the Company") as set out in Appendix II of the circular dated 24 February 2012 (the "Circular") in connection with the proposed disposal of certain assets comprising the land use rights, the factory buildings, office buildings and other constructed structures thereon, located at Sunjia Qiao, Yang Xun Qiao Town, Shaoxing County, Zhejiang Province, PRC (the "Proposed Disposal"), which has been prepared by the directors of the Company (the "Directors"), solely for illustrative purpose only, to provide information about how the Proposed Disposal might have affected the Unaudited Pro Forma Financial Information presented.

Respective responsibilities of Directors and reporting accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 31 of Chapter 7 of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards of Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Company and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31 of Chapter 7 of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Company as at 30 June 2011 or any future date; or
- the results of the Company for the period ended 30 June 2011 or any future periods.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Company; and

c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31 of Chapter 7 of the GEM Listing Rules.

Yours faithfully,
SHINEWING (HK) CPA Limited
Certified Public Accountants
Chong Kwok Shing
Practising Certificate Number: P05139

Hong Kong

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is the unaudited pro forma statement of net liabilities and the unaudited pro forma statement of comprehensive income of the Company (collectively known as the "Unaudited Pro Forma Financial Information") which have been prepared in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules for the purpose of illustrating the effect of the Proposed Disposal on the financial position of the Remaining Group as if the Proposed Disposal had been completed on 30 June 2011 and the results of the Remaining Group as if the Proposed Disposal had been completed on 1 January 2011.

As the Unaudited Pro Forma Financial Information is prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position and results of the Remaining Group following the completion of the Proposed Disposal.

The Unaudited Pro Forma Financial Information is based on the unaudited net liabilities of the Company as at 30 June 2011 and the unaudited statement of comprehensive income of the Company for the six months ended 30 June 2011 extracted from the published unaudited financial report of the Company for the six months ended 30 June 2011, after giving effect to the pro forma adjustments relating to the Proposed Disposal that are (i) clearly shown and explained; (ii) directly attributable to the Proposed Disposal and not relating to future events or decisions; and (iii) factually supportable.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position and results of the Remaining Group that would have been attained had the Proposed Disposal been completed on 30 June 2011 and 1 January 2011, respectively. The Unaudited Pro Forma Financial Information does not purport to predict the future financial positions or results of the Remaining Group.

II. UNAUDITED PRO FORMA STATEMENT OF NET LIABILITIES

	Unaudited statement of financial position of the Company as at 30 June 2011	Pro forma adjustments	Unaudited pro forma statement of financial position of the Remaining Group
	RMB'000	RMB'000	RMB$'000
	(Unaudited)	Note i	(Unaudited)
NON-CURRENT ASSETS			
Property, plant and equipment	130,747		130,747
Prepaid lease payments	7,537		7,537
	138,284		138,284
CURRENT ASSETS			
Inventories	42,787		42,787
Trade and other receivables	20,494		20,494
Prepaid lease payments	141		141
Bank balance and cash	13,387	62,149	75,536
	76,809		138,958
Assets classified as held for sale	39,526	(39,526)	-
	116,335		138,958
CURRENT LIABILITIES			
Trade and other payables	(89,768)		(89,768)
Amounts due to guarantors	(528,178)		(528,178)
Provision	(10,000)		(10,000)
Tax payables	-	(5,656)	(5,656)
Bank borrowings	(53,818)		(53,818)
	(681,764)		(687,420)
NET CURRENT LIABILITIES	(565,429)		(548,462)
NET LIABILITIES	(427,145)		(410,178)

Notes:

(i) The adjustment represents (a) the elimination of the aggregate carrying value of RMB 39,526,000 of the Selling Assets upon completion of the Proposed Disposal, (b) the net cash proceed of RMB 62,149,000 received by the Company therefrom and (c) the estimated provision for income tax liability of RMB 5,656,000 in relation to the Proposed Disposal. The net cash proceed received by the Company is arrived at after deduction of the estimated direct transaction costs of RMB 650,000 and business and land appreciation taxes of RMB 16,973,000 in relation to the Proposed Disposal.

Income tax liabilities arising from the Proposed Disposal may be partially or fully offset by the Company's unutilized tax losses, subject to the approval and confirmation by the relevant tax authorities. For the purpose of this Unaudited Pro Forma Statement of Net Liabilities, no such offsetting of the Company's tax losses is assumed.

III. UNAUDITED PRO FORMA STATEMENT OF COMPREHENSIVE INCOME

	Unaudited statement of comprehensive income of the Company for the six months ended 30 June 2011	Pro forma adjustments		Unaudited pro forma statement of comprehensive income of the Remaining Group
	RMB'$000	RMB'$000	RMB000	RMB'$000
	(Unaudited)	Note i	Note ii	(Unaudited)
Turnover	55,060			55,060
Cost of sales	(52,465)			(52,465)
Gross profit	2,595			2,595
Other operating income	18,989			18,989
Selling and distribution costs	(121)			(121)
Administrative expenses	(3,688)			(3,688)
Finance costs	(4,623)			(4,623)
Gain on disposal of assets	-	22,623		22,623
Profit before taxation	13,152			35,775
Income tax expenses	-		(5,656)	(5,656)
Profit and total comprehensive income for the period	13,152			30,119

Notes:

(i) The adjustment represents the estimated unaudited gain on disposal of the Selling Assets, assuming that the Proposed Disposal had been completed as at 1 January 2011, which is calculated as follows:

	RMB'000
Sales consideration	79,772
Less: estimated direct transaction costs	(650)
estimated business and land appreciation taxes	(16,973)
Estimated net cash proceeds	62,149
Less: aggregate carrying value of the Selling Assets as at 1 January 2011	(39,526)
Gain on disposal of the Selling Assets	22,623

(ii) The adjustment reflects the estimated provision of income tax liabilities of RMB 5,656,000 in relation to the Proposed Disposal. Income tax liabilities arising from the Proposed Disposal may be partially or fully offset by the Company's unutilized tax losses, subject to the approval and confirmation from the relevant tax authorities. For the purpose of this Unaudited Pro Forma Statement of Comprehensive Income, no such offsetting of the Company's tax losses is assumed.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Avista Valuation Advisory Limited, an independent valuer, in connection with its valuation as at 31 December 2011 of the property interest of the Company.

AVA
AVISTA Valuation Advisory
艾 華 廸 評 估 諮 詢

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Date: 24 February 2012

The Board of Directors
Zhejiang Yonglong Enterprises Co., Ltd.
Jianwu Village
Yangxun Qiao Town
Shaoxing County
Zhejiang Province
The People's Republic of China

Dear Sirs,

In accordance with your instructions to value the properties in which Zhejiang Yonglong Enterprises Co., Ltd. (the "Company") has interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interests as at 31 December 2011 (the "date of valuation").

The valuation is our opinion of market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Where, due to the nature of the buildings and structures of the properties, there are no market sales comparables readily available, we have valued a property on the basis of its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization". It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"), the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

We have been shown copies of various title documents relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Group's PRC legal advisers – Grandall Legal Group (Hangzhou), concerning the validity of the property interest in the PRC.

We have relied a very considerable extent on the information given to us by the Company in the Company of valuation. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuation. We have accepted advice given to us on such matters as title, planning approvals, statutory notices, easements, tenure, leases, particulars of occupancy, identification of property, site and floor areas and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been made to verify their correctness. We have been advised by the Company that no material factors have been omitted from the information supplied to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have inspected the exterior and possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Wherever the content of this report is extracted and translated from the relevant documents supplied in Chinese context and there are discrepancies in wordings, those parts of the original documents will take prevalent.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation and the valuation certificate is attached at below.

Yours faithfully,
For and on behalf of
Avista Valuation Advisory Limited
Oswald W Y Au *MHKIS AAPI MSc(RE)*
Registered Professional Surveyor
Assistant Vice President

Note: Mr. Oswald W Y Au holds a Master 's Degree of Science in Real Estate from the University of Hong Kong. He is also a member of Hong Kong Institute of Surveyors (General Practice) and Associate Member of Australian Property Institute. In addition, he is a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has about 5 years' experience in the valuation of properties in the PRC and 8 years of property valuation experience in Hong Kong, the U.S., Canada, East and Southeast Asia.

VALUATION CERTIFICATE

Property interests held for sale by the Company in the PRC

Property	**Description and tenure**	**Particulars of occupancy**	**Capital value in existing state as at 31 December 2011** *RMB*
5 parcels of land and 8 buildings located at Juweihui Sunjia Qiao Yangxun Qiao Town Shaoxing County Zhejiang Province The PRC	The property comprises an industrial compound which was formed by 5 parcels of adjoined land and has an approximate total site area of approximately 61,035 sq.m., it was completed in about 1999. The industrial compound primarily consists of 8 workshop buildings, a composite office building, a storage building, a dormitory building, a boiler room and a guard house with a total gross floor area of approximately 26,950.4 sq.m. which have been completed in stages between 1997 and 1999. The land use rights of the property have been granted with the latest term expiring on 11th August, 2052.	The property was vacant as at the date of valuation.	59,116,800

Notes:

1. Pursuant to 5 State owned Land Use Rights Certificates issued by Shaoxing County Land Resources Bureau dated between 22nd July, 2002 and 20th August, 2002, the land use rights of 5 land parcels of the property with a total site area of 61,035 sq.m. are legally held by the Company for industrial purposes. The details of which are summarized as below:

Land	Document No.	Date of Issue	Site Area (sq.m.)	Date of Expiry
I	Shaoxing County Guo Yong (2002) Zi Di No. 7-12	22nd July, 2002	13,440	6th September 2048
II	Shaoxing County Guo Yong (2002) Zi Di No. 7-18	29th July, 2002	13,798	8th July, 2052
III	Shaoxing County Guo Yong (2002) Zi Di No. 7-19	29th July, 2002	6,362	8th July, 2052
IV	Shaoxing County Guo Yong (2002) Zi Di No. 7-17	24th July, 2002	12,476	17th June, 2052
V	Shaoxing County Guo Yong (2002) Zi Di No. 7-22	20th August, 2002	14,959	11th August, 2052

2. Pursuant to building ownership certificates, Shao Fang Quan Zheng Yang Xun Zi Di Nos. 00105, 00106, 00107 and 00108, dated at 30 June, 2002, with a total gross floor area of approximately 26,950.4 sq.m.

3. For the remaining buildings and ancillary structures with a total gross floor area of approximately 36,332.24 sq.m., we have not been provided with any title certificates. However, pursuant to the PRC legal opinion, the Company has the legal rights of the property interests and, because the buildings and structures are under the category of welfare structures, no title certificate can be issued by the government.

4. Pursuant to the Assets Transfer Agreement (the "Agreement") dated 30 December 2011 with the total Consideration of RMB79,772,200, the Company and紹興縣楊汛橋鎮人民政府 (The People's Government of Yangxun Qiao Town, Shaoxing County) (the "Purchaser") entered into the Agreement and the Purchaser has conditionally agreed to acquire and the Company has conditionally agreed to dispose of the property comprising the land use rights of the Lands and the factory buildings, office buildings and other constructed structures thereon.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Company has legally obtained the rights to hold the lands and buildings which are under the protection by the PRC law. The Company has the rights to occupy, transfer, lease or mortgage of the rights of the property.;

   (ii) The property is neither subject to any guarantee, mortgage, sequestration nor other right restriction; and

   (iii) Seizure of property is currently in a judicial re-opened state, there should not be any limitation of right controls by third party.

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

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors, chief executives and Supervisors in the shares, underlying shares and debentures of the Company and 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 and short positions which they are taken or deemed to have under such provision of the SFO)); or (b) pursuant to section 352 of the SFO to be entered into the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:–

Long positions in the shares of the Company

Name of Directors	Type of interests	Capacity	Number of Domestic Shares held	Approximate percentage of interests in Domestic Shares	Approximate percentage of interests in the total registered capital
Mr. Sun Jian Feng	Personal	Beneficial owner	5,880,000	1%	0.55%
Mr. Xia Xue Nian	Personal	Beneficial owner	5,880,000	1%	0.55%

Save as disclosed above, as at 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 5.68 of the GEM Listing Rules relating

(b) Interests of Shareholders

So far as it is known to any Directors, chief executives or Supervisors, as at the Latest Practicable Date, the interests and short positions of person in the shares and underlying shares of the Company, other than interest of the Directors or Supervisors or chief executives of the Company, which would fall to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or who is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Company were as follows:

Long positions in the shares of the Company

Domestic shares of the Company

Name of Shareholders	Capacity	Number of Domestic Shares held	Approximate percentage of interests in Domestic shares	Approximate percentage of interests in total registered capital
Zhejiang Yongli	Beneficial owner (Note 4)	310,000,000	52.72%	29.15%
Mr. Sun Li Yong	Beneficial owner	72,200,000	12.28%	6.79%
	Held by spouse (Notes 1, 3 & 4)	182,280,000	31%	17.14%
		254,480,000	43.28%	23.93%
Ms. Fang Xiao Jian	Beneficial owner	182,280,000	31%	17.14%
	Held by spouse (Notes 2, 3 & 4)	72,200,000	12.28%	6.79%
		254,480,000	43.28%	23.93%

Notes:

1. Mr. Sun Li Yong ("Mr. Sun") is the husband of Ms. Fang Xiao Jian and is deemed by virtue of the SFO to be interested in the 182,280,000 shares beneficially owned by Ms. Fang Xiao Jian.

2. Ms. Fang Xiao Jian ("Mrs. Sun") is the wife of Mr. Sun Li Yong and is deemed by virtue of the SFO to be interested in the 72,200,000 shares beneficially owned by Mr. Sun Li Yong.

3. With reference to the announcement of the Company dated 31 August 2009, all the above Domestic Shares of 254,480,000 held by Mr. and Mrs. Sun, which represents 23.93% of the total issued shares of the Company had been impound by the relevant court in the PRC in accordance with a judgment made and had been effective since 10 August 2009.

4. On 19 December 2011, the Company was informed by Zhejiang Yongli that Zhejiang Yongli received a copy of 執行裁定書 (Enforcement Judgment*) issued by 紹興市中級人民法院 (Shaoxing Intermediate People's Court*, the "Court")(the Judgment), which indicated that: (i) despite the Court's issue of an enforcement notice to Mr. Sun and Mrs. Sun following a judgment, they had failed to perform the obligations stipulated in the relevant legal document(s); (ii) 60,000,000 Domestic Shares held by Mr. Sun and 180,000,000 Domestic Shares held by Mrs. Sun were impounded by the Court on 26 December 2008 and auctions were conducted on 12 May 2010, 30 July 2010 and 13 October 2010 but no party submitted any bid to purchase these Domestic Shares ; and (iii) the applicant, Zhejiang Yongli, agreed to apply the sum of RMB18,630,000 (being the reserved price of the shares in the third auction) from the judgment debt granted in its favour in this litigation as considerations for the Share Transfer. Pursuant to the Judgment, it was ordered that (i) the 240,000,000 Domestic Shares (representing approximately 22.57% of the total issued shares of the Company) held by Mr. Sun (as to 60,000,000 Shares) and Mrs. Sun (as to 180,000,000 Shares) were to be assigned to Zhejiang Yongli to settle the sum of RMB18,630,000 from Zhejiang Yongli's judgment debt as mentioned above ; and (ii) Zhejiang Yongli would be entitled to effect the transfer of 240,000,000 Domestic Shares with the relevant governmental authority pursuant to the Judgment, and the Judgment would come into effect immediately after services of the Judgment. As at the Latest Practicable Date, the services of the Judgment has not been effective. Details have been included in the Company' announcement dated 14 February 2012.

H shares of RMB0.1 each of the Company

Name of Shareholder	Capacity	Number of H Shares held	Approximate percentage of interests in H Shares as at Latest Practicable Date	Approximate percentage of interests in total registered capital as at Latest Practicable Date
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.60%

3. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service agreement with the Company for three years from the date of appointment. Each of the Directors and Supervisors was appointed as Director and Supervisor of the Company respectively subject to termination in certain circumstances as stipulated in the relevant service agreements.

Save as disclosed, as at the Latest Practicable Date, none of the Directors or Supervisors has entered into any service agreements with the Company or any of its subsidiaries or associated companies, excluding contracts which may not be terminated by the Company within one year without payment of compensation other than statutory compensation.

4. LITIGATION

As at the Latest Practicable Date, no outstanding lawsuits and claims are lodged against the Company which remain outstanding, except for the following.

During the year ended 31 December 2008, the Company acted as a guarantor to secure loans granted to 浙江加佰利控股集團有限公司 Zhejiang Gabriel Holdings Group Company Ltd.* ("Gabriel") from 紹興縣亞太投資有限公司 Shaoxing Yatai Investment Co., Ltd.* ("Yatai") (the "Yatai Loan"), which is an independent third party of the Company for an amount of RMB20,000,000. On 18 October 2008, the Yatai Loan has been expired and Gabriel was unable to repay the loan to Yatai. On 18 August 2009, the Company received a writ from Shaoxing Intermediate People's Court* in relation to a claim of the outstanding Yatai Loan by Yatai against Gabriel and the Company for the outstanding overdue borrowings principal plus the interest and legal fees amount of approximately RMB30,280,000. On 9 October 2009, a civil mediation was issued by Shaoxing Intermediate People's Court*, pursuant to which Gabriel is liable to repay the sum of the outstanding principal of RMB20,000,000, the interests for the periods between 18 September 2008 to 20 October 2009 and the legal fees of RMB200,000. As a guarantor, the Company is jointly and severally liable to a sum of RMB10,000,000. At the Latest Practicable Date, the Yatai Loan has not yet been settled.

5. INTERESTS IN CONTRACT OR ARRANGEMENT

Except for the following other interests, none of the Directors or Supervisors was materially interested, directly or indirectly, in any contract or arrangement entered into at the Latest Practicable Date and which was significant in relation to the business of the Company.

As at the Latest Practicable Date, the Company had purchased electricity and steam from Zhejiang Yongli Thermal which is a subsidiary of Zhejiang Yongli and the Company's director, Mr. Xia Xian Fu, is also a legal representative and director of Zhejiang Yongli Thermal. Details of the transactions were disclosed in the first quarterly report, the interim report, and the third quarterly report of the Company for the nine months ended 30 September 2011.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company within two years immediately preceding the Latest Practicable Date and which are, or may be, material to the Company:

(a) debt agreements entered into between the Company and 浙江雄盛實業有限公司 (Zhejiang Xiongsheng Holding Co., Ltd.*) and 雄峰控股集團有限公司 (Xiongfeng Holding Group Co., Ltd.*), 浙江凌達實業有限公司 (Zhejiang Lingda Industry Co., Ltd.*), 浙江置業房產集團有限公司 (Zhejiang Zhiye Real Estate Group Co., Ltd.*), 精功集團有限公司 (Jinggong Group Co., Ltd.*), and Zhejiang Yongli on 20 July 2011, 15 August 2011, 17 August 2011, 13 September 2011, and 15 August 2011 respectively Company's debt owed to these creditors, and each of the five agreements was witnessed by the Local Government. Each of the five creditors agreed to waive a portion of debt and to permanently abandon any claim against the Company for the repayment of the same amount of the debt from the Company. The remaining debt will be settled by Zhejiang Yongli initially, part of which will be compensated subsequently by the Local Government to Zhejiang Yongli by way of governmental subsidies. The breakdowns of these Debt Agreements are summarized in the table below.

	Creditor	Amount to be settled on the relevant date of the respective agreement	Debt settlement according to Debt Agreements			Debt owed to the Creditor after Debt Agreements
			Waived by the creditor	Settled with * governmental support	Settled by Zhejiang Yongli	
1	Xiongsheng & Xiongfeng	122,753,300	42,963,600	43,135,700	36,654,000	0
2	Lingda	21,563,100	7,547,085	7,577,300	6,438,715	0
3	Zhiye	19,985,518	6,994,931	7,022,900	5,967,687	0
4	Jinggong	118,633,119	52,687,592	33,391,200	32,554,327	0
5	Zhejiang Yongli	312,157,176	58,132,465	95,962,550	158,062,161	239,676,890
	Total : (RMB)	595,092,213	176,764,418	187,089,650	239,676,890	239,676,890

* Settled initially by Zhejiang Yongli and subsequently compensated by the Local Government by way of governmental subsidies.;

(b) a debt agreement entered into between the Company and Zhejiang Yongli on 13 September 2011 in relation to the non-interest-bearing long-term debt with Zhejiang Yongli, which contains the following repayment terms:

(1) The Company shall owe the sum of RMB239,676,890 (equivalent to HK$287,612,268) (as shown in the table above) to Zhejiang Yongli, and Zhejiang Yongli shall permanently abandon any claim against the Company for the repayment of debt amounting to RMB187,089,650 (equivalent to HK$224,507,580), which will be compensated by the Local Government to Zhejiang Yongli by way of governmental subsidies (as shown in the table above);

(2) The Company shall repay Zhejiang Yongli, commencing from the fifth anniversary after the signing of the debt agreement provided that the amount to be repaid shall not exceed 50% of the year of the operating cash flow 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 events affecting Zhejiang Yongli's financial position, such as, among other things, serious operation problems, deterioration in financial situation and material litigation;

(4) No interest shall be incurred during the repayment period; and

(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.

(c) a debt agreement entered into between the Company and Ms Zhu Li Mei on 16 June 2011, which provides that, after Ms Zhu has obtained the repayment of a portion of debts through the winding up procedure of Gabriel and the court enforcement against the Company, the Company shall pay all outstanding amount to Ms Zhu totaling approximately RMB13,000,000 (equivalent to HK$15,600,000) before 20 June 2011. At present, the Company has settled the accumulated debts due to Ms. Zhu in the amount of approximately RMB16,153,880 (equivalent to HK$19,384,656) which included the above mentioned amount of approximately RMB13,000,000 (equivalent to HK$15,600,000) and the cost incurred in relation to such litigation.

(d) a technology development agreement entered into between the Company and China Textiles Development Center ("CTDC") on 15 June 2011, pursuant to which both parties agreed to develop new types of woven fabric material through a long-term cooperation. Under the Technology Development Agreement, which is valid from 15 June 2011 to 15 June 2015, the Company agreed to provide the initial capital, the subsequent research and development capital, product tests, and the place, equipment and material for the development, while CTDC agreed to provide researchers for joint development and to train the Company's technicians. Either party will support the other party or the third party appointed by the other party.

Both parties will prepare research budgets later. Both parties agreed to focus on the following three main areas of development:

(i) Development and application of new types of fabric;

(ii) Functional fabric manufacturing art craft and product design; and

(iii) Study and application of the post finishing technology of woven fabrics

Both parties agreed that (1) the Company will own the technology result, patent registration right and patent right if the Company is primarily responsible for the R&D; (2) the Company and CTDC will own 40% and 60% respectively of the technology result, patent registration right and patent right if CTDC is primarily responsible for the R&D, while the Company will have the exclusive right to product, use and sell the products and the priority right to purchase CTDC's patent right; and (3) the Company and CTDC will jointly own the technology result, patent registration right and patent right if both are responsible for the R&D. For (2) and (3), if the technology result, patent registration right or patent right is transferred to a third party or is allowed to be used by a third party, consent from the Company and CTDC will be required. Both parties agreed to keep the information, technology secrets, the result of technology development and patents confidential, and to consider setting up a research and development centre known as Zhejiang Yonglong Enterprises Fabric Material Research and Development Center in due course.

7. INTERESTS IN ASSETS

As at Latest Practicable Date, none of the Directors or Supervisors has or has had any direct or indirect interest in any assets which have 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 since 31 December 2010, being the date to which the latest published audited accounts of the Company were made up.

8. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors, Supervisors and controlling shareholder of the Company (within the meaning of the GEM Listing Rules) or any of their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company.

9. QUALIFICATION OF EXPERTS AND CONSENT

(a) The following is the qualifications of the experts who have given opinions or advice which were contained in this circular:

Name	Qualification
GF Capital (Hong Kong) Limited	Independent Financial Adviser
Avista Valuation Advisory Limited	HK Valuer
ShineWing (HK) CPA Limited	Certified Public Accountants

(b) As at the Latest Practicable Date, none of the experts listed above were interested beneficially or otherwise in any shares in the Company or any of its subsidiaries or associated corporations or any right or option to subscribe for or nominate persons to subscribe for any shares in the Company or any of its subsidiaries or associated corporations.

(c) As at the Latest Practicable Date, none of the experts listed above have any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2010, the date to which the latest published audited financial statements of the Company were made up.

(d) As at the Latest Practicable Date, all of the experts have given and have not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter of advice and/or references to its names in the form and context in which they appear.

10. MATERIAL ADVERSE CHANGE

The Directors confirm that they are not aware of any material adverse change in the financial or trading position of the business or the prospects of the Company since 31 December 2010, being the date to which the latest audited financial statements of the Company were made up.

11. SECRETARY OF THE COMPANY

The secretary of the Company is Ms. Chen Yen Yung. She is a member of the Australian Society of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

12. COMPLIANCE OFFICER OF THE COMPANY

Mr. Xia Xue Nian (夏雪年先生), aged 46, is an executive Director and compliance officer of the Company. Mr. Xia is responsible for corporate administration of the Company. He received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has over 25 years of experience in the corporate management. He joined the Company in April 2002.

13. AUDIT COMMITTEE OF THE COMPANY

The Company has established an audit committee (the "Audit Committee") in May 2002 and the primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors, Mr. Lu Guo Qing (陸國慶先生), Mr. Zong Pei Min (宗佩民先生) and Mr. Zhu Yu Lin (竺玉林先生). Mr. Lu Guo Qing is the chairman of the Audit Committee.

Mr. Lu Guo Qing, aged 46, is an independent non-executive Director of the Company. Mr. Lu graduated from the Hangzhou University in 1986 and holds a degree in law. He is a licensed lawyer and is a partner of 浙江中法大律師事務所 (Zhejiang Zhong Fa Law Firm*), a law firm in Zhejiang Province. He has extensive experience in securities law. During 1988 to 1998, he practiced in 浙江國大律師事務所 (Zhejiang Guoda Law Firm*). He is currently an independent non-executive director of 浙江展望股份有限公司 (Zhejiang Prospect Company Limited*) (Stock code: 8273), whose shares are listed on the GEM of the Stock Exchange. He was re-appointed as an independent non-executive Director of the Company in May 2008.

Mr. Zhu Yu Lin, aged 51, is an independent non-executive Director of the Company. Mr. Zhu graduated from Zhejiang University of Finance & Economics (浙江財經學院) in 1982 and holds a degree in commerce. He is a PRC Certified Public Accountant (中國註冊會計師), a PRC Certified Assets Appraiser (中國註冊資產評估師) and a PRC Certified Tax Appraiser (中國註冊稅務師). During the period from July 1982 to August 1999, he worked as administrative accountant in Zhejiang University of Finance & Economics (浙江財務學院). He has been practicing in 浙江之江會計師事務所 (Zhejiang Zhijiang Certified Public Accountants*) which was formerly named as 浙江周財會計師事務所 (Zhejiang Zhoucai Certified Public Accountants*), a certified public accounting firm in Zhejiang Province, the PRC since August 1999 and he is also a director of 浙江之江會計師事務所 (Zhejiang Zhijiang Certified Public Accountants*). He was re-appointed as an independent nonexecutive Director of the Company in September 2004.

Mr. Zong Pei Min, aged 47, is an independent non-executive Director of the Company. Mr. Zong graduated from Hangzhou University of Commerce (杭州商業學院) in 1989 and holds a degree in economics. During the period from August 1989 to May 1990, he was working as an assistant lecturer at 金華職業技術學院 (Jin Hua Technical Institute*). From June 1990 to March 2000, he was working at 浙江興合集團 (Zhejiang Xing He Group*) as supervisor of investment department. From April 2000 to July 2002, he was working at 浙江省天堂硅谷創業投資有限公司 (Zhejiang Tian Tang Gui Gu Chuang Ye Investment Ltd.*) as general manager of consulting and research department. He is currently a director of 浙江華睿投資管理有限公司 (Zhejiang Hua Rui Investment Management Co. Ltd.*). Mr. Zong was re-appointed as an independent nonexecutive Director of the Company in May 2008.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong during normal business hours up to and including 9 March 2012:

(a) the letter from the Independent Board Committee as set out in this circular;

(b) the letter from the Independent Financial Adviser as set out in this circular;

(c) the letter of consent referred to in paragraph 7 of appendix IV;

(d) the Electricity and Steam Supply Agreement;

(e) the unaudited pro forma financial information of the Remaining Group as set out in appendix II in this circular;

(f) the valuation report on the Selling Assets prepared by the HK Valuer as set out in appendix III in this circular; and

(g) the Assets Transfer Agreement;

(h) the memorandum and articles of association of the Company;

(i) the annual reports of the Company for each of the three financial years ended 31 December 2010;

(j) the material contracts referred to in the section headed "Material contracts" in this appendix; and

(k) a copy of this circular.

15. MISCELLANEOUS

The principal place of business and legal address of the Company in the PRC is at Yangxun Qiao Town, Shaoxing County, Zhejiang Province, the PRC;

The place of business of the Company in Hong Kong is at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong;

The share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lokhart Road, Wanchai, Hong Kong;

The English text of this circular and the accompanying form of proxy and reply slip shall prevail over their respective Chinese texts in case of inconsistency.

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, Shaoxing County, Zhejiang Province, the People's Republic of China on Wednesday, 11 April 2012 at 10:30 a.m. for the purpose of considering and, if thought fit, pass with or without modifications, the following resolutions as ordinary resolutions:–

ORDINARY RESOLUTIONS

1. "**THAT**

(i) the assets transfer agreement dated 30 December 2011 entered into between the Company, as vendor, and 紹興縣楊汛橋鎮人民政府 (The People's Government of Yang Xun Qiao Town, Shaoxing County*), as purchaser, in relation to the disposal of the land use rights of the five parcels of adjoined land located at Sunjia Qiao, Yang Xun Qiao Town, Shaoxing County, Zhejiang Province, the People's Republic of China with a total site area of approximately 61,035 square metres, and the factory buildings, office buildings and other constructed structures thereon with a total gross floor area of approximately 63,282 square metres at a total consideration of RMB79,772,200 (the "**Assets Transfer Agreement**", a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(ii) the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he may in his absolute discretion consider necessary, desirable or expedient for the purposes of or in connection to implementing, completing and giving effect to the Assets Transfer Agreement and the transactions contemplated thereunder and to agree to such variations for the terms of the Assets Transfer Agreement as he may in his absolute discretion consider necessary or desirable."

2. "**THAT**

(i) the electricity and steam supply agreement dated 30 December 2011 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**") in respect of the provision of electricity and steam from Zhejiang Yongli Thermal to the Company (the "**Electricity and Steam Supply Agreement**", a copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(ii) the relevant annual caps for each of the three years ending 31 December 2014 being RMB17,136,000 in 2012, RMB17,404,000 in 2013 and RMB18,410,000 in 2014, be and are hereby approved; and

(iii) the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he may in his absolute discretion consider necessary, desirable or expedient for the purposes of or in connection to implementing, completing and giving effect to the Electricity and Steam Supply Agreement and the annual caps and the transactions contemplated thereunder and to agree to such variations for the terms of the Electricity and Steam Supply Agreement as he may in his absolute discretion consider necessary or desirable."

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

Zhejiang, the PRC, 24 February 2012

** For identification purpose only*

Notes:

1. The H Shares register of shareholders of the Company will be closed from 11 March 2012 to 11 April 2012 (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 shareholders of the Company at the close of business on 9 March 2012 will be entitled to attend and vote at the EGM.

2. Any shareholder of H Shares and 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 and 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 to the office of the share registrar of the Company in Hong Kong, Union Registrars Limited at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not less than 24 hours before the time for holding the EGM 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 office of the share registrar of the Company in Hong Kong, Union Registrars Limited at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong and the Company's legal address at Yangxun Qiao Town, Shaoxing County, Zhejiang Province, the People's Republic of China respectively on or before 22 March 2012. The reply slip may be delivered to the Company by hand, by post or by fax (at fax No.: (86) 575-84576266)

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.