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浙江永隆實業股份有限公司
ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code : 8211)

ANNOUNCEMENT
CONTINUING CONNECTED TRANSACTION

Financial Advisor to Zhejiang Yonglong Enterprises Co., Ltd.



On 30 December 2011 Zhejiang Yongli Thermal, a subsidiary of Zhejiang Yongli, entered into the Electricity and Steam Supply Agreement with the Company.

Both parties agreed that, from 1 January 2012 to 31 December 2014, Zhejiang Yongli will provide the Company annually with electricity at an average price of RMB0.47 kW per hour and steam at an average price of RMB220 per ton and the rates can be adjusted. The Annual Caps of Transaction for the years ending 31 December 2012, 2013 and 2014 are RMB17,136,000, RMB17,404,000 and RMB18,410,000 respectively (equivalent to approximately HK\$21,077,280, HK\$21,406,920 and HK\$22,644,300 respectively).

Since Zhejiang Yongli holds 310,000,000 shares of the Company, representing approximately 29.15% of the issued share capital of the Company, and accordingly a connected person of the Company, and Zhejiang Yongli Thermal is a subsidiary of Zhejiang Yongli and accordingly an associate of Zhejiang Yongli. Therefore, the Transaction under the Electricity and Steam Supply Agreement 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 on an annual basis is more than 25%, the Electricity and Steam Supply Agreement will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Company will establish an Independent Board Committee to advise the Independent Shareholders in respect of the Electricity and Steam Supply Agreement, and seek Independent Shareholders' approval at the EGM. An EGM will be convened to obtain the Independent Shareholders' approval. An Independent Board Committee, comprising all the independent non-executive Directors, will be established to advise the Independent Shareholders in respect of the Electricity and Steam Supply Agreement and the proposed Annual Caps. The Independent Financial Adviser has been appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders on the same. Zhejiang Yongli and its associates will abstain from voting in relation to the resolution approving the Electricity and Steam Supply Agreement at the EGM.

A circular containing, among others, (i) further details of the Electricity and Steam Supply Agreement; (ii) the respective recommendations of the Independent Financial Adviser and the Independent Board Committee; and (iii) the notice of the EGM, is expected to be despatched to the shareholders of the Company on or before 3 February 2012 in accordance with the GEM Listing Rules.

THE ELECTRICITY AND STEAM SUPPLY AGREEMENT

Date: 30 December 2011

Parties in the Transaction: (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 its 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 HK\$20,522,550) and will supply not more than 2,050 ton of steam amounting to RMB 451,000 (equivalent to HK\$554,730), with a total of RMB17,136,000 (equivalent to 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 HK\$20,811,600) and will supply not more than 2,200 ton of steam amounting to RMB484,000 (equivalent to HK\$595,320), with a total of RMB17,404,000 (equivalent to 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 HK\$21,967,800) and will supply not more than 2,500 ton of steam amounting to RMB550,000 (equivalent to HK\$676,500), with a total of RMB18,410,000 (equivalent to HK\$22,644,300), to the Company.

Annual Caps: RMB17,136,000 (equivalent to HK\$21,077,280) in 2012;
RMB17,404,000 (equivalent to HK\$21,406,920) in 2013; and
RMB18,410,000 (equivalent to 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. 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 its shareholders as a whole. Pursuant to the Electricity and Steam Supply Agreement, new agreements will be signed if the Annual Caps are exceeded.

CONDITION PRECEDENT

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

REASONS FOR ENTERING INTO THE ELECTRICITY AND STEAM SUPPLY AGREEMENT

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 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.

Zhejiang Yongli Thermal started to provide the Company with electricity and steam in February 2011, amounting 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. 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 on, 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.

INFORMATION ABOUT THE COMPANY AND ZHEJIANG YONGLI THERMAL

The Company

The Company is a joint stock limited company established in the PRC and the H Shares of the Company are listed on the GEM of the Stock Exchange.

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

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.

GEM LISTING RULES IMPLICATIONS

As Zhejiang Yongli Thermal is a subsidiary of Zhejiang Yongli and Zhejiang Yongli is a shareholder of the Company directly holding 310,000,000 shares of the Company, 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.

An Independent Board Committee, comprising all the independent non-executive Directors, will be established to advise the Independent Shareholders in respect of the Electricity and Steam Supply Agreement and the proposed Annual Caps. The Independent Financial Adviser has been appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders on the same.

A circular containing, among others, (i) further details of the Electricity and Steam Supply Agreement; (ii) the respective recommendations of the Independent Financial Adviser and the Independent Board Committee; and (iii) the notice of the EGM, is expected to be despatched to the shareholders of the Company on or before 3 February 2012 in accordance with the GEM Listing Rules.

SUSPENSION OF TRADING

Trading in the shares of the Company will remain suspended until all the resumptions conditions required by the Stock Exchange as set out in the announcement of the Company dated 20 March 2009 have been fulfilled.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“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
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors of the Company
“Chairman”	chairman of the Board
“Company”	浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd.*), a joint stock limited company incorporated in the PRC
“connected person(s)”	has the meaning ascribed to it in Rule 1.01 of the GEM Listing Rules and as extended by Rule 20.11 of the GEM Listing Rules
“continuing connected transaction”	has the same meaning ascribed thereto under the GEM Listing Rules
“Continuing Connected Transaction” or “Transaction”	the transaction contemplated under the Electricity and Steam Supply Agreement
“Director(s)”	director(s) of the Company
“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 in the course of the Company’s business

“EGM”	an extraordinary general meeting to be convened and held to consider, and if though fit, approve the proposed Electricity and Steam Supply Agreement and proposed Annual Caps
“GEM”	the Growth Enterprise Market
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM of the Stock Exchange in effect from time to time
“H Share(s)”	oversea listed foreign share(s) of nominal value of RMB0.10 each in the registered capital of the Company which are listed on GEM and subscribed for in HK\$
“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
“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 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
“kW”	kilowatt
“Percentage Ratio(s)”	the percentage ratio(s) as set out in Rule 19.07 of the GEM Listing Rules to be applied for determining the classification of a transaction
“PRC”	the People’s Republic of China
“RMB”	Reminbi, the lawful currency of the PRC
“SFO”	the securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong)

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhejiang Yongli”	浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd.*) a company established in the PRC
“Zhejiang Yongli Thermal”	浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited*) a company established in the PRC
“%”	per cent.

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

10 January 2012, Zhejiang, the PRC

** for identification purpose only*

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

This announcement, for which the Directors of the Company 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 of the Company having made all reasonable enquiries, confirm that to the best of their knowledge and belief: the information contained in this announcement 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 announcement misleading.

This announcement will remain on the “Latest Company Announcement” page of the GEM website for at least 7 days from the date of its publication and the website of the Company at <http://www.zj-yonglong.com>.

For the purpose of this announcement, all amounts denominated in RMB has been converted in HK\$ at the rate of RMB1.00=HK\$1.23 for illustrative purpose.