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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)

VERY SUBSTANTIAL DISPOSAL

Financial Adviser to the Company



THE ASSETS TRANSFER AGREEMENT

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).

The Consideration of RMB79,772,200 (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 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.

GEM LISTING RULES IMPLICATIONS

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.

GENERAL

A circular containing, amongst other things, details of the Assets Transfer Agreement together with a notice of the EGM to approve the Disposal will be despatched to the Shareholders. In accordance with Rule 19.60(7) of the GEM Listing Rules, as the Company may require additional time to prepare and finalise certain information that is to be included in the circular, the despatch date of the circular is expected to be delayed and the circular may be despatched on or before 29 February 2012.

Completion is subject to the fulfillment of condition precedent of obtaining the approval of the Shareholders, and therefore, the Disposal may or may not proceed. Shareholders and investors are advised to exercise caution when dealing in the Shares.

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).

THE ASSETS TRANSFER AGREEMENT

Date

30 December 2011

Parties

Vendor: The Company

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

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.

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 that the public auction or listing-for-sale process of the Selling Assets (the "Auction") to be held by the Purchaser being completed. 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 held 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 held 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 in a draft report that the market value of the Selling Assets as at 30 September 2011 was RMB59,977,000 (equivalent to approximately HK\$73,771,710). Details in relation to the basis and method of valuation will be included in the circular to be despatched to the Shareholders.

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).

While (i) 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 of the Selling Assets prepared by the HK Valuer, (ii) 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 of the Selling Assets 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 transaction 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 adjoining 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 <i>approximately</i> (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
		<hr/>		
		Total		<u><u>61,035</u></u>

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 and a guard house 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 2009 and 2010 financial years.

INFORMATION ON THE PURCHASER

The People's Government of Yang Xun Qiao Town, Shaoxing County (紹興縣楊汛橋鎮人民政府) 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 the relevant income tax (*Note 1*) and to be received is approximately RMB69,710,650 (equivalent to approximately HK\$85,744,100), the Company is expected to enhance its cash flow and to recognise an expected gain (after deducting the relevant income tax) of approximately RMB30,184,650 (equivalent to approximately HK\$37,127,119) as a result of the Disposal.

Note 1: Income tax 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.

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 People’s Government of Yang Xun Qiao Town, Shaoxing County (紹興縣楊汛橋人民政府) 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 relevant income tax) of approximately RMB30,184,650 (equivalent to approximately HK\$37,127,119) from the disposal of the Selling Assets. The Directors (including the independent non-executive 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 the relevant income tax is estimated to be approximately RMB69,710,650 (equivalent to approximately HK\$85,744,100). The Company intends to apply the net proceeds of the Disposal as general working capital.

GEM LISTING RULES IMPLICATION

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.

GENERAL

A circular containing, amongst other things, details of the Assets Transfer Agreement together with a notice of the EGM to approve the Disposal will be despatched to the Shareholders. In accordance with Rule 19.60(7) of the GEM Listing Rules, as the Company may require additional time to prepare and finalise certain information that is to be included in the circular, the despatch date of the circular is expected to be delayed and the circular may be despatched on or before 29 February 2012.

SUSPENSION OF TRADING

Trading in the shares of the Company will remain suspended until all the resumption 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:

“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

“Consideration”	the total consideration of RMB79,772,200 (equivalent to approximately HK\$98,119,806) for the Selling Assets under the Assets Transfer Agreement
“Director(s)”	director(s) 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
“EGM”	an extraordinary general meeting to be convened and held to consider, and if though fit, approve the Assets Transfer Agreement
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK Valuer”	Avista Valuation Advisory Limited, an independent property valuer in HK
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Jianwu Village”	Jianwu Village, Yang Xun Qiao Town, Shaoxing County, Zhejiang Province, China
“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 ON THE SELLING ASSETS” in this announcement
“Percentage Ratios”	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
“Purchaser”	the People’s Government of Yang Xun Qiao Town, Shaoxing County* (紹興縣楊汛橋鎮人民政府)
“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
“Share(s)”	shares(s) in the capital of the Company
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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

16 January 2012, Zhejiang, the PRC

** For identification purposes 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 illustration purpose.