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If you have sold or transferred all your shares in Zhejiang Yonglong Enterprises Co., Ltd., you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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浙江永隆實業股份有限公司
ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code : 8211)

CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent financial adviser to
the Independent Board Committee and Independent Shareholders

 **Baron Capital Limited**

A letter from the Board is set out on pages 4 to 9 of this circular. A letter from the Independent Board Committee is set out on page 10 of this circular.

A letter from Baron Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 17 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 18 March 2008 or any adjournment thereof is set out on pages 22 to 24 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 legal address of Zhejiang Yonglong Enterprises Co., Ltd. at Yangxun Qiao Town, Shaoxing County, Zhejiang Province, the People's Republic of China 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.

31 January 2008

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

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

“associates”	has the meanings ascribed in the GEM Listing Rules
“Baron Capital”	Baron Capital Limited, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Board”	the board of Directors
“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
“Continuing Connected Transactions”	the continuing connected transactions entered into between the Company and Miroglio Group for the provision of Textile Products under the Miroglio Agreement and the continuing connected transactions entered into between the Company and Fulida for the provision of Dyeing Services by Fulida to the Company under the Fulida Agreement
“Director(s)”	director(s), including the independent non-executive directors of the Company
“Dyeing Services”	the services of dyeing of woven fabric provided by Fulida to the Company
“EGM”	the extraordinary general meeting of the Company to be held at the Conference Room of the Company at Yangxun Qiao Town, Shaoxing County, Zhejiang Province, the PRC, at 10:30 a.m. on 18 March 2008
“Fulida”	Zhejiang Miroglio Fulida Textile Co. Ltd., a company established in the PRC
“Fulida Agreement”	the agreement dated 14 January 2008 entered into between the Company and Fulida for the provision of Dyeing Services
“Fulida Caps”	the proposed maximum annual aggregate value of the transactions to be contemplated under the Fulida Agreement

DEFINITIONS

“Fulida Transactions”	the provision of Dyeing Services by Fulida to the Company under the Fulida Agreement
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Independent Board Committee”	the independent committee of the Board established for the purpose of reviewing the terms of the Miroglio Agreement, the Fulida Agreement, the Fulida Caps and the Miroglio Caps
“Independent Shareholders”	Shareholders independent of Miroglio and its associates
“Latest Practicable Date”	29 January 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Miroglio”	Miroglio S.p.A., a company established and existing under the laws of Italy and is engaging in the textile and garment businesses
“Miroglio Agreement”	the agreement entered into between the Company and Miroglio dated 15 January 2008 in respect of the purchase of Textile Products
“Miroglio Caps”	the proposed maximum annual aggregate value of the transactions to be contemplated under the Miroglio Agreement
“Miroglio Group”	Miroglio and its subsidiaries
“Miroglio Transactions”	the continuing connected transactions entered into between the Company and Miroglio Group for the provision of Textile Products
“Percentage Ratios”	the percentage ratios (other than the profits ratio) as set out in Rule 19.07 of the GEM Listing Rules
“PRC”	the People’s Republic of China
“SFO”	Securities and Futures Ordinance (Chapter 571, the laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisors”	supervisors of the Company

DEFINITIONS

“Textile Products”	the woven fabrics provided by the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“USD”	United States dollars, the lawful currency of the United States of America

For the purpose of this circular only and unless otherwise stated, translation of Renminbi into Hong Kong dollars and Hong Kong dollars into United States Dollars are based on the exchange rate of HK\$1.00 = RMB0.97275 (being the average exchange rate for the period from 1 January 2007 to 31 December 2007) and USD1.00 = HK\$7.80 respectively.

LETTER FROM THE BOARD



浙江永隆實業股份有限公司

ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code : 8211)

Board of Directors

Executive Directors:

Mr. Sun Li Yong

Ms. Fang Xiao Jian

Mr. Li Cheng Jun

Mr. Sun Jian Feng

Mr. Xia Xue Nian

Mr. Marco Borio

Independent non-executive Directors:

Mr. Zhu Yu Lin

Mr. Zhong Pei Min

Mr. Luk Guo Qing

Legal Address:

Yangxun Qiao Town

Shaoxing County

Zhejiang Province

The People's Republic of China

Place of business in Hong Kong:

Room 620, 6/F

Chevalier Commercial Centre

No. 8 Wang Hoi Road

Kowloon Bay

Hong Kong

31 January 2008

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

Reference is made to the announcements of the Company dated 16 January 2008, 27 April 2007 and the circular of the Company dated 14 November 2005 in respect of, inter alia, (i) the provision of Dyeing Services from Fulida to the Company and (ii) supply of Textile Products from the Company to Miroglio Group.

The letter agreement and the supplemental letter agreement previously entered into between the Company and Miroglio relating to the Miroglio Transactions expired on 31 December 2007, the Board wishes to announce that the Miroglio Agreement has been entered into between the Company and Miroglio on 15 January 2008 to renew the Miroglio Transactions for a term of three years from 2008 to 2010. The Board also wishes to announce that the agreement previously entered into between the Company and Fulida relating to the Fulida Transactions expired on 31 December 2007 and the

* For identification purpose only

LETTER FROM THE BOARD

Company and Fulida have entered into the Fulida Agreement on 14 January 2008 in respect of the Fulida Transactions for a term of three years from 2008 to 2010.

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Zhu Yu Lin, Mr. Zhong Pei Min and Mr. Luk Guo Qing, has been established to advise the Shareholders as to whether the terms under the Fulida Agreement, the Miroglio Agreement, the Fulida Caps and the Miroglio Caps are fair and reasonable, on normal commercial terms and whether such transactions are in the interests of the Company and the Shareholders as a whole. Baron Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

II. FULIDA AGREEMENT

Date

14 January 2008

Parties

1. the Company; and
2. Fulida.

Particulars of the Fulida Agreement

Pursuant to the Fulida Agreement, Fulida will provide Dyeing Services to the Company for the period from 1 January 2008 to 31 December 2010 for not more than 27,686,098.28 square metres of fabric at the unit price which is to be determined with reference to the market price offered by Fulida to independent third parties. The fees for provision of Dyeing Services from Fulida to the Company will be settled by cash through bank transfer within 30 days of issue of invoice in accordance with the terms of the relevant subcontracting orders.

Proposed Fulida Caps

The amount of transactions, which were exclusive of tax, under the Fulida Transactions for the two financial years ended 31 December 2007 was RMB7,517,961.05 and RMB9,545,295.59 respectively (equivalent to approximately HK\$7,728,564.43 and HK\$9,812,691.43 respectively).

It is expected that the Fulida Caps for the Fulida Transactions for each of the three financial years ending 31 December 2010 will not exceed RMB19,079,021.09, RMB24,802,727.42 and RMB29,763,272.90 respectively (equivalent to approximately HK\$19,613,488.66, HK\$25,497,535.25 and HK\$30,597,042.31 respectively) and have been determined with reference to (i) the amount of transactions for the two financial years ended 31 December 2007; (ii) the expansion of the production capacity of the Company; (iii) the expected growth of the Company from 1 January 2008 to 31 December 2010 in view of the economic growth in the PRC and the growth in demand for textile products.

LETTER FROM THE BOARD

The Fulida Caps will exceed 2.5% under the applicable Percentage Ratios and will be more than HK\$10,000,000, therefore the Fulida Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Reasons for and benefits of the entering into of the Fulida Agreement

The Company is principally engaged in the research and development, manufacture and sale of woven fabrics. Fulida is a company engaged in provision of dyeing services in Zhejiang Province, the PRC. Given that the quality of the Dyeing Services provided by Fulida is satisfactory and the provision of Dyeing Services is based on market price, the Company continues to engage Fulida to provide Dyeing Services. In addition, the Directors consider that the entering into of the Agreement will secure a source of provision of dyeing service to the Company. The Board believes that the Fulida Transactions will not bring any disadvantage to the Company.

The consideration payable for the Dyeing Services under the Fulida Agreement is determined after arm's length negotiations between the parties thereto and will be no less favourable than terms the Company can otherwise obtain in the market. The Directors are of the view that the terms of the Fulida Agreement are fair and reasonable so far as the Independent Shareholders are concerned and that the Fulida Agreement is on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

III. MIROGLIO AGREEMENT

Date

15 January 2008

Parties

1. the Company; and
2. Miroglio.

Particulars of the Miroglio Agreement

Pursuant to the Miroglio Agreement, Miroglio Group will purchase not more than 16,700,000 metres of Textile Products from the Company at the average purchase price of USD2.72 per metre during the three years ending 31 December 2010.

The unit price for Textile Products under each purchase order is determined with reference to the prevailing market price of similar products offered to independent third parties. The fees for Textile Products supplied to Miroglio Group will be settled by letter of credit within 90 days in accordance with the terms of the relevant purchase orders.

LETTER FROM THE BOARD

Proposed Miroglio Caps

The amount of transactions, which were exclusive of tax, under the Miroglio Transactions for the three financial years ended 31 December 2007 was USD4,113,011.50, USD8,274,909.42 and USD10,892,270.16 respectively (equivalent to approximately HK\$32,081,489.70, HK\$64,544,293.48 and HK\$84,959,707.25 respectively).

It is expected that the Miroglio Caps for the Miroglio Transactions for each of the three financial years ending 31 December 2010 will not exceed USD14,144,000, USD15,232,000 and USD16,048,000 respectively (equivalent to approximately HK\$110,323,000, HK\$118,809,600 and HK\$125,174,400 respectively) and have been determined with reference to (i) the amount of Miroglio Transactions for the three financial year ended 31 December 2007; (ii) the expansion of the production capacity of the Company; (iii) the expected growth of the Company from 1 January 2008 to 31 December 2010 in view of the economic growth in the PRC and the growth in demand for textile products.

The Miroglio Caps will exceed 2.5% under the Percentage Ratios and will be more than HK\$10,000,000, therefore the Miroglio Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Reasons for and benefits of the entering into of the Miroglio Agreement

Miroglio is an enterprise engaging in the textile and garment businesses in Europe. The Company has been providing Textile Products to Miroglio Group since January, 2004. Provision of the Textile Products have been conducted in the ordinary and usual course of business of the Company and are on normal commercial terms.

The Directors consider that supply of Textile Products to Miroglio Group will maintain the long-term co-operation relationship with Miroglio and secure the turnover of the Company. By continuing to export its products to Europe, the Company may keep on increasing its market share in Europe and exploring the possibility to expand its distribution network in overseas markets. The Board believes that the Miroglio Transactions will not bring any disadvantage to the Company.

The terms of the Miroglio Agreement is determined after arm's length negotiations between the parties thereto and will be no less favourable than terms the Company can otherwise obtain in the market. The Directors are of the view that the terms of the Miroglio Agreement are fair and reasonable so far as the Independent Shareholders are concerned and that the Miroglio Agreement is on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

IV. CONTINUING CONNECTED TRANSACTIONS

Miroglio is a substantial shareholder holding approximately 19.70% of the total issued share capital of the Company as at the date hereof. Miroglio is regarded as a connected person of the Company within the meaning of the GEM Listing Rules and any transactions between the Company and Miroglio will constitute connected transactions of the Company. Fulida is a company established in the PRC, the registered capital of which is owned as to 50% by Miroglio and 50% by 浙江富麗達控股集團有限公司 (Zhejiang Fulida Holdings Group Limited*), a third party independent of the Company and connected person of the Company. Given that Fulida is owned as to 50% by Miroglio, Fulida is an associate of Miroglio and therefore a connected person of the Company. The provision of Dyeing Services by Fulida to the Company constituted continuing connected transactions of the Company.

The Fulida Caps and Miroglio Caps for each of the three years ending 31 December 2010 shall not be less than 2.5% of the Percentage Ratios or less than HK\$10,000,000, each of the Fulida Transactions and the Miroglio Transactions are subject to independent shareholder's approval requirements under Chapter 20 of the GEM Listing Rules. Miroglio and its associates will abstain from voting in relation to the ordinary resolutions to be put forward at the EGM for the purpose of approving the Fulida Agreement, the Miroglio Agreement and the transactions contemplated thereunder, and the Fulida Caps and the Miroglio Caps.

V. RIGHT TO DEMAND POLL

Article 72 of the Articles of Association provides that, inter alia, a resolution put to vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least two members present in person or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person or by proxy representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting.

Pursuant to Rule 20.52, the votes to be taken at the EGM will be taken by poll, the results of which will be announced after the EGM. Miroglio and its associates will abstain from voting in relation to the ordinary resolutions to be put forward at the EGM for the purpose of approving the Fulida Agreement, the Miroglio Agreement and the transactions contemplated thereunder, and the Fulida Caps and the Miroglio Caps.

* For identification purpose only

LETTER FROM THE BOARD

VI. RECOMMENDATION

The Directors (including all the independent non-executive Directors) are of the view that the terms of the Fulida Agreement and the Miroglio Agreement, the Fulida Caps and the Miroglio Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors (including all the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM.

The Independent Board Committee, having considered the advice from Baron Capital, considers that the terms of the Fulida Agreement and the Miroglio Agreement, the Fulida Caps and the Miroglio Caps are fair and reasonable and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee has recommended the Shareholders to vote in favour of the resolutions in respect of the Fulida Agreement and the Miroglio Agreement and the transactions contemplated thereunder and the Fulida Caps and the Miroglio Caps to be proposed at the EGM. The text of the letter from the Independent Board Committee is set out on page 10 of this circular.

The text of the letter from Baron Capital, containing its opinion and the principal factors and reasons taken into account in arriving at its opinion is set out on pages 11 to 17 of this circular.

VII. GENERAL

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

By Order of the Board
Sun Li Yong
Chairman



浙江永隆實業股份有限公司
ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code : 8211)

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 31 January 2008 (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 Fulida Agreement, the Miroglio Agreement, the Fulida Caps and the Miroglio 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 9 of the Circular and the letter from Baron Capital as set out on pages 11 to 17 of the Circular which contains, inter alia, its advice and recommendation to us and the Independent Shareholders regarding the terms of the Fulida Agreement and the Miroglio Agreement, the Fulida Caps and the Miroglio Caps together with the principal factors and reasons for its advice and recommendation.

Having taken into account the advice and recommendation of Baron Capital, we consider that the Fulida Agreement, the Miroglio Agreement, the Fulida Caps and the Miroglio Caps are fair and reasonable so far as the interest of the Independent Shareholders are concerned and to conduct the Continuing Connected Transactions under the Fulida Agreement and the Miroglio Agreement, the Fulida Caps and the Miroglio Caps are 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 Transactions with the Fulida Caps and the Miroglio Caps.

Yours faithfully,

For and on behalf of

Independent Board Committee

Zhu Yu Lin

Zhong Pei Min

Luk Guo Qing

* For identification purpose only

LETTER FROM BARON CAPITAL

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Baron Capital dated 31 January 2008 prepared for the purpose of incorporation in this circular:



4/F, Aon China Building
29 Queen's Road Central
Central, Hong Kong

31 January 2008

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Fulida Agreement and the Miroglio Agreement and the Continuing Connected Transactions, details of which are set out in the section headed "Letter from the Board" contained in the circular of the Company dated 31 January 2008 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

On 16 January 2008, the Board announced that the Company entered into (i) the Fulida Agreement with Fulida on 14 January 2008 in respect of the Fulida Transactions for a term of three years from 2008 to 2010; and (ii) the Miroglio Agreement with Miroglio on 15 January 2008 to renew the Miroglio Transactions for a term of three years from 2008 to 2010.

As Miroglio is a substantial shareholder and therefore a connected person of the Company within the GEM Listing Rules, the Miroglio Transactions constitute continuing connected transactions of the Company. Given that Fulida is owned as to 50% by Miroglio and is an associate of Miroglio and therefore a connected person of the Company, the Fulida Transactions constitute continuing connected transactions of the Company. As the Fulida Caps and Miroglio Caps for each of the three years ending 31 December 2010 shall not be less than 2.5% of the Percentage Ratios or less than HK\$10,000,000, each of the Fulida Transactions and the Miroglio Transactions are subject to independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. Miroglio and its associates will abstain from voting in relation to the ordinary resolutions to be put forward at the EGM for the purpose of approving the Fulida Agreement and the Miroglio Agreement and the transactions contemplated thereunder.

LETTER FROM BARON CAPITAL

The Independent Board Committee, comprising Mr. Zong Pei Min, Mr. Luk Guo Qing and Mr. Zhu Yu Lin, has been established to advise the Independent Shareholders in respect of the terms of the Fulida Agreement and the Miroglio Agreement, the Fulida Caps and the Miroglio Caps and to make a recommendation as to voting at the EGM. Baron Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in these regards.

BASIS OF OUR OPINION

In arriving at our opinion and recommendation, we have relied on the information and representations contained or referred to in the Circular and the information supplied and the opinions expressed by the Directors and the management of the Company. We have assumed that the information and representations contained or referred to in the Circular and the information supplied and the opinions expressed by the Directors and the management of the Company are true, accurate and complete at the time they were made and continue to be so as at the date of the Circular.

We consider that we have been provided with sufficient information to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading.

Having made all reasonable enquiries, the Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and further confirmed that, to their best knowledge and belief, there are no other facts or representations the omission of which would make any statements in the Circular, including this letter, misleading.

We have not, however, conducted any independent verification on the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company and its proposed business plan nor have we considered the taxation implication on the Company as a result of the Fulida Agreement and the Miroglio Agreement and the transactions contemplated thereunder.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Fulida Agreement and the Miroglio Agreement and the Continuing Connected Transactions, we have taken the following principal factors and reasons into consideration:

1. The Fulida Agreement

Background and reasons of the Fulida Transactions

The Company is principally engaged in the research and development, manufacture and sale of woven fabrics. Fulida is a company established in the PRC engaging in the provision of dyeing services in Zhejiang Province, PRC. We note from the third quarterly report 2007 of the Company that the Company has engaged Fulida to provide dyeing services for the woven fabrics of the Company since 29 May 2006.

We are advised by the Company that it does not engage in the dyeing of Textile Products manufactured by it and that it subcontracts dyeing services to Fulida and other third parties. As stated in the section headed "Letter from the Board" of this Circular, given that the quality of the Dyeing Services provided by Fulida is satisfactory and the provision of Dyeing Services is based on market price, the Company continues to engage Fulida to provide Dyeing Services. We are also advised by the Company that all Textile Products manufactured and sold to Miroglio Group must be dyed before delivery and that a majority of such dyeing services are performed by Fulida because of the high quality of Dyeing Services provided by Fulida. As a result, we are of the view that the entering into of the Fulida Agreement and the Fulida Transactions are in the ordinary course of business of the Company and in the interests of the Company and the Shareholders as a whole.

Principle terms of the Fulida Agreement and the Fulida Caps

Pursuant to the Fulida Agreement, Fulida has agreed to provide Dyeing Services to the Company for not more than 27,686,098.28 square metres of fabric at a unit price which is to be determined with reference to the market price offered by Fulida to independent third parties. The fees for provision of Dyeing Services from Fulida to the Company will be settled by cash through bank transfer within 30 days of issue of invoice in accordance with the terms of the relevant subcontracting orders.

The proposed Fulida Caps for the Fulida Transactions for each of the three financial years ending 31 December 2010 are RMB19,079,021.09 (equivalent to approximately HK\$19,613,488.66), RMB24,802,727.42 (equivalent to approximately HK\$25,497,535.25) and RMB29,763,272.90 (equivalent to approximately HK\$30,597,042.31) respectively which are calculated based on the estimated 7,172,564.32, 9,324,333.62 and 11,189,200.34 metres of woven fabrics that will be dyed for each of the three financial years ending 31 December 2010 respectively multiplied by the historical weighted average price

(exclusive of tax) of RMB2.66 per metre for the year ended 31 December 2007. The estimated 7,172,564.32 metres of Textile Products that will be dyed by Fulida for the financial year ending 31 December 2008 is about double the actual total quantity of Textile Products that were dyed by Fulida for the year ended 31 December 2007. We note that the estimated 9,324,333.62 and 11,189,200.34 metres of Textile Products that will be dyed for the financial years ending 31 December 2009 and 2010 increase by 30% and 20% respectively over their respective previous year's transactions. As advised by the Company, the total dyeing subcontracting fee paid for the year ended 31 December 2007 by the Company was approximately RMB34,329,871.12. The proposed Fulida Caps for the Fulida Transactions for each of the three years ending 31 December 2010 account for approximately 56%, 72% and 87% respectively of the total dyeing subcontracting fee paid by the Company for the year ended 31 December 2007. As further advised by the Company, it had been notified by Miroglio that purchase orders of Textile Products from Miroglio Group for each of the three financial years ending 31 December 2010 are expected to increase by approximately 30%, 8% and 5% respectively. Taking into account (i) the purchase orders of the Textile Products from Miroglio Group for each of the three financial years ending 31 December 2010 are expected to increase; (ii) the demand for higher quality Textile Products from Miroglio Group and other existing customers is expected to increase; (iii) the Company plans to subcontract a significant amount of the dyeing services to Fulida commencing from 2008 as Fulida provides a higher and better quality of dyeing services with comparable prices; and (iv) the proposed Fulida Caps for the Fulida Transactions for each of the three years ending 31 December 2010 fall within the total dyeing subcontracting fee paid for the year ended 31 December 2007, we are of the view that the proposed Fulida Caps are fair and reasonable in order to provide flexibility to meet the growing need of Dyeing Services from Fulida.

We have reviewed and compared the terms and unit price of dyeing services between the Company and Fulida and those with independent third parties on a sampling basis for several kinds of Textile Products that were dyed during the period from 29 May 2006 to 31 December 2007 and are satisfied that the terms and unit price of the Dyeing Services are not less favourable to the Company than those available from independent dyeing services providers.

Having considered the above, we are of the opinion that the terms of the Fulida Agreement and the Fulida Caps for the Fulida Transactions for each of the three financial years ending 31 December 2010 are fair and reasonable so far as the Independent Shareholders are concerned.

2. The Miroglio Agreement

Background and reasons of the Miroglio Transactions

Miroglio is an enterprise engaging in the textile and garment businesses in Europe. The Company has been providing Textile Products to Miroglio Group since January 2004. On 24 March 2005, Miroglio became a substantial shareholder of the Company holding approximately 19.70% of the total issued share capital of the Company which made Miroglio a connected person within the meaning of the GEM Listing Rules.

LETTER FROM BARON CAPITAL

The letter agreement dated 30 August 2005 and the supplemental letter agreement dated 26 October 2005 previously entered into between the Company and Miroglio relating to the Miroglio Transactions expired on 31 December 2007. To continue supplying Textile Products to Miroglio Group, the Miroglio Agreement has been entered into between the Company and Miroglio on 15 January 2008 to renew the Miroglio Transactions for a term of three years from 2008 to 2010.

As stated in the section headed “Letter from the Board” in this Circular, the Directors consider that the supply of Textile Products to Miroglio Group will maintain the long-term co-operation relationship with Miroglio and secure the turnover of the Company. We are advised by the Company that sales of Textile Products to Miroglio Group has increased each year since 2004. We note from the annual reports of the Company that the proportion of European sales of Textile Products to total turnover has increased from approximately 9.3% in 2004 to approximately 23.4% in 2006. By continuing to export its products to Europe, the Company may keep on increasing its market share in Europe and exploring the possibility to expand its distribution network in overseas markets. We concur with the view of the Directors that the entering into of the Miroglio Agreement and the Miroglio Transactions are in the ordinary and usual course of the Company’s business and are in the interests of the Company and the Shareholders as a whole.

Principle terms of the Miroglio Agreement and the Miroglio Caps

Pursuant to the Miroglio Agreement, Miroglio Group will purchase not more than 16,700,000 metres of Textile Products from the Company at the average purchase price of USD2.72 per metre during the three years ending 31 December 2010. The unit price for Textile Products under each purchase order is determined with reference to the prevailing market price of similar products offered to independent third parties. The fees for Textile Products supplied to Miroglio Group will be settled by letter of credit within 90 days in accordance with the terms of the relevant purchase orders.

The proposed Miroglio Caps for the Miroglio Transactions for each of the three financial years ending 31 December 2010 are USD14,144,000 (equivalent to approximately HK\$110,323,000), USD15,232,000 (equivalent to approximately HK\$118,809,600) and USD16,048,000 (equivalent to approximately HK\$125,174,400) respectively which are calculated based on the estimated 5,200,000, 5,600,000 and 5,900,000 metres of Textile Products’ purchase orders from Miroglio Group for each of the three financial years ending 31 December 2010 respectively multiplied by the historical weighted average price of USD2.72 per metre for the year ended 31 December 2007. As advised by the Company, the Company currently does not foresee there will be material fluctuation in the prices of its Textile Products for the three years ending 31 December 2010. We also note that the historical average price of Textile Products sold to Miroglio Group for the years ended 31 December 2006 and 2007 was maintained at a price level of approximately USD2.72 per metre. As a result, we consider that it is reasonable to use the average price for the Textile Products sold to Miroglio Group of USD2.72 per metre for the year ended 31 December 2007 as a reference to estimate the future transaction volume in the Miroglio Caps for the three years ending 31 December 2010. The estimated 5,200,000 metres of

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purchase orders of Textile Products from Miroglio Group for the financial year ending 31 December 2008 show an increase of approximately 30% over the actual purchase orders of Textile Products from Miroglio Group for the year ended 31 December 2007. We note that the estimated 5,600,000 and 5,900,000 metres of Textile Products' purchase orders from Miroglio Group for the financial years ending 31 December 2009 and 2010 increase by approximately 8% and approximately 5% respectively over their respective previous year. As advised by the Company, it was notified by Miroglio that purchase orders of Textile Products from Miroglio Group for each of the three financial years ending 31 December 2010 are expected to increase by approximately 30%, 8% and 5% respectively. As advised by the Company, it has sufficient production capacity to cater for the increase in business volume arising from Miroglio Group. In addition, the Company has the option to subcontract purchase orders from Miroglio Group to independent third parties to manufacture woven fabrics. Given the fact that the Miroglio Caps for the three years ending 31 December 2010 are in line with Miroglio's forecast of purchase orders of Textile Products to the Company, we are of the view that the Miroglio Caps for the three years ending 31 December 2010 are fair and reasonable so as to meet the anticipated increase in purchase orders of Textile Products from Miroglio Group for each of the three financial years ending 31 December 2010.

We have reviewed and compared the terms and unit price of sales of similar Textile Products between the Company and Miroglio Group and those with independent third parties on a sampling basis for several kinds of Textile Products during the period from 1 January 2005 to 31 December 2007 and are satisfied that the terms and unit price of sales are not less favourable to the Company than those available to independent third parties.

Having considered the above, we are of the opinion that the terms of the Miroglio Agreement and the Miroglio Caps for the Miroglio Transactions for each of the three financial years ending 31 December 2010 are fair and reasonable so far as the Independent Shareholders are concerned.

3. Re-approval is required if the values exceed the Fulida Caps and Miroglio Caps

In the event that the total value of the Fulida Transactions or the Miroglio Transactions exceed the relevant amounts set out in the Fulida Caps or Miroglio Caps respectively for any year, such transactions and their total value will be subject to review and re-approval by the Independent Shareholders as soon as possible, either at the Company's next following annual general meetings or at extraordinary general meetings of the Company convened for this specific purpose, whichever comes first.

LETTER FROM BARON CAPITAL

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the opinion that the terms of the Fulida Agreement and the Miroglio Agreement (including the Fulida Caps and the Miroglio Caps) and the Continuing Connected Transactions are on normal commercial terms, in the ordinary and usual course of the Company's business, and are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders as well as the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM for approving the Continuing Connected Transactions and the Fulida Caps and the Miroglio Caps.

Yours faithfully,
For and on behalf of
Baron Capital Limited
Sheron Yau
Director

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:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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

Name of Director	Capacity	Number of domestic shares held	Approximate percentage of interests in domestic shares in issue as at the Latest Practicable Date	Approximate percentage of interests in total issued share capital as at the Latest Practicable Date
Mr. Sun Li Yong	Beneficial owner	382,200,000	65%	35.94%
	Interest of spouse (<i>note 1</i>)	182,280,000	31%	17.14%
Ms. Fang Xiao Jian	Beneficial owner	182,280,000	31%	17.14%
	Interest of spouse (<i>note 2</i>)	382,200,000	65%	35.94%
Mr. Sun Jian Feng	Beneficial owner	5,880,000	1%	0.55%
Mr. Xia Xue Nian	Beneficial owner	5,880,000	1%	0.55%

Notes:

1. Mr. Sun Li Yong is the husband of Ms. Fang Xiao Jian and is deemed by virtue of the SFO to be interested in 182,280,000 Shares beneficially owned by Ms. Fang Xiao Jian.
2. Ms. Fang Xiao Jian is the wife of Mr. Sun Li Yong and is deemed by virtue of the SFO to be interested in 382,200,000 Shares beneficially owned by Mr. Sun Li Yong.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executives or Supervisors had any interests or short positions 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); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

(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, 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 Shares

Name of shareholder	Capacity	Number of H shares held	Approximate percentage of interests in H shares in issue as at the Latest Practicable Date	Approximate percentage of interests in total issued share capital as at the Latest Practicable Date
Miroglio S.p.A.	Beneficial owner	209,500,000	44.06%	19.70%

3. DIRECTORS' SERVICE CONTRACTS

Each of the Directors and Supervisors (including the independent non-executive Directors and independent 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 employer within one year without payment of compensation other than statutory compensation.

4. 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, certain loans borrowed by the Company were guaranteed by 浙江加佰利控股集團有限公司 (Zhejiang Gabriel Holdings Group Co., Ltd.) ("Zhejiang Gabriel"), a company in which Mr. Sun Li Yong, Ms. Fang Xiao Jian, Mr. Li Cheng Jun, Mr. Sun Jian Feng, Mr. Xia Xue Nian (all are executive Directors) have interests, and the Directors of the Company, Mr. Sun Li Yong, Ms. Fang Xiao Jian, Mr. Li Cheng Jun, Mr. Sun Jian and Mr. Xia Xue Nian respectively.

Details of such guarantees are disclosed in the interim report of the Company for the six months ended 30 June 2007.

As at the Latest Practicable Date, the Company has leased office premises to 浙江宏興莎美娜服飾有限公司 (Zhejiang Hongxing Sabrina Garments Co., Ltd.) and 浙江宏興紡織有限公司 (Zhejiang Hongxing Textiles Co., Ltd.) which are subsidiaries of Zhejiang Gabriel, at the annual rental of approximately RMB180,000 and approximately RMB984,000 respectively.

5. INTERESTS IN ASSETS

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 2006 being the date to which the latest published audited accounts of the Company were made up.

6. DIRECTORS' INTEREST IN COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or Supervisors 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.

7. QUALIFICATION OF EXPERTS AND CONSENT

- (a) The following is the qualification of Baron Capital, who has given its advice which is contained in this circular:

Name	Qualification
Baron Capital Limited	a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

- (b) As at the Latest Practicable Date, Baron Capital was not 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, Baron Capital does not 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 2006, the date to which the latest published audited financial statements of the Company were made up.
- (d) As at the Latest Practicable Date, Baron Capital has given and has 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.
- (e) the letter of advice from Baron Capital are given as of the date of this circular for the incorporation herein.

8. MATERIAL ADVERSE CHANGE

Save as disclosed, 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, 2006, being the date to which the latest audited financial statements of the Company were made up.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company at Room 620, 6th Floor, Chevalier Commercial Centre, No. 8 Wang Hoi Road, Kowloon Bay, Hong Kong during normal business hours up to and including 18 March 2008:

- (a) the letter from the Independent Board Committee as set out in this circular;
- (b) the letter of consent from Baron Capital referred to in paragraph 7 of this appendix;
- (c) the letter from the independent financial adviser as set out in this circular;
- (d) the Fulida Agreement; and
- (e) the Miroglio Agreement.

NOTICE OF EXTRAORDINARY GENERAL MEETING



浙江永隆實業股份有限公司

ZHEJIANG YONGLONG ENTERPRISES CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code : 8211)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “EGM”) of Zhejiang Yonglong Enterprises Co., Ltd. (the “Company”) will be held at the Conference Room of the Office Building of the Company at Yangxun Qiao Town, Shaoxing County, Zhejiang Province, the People's Republic of China on Tuesday, 18 March 2008 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 agreement entered into between the Company and Zhejiang Miroglio Fulida Textile Co. Ltd. (“Fulida”) dated 14 January 2008 in respect of the provision of dyeing service for the woven fabric by Fulida to the Company (the “Dyeing Services”) for not more than 27,686,098.28 square metres of fabric in each year at the unit price which is to be determined with reference to the market price offered by Fulida to independent third parties for three financial years ending 31 December 2010 (the “Fulida Agreement”) (a copy of which marked “A” has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (ii) the Dyeing Services provided by Fulida to the Company under the Fulida Agreement from 14 January 2008 up to and including the date of this meeting be and are hereby approved, ratified and confirmed;
- (iii) the maximum limit of the amount involved under the Fulida Agreement shall not exceed RMB19,079,021.09, RMB24,802,727.42 and RMB29,763,272.90 respectively (equivalent to approximately HK\$19,613,488.66, HK\$25,497,535.25 and HK\$30,597,042.31 respectively) for each of the three financial years ending 31 December 2010; and

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (iv) the directors of the Company be and are hereby authorised for and on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their discretion consider necessary or desirable or expedient for the purpose of or in connection with the Fulida Agreement and to make and agree such variation of a non-material nature in or to the terms of the Fulida Agreement as they may in their discretion consider to be desirable and in the interests of the Company.”

2. **“THAT**

- (i) the agreement entered into between the Company and Miroglio S.p.A. (“Miroglio”) dated 15 January 2008 in respect of the purchase of not more than 16,700,000 meters of woven fabrics (“Textile Products”) in each year from the Company, at the average price of USD2.72 per meter during the three financial years ending 31 December 2010 (the “Miroglio Agreement”) (a copy of which marked “B” has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (ii) the purchase of Textile Products by Miroglio and its subsidiaries (“Miroglio Group”) from the Company under the Miroglio Agreement from 15 January 2008 up to and including the date of this meeting be and are hereby approved, ratified and confirmed;
- (iii) the maximum limit of the amount involved under the Miroglio Agreement shall not exceed USD14,144,000, USD15,232,000 and USD16,048,000 (equivalent to approximately HK\$110,323,000, HK\$118,809,600 and HK\$125,174,400 respectively) for each of the three financial years ending 31 December 2010 respectively; and
- (iv) the directors of the Company be and are hereby authorised for and on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their discretion consider necessary or desirable or expedient for the purpose of or in connection with the Miroglio Agreement and to make and agree such variation of a non-material nature in or to the terms of the Miroglio Agreement as they may in their discretion consider to be desirable and in the interests of the Company.”

By Order of the Board
Zhejiang Yonglong Enterprises Co., Ltd.
Sun Li Yong
Chairman

Zhejiang, the PRC, 31 January 2008

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. The register of shareholders of the Company will be closed from 17 February 2008 to 18 March 2008 (both days inclusive), during which period no transfer of shares will be effected. The shareholders whose names appeared on the register of shareholders of the Company at the close of business on 15 February 2008 will be entitled to attend and vote at the EGM.
2. Any shareholder 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 shareholder of the Company.
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 deposited at the legal address of the Company not less than 24 hours before the time for holding the EGM or 24 hours before the time appointed for taking the poll.
4. Shareholders or their proxies shall produce their identity documents when attending the EGM.
5. Shareholders who intend to attend the EGM shall complete and lodge the reply slip for attending the meeting at the Company's legal address at Yangxun Qiao Town, Shaoxing County, Zhejiang Province, the People's Republic of China on or before 27 February 2008. 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.