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YANGTZEKIANG GARMENT MANUFACTURING COMPANY LIMITED

長江製衣廠有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 294)

CONTINUING CONNECTED TRANSACTIONS

SUBCONTRACTING TRANSACTIONS WITH YANGTZEKIANG MYANMAR

Reference is made to an announcement of the Company dated 31st March, 2004 in relation to the Disposal which constitutes a connected transaction of the Company.

On 8th June, 2004, the Company entered into the Master Subcontracting Agreement with YangtzeKiang Myanmar in relation to the Subcontracting Services. YangtzeKiang Myanmar has been providing the Subcontracting Services to the Company in the past and will continue to provide such services after the Disposal.

Since Mr. Wong Pui Lam is a director of YangtzeKiang Myanmar, a subsidiary of the Company before the Disposal, Mr. Wong Pui Lam remains a connected person of the Company in the 12 months after completion of the Disposal on 30th March, 2004. The Subcontracting Transactions will constitute continuing connected transactions for the Company during the said period.

The annual Subcontracting Fee to be paid by the Company to YangtzeKiang Myanmar is expected to exceed 2.5% of the consideration ratio calculated pursuant to Rule 14.07(4) of the Listing Rules. As such, the Subcontracting Transactions constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules.

Application will be made to the Stock Exchange for a waiver from strict compliance with the requirement to hold a shareholders' meeting to approve the Subcontracting Transactions and the Cap, on the basis of a written independent shareholders' approval given in accordance with Rule 14A.43 of the Listing Rules. A circular containing the particulars of the Subcontracting Transactions, a letter from the Independent Board Committee and a letter from the independent financial adviser, will be despatched to the Shareholders as soon as practicable.

1. BACKGROUND

The principal businesses of the Group are manufacturing and sale of garment products.

YangtzeKiang Myanmar is engaged in the manufacturing and sale of garment products and its production facilities are located in Myanmar.

On 30th March, 2004, the Company entered into a share purchase agreement in relation to the Disposal with Mr. Wong Pui Lam, Mr. Wong Chun Yu, Mr. Chee Chong Sin and Ms. Tsang Sau Ngor. Pursuant to the terms of the said agreement, the Company disposed of its entire interests in the holding companies and the related shareholders' loan. The Disposal was completed on 30th March, 2004 and YangtzeKiang Myanmar ceased to be a subsidiary of the Company.

Mr. Wong Pui Lam is a director of YangtzeKiang Myanmar and Mr. Wong Chun Yu is the son of Mr. Wong Pui Lam. The Disposal constitutes a connected transaction of the Company and was announced on 31st March, 2004.

YangtzeKiang Myanmar has been providing the Subcontracting Services to the Company in the past and will continue to provide such services after the Disposal.

2. THE MASTER SUBCONTRACTING AGREEMENT

Date

8th June, 2004

Parties

(1) The Company

(2) YangtzeKiang Myanmar, which is owned as to 51% by Mr. Wong Pui Lam, 9% by Mr. Wong Chun Yu, 20% by Mr. Chee Chong Sin and 20% by Ms. Tsang Sau Ngor

Term

The Master Subcontracting Agreement is for a fixed term until 31st March, 2005.

Nature of the Transactions

YangtzeKiang Myanmar will provide the Subcontracting Services to the Company on an order-by-order basis and in accordance with the terms of the Master Subcontracting Agreement.

Since Mr. Wong Pui Lam is a director of YangtzeKiang Myanmar, a subsidiary of the Company before the Disposal, Mr. Wong Pui Lam remains a connected person of the Company in the 12 months after completion of the Disposal on 30th March, 2004. The Subcontracting Transactions will constitute continuing connected transactions for the Company during the said period.

Subcontracting Fee

According to the terms of the Master Subcontracting Agreement, the Subcontracting Fee will be determined on an order-by-order basis taking into account the value and volume of the order, the type and design of the products and any specific requirements of the relevant customer.

The annual Subcontracting Fee to be paid by the Company to YangtzeKiang Myanmar in the financial year ending 31st March, 2005 is expected to exceed 2.5% of the consideration ratio calculated pursuant to Rule 14.07(4) of the Listing Rules. As such, the Subcontracting Transactions constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules.

The Cap

While the Company has been engaging YangtzeKiang Myanmar in the manufacturing of garment products since 1994, the Company has only started subcontracting garment products to YangtzeKiang Myanmar in a manner similar to the arrangement under the Master Subcontracting Agreement in the last financial year ended 31st March, 2004. The Subcontracting Fee paid by the Company during such period is approximately US\$2.4 million (approximately HK\$18.5 million).

Due to the political instability of Myanmar and the trade sanction against Myanmar, the Company does not anticipate any increase in the Subcontracting Fee to be paid to YangtzeKiang Myanmar in the current financial year. Accordingly, the Company proposes to set the maximum aggregate annual value for the Subcontracting Services at US\$2 million (approximately HK\$15.6 million) (the "Cap") for the financial year ending 31st March, 2005.

3. **BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

The Master Subcontracting Agreement provides the Company an additional subcontractor of its garment products. Given the cooperation between the Company and Yangtzekiang Myanmar in the past, the Board considers that the continuation of the subcontracting arrangements with Yangtzekiang Myanmar will be beneficial to the business of the Group. The Cap has been set with reference to the value of the Subcontracting Transactions in the previous financial year and the Board (including the independent non-executive directors whose opinion will be included in the circular to be despatched to the Shareholders) considers that the terms of the Master Subcontracting Agreement and the Cap are fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

4. **OTHER INFORMATION FOR THE SHAREHOLDERS**

The Subcontracting Transactions constitute non-exempt continuing connected transactions of the Company and are subject to independent shareholders approval under Rule 14A.35(4), the annual review requirement under Rules 14A.37 to 14A.41 and the reporting requirement under Rules 14A.45 and 14A.46 of the Listing Rules respectively.

Application will be made to the Stock Exchange for a waiver from strict compliance with the requirement to hold a shareholders' meeting to approve the Subcontracting Transactions and the Cap, on the basis of a written independent shareholders' approval given by the Chan Family which comprises a closely allied group of shareholders in accordance with Rule 14A.43 of the Listing Rules. None of the Shareholders is required to abstain from voting on the Subcontracting Transactions and the Cap. The following persons are together beneficially interested in 75,601,600 shares representing approximately 53.91% of the issued share capital of the Company:

Name of beneficial shareholder	Relationship	No. of ordinary shares beneficially interested	Percentage of total issued share capital of the Company
Chan Sui Kau ("SK Chan")	–	4,216,464	3.01%
Chan Lam Moon Chun	Spouse of SK Chan	2,666,236	1.90%
Yangtzekiang Investment Co. (Panama) Ltd. Inc.	Company wholly-owned by SK Chan	3,740,820	2.66%
Chan Wing Fui Peter ("Peter Chan")	Son of SK Chan	324,068	0.23%
Chan Arunee	Spouse of Peter Chan	56,000	0.04%
Trans-Business Inc.	Company wholly-owned by Chan Arunee	1,003,420	0.72%
Chan Wing Kee ("WK Chan")	Nephew of SK Chan	1,174,416	0.84%
Chan Fung Kit Ching	Spouse of WK Chan	138,904	0.10%
Chan Wing To ("WT Chan")	Nephew of SK Chan	1,956,036	1.39%
Chan Wing Sun Samuel ("Samuel Chan")	Son of SK Chan	7,496	0.01%
Runneymede Consultants Ltd.	Company established for the benefit of family members of Samuel Chan	2,028,720	1.45%

Name of beneficial shareholder	Relationship	No. of ordinary shares beneficially interested	Percentage of total issued share capital of the Company
Chan Wing Chak David ("David Chan")	Nephew of SK Chan	21,792	0.02%
Davidson Trust	Trust set up by David Chan	1,520,000	1.08%
Chan Suk Ling Shirley ("Shirley Chan")	Daughter of SK Chan	1,152,544	0.82%
Chow Watt Heem	Spouse of Shirley Chan	16,000	0.01%
Chan Suk Man ("SM Chan")	Niece of SK Chan	1,023,420	0.73%
Lau Shing Choy	Spouse of SM Chan	208	0.00%
Joycome Limited	Company indirectly owned by Peter Chan, WK Chan, WT Chan, Samuel Chan, Shirley Chan, SM Chan and other members of the Chan Family	34,595,908	24.67%
Hearty Development Limited	Company indirectly owned by Peter Chan, WK Chan, WT Chan, Samuel Chan, Shirley Chan, SM Chan and other members of the Chan Family	1,574,480	1.12%
Super Team International Limited	Company owned by WK Chan, WT Chan, David Chan, SM Chan and other members of the Chan Family	1,589,000	1.13%
Chan Family Investment Corp. Ltd. ("CFICL")	Company owned by the Chan Directors and other members of the Chan Family	10,420,920	7.43%
Tai Wah Investment Co. Ltd.	Subsidiary of CFICL	5,394,240	3.85%
Wai Wing Investments Corporation	Subsidiary of CFICL	853,744	0.61%
YangtzeKiang Investment Co. Ltd.	Subsidiary of CFICL	126,764	0.09%
		75,601,600	53.91%

An independent board committee, comprising Messrs. Leung Hok Lim and Wong Lam, has been appointed to advise the Shareholders, and Hantec Capital Limited has been appointed as independent financial adviser to advise the Independent Board Committee and the Shareholders, on whether the Subcontracting Transactions (including the terms of the Master Subcontracting Agreement and the Cap) are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

A circular containing the particulars of the Subcontracting Transactions, a letter from the Independent Board Committee and a letter from the independent financial adviser, will be despatched to the Shareholders as soon as practicable.

As at the date of this announcement:

- (a) the executive directors of the Company are Chan Sui Kau, Chan Wing Fui Peter, Chan Wing Kee, Chan Wing To, Chan Suk Man, Chan Wing Sun Samuel, Chan Wing Chak David and Chan Suk Ling Shirley (“Chan Directors”);
- (b) the non-executive director of the Company is Yeung Wing Tak; and
- (c) the independent non-executive directors of the Company are Leung Hok Lim and Wong Lam.

5. DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“Board”	the board of directors of the Company;
“Chan Family”	Chan Directors and their associates (as defined under the Listing Rules);
“Company”	Yangtzekiang Garment Manufacturing Company Limited, a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange;
“Disposal”	the disposal by the Company of its entire interests in the holding companies of Yangtzekiang Myanmar and the related shareholders’ loan, as described in the announcement of the Company dated 31st March, 2004;
“Group”	the Company and its subsidiaries (as defined under the Listing Rules);
“Independent Board Committee”	an independent committee of the Board appointed by the Board to advise the Shareholders in respect of the Subcontracting Transactions, comprising the independent non-executive directors of the Company, namely, Messrs. Leung Hok Lim and Wong Lam;
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Master Subcontracting Agreement”	an agreement relating to the Subcontracting Transactions dated 8th June, 2004 between the Company and Yangtzekiang Myanmar;
“Shareholders”	the shareholders of the Company from time to time;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subcontracting Fee”	the fee to be paid by the Company to Yangtzekiang Myanmar for the Subcontracting Services;
“Subcontracting Services”	the provision of subcontracting services of manufacturing garment products by Yangtzekiang Myanmar to the Company;
“Subcontracting Transactions”	the transactions between the Company and Yangtzekiang Myanmar for the provision of the Subcontracting Services;

“YangtzeKiang Myanmar”	YangtzeKiang Industries (Myanmar) Limited, a company incorporated in Myanmar, owned as to 51% by Mr. Wong Pui Lam, 9% by Mr. Wong Chun Yu, 20% by Mr. Chee Chong Sin and 20% by Ms. Tsang Sau Ngor;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of the People’s Republic of China; and
“US\$”	United States dollars, the lawful currency of the United States of America.

By Order of the Board
YangtzeKiang Garment Manufacturing Company Limited
Chan Wing Fui, Peter
Vice Chairman

Hong Kong, 8th June, 2004

The exchange rate of US\$ to HK\$ quoted in this announcement adopts a rate of US\$1 equivalent to HK\$7.8.

Please also refer to the published version of this announcement in China Daily.