
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this Circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in YangtzeKiang Garment Manufacturing Company Limited (“Company”), you should at once hand this Circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

長江製衣廠有限公司
YANGTZEKIANG GARMENT MANUFACTURING COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 294)

CONTINUING CONNECTED TRANSACTIONS
SUBCONTRACTING TRANSACTIONS WITH
YANGTZEKIANG MYANMAR

Independent Financial Adviser to the Independent Board Committee of
YangtzeKiang Garment Manufacturing Company Limited



Hantec Capital Limited

A letter from the Independent Board Committee is set out on page 9 of this Circular.

A letter from Hantec Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 10 to 13 of this Circular.

29th June, 2004

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
1. Introduction	3
2. Particulars of the Master Subcontracting Agreement	4
3. Benefits of Continuing Connected Transactions	5
4. Information for the Shareholders	6
5. Additional Information	8
Letter from the Independent Board Committee	9
Letter from Hantec	10
Appendix – General information	14

DEFINITIONS

In this Circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“associate”	as defined in the Listing Rules
“Board”	board of Directors
“Cap”	US\$2 million (approximately HK\$15.6 million), being the maximum aggregate annual value for the Subcontracting Services for the financial year ending 31st March, 2005
“Chan Directors”	collectively, 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 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
“connected person”	as defined in the Listing Rules
“Directors”	the directors of the Company
“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)
“Hantec”	Hantec Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Shareholders in relation to the Subcontracting Transactions, and a licensed corporation for types 1 and 6 regulated activities under the SFO
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee 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

DEFINITIONS

“Latest Practicable Date”	25th June, 2004, being the latest practicable date prior to the printing of this Circular for ascertaining certain information for inclusion in this Circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Subcontracting Agreement”	an agreement relating to the Subcontracting Transactions dated 8th June, 2004 between the Company and Yangtzekiang Myanmar
“PRC”	The People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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
“US\$”	United States dollars, the lawful currency of the United States of America

LETTER FROM THE BOARD

長江製衣廠有限公司

YANGTZEKIANG GARMENT MANUFACTURING COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 294)

Directors:

Chan Sui Kau (*Chairman*)
Chan Wing Fui, Peter (*Vice Chairman*)
Chan Wing Kee (*Managing Director*)
Chan Wing To (*Deputy Managing Director*)
Chan Suk Man
Chan Wing Sun, Samuel
Yeung Wing Tak*
Chan Wing Chak, David
Chan Suk Ling, Shirley
Leung Hok Lim**
Wong Lam**

Registered Office:

22 Tai Yau Street
San Po Kong
Kowloon
Hong Kong

* *Non-executive Director*

** *Independent Non-executive Directors*

29th June, 2004

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

SUBCONTRACTING TRANSACTIONS WITH YANGTZEKIANG MYANMAR

1. INTRODUCTION

Reference is made to announcements of the Company dated 31st March, 2004 in relation to the Disposal and 8th June, 2004 in relation to the Subcontracting Transactions.

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 of Yangtzekiang Myanmar 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.

LETTER FROM THE BOARD

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 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 Stock Exchange has granted to the Company 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.

The purpose of this Circular is to provide you with the particulars of the Master Subcontracting Agreement, the letter from the Independent Board Committee and the letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders.

2. PARTICULARS OF 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.

LETTER FROM THE BOARD

Subcontracting Fee

According to the terms of the Master Subcontracting Agreement, the Subcontracting Fee will be determined on an order-by-order basis and on arms length 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 terms of the Master Subcontracting Agreement are normal commercial terms. The Subcontracting Fee shall be settled in cash within 30 days (or such longer period as the parties shall agree) after the performance and completion of the order to the satisfaction of the Company.

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.

Historical figures

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).

The Cap

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) for the financial year ending 31st March, 2005.

3. BENEFITS OF CONTINUING CONNECTED TRANSACTIONS

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.

The Master Subcontracting Agreement provides the Company an additional sub-contractor 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. The Board (including the Independent Non-executive Directors whose opinion is set out in the section headed "Letter from the Independent Board Committee" in this Circular) 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.

LETTER FROM THE BOARD

4. 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.

The Stock Exchange has granted to the Company 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%

LETTER FROM THE BOARD

Name of beneficial shareholder	Relationship	No. of ordinary shares beneficially interested	Percentage of total issued share capital of the Company
Chan Wing Sun Samuel ("Samuel Chan")	Son of SK Chan	7,496	0.01%
Runnymede Consultants Ltd.	Company established for the benefit of family members of Samuel Chan	2,028,720	1.45%
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%

LETTER FROM THE BOARD

Name of beneficial shareholder	Relationship	No. of ordinary shares beneficially interested	Percentage of total issued share capital of the Company
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%
		<hr/>	<hr/>
		75,601,600	53.91%

5. ADDITIONAL INFORMATION

An Independent Board Committee, comprising Messrs. Leung Hok Lim and Wong Lam, has been appointed to advise the Shareholders, and Hantec 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.

Your attention is drawn to the letter from the Independent Board Committee set out on page 9 of this Circular and the letter of advice received from Hantec on pages 10 to 13 of this Circular.

Your attention is also drawn to the additional information set out in the appendix to this Circular.

Yours faithfully,
For and on behalf of
**YangtzeKiang Garment
Manufacturing Company Limited**
Chan Sui Kau
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

長江製衣廠有限公司
YANGTZEKIANG GARMENT MANUFACTURING COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 294)

29th June, 2004

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS
SUBCONTRACTING TRANSACTIONS WITH
YANGTZEKIANG MYANMAR

We refer to the Circular dated 29th June, 2004 of the Company (“Circular”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Subcontracting Transactions and to advise the Shareholders whether, in our opinion, the terms of the Subcontracting Transactions are fair and reasonable so far as the Shareholders are concerned. Hantec has been appointed to advise the Independent Board Committee and the Shareholders in respect of the terms of the Subcontracting Transactions (including the Cap and the term of the Master Subcontracting Agreement).

We wish to draw your attention to the letter from the Board set out on pages 3 to 8 of the Circular which contains, inter alia, information about the Subcontracting Transactions, and the letter of advice from Hantec set out on pages 10 to 13 of the Circular which contains its advice in respect of the terms of the Subcontracting Transactions (including the Cap and the term of the Master Subcontracting Agreement).

Having taking into account the advice of Hantec, we consider the terms of the Subcontracting Transactions (including the Cap and the term of the Master Subcontracting Agreement), to be fair and reasonable so far as the Shareholders are concerned and in the interest of the Company and the Shareholders as a whole and recommend the Shareholders to support the Subcontracting Transactions and the Cap.

Yours faithfully,

For and on behalf of

Independent Board Committee

Leung Hok Lim

Independent Non-executive

Director

Wong Lam

Independent Non-executive

Director

LETTER FROM HANTEC

The following is the text of a letter prepared by Hantec for the purposes of inclusion in this Circular, in connection with its advice to the Independent Board Committee and the Shareholders in relation to the continuing connected transactions.



Hantec Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

29th June, 2004

*To the Independent Board Committee and the Shareholders of
YangtzeKiang Garment Manufacturing Company Limited*

Dear Sirs and Madams,

CONTINUING CONNECTED TRANSACTIONS SUBCONTRACTING TRANSACTIONS WITH YANGTZEKIANG MYANMAR

INTRODUCTION

We refer to the Circular dated 29th June, 2004 (the "Circular") issued by the Company to its Shareholders of which this letter forms part and to our appointment as Independent Financial Adviser to the Independent Board Committee and the Shareholders in respect of the Subcontracting Transactions, details of which are set out in the letter from the Board (the "Board's Letter") contained in the Circular. Capitalised terms used in this letter without definition shall have the same meanings set out in the Circular unless the context otherwise requires.

On 8th June, 2004, the Company entered into the Master Subcontracting Agreement with YangtzeKiang Myanmar in relation to the Subcontracting Services. 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 under the Listing Rules and are subject to applicable disclosure and/or Shareholders' approval requirement. The Stock Exchange has granted to the Company 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 Shareholders' approval given in accordance with Rule 14A.43 of the Listing Rules.

The Independent Board Committee comprising Messrs. Leung Hok Lim and Wong Lam, both being Independent Non-executive Directors, has been formed to advise the Shareholders on the Subcontracting Transactions.

LETTER FROM HANTEC

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular which had been provided by Directors and management of the Company were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Company regarding the information and representations contained in the Circular. We have assumed that all statements of belief, opinion and intention made by the Company in the Circular were reasonably made after due enquiry. We consider that we have been provided sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have not, however, conducted an independent verification of the information provided by the Directors and management of the Company nor have we carried out any independent investigation into the business and affairs of the Company or any of its respective subsidiaries or associates.

PRINCIPAL FACTORS CONSIDERED

In arriving at our recommendation in respect of the Subcontracting Transactions, we have taken into consideration the following principal factors: –

I. Background of the Subcontracting Transactions

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. Yangtzekiang Myanmar 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.

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

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.

LETTER FROM HANTEC

II. The Master Subcontracting Agreement

(a) Terms of the Master Subcontracting Agreement

On 8th June, 2004, the Company entered into the Master Subcontracting Agreement with YangtzeKiang Myanmar in relation to the Subcontracting Services for a fixed term until 31st March, 2005.

Pursuant to the Master Subcontracting Agreement, YangtzeKiang Myanmar will provide the Subcontracting Services to the Company on an order-by-order basis and 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.

In reviewing the terms of the Master Subcontracting Agreement, we have obtained (i) the Master Subcontracting Agreement; (ii) copies of purchase orders regarding the previous subcontracting services provided by YangtzeKiang Myanmar prior to the Disposal; (iii) copies of purchase orders to other independent third parties which provide similar Subcontracting Services to the Group. We have noted that the major terms, including price and payment terms, of the subcontracting orders in respect of previous Subcontracting Services placed by the Company to YangtzeKiang Myanmar are no less favourable than orders placed by the Company to the independent third parties.

(b) Reasons for entering into the Master Subcontracting Agreement

Since manufacturing and sale of garment products is the core business of the Group, the Directors consider that it is of utmost importance for the Group to maintain its capacity in response to the ever-changing market demand through the engagement of subcontractors. The Master Subcontracting Agreement provides the Company an additional subcontractor of its garment products.

In light of the above, and 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 Group and the Shareholders as a whole.

(c) Conclusion

Having considered the fact that (i) the Master Subcontracting Agreement provides the Company an additional subcontractor of its garment products; (ii) the Directors consider that the Master Subcontracting Agreement is on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable than those available from independent third parties; and (iii) the Directors confirmed that the price payable for each subcontracting order will be based on arm's length negotiation, we consider that the terms of the Master Subcontracting Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM HANTEC

III. The Cap

(a) *Basis of the Cap*

As disclosed in the Board's Letter, the Company proposes to set the maximum aggregate annual value for the Subcontracting Services at US\$2 million (approximately HK\$15.6 million) for the financial year ending 31st March, 2005.

We have discussed with the Directors on the projection for the Subcontracting Transactions for the year ending 31st March, 2005. The Directors confirmed that the basis of the Cap has been set with reference to the Subcontracting Fee paid by the Company to YangtzeKiang Myanmar in the year ended 31st March, 2004 of approximately US\$2.4 million (approximately HK\$18.5 million). However, considering 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 for the year ending 31st March, 2005. On this basis, we consider that the Cap under the Master Subcontracting Agreement was made by the Directors after due and careful consideration, we concur with the Directors' view that their estimation of the maximum amount to be incurred under the Subcontracting Transactions and the Cap for the year ending 31st March, 2005 are fair and reasonable so far as the Shareholders are concerned.

(b) *Conditions of the Cap*

There are certain conditions of the annual cap pursuant to Rules 14A.37 to 14A.38 of the Listing Rules, in particular, the restriction of the value of the Subcontracting Transactions by way of the Cap for the financial year ending 31st March, 2005 and the review by the Independent Non-executive Directors and auditors of the Company of the terms of the Subcontracting Transactions and the Cap not being exceeded, details of which must be included in the Company's subsequent published annual reports and accounts. In addition, pursuant to Rule 14A.40 of the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the Independent Non-executive Directors and/or its auditors will not be able to confirm the terms of the Subcontracting Transactions and the Cap not being exceeded. We are of the view that there are appropriate measures in place to govern the conduct of the Subcontracting Transactions and safeguard the interests of the Shareholders.

OPINION

Taking into account the principal factors as set out in the above sections, in particular, (i) the terms of the Master Subcontracting Agreement; and (ii) the reasons for entering into the Subcontracting Transactions; and (iii) the Subcontracting Transactions were carried out in the ordinary and usual course of business of the Group with terms being arrived at after arm's length negotiations, we advise the Shareholders, as well as the Independent Board Committee to recommend the Shareholders to support the Subcontracting Transactions and the Cap which are fair and reasonable so far as the Company and its Shareholders are concerned and are in the interests of the Company and its Shareholders as a whole.

Yours faithfully,
For and on behalf of
Hantec Capital Limited
Thomas Lai
Director

RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular with regard to the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st March, 2003, being the date to which the latest published audited accounts of the Company were made up.

DISCLOSURE OF INTERESTS**(A) Interests of Directors and Chief Executive**

As at the Latest Practicable Date, the interests and short positions of the Directors and the Company's chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required 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 provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

Name of Director	Number of Shares of HK\$0.50 each			
	Personal interests	Family interests	Corporate interests	Other interests
Chan Sui Kau	4,216,464	2,666,236	3,740,820	(i)
Chan Wing Fui Peter	324,068	1,059,420	–	(i) & (ii) & (iii)
Chan Wing Kee	1,174,416	138,904	–	(i) & (ii) & (iii) & (iv)
Chan Wing To	1,956,036	–	–	(i) & (ii) & (iii) & (iv)
Chan Wing Sun Samuel	7,496	–	2,028,720	(i) & (ii) & (iii)
Yeung Wing Tak	1,446,200	–	265,364	–
Chan Wing Chak David	1,541,792	–	–	(i) & (iv)
Chan Suk Ling Shirley	1,152,544	16,000	–	(i) & (ii) & (iii)
Chan Suk Man	1,023,420	208	–	(i) & (ii) & (iii) & (iv)
Leung Hok Lim	–	–	–	–
Wong Lam	–	–	–	–

Notes:

- (i) 16,795,668 shares of the Company were held by Chan Family Investment Corp. Ltd. (which is owned by the Chan Directors and other members of the Chan Family) and its subsidiaries.

- (ii) 34,595,908 shares of the Company were held by Joycome Limited, which is beneficially owned by Messrs. Chan Wing Fui Peter, Chan Wing Kee, Chan Wing To and Chan Wing Sun Samuel, Madam Chan Suk Ling Shirley, Madam Chan Suk Man and other members of the Chan Family.
- (iii) 1,574,480 shares of the Company were held by Hearty Development Limited which is beneficially owned by Messrs. Chan Wing Fui Peter, Chan Wing Kee, Chan Wing To, Chan Wing Sun Samuel, Madam Chan Suk Ling Shirley, Madam Chan Suk Man and other members of the Chan Family.
- (iv) 1,589,000 shares of the Company were held by Super Team International Limited which is beneficially owned by Messrs. Chan Wing Kee, Chan Wing To, Chan Wing Chak David, Madam Chan Suk Man and other members of the Chan family.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the Company's chief executive, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

- (ii) as at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since 31st March, 2003 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (iii) as at the Latest Practicable Date, none of the Directors are materially interested in any contract or arrangement which was significant in relation to the business of the Group taken as a whole.

(B) Substantial Shareholding

Save as disclosed herein, the Directors are not aware of any person who was, directly or indirectly, interested or had short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company or any options in respect of such capital as at the Latest Practicable Date.

LITIGATION

As at the Latest Practicable Date, the Directors were not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any member of the Group, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

CONSENT AND EXPERT

Hantec has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its letter and set out in this Circular and references to its name in the form and context in which they respectively appear in this Circular.

QUALIFICATION OF EXPERT

The following is the qualification of the expert which has given its opinion or advice which is contained in this Circular:

Name	Qualification	Date of opinion	Nature of opinion or advice
Hantec Capital Limited	Licensed corporation to carry out types 1 and 6 regulated activities under the SFO	29th June, 2004	Letter of advice to the Independent Board Committee and the Shareholders

As at the Latest Practicable Date, Hantec does not have any shareholding interest, directly or indirectly, in any member of the Group nor the right (whether legally enforceable or not) to subscribe for or to nominate any person to subscribe for securities in any members of the Group.

As at the Latest Practicable Date, Hantec does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, nor which are proposed to be acquired or disposed of by or leased to any member of the Group since 31st March, 2003, the date to which the latest published audited financial statements of the Company were made up.

LANGUAGE

In the event of inconsistency, the English text of this Circular will prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of Johnson Stokes & Master at 17th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong during normal business hours on any weekday (Saturdays and Sundays excepted) up to and including 13th July, 2004:

- (a) the Master Subcontracting Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 9 of this Circular; and
- (c) the letter from Hantec, the text of which is set out on pages 10 to pages 13 of this Circular.