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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)

**ESTABLISHMENT OF A PRC JOINT VENTURE IN WUXI
CONNECTED AND DISCLOSEABLE TRANSACTION**

The Board announces that on 17 December 2004, Co-Union (a wholly-owned subsidiary of the Company) entered into the JV Documents with Wuxi No.1 to establish New JV in Wuxi, the PRC. Upon its establishment, New JV will be owned as to 70% by Co-Union and 30% by Wuxi No.1, and will principally engage in the manufacturing and sale of high graded compact yarn.

In December 2001, Co-Union and Wuxi No.1 have also formed a joint venture in Wuxi, Wuxi YGM Textile Co., Ltd., with an equity ratio of 70:30. Wuxi No.1, being a substantial shareholder of Wuxi YGM Textile Co., Ltd. is therefore a connected person of the Company for the purpose of the Listing Rules. As such, the establishment of New JV between Co-Union and Wuxi No.1 constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the approval by the independent Shareholders.

The total investment and the registered capital of New JV amount to US\$29,980,000 (approximately HK\$233,844,000) and US\$12,000,000 (approximately HK\$93,600,000) respectively. The total commitment of the Group in New JV is US\$8,400,000 (approximately HK\$65,520,000), which represents more than 5% but less than 25% of the consideration ratio calculated pursuant to Rule 14.07(4) of the Listing Rules. As such, the Transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

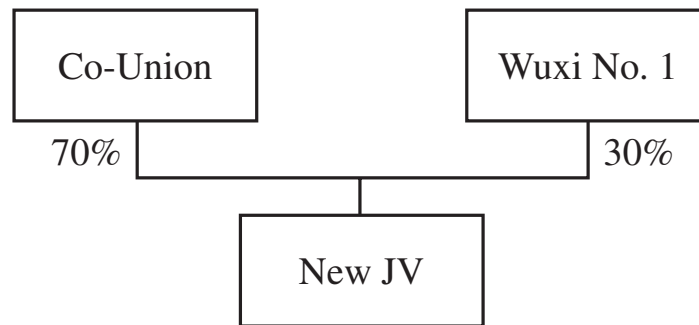
Application will be made to the Stock Exchange for a waiver from strict compliance with the requirement to hold a Shareholders' meeting to approve the Transaction, on the basis of a written Shareholders' approval given in accordance with Rule 14A.43 of the Listing Rules. A circular containing, among others, information on the Transaction will be despatched to the Shareholders as soon as practicable.

JV CONTRACT AND ARTICLES OF ASSOCIATION OF NEW JV

- Date:** 17 December 2004
- Parties:** (1) Co-Union, a wholly-owned subsidiary of the Company
(2) Wuxi No.1 a substantial shareholder of Wuxi YGM Textile Co., Ltd. (a subsidiary of the Company) and a connected person of the Company for the purpose of the Listing Rules.
- Business:** To engage in the manufacturing and sale of textile products.
- Total Investment:** US\$29,980,000 (approximately HK\$233,844,000)
- Registered Capital:** US\$12,000,000 (approximately HK\$93,600,000), contributed in cash and as to:
- (1) 70% by Co-Union; and
(2) 30% by Wuxi No.1.
- After New JV has obtained its business licence, each Party shall make 15% and 85% of their respective capital contribution to the registered capital of New JV within 3 months and 3 years respectively. The capital contribution of the Company to New JV will be funded by internal resources and bank borrowings of the Group as to approximately 80% and 20% respectively. New JV will obtain bank financing for the purpose of the balance of the total investment. The relevant supporting documents for the granting of business licence have been submitted to the relevant authority in the PRC for their consideration. It is expected that the business licence can be obtained shortly.
- The Group does not have any capital commitment to the balance of the total investment beyond its commitment to 70% of the registered capital of New JV.
- Term:** 50 years from the date of issue of the business licence of New JV. During the 6 month period before the expiration of the term, with the unanimous consent of the directors at the board meeting of New JV, New JV may apply to the relevant PRC authority for an extension of the term of New JV. New JV will apply for a business licence after the JV Documents have been entered into.
- JV Board:** The JV Board will comprise 4 directors nominated by Co-Union and 3 directors nominated by Wuxi No.1. Co-Union will appoint the Chairman of the JV Board and Wuxi No.1, the deputy chairman of the JV Board.

Conditions: The JV Documents are conditional upon all necessary approvals from the relevant PRC authorities having been obtained. The JV Contract does not specify any date by which such approvals must be obtained.

The shareholding structure upon the establishment of New JV is as follows:—



Transfer by one Party of its interest in New JV is subject to the preemptive rights of the other Party.

The terms of the JV Documents have been arrived at after arm's length negotiations between the Parties. Pursuant to the JV Documents, the profit-sharing arrangement between the Parties will be in proportion of their respective contribution to the registered capital of New JV. New JV will be consolidated into the Company's accounts upon its establishment.

It is expected that New JV will start operation and generate income in the first quarter of 2006.

New JV will principally engage in the manufacturing and sale of high graded compact yarn. Apart from the joint venture entities with Wuxi No.1, other members of the Group do not engage in manufacturing high graded compact yarn.

INFORMATION ON THE PARTIES

The Group is principally engaged in the manufacturing and sale of garment products.

Wuxi No.1 is an investment company which, amongst others, invests in entities in the textile industry.

REASONS FOR THE TRANSACTION

Wuxi YGM Textile Co., Ltd has recorded profits in the past year. The board believes that given the continuing growth in the textile market, the demand for the high graded textile products in the PRC will remain strong. New JV will provide an opportunity for the Group to expand its textile manufacturing business in the PRC. As a newly established joint venture, New JV will be entitled to tax exemption benefits under the PRC laws.

The Directors (including the independent non-executives directors) consider that the terms of the Transaction and the JV Documents are normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

OTHER INFORMATION FOR THE SHAREHOLDERS

In December 2001, Co-Union and Wuxi No.1 have also formed a joint venture in Wuxi, Wuxi YGM Textile Co., Ltd., with an equity ratio of 70:30. Wuxi No.1, being a substantial shareholder of Wuxi YGM Textile Co., Ltd. is therefore a connected person of the Company for the purpose of the Listing Rules. As such, the establishment of New JV between Co-Union and Wuxi No.1 constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the approval by the independent Shareholders..

The total commitment of the Group in New JV is US\$8,400,000 (approximately HK\$65,520,000) which represents more than 5% but less than 25% of the consideration ratio calculated pursuant to Rule 14.07(4) of the Listing Rules. As such, the Transaction constitutes a discloseable transaction of the Company under Chapter 14 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 Transaction, on the basis of a written Shareholders' approval given by the Chan Family (as defined herein) 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 Transaction. The following persons are together beneficially interested in 114,512,400 Shares representing approximately 54.43% 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") | - | 6,324,696 | 3.01% |
| Chan Lam Moon Chun | Spouse of SK Chan | 3,999,354 | 1.90% |
| Yangtzekiang Investment Co. (Panama) Ltd. Inc. | Company wholly-owned by SK Chan | 5,611,230 | 2.66% |
| Chan Wing Fui Peter ("Peter Chan") | Son of SK Chan | 486,102 | 0.23% |
| Chan Arunee | Spouse of Peter Chan | 84,000 | 0.04% |
| Trans-Business Inc. | Company wholly-owned by Chan Arunee | 1,505,130 | 0.72% |

| Name of beneficial shareholder | Relationship | No. of ordinary shares beneficially interested | Percentage of total issued share capital of the Company |
|---|---|---|--|
| Chan Wing Kee ("WK Chan") | Nephew of SK Chan | 1,761,624 | 0.84% |
| Chan Fung Kit Ching | Spouse of WK Chan | 208,356 | 0.10% |
| Chan Wing To ("WT Chan") | Nephew of SK Chan | 2,934,054 | 1.39% |
| Chan Wing Sun Samuel ("Samuel Chan") | Son of SK Chan | 11,244 | 0.01% |
| Runnymede Consultants Ltd. | Company established for the benefit of family members of Samuel Chan | 3,043,080 | 1.45% |
| Chan Wing Chak David ("David Chan") | Nephew of SK Chan | 32,688 | 0.02% |
| Davidson Trust | Trust set up by David Chan | 2,280,000 | 1.08% |
| Chan Suk Ling Shirley ("Shirley Chan") | Daughter of SK Chan | 1,728,816 | 0.82% |
| Chow Watt Heem | Spouse of Shirley Chan | 24,000 | 0.01% |
| Chan Suk Man ("SM Chan") | Niece of SK Chan | 1,535,442 | 0.73% |
| 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 | 16.44% |
| 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 | 0.75% |
| Super Team International Limited | Company owned by WK Chan, WT Chan, David Chan, SM Chan and other members of the Chan Family | 2,383,500 | 1.13% |

| Name of beneficial shareholder | Relationship | No. of ordinary shares beneficially interested | Percentage of total issued share capital of the Company |
|---|--|---|--|
| Chan Family Investment Corp. Ltd. (“CFICL”) | Company owned by the Chan Directors and other members of the Chan Family | 34,826,574 | 16.55% |
| Tai Wah Investment Co. Ltd. | Subsidiary of CFICL | 8,091,360 | 3.85% |
| Wai Wing Investments Corporation | Subsidiary of CFICL | 1,280,616 | 0.61% |
| Yangtzekiang Investment Co. Ltd. | Subsidiary of CFICL | 190,146 | 0.09% |
| | | 114,512,400 | 54.43% |

A circular containing, among others, information on the Transaction 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, Wong Lam and Lin Keping.

DEFINITIONS

| | |
|---------------------------|---|
| “Articles of Association” | the articles of association entered into on 17 December 2004 between the Parties in relation to the establishment of New JV |
| “Board” | the board of directors of the Company |
| “Chan Family” | Chan Directors and their associates (as defined under the Listing Rules); |
| “Co-Union” | Co-Union Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by the Company |
| “Company” | Yangtzekiang Garment Manufacturing Company Limited, a company incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange |
| “Directors” | the directors of the Company |
| “Group” | the Company and its subsidiaries |

| | |
|------------------|---|
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “JV Board” | the board of directors of New JV |
| “JV Contract” | the joint venture contract entered into on 17 December 2004 between the Parties in relation to the establishment of New JV |
| “JV Documents” | collectively, the JV Contract and the Articles of Association |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “New JV” | 無錫揚子江精密紡織有限公司 (Wuxi YangtzeKiang Textile Company Limited), the joint venture company to be established in Wuxi in the PRC, which will be owned as to 70% by Co-Union and 30% by Wuxi No.1 |
| “Parties” | collectively, Co-Union and Wuxi No.1, being parties to the Transaction, and “Party” means either one of them |
| “PRC” | the People’s Republic of China |
| “Share(s)” | ordinary share(s) of HK\$0.50 each in the capital of the Company |
| “Shareholders” | the holders of the Shares from time to time |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Transaction” | the joint venture arrangement in relation to New JV between the Parties as contemplated under the JV Documents |
| “US\$” | United States dollars, the lawful currency of the United States of America |
| “Wuxi No.1” | Wuxi No.1 Cotton Mill, an entity established in PRC and a substantial shareholder of Wuxi YGM Textile Co., Ltd. (a 70% subsidiary of the Company), and therefore a connected person of the Company for the purpose of the Listing Rules |

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

Hong Kong, 20 December 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.