
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.

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長江製衣廠有限公司

YANGTZEKIANG GARMENT MANUFACTURING COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 294)

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

**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 Shareholders is set out on pages 10 to 13 of this circular.

11 January 2005

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DEFINITIONS

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

“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
“Hantec”	Hantec Capital Limited, the independent financial adviser to the Independent Board Committee and the Shareholders in relation to the Transaction, and a licensed corporation for types 1 and 6 regulated activities under the SFO
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee appointed by the Board to advise the Shareholders in respect of the Transaction, comprising the independent non-executive directors of the Company, namely, Messrs. Leung Hok Lim, Wong Lam and Lin Keping
“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
“Latest Practicable Date”	7 January 2005, 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 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

DEFINITIONS

“Parties”	collectively, Co-Union and Wuxi No.1, being parties to the Transaction, and “Party” means either one of them
“PRC” or “China”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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

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**
Lin Keping**

Registered Office:

22 Tai Yau Street
San Po Kong
Kowloon
Hong Kong

* *Non-executive Director*

** *Independent Non-executive Directors*

11 January 2005

To the Shareholders

Dear Sir or Madam,

ESTABLISHMENT OF A PRC JOINT VENTURE IN WUXI

CONNECTED AND DISCLOSEABLE TRANSACTION

1. INTRODUCTION

Reference is made to the announcement of the Company dated 20 December 2004 in relation to the 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

LETTER FROM THE BOARD

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.

The Stock Exchange has granted a waiver to the Company 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.

The purpose of this circular is to provide you with the particulars of the Transaction, the letter from the Independent Board Committee and the letter from the independent financial adviser to the Independent Board Committee and the Shareholders.

2. 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. The certificate of approval has been obtained and, it is expected that the business licence can be obtained shortly.

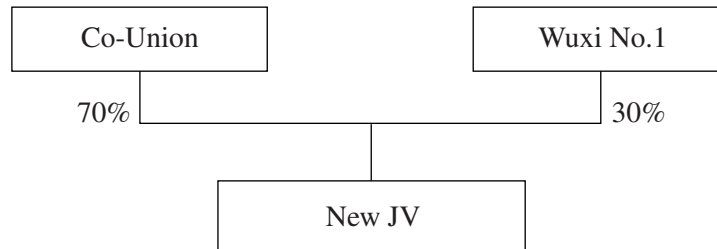
The Group does not have any capital commitment to the balance of the total investment or other shareholders' fund beyond its commitment to 70% of the registered capital of New JV.

- 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.

LETTER FROM THE BOARD

- 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 pre-emptive 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.

New JV is located at Foreign Industrial Park, Xishan Economic Development Zone, Wuxi, Jiangsu, China (江蘇省錫山經濟開發區外商工業園). New JV would acquire land for its operation in such economic development zone in 2005. 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.

Financial effects on the Group

The Group's net profit for the financial year ended 31 March 2004 was approximately HK\$69.1 million. Upon the establishment of the New JV, the Group will become interested in 70% of the equity interest in New JV and will become entitled to 70% of the net profit generated by New JV. The results of New JV will be consolidated into the income statement of the Group for the financial period ending after New JV commences its commercial operation.

As at 31 March 2004, the audited consolidated net assets of the Group were approximately HK\$414.4 million. The Group's investment in New JV will be consolidated into the financial statements of the Group after the Group contributes to the registered capital of New JV and will be initially recorded at cost and adjusted thereafter for the change in the Group's share of New JV's net assets (if any).

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.

LETTER FROM THE BOARD

3. 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.

4. 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.

5. OTHER INFORMATION FOR THE SHAREHOLDERS

The Transaction constitutes a discloseable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules respectively and is subject to the approval by the independent Shareholders.

The Stock Exchange has granted a waiver to the Company 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. As at the Latest Practicable Date, 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%
Chan Wing Kee ("WK Chan")	Nephew of SK Chan	1,761,624	0.84%

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 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%

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 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%
		<u>114,512,400</u>	<u>54.43%</u>

6. ADDITIONAL INFORMATION

An independent board committee, comprising Messrs. Leung Hok Lim, Wong Lam and Lin Keping, 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 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 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)

11 January 2005

To the Shareholders

Dear Sir or Madam,

ESTABLISHMENT OF A PRC JOINT VENTURE IN WUXI

CONNECTED AND DISCLOSEABLE TRANSACTION

We refer to the circular dated 11 January 2005 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 Transaction and the JV Documents and to advise the Shareholders whether, in our opinion, the terms of the Transaction and the JV Documents 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 Transaction and the JV Documents.

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 Transaction and the JV Documents, 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 Transaction and the JV Documents.

Having taking into account the advice of Hantec, we consider the terms of the Transaction and the JV Documents 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 Transaction.

**Yours faithfully,
For and on behalf of
Independent Board Committee**

Leung Hok Lim
*Independent Non-
executive Director*

Wong Lam
*Independent Non-
executive Director*

Lin Keping
*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 independent Shareholders in relation to the establishment of New JV.



HANTEC CAPITAL LIMITED

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

11 January 2005

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

Dear Sirs and Madams,

CONNECTED AND DISCLOSEABLE TRANSACTION

INTRODUCTION

We refer to the circular dated 11 January 2005 (the "Circular") issued by the Company to the Shareholders of which this letter forms part and to our appointment as independent financial adviser to the Independent Board Committee and the independent Shareholders with respect to the establishment of New JV in the PRC pursuant to the JV Documents, 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 definitions shall have the same meanings set out in the Circular unless the context otherwise requires.

As referred in the Board's Letter of the Circular, Co-Union (a wholly-owned subsidiary of the Company) has entered into the JV Documents with Wuxi No.1 on 17 December 2004 for the establishment of New JV situated in Wuxi, the PRC which will principally engage in the manufacturing and sale of high graded compact yarn.

The total amount of investment and the registered capital of New JV amounted to US\$29,980,000 (or equivalent to approximately HK\$233,844,000) and US\$12,000,000 (or equivalent to approximately HK\$93,600,000) respectively. The total commitment of Co-Union in New JV is US\$8,400,000 (equivalent to 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 establishment of New JV constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

According to the announcement of the Company on 9 January 2002, Co-Union and Wuxi No.1 formed a joint venture in Wuxi, namely Wuxi YGM Textile Co. Ltd. ("Wuxi YGM"), with an equity ratio of 70:30. Wuxi No.1, being a substantial shareholder of Wuxi YGM, is a connected person of the Company pursuant to the Listing Rules and the establishment of New JV also constitutes a connection transaction of the Company under Chapter 14A of the Listing Rules which will be subject to the approval by the independent Shareholders.

Pursuant to the requirements of Rule 13.39(6) of the Listing Rules, the Independent Board Committee comprising Messrs. Leung Hok Lim, Wong Lam and Lin Keping, all being independent non-executive Directors, has been established by the Company to advise the independent Shareholders in relation to the terms of the JV Documents. We have been appointed by the Company to provide an independent opinion and recommendations to the Independent Board Committee and the independent Shareholders as to whether (i) the terms of the JV

LETTER FROM HANTEC

Documents are fair and reasonable so far as the Group and the independent Shareholders are concerned; (ii) the JV Documents were entered into on normal commercial terms; and (iii) the entering into of the JV Documents is in the interests of the Group and the Shareholders as a whole.

Unless otherwise stated, the exchange rate used in this letter is US\$1.00 = HK\$7.80 which was the same exchange rate adopted in the Circular.

BASIS OF OUR ADVICE

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

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the establishment of New JV in the PRC, we have taken the following principal factors and reasons into consideration:

I. Background and reasons for establishment of New JV

The Group is principally engaged in the manufacturing and sale of garment products such as shirts and knit wear products. The Group has production facilities in the PRC, Malaysia, Myanmar, Bangladesh, Sri Lanka, Cambodia and Lesotho in Africa.

Wuxi No.1 is an investment holding company which, among others, principally invests in entities in the textile industry. Wuxi No.1 is one of the leading textile enterprises in the PRC which principally engaged in cotton textile production, as well as garments. As set out in the announcement of the Company on 9 January 2002, Co-Union (a wholly-owned subsidiary of the Company) and Wuxi No.1 had entered into a joint venture agreement in relation to the establishment of a joint venture namely Wuxi YGM. The total registered capital for establishing Wuxi YGM was US\$12,000,000, in which the Co-Union and Wuxi No.1 contributed approximately US\$8,400,000 million and US\$3,600,000 respectively. Co-Union and Wuxi No.1 had an equity interest of 70% and 30% in Wuxi YGM respectively. Wuxi YGM is principally engaged in the manufacturing and selling of textile products and has recorded profits in the past year.

As referred in the Board's Letter of the Circular, Co-Union entered into the JV Documents with Wuxi No.1 on 17 December 2004 for the establishment of New JV situated in Wuxi, the PRC which will principally engage in the manufacturing and sale of high graded compact yarn. The board of Directors of the Company 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. The Directors consider that the participation of Wuxi No.1 would assist with provision of the technical skills and experienced management which would be favourable to the operation of New JV. Given the past cooperation relationship with Wuxi No. 1 and the profits generated by Wuxi YGM in the past year, the Directors are confident in cooperating with Wuxi No.1 in establishing New JV. As a newly established joint venture, New JV will be entitled to tax exemption benefits under the PRC laws. The Directors (including the

LETTER FROM HANTEC

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.

As stated in the annual report of the Company for the year ended 31 March 2004, the Group intends to expand the textile business in the PRC by expanding the manufacturing facilities in existence and forming joint ventures. The Company is currently engaged in the manufacturing of garment and the manufacturing and sale of yarn, including compact yarn. Given the continuing growth in the textile market, the Directors believe that the demand for high graded compact yarn will also increase. Pursuant to the JV Documents, New JV will principally engage in the manufacturing and sale of high graded compact yarn. The Directors are of the view that emphasising on product upgrades and broadening product range will enhance the Group's competitiveness. Having considered the existing businesses and expansion strategy of the Group and the business objective of New JV, we are of the view that the JV Documents are generally in line with the business plan of the Group.

As there has been an established business relationship between the Group and Wuxi No.1 in establishing and operating Wuxi YGM and in furtherance of the cooperation between the Group and Wuxi No.1, we consider that it is reasonable for the Group to establish New JV with Wuxi No.1 and the formation of New JV is in the interest of the Group and the Shareholders as a whole.

II. The JV Documents

1. Principal terms of the JV Documents

The terms of the JV documents have been arrived at after arm's length negotiations between the Parties. Below are the principal terms of the JV documents:

Total investment and registered capital

Pursuant to the JV Documents, the total investment and registered capital of New JV amounted to US\$29,980,000 (or equivalent to approximately HK\$233,844,000) and US\$12,000,000 (or equivalent to approximately HK\$93,600,000) respectively. The total commitment of Co-Union in New JV is US\$8,400,000 (equivalent to approximately HK\$65,520,000). The Group and Wuxi No.1 will contribute their respective share of the registered capital of New JV in proportion to their respective shareholdings. The injection of the Group's commitment will be made in two stages. After New JV has obtained its business licence, each of Co-Union and Wuxi No.1 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 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. We consider that the injection of capital in proportion to their respective shareholdings of New JV is a fair and reasonable basis.

Profit sharing

Under the terms of the JV Documents, the profit from the operations of New JV will be shared by Co-Union and Wuxi No.1 in the same proportion as their respective shareholdings in New JV. Having taken into account the proportionate profit sharing arrangement, we consider that the arrangement is fair and reasonable so far as the Company and the independent Shareholders are concerned.

Management of New JV

The JV Board will consist of seven directors, four of which will be nominated by Co-Union and three will be nominated by Wuxi No.1. The chairman of the JV Board will be appointed by Co-Union and the deputy chairman of the JV Board will be appointed by

LETTER FROM HANTEC

Wuxi No.1. Given that New JV will be consolidated into the Company's accounts upon its establishment, we are of the view that it is fair and reasonable for Co-Union to have majority seats in the JV Board.

Based on the aforesaid, we concur with the Directors' view that (i) the terms of the JV Documents are fair and reasonable so far as the Group and the independent Shareholders are concerned; and (ii) the JV Documents were entered into on normal commercial terms.

2. *Financial impact on the Group*

The total commitment of Co-Union in the establishment of New JV is US\$8,400,000 (or equivalent to approximately HK\$65,520,000). The injection of the Group's commitment will be made in two stages. After New JV has obtained its business licence, each of Co-Union and Wuxi No.1 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 Group has stated that it will finance its capital contribution from internal resources and bank borrowings of the Group as to approximately 80% and 20% respectively.

As set out in the Board's Letter, given that New JV will be consolidated into the Company's accounts upon its establishment, we are of the view that the payment in relation to the formation of New JV by Co-Union would not have any material impact on the Group's net asset position on the basis that New JV will be consolidated as an indirect subsidiary of the Company.

The unaudited cash and bank balance (including pledge deposits) of the Group was approximately HK\$66,000,000 as at the Latest Practicable Date. In addition, the Group has successfully raised funds of approximately HK\$126,000,000 by way of rights issue on the basis of one rights share for every two existing shares held by qualifying shareholders of the Company. The net proceeds of the rights issue is applied for repayment of part of the Group's bank loans, for possible expansion of textile business and for general working capital purposes.

As set out in the Board's Letter, the capital contribution to the New JV will be funded by internal resources and bank borrowings of the Group as to approximately 80% and 20% respectively. As the Company has raised approximately HK\$50,000,000 from the rights issue, approximately HK\$15,500,000 shall be funded by bank loans. Should the bank loans of approximately HK\$15,500,000 be obtained by the Company, the rough estimation of debt-to-equity ratio of the Company will be increased from approximately 89.1% to approximately 92%.

Considering the Group's unaudited cash and bank balance was approximately HK\$66,000,000 as at the Latest Practicable Date, the proceeds of approximately HK\$50,000,000 as at the Latest Practicable Date from the rights issue and the capital contribution to New JV are payable by stages, we concur with the Directors' view that the entering into the JV Documents would not have a material adverse impact on the overall financial position of the Group.

RECOMMENDATIONS

Having considered the above principal factors and reasons, we consider that (i) the terms of the JV Documents are fair and reasonable so far as the Group and the independent Shareholders are concerned; (ii) the JV Documents were entered into on normal commercial terms; and (iii) the entering into of the JV Documents is in the interest of the Group and the Shareholders as a whole.

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

1. 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.

2. 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			Other interests
	Personal interests	Family interests	Corporate interests	
Chan Sui Kau	6,324,696	3,999,354	5,611,230	(i)
Chan Wing Fui Peter	486,102	1,589,130	–	(i) & (ii) & (iii)
Chan Wing Kee	1,761,624	208,356	–	(i) & (ii) & (iii) & (iv)
Chan Wing To	2,934,054	–	–	(i) & (ii) & (iii) & (iv)
Chan Wing Sun Samuel	11,244	–	3,043,080	(i) & (ii) & (iii)
Yeung Wing Tak	1,446,200	–	265,364	–
Chan Wing Chak David	2,312,688	–	–	(i) & (iv)
Chan Suk Ling Shirley	1,728,816	24,000	–	(i) & (ii) & (iii)
Chan Suk Man	1,535,442	–	–	(i) & (ii) & (iii) & (iv)
Leung Hok Lim	–	–	–	–
Wong Lam	–	–	–	–
Lin Keping	–	–	–	–

Notes:

- (i) 44,388,696 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) 2,383,500 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 31 March 2004 (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 Shareholdings

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.

3. COMPETING INTEREST

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or their respective associates have any interest in a business which competes or is likely to compete with the business of the Group.

4. LITIGATION

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

5. EXPERT AND CONSENT

- (a) The following is the qualification of the expert which has given its opinion or advice contained in this circular:

Name	Qualifications
Hantec Capital Limited	Licensed corporation to carry out types 1 and 6 regulated activities under the SFO

- (b) Hantec does not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

- (c) Hantec has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.
- (d) 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, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2004, the date to which the latest published audited financial statements of the Company were made up.
- (e) The letter given by Hantec is given as of the date of this circular for incorporation herein.

6. 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 31 March 2004, being the date to which the latest published audited accounts of the Company were made up.

7. 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).

8. CORPORATE INFORMATION

Registered office, head office and principal place of business in Hong Kong	22 Tai Yau Street San Po Kong Kowloon Hong Kong
Company secretary and qualified accountant	Hui Sau Ling, <i>FCCA, CPA</i>
Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong

9. LANGUAGE

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

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the JV 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 26 January 2005.