

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

YANGTZEKIANG GARMENT LIMITED

長江製衣有限公司

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

DISCLOSEABLE AND CONNECTED TRANSACTIONS: Disposal of securities in, and debt restructuring of, YangtzeKiang (France) AND CONTINUING CONNECTED TRANSACTIONS: Supply of Products

Disposal of securities in, and debt restructuring of, YangtzeKiang (France)

The Board announces that on 17th November, 2006, the Company and the Purchaser entered into the Share Purchase Agreement, whereby the Company has agreed to dispose of the Sale Shares for a total consideration of EURO300,000 (approximately HK\$3,000,000).

As a condition precedent of the Share Purchase Agreement, the Company and YangtzeKiang (France) shall enter into the Debt Restructuring Agreement for the purpose of restructuring certain indebtedness owed by YangtzeKiang (France) to the Company on or before the Completion Date.

The Share Purchase Agreement constitutes a discloseable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. In addition, the restructuring of the Remaining Debt pursuant to the Debt Restructuring Agreement will constitute a discloseable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Supply of Products

The Board also announces that on 17th November, 2006, the Company and YangtzeKiang (France) entered into the Master Agreement, whereby the Group will supply the Products to YangtzeKiang (France).

As YangtzeKiang (France) will become a connected person of the Company under the Listing Rules following completion of the Disposal, the transactions under the Master Agreement, which will be carried out on a continuing or recurring basis in the ordinary and usual course of business of the Group, will constitute continuing connected transactions of the Company under the Listing Rules and will be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since no shareholder of the Company or any of their associates (within the meaning of the Listing Rules) is required to abstain from voting if a general meeting is to be convened for the approval of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap), the Company has applied to the Stock Exchange for a waiver from strict compliance with the requirement of Rule 14A.43 of the Listing Rules to hold a general meeting of the Company for the approval of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) on the basis of a written approval from independent shareholders of the Company who hold more than 50% in nominal value of the issued share capital of the Company in lieu of holding a general meeting.

General

A circular of the Company containing, among other things, details of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap), together with the recommendation of the independent board committee of the Company and the independent financial adviser advising the independent board committee of the Company on the terms of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) will be despatched to the shareholders of the Company as soon as practicable.

SHARE PURCHASE AGREEMENT

On 17th November, 2006, the Company and the Purchaser entered into the Share Purchase Agreement, whereby the Company has agreed to dispose of the Sale Shares to the Purchaser. Set out below is a summary of the principal terms of the Share Purchase Agreement:

Parties

Seller: the Company; and

Purchaser: Frank Henri Vanderhaeghen, a director of YangtzeKiang (France)

Asset to be disposed of

184,876 shares with a par value of EURO16 each in the capital of YangtzeKiang (France), representing 92.40% equity interest in the registered capital of YangtzeKiang (France) and being the entire interest held by the Company in YangtzeKiang (France) immediately prior to the Completion Date.

Consideration and payment terms

The consideration of EURO300,000 (approximately HK\$3,000,000) was agreed after arm's length negotiations between the Company and the Purchaser by reference to, amongst other matters, the audited net liability of YangtzeKiang (France) as at 31st March, 2006 of EURO524,400 (approximately HK\$5,244,000) and the unaudited net liability of YangtzeKiang (France) as at 30th September, 2006 of EURO300,000 (approximately HK\$3,000,000).

The consideration of EURO300,000 (approximately HK\$3,000,000) shall be payable in cash in the following manner:

- (a) a sum of EURO25,000 (approximately HK\$250,000) shall be paid on the Completion Date directly to the Company;
- (b) a sum of EURO20,000 (approximately HK\$200,000) shall be paid on or before 1st April, 2008;
- (c) a sum of EURO15,000 shall be paid on or before 1st April, 2009; and
- (d) the remaining balance of the consideration amounting to EURO240,000 shall be payable to the Company if YangtzeKiang (France) is still in operation on the third anniversary of the Completion Date, in which case the Company and the Purchaser shall in good faith agree on a date on which such remaining balance shall be paid by the Purchaser to the Company, which shall in any event be no later than 31st December, 2011. If YangtzeKiang (France) is not in operation on the third anniversary of the Completion Date, the Purchaser shall not be obliged to pay such remaining balance of EURO240,000.

Conditions Precedent

The obligations of the Company to complete the Disposal shall be subject to (if applicable) obtaining the shareholders' approval of the Share Purchase Agreement and the Debt Restructuring Agreement (details of which are set out in the paragraph headed "Debt Restructuring Agreement" below) by the Company in compliance with the Listing Rules. Each of the Company and the Purchaser shall (at its own expense) do or procure to be done before completion of the Disposal all acts and things, and execute or procure the execution of all documents (including the Debt Restructuring Agreement), as is or may be reasonably required to complete the Disposal and all related transactions.

If the aforementioned conditions precedent of the Share Purchase Agreement has not been fulfilled (or waived) on or before noon, Paris time, on 22nd December, 2006 (or such other time as the Company and the Purchaser may agree in writing), the Share Purchase Agreement shall automatically terminate and none of the Parties shall have any claim of any nature whatsoever against the other party under the Share Purchase Agreement resulting from such termination (save in respect of any rights and liabilities of the parties which have accrued prior to termination).

Completion

It is the intention of the Company and the Purchaser to proceed to completion of the Disposal as soon as possible and in any event, no later than 22nd December, 2006, or as otherwise agreed by the parties.

Debt Restructuring Agreement

Prior to the entering into the Share Purchase Agreement, the Company has provided goods to YangtzeKiang (France) for its trade and business under purchase orders placed by YangtzeKiang (France) with the Company from time to time in the ordinary and usual course of business and indebtedness for invoices not timely paid by YangtzeKiang (France) in respect of such goods provided by the Company amounts to US\$4,691,589 (the "Total Debt").

The Company and the Purchaser recognize that YangtzeKiang (France), considering its financial situation, is not in a position to repay the Total Debt, and therefore propose to restructure the Total Debt on the terms and conditions set out in the Debt Restructuring Agreement (being a condition precedent document and to be executed on or before the Completion Date) as summarized below:

- (1) YangtzeKiang (France) shall pay to the Company an amount of US\$216,451 on the Completion Date, upon receipt of which the Total Debt shall be reduced to US\$2,500,000 (the "Remaining Debt"), and the Company shall be deemed to have waived all and any rights it may have to commence legal proceedings or otherwise claim against YangtzeKiang (France) for recovery of the amount of US\$1,975,138 so forgiven;
- (2) as payment of part of the Remaining Debt, YangtzeKiang (France) shall pay the Company an amount of US\$300,000 (the "Initial Payment") by no later than 30th June, 2007; and

- (3) in addition to the Initial Payment and as final settlement of the Remaining Debt, Yangtzekiang (France) shall pay a further sum of US\$2,200,000 by four instalments in each of the four years ending 31st December, 2010.

DESCRIPTION OF YANGTZEKIANG (FRANCE)

Yangtzekiang (France) is a company incorporated in France with limited liability and is principally engaged in the trade, purchase, sale, import, export, representation and commercialization of textile products, whether manufactured or not. Upon completion of the Disposal, the Company will not have any interest in Yangtzekiang (France), and Yangtzekiang (France) will cease to be a subsidiary of the Company.

Yangtzekiang (France) has been suffering losses, running at a net operating cash outflow position in recent years, and has been relying on loans and borrowings to finance its business operations. According to the audited financial statements of Yangtzekiang (France), Yangtzekiang (France) recorded net loss of EURO1,279,800 (approximately HK\$12,798,000) and EURO2,914,700 (approximately HK\$29,147,000) for the two years ended 31st March, 2006 respectively.

The Board estimates that, in view of the audited net liability of Yangtzekiang (France) as at 31st March, 2006 and the unaudited net liability of Yangtzekiang (France) as at 30th September, 2006 set out above, the book value of the Sale Shares as at 30th September, 2006 would be a negative figure of approximately HK\$3,000,000. Assuming no material change occurs during the period between the date of the Share Purchase Agreement and the Completion Date and after taking into account of the waiver of the debt of US\$1,975,138 (approximately HK\$15,406,076) due to the Company upon the entering into the Debt Restructuring Agreement, the book value of the Sale Shares would be expected to increase by approximately HK\$14,173,586. On this basis, it is expected that the loss expected to accrue to the Group upon the Disposal would amount to HK\$8,173,586 (subject to audit).

REASONS FOR THE DISPOSAL (AND THE DEBT RESTRUCTURING)

The Board is of the view that, after taking into consideration the current financial position of Yangtzekiang (France) and alternative proposals examined by the Group, the Disposal, together with the restructuring of the Total Debt pursuant to the Debt Restructuring Agreement, represents the best option available to the Company on the ground that following completion the Disposal, the Company can free up a significant amount of capital commitment and management resources of the Group which would otherwise required in the operation of the loss making subsidiary and will better enhance the financial performance of the Group by focusing on its other principal business.

Under the prevailing circumstances, there is a strong likelihood that Yangtzekiang (France) will be wound up resulting in a far less favourable return to the Company compared to the return available pursuant to the Share Purchase Agreement and the Debt Restructuring Agreement. It is expected that the net proceeds from the Disposal, after deducting costs and expenses related thereto, and any recovery from the Debt Restructuring Agreement will be used as general working capital of the Group.

The Board (excluding the independent non-executive Directors who form the independent board committee of the Company and whose views will be subject to the opinion of the independent financial adviser) consider that the Share Purchase Agreement and the Debt Restructuring Agreement were negotiated on an arm's length basis and the terms thereof (including the consideration and payment terms thereof) were agreed on normal commercial terms between the parties and are fair and reasonable so far as its shareholders are concerned and are in the interest of the Company and its shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS

Supply of Products

In anticipation that following completion of the Disposal, Yangtzekiang (France) will become a connected person of the Company under the Listing Rules on the ground that it is an associate of the Purchaser, who is a connected person by virtue of Rule 14A.11(2) of the Listing Rules, the Company and Yangtzekiang (France) entered into the Master Agreement on 17th November, 2006, whereby the Group will supply the Products to Yangtzekiang (France) on terms set out below in compliance with the Listing Rules.

Nature of transaction: Yangtzekiang (France) may from time to time purchase the Products from the Group by placing orders from time to time for trading purposes for a period ending 31st March, 2008.

Pricing basis: For the three financial years ended 31st March, 2006, the annual trading volume of the Products amount to approximately HK\$119,444,000, HK\$113,684,000 and HK\$96,387,000 respectively. It is expected that the purchases of the Products by Yangtzekiang (France) from the Group will be entered into in the ordinary course of business of the Group and on terms no less favourable than those available to independent third party.

Annual Cap: The Company currently estimates that the annual trading volume of the Products will not exceed the maximum annual cap of HK\$50,000,000 for the current financial year ending 31st March, 2007 and HK\$60,000,000 for the year ending 31st March, 2008 respectively.

The above estimate has already taken into account (i) the value of sale and purchase of the Products in the previous years; (ii) the financial conditions of Yangtzekiang (France); and (iii) the expected orders to be placed by Yangtzekiang (France) currently under negotiation between the Company, Yangtzekiang (France) and the Purchaser of the business plans of Yangtzekiang (France) following completion of the Disposal.

Reason for the transaction:

Given the relationship of the Company and Yangtzekiang (France) prior to completion of the Disposal and the anticipated cooperation going forward, the supply of the Products to Yangtzekiang (France) would allow the Group to continue to maintain a steady turnover. The prices and terms of the continuing connected transactions will be agreed on an order-by-order basis after arm's length negotiations after taking into account the value and volume of orders, the type and design of the Products and any specific requirements under the orders placed by Yangtzekiang (France).

The Board (excluding the independent non-executive Directors who will form the independent board committee of the Company and whose views will be subject to the opinion of the independent financial adviser) consider that the Master Agreement were agreed on normal commercial terms between the parties and are fair and reasonable so far as its shareholders are concerned and therefore it would be in the interest of the Company and its shareholders as a whole to enter into the Master Agreement with Yangtzekiang (France).

IMPLICATIONS UNDER THE LISTING RULES

The Purchaser is a director of Yangtzekiang (France), a non wholly-owned subsidiary of the Group as at the date of the Share Purchase Agreement, and is therefore a connected person of the Company (within the meaning of the Listing Rules). Since the applicable percentage ratios under the Share Purchase Agreement (after aggregating the consideration for the Sale Shares and the amount of debt waived pursuant to the Debt Restructuring Agreement) exceed the 5% and HK\$10,000,000 thresholds, the Share Purchase Agreement constitutes a discloseable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

In addition, following completion of the Disposal, Yangtzekiang (France) will become a connected person of the Company under the Listing Rules as it will become an associate of the Purchaser, who is a connected person by virtue of Rule 14A.11(2) of the Listing Rules. Accordingly, the restructuring of the Remaining Debt pursuant to the Debt Restructuring Agreement will constitute a discloseable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Further, as Yangtzekiang (France) will become a connected person of the Company under the Listing Rules following completion of the Disposal, the transactions under the Master Agreement, which will be carried out on a continuing or recurring basis in the ordinary and usual course of business of the Group, will constitute continuing connected transactions of the Company under the Listing Rules and will be subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules since the applicable percentage ratios on an annual basis represent more than 2.5% and the annual trading volume is expected to exceed HK\$10,000,000.

As far as the Directors are aware, the Purchaser is not a shareholder of the Company. Since no shareholder of the Company or any of their associates (within the meaning of the Listing Rules) is required to abstain from voting if a general meeting is to be convened for the approval of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap), the Company has applied to the Stock Exchange for a waiver from strict compliance with the requirement of Rule 14A.43 of the Listing Rules to hold a general meeting of the Company for the approval of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) on the basis of a written approval from independent shareholders of the Company who hold more than 50% in nominal value of the issued share capital of the Company in lieu of holding a general meeting.

The following persons, being the independent shareholders of the Company not interested in the Share Purchase Agreement, Debt Restructuring Agreement and the Master Agreement, who are beneficially interested in an aggregate 114,723,964 shares in the capital of the Company which represent approximately 54.53% in nominal value of the issued share capital of the Company as at the date of this announcement, and who shall comprise a closely allied group of shareholders for the purposes of Rule 14A.43 of the Listing Rules on the basis that the Company obtained similar written approvals from such shareholders in respect of certain previous notifiable and/or connected transactions of the Company, the most recent one being the establishment of a PRC joint venture – Wuxi Talak Investment Co., Ltd. (as announced on 4th November, 2005), which approvals had been accepted by the Stock Exchange for the purposes of Rule 14A.43 of the Listing Rules, gave their written approval of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) on 20th November, 2006, subject to the grant of the waiver and permission by the Stock Exchange:

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 (Spouse of Peter Chan)	1,505,130	0.72%
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%
Runneymede Consultants Ltd.	Company established for the benefit of family members of Samuel Chan (Son of SK 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 (Nephew of SK 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%
Chan Family Investment Corp. Ltd. (“ CFICL ”)	Company owned by the Chan Directors and other members of the Chan Family	35,038,138	16.65%
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%

GENERAL

The Company is principally engaged in the manufacturing and sale of garment products and textiles and provision of processing services.

A circular of the Company containing, among other things, details of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap), together with the recommendation of the independent board committee of the Company and the independent financial adviser advising the independent board committee of the Company on the terms of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) will be despatched to the shareholders of the Company as soon as practicable.

As at the date of this announcement,

- the executive Directors are Chan Sui Kau, Chan Wing Fui Peter, Chan Wing Kee, Chan Wing To, Chan Suk Man, Chan Wing Sun Samuel, Chan Suk Ling Shirley and So Ying Woon Alan; and
- the independent non-executive Directors are Leung Hok Lim, Wong Lam and Lin Keping.

DEFINITIONS

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

“Annual Cap”	the maximum aggregate annual value of the transactions between the Company and Yangtzekiang (France) pursuant to the Master Agreement in the two financial years ending 31st March, 2008;
“Board”	the board of Directors
“Company”	Yangtzekiang Garment Limited, a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange
“Completion Date”	the date of completion of the Disposal pursuant to the terms of the Share Purchase Agreement, which is expected to be on or around 22nd December, 2006
“Debt Restructuring Agreement”	the debt restructuring agreement in respect of trade debts owed by Yangtzekiang (France) to the Company to be entered into by the Company and Yangtzekiang (France) on or before the Completion Date
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Shares by the Company to the Purchaser pursuant to the Share Purchase Agreement
“EURO”	the Euro, the lawful currency of the European Union
“Group”	the Company and its subsidiaries (as defined in the Listing Rules)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	a master agreement to be entered into between the Company and Yangtzekiang (France) on or after the Completion Date whereby Yangtzekiang (France) will purchase the Products from the Group
“Products”	the garment products of the Group as specified in the orders placed by Yangtzekiang (France) pursuant to the Master Agreement
“Purchaser”	Frank Henri Vanderhaeghen, a director of the Yangtzekiang (France)
“Sale Shares”	184,876 shares with a par value of EURO16 each in the capital of Yangtzekiang (France), representing 92.40% equity interest in the registered capital of Yangtzekiang (France) and being the entire interest held by the Company in Yangtzekiang (France) to be sold to the Purchaser pursuant to the Share Purchase Agreement
“Share Purchase Agreement”	a share purchase agreement dated 17th November, 2006 and entered into between the Company and the Purchaser whereby the Company has agreed to dispose of the Sale Shares to the Purchaser
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“Yangtzekiang (France)”	Yangtzekiang, a French <i>société par actions simplifiée</i> duly incorporated under the laws of France and a subsidiary of the Company as at the date of the Share Purchase Agreement

By Order of the Board
Yangtzekiang Garment Limited
Chan Wing Fui Peter
Vice Chairman

Hong Kong, 20th November, 2006

The exchange rates of EURO to HK\$ quoted in this announcement adopt a rate of EURO1 equivalent to HK\$10. The exchange rates of US\$ to HK\$ quoted in this announcement adopt a rate of US\$1 equivalent to HK\$7.8.

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