
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in YangtzeKiang Garment Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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長江製衣有限公司
YANGTZEKIANG GARMENT LIMITED
(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

**Independent financial adviser to the
Independent Board Committee and the Shareholders**



Hantec Capital Limited

A letter from the Independent Board Committee containing its opinion in respect of the Share Purchase Agreement, the Debt Restructuring and the Master Agreement (and the Annual Cap) is set out on pages 11 to 12 of this circular.

A letter from Hantec Capital Limited, the independent financial adviser to the Independent Board Committee and the Shareholders, containing its advice in respect of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) is set out on pages 13 to 22 of this circular.

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DEFINITIONS

In this circular, the following expressions shall, unless the context requires otherwise, 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 31 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 22 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
“Independent Board Committee”	an independent committee of the Board, comprising the independent non-executive directors, namely Messrs. Leung Hok Lim, Wong Lam and Lin Keping, duly appointed by the Board for the purpose of advising the Shareholders in respect of the Share Purchase Agreement, the Debt Restructuring and the Master Agreement (and the Annual Cap)
“Latest Practicable date”	8 December 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Master Agreement”	the master agreement dated 17 November 2006 and entered into between the Company and Yangtzekiang (France) 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
“Shareholders”	holders of the shares of the Company
“Share Purchase Agreement”	the share purchase agreement dated 17 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

Unless otherwise specified herein, the exchange rates of EURO to HK\$ quoted in this circular adopt a rate of EURO1 equivalent to HK\$10. The exchange rates of US\$ to HK\$ quoted in this circular adopt a rate of US\$1 equivalent to HK\$7.8.

LETTER FROM THE BOARD

長江製衣有限公司
YANGTZEKIANG GARMENT LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 294)

Executive Directors:

Chan Sui Kau
Chan Wing Fui, Peter
Chan Wing Kee
Chan Wing To
Chan Suk Man
Chan Wing Sun, Samuel
Chan Suk Ling, Shirley
So Ying Woon, Alan

Registered Office:

22 Tai Yau Street
San Po Kong
Kowloon
Hong Kong

Independent non-executive Directors:

Leung Hok Lim
Wong Lam
Lin Keping

12 December 2006

To all the Shareholders

Dear Sir/Madam,

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

INTRODUCTION

On 20 November 2006, the Company announced that, among other matters, the Company and the Purchaser entered into the Share Purchase Agreement, and the Company and Yangtzekiang (France) entered into the Master Agreement, on 17 November 2006.

As a condition precedent of the Share Purchase Agreement, the Company and Yangtzekiang (France) shall enter into the Debt Restructuring Agreement. Each of the Share Purchase Agreement and the Debt Restructuring 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. The transactions under the Master Agreement 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 Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with details of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) under the Listing Rules.

SHARE PURCHASE AGREEMENT

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) of EURO524,400 (approximately HK\$5,244,000) as at 31 March 2006 and the unaudited net liability of YangtzeKiang (France) of EURO300,000 (approximately HK\$3,000,000) as at 30 September 2006.

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 1 April 2008;
- (c) a sum of EURO15,000 shall be paid on or before 1 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 31 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

LETTER FROM THE BOARD

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 22 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).

The Shareholders' approval referred to above was obtained on 20 November 2006. Please refer to the paragraph headed "Implications under the Listing Rules" for further details.

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 22 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 30 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 31 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.

LETTER FROM THE BOARD

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 31 March 2006 respectively.

The Board estimates that, in view of the audited net liability of YangtzeKiang (France) as at 31 March 2006 and the unaudited net liability of YangtzeKiang (France) as at 30 September 2006 set out above, the book value of the Sale Shares as at 30 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 a one-off loss amounting to approximately HK\$8,173,586 (subject to audit), would accrue to the Group upon Disposal.

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 of 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 (including the independent non-executive Directors) 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 the Shareholders are concerned and are in the interest of the Company and the 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 17 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 31 March 2008.

LETTER FROM THE BOARD

Pricing basis: For the three financial years ended 31 March 2006, the annual trading volume of the Products amounted 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 parties.

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 31 March 2007 and HK\$60,000,000 for the year ending 31 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 proposed 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 (including the independent non-executive Directors) consider that the Master Agreement (and the Annual Cap) were agreed on normal commercial terms between the parties and are fair and reasonable so far as the Shareholders are concerned and therefore it would be in the interest of the Company and the 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.

LETTER FROM THE BOARD

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. Since no Shareholder 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 had applied to the Stock Exchange for, and was granted by the Stock Exchange, 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 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 not interested in the Share Purchase Agreement, Debt Restructuring Agreement and the Master Agreement, who are beneficially interested in an aggregate of 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 20 November 2006, 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 4 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 20 November 2006:

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%

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 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%

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

Your attention is drawn to the letter from the Independent Board Committee set out on pages 11 to 12 of this circular which contains its opinion in respect of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap), and the letter from Hantec Capital Limited, the independent financial adviser to the Independent Board Committee and the Shareholders, set out on pages 13 to 22 of this circular which contains its advice to the Independent Board Committee and the Shareholders as well as the principal factors and reasons taken into consideration in arriving at its advice.

Your attention is drawn to the further information contained in the appendices to this circular.

By order of the Board
YangtzeKiang Garment Limited
Chan Sui Kau
Chairman

長江製衣有限公司
YANGTZEKIANG GARMENT LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 294)

12 December 2006

To all the Shareholders

Dear Sir/Madam,

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

We have been appointed as members of the independent board committee to advise you in connection with the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap), details of which are set out in the “Letter from the Board” in the circular of the Company dated 12 December 2006 (the “**Circular**”) of which this letter forms part. Defined terms used in this letter shall have the same meanings as given to them in the Circular unless the context otherwise requires.

We, being the independent non-executive Directors constituting the Independent Board Committee, are writing to you to set out our opinion in respect of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap), to advise you whether in our view the terms of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) are in the interest of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned.

Hantec Capital Limited has been appointed to advise us and the Shareholders as to whether the terms of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) are fair and reasonable so far as the Shareholders are concerned. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 13 to 22 of the Circular.

Your attention is also drawn to the “Letter from the Board” set out on pages 3 to 10 of the Circular and the additional information set out in the appendix to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) and taken into account the advice of Hantec Capital Limited, we consider that the terms of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) are fair and reasonable as far as the Shareholders are concerned and that the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap) are in the interests of the Company and the Shareholders as a whole and recommend the Shareholders to support the entering into the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement.

Yours faithfully,
Independent Board Committee of
Yangtzekiang Garment Limited

Leung Hok Lim
Independent
Non-Executive Director

Wong Lam
Independent
Non-Executive Director

Lin Keping
Independent
Non-Executive Director

LETTER FROM HANTEC CAPITAL LIMITED

The following is the letter of advice from Hantec Capital Limited to the Independent Board Committee and the Independent Shareholders of the Company in respect of the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap), which has been prepared for the purpose of inclusion in this circular.



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

12 December 2006

*To the independent board committee and the independent shareholders
of YangtzeKiang Garment Limited*

Dear Sirs and Madams,

DISCLOSEABLE AND CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the independent shareholders of the Company (“**Independent Shareholders**”) in relation to the Share Purchase Agreement, the Debt Restructuring Agreement and the Master Agreement (and the Annual Cap), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular (the “**Circular**”) dated 12 December 2006 issued by the Company, of which this letter forms part. Capitalised terms used in this letter without definitions shall have the same meanings set out in the Circular unless the context otherwise requires.

On 17 November 2006, the Company and the Purchaser entered into the Share Purchase Agreement, whereby the Company has agreed to dispose of the Sale Shares. 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. Each of the Share Purchase Agreement and the Debt Restructuring 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.

On 17 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.

LETTER FROM HANTEC CAPITAL LIMITED

Since no Shareholder 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 had applied to the Stock Exchange for, and was granted by the Stock Exchange, 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 the Independent Shareholders who hold more than 50% in nominal value of the issued share capital of the Company in lieu of holding a general meeting.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representation provided to us by the Directors.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group and Yangtzekiang (France).

I. THE SHARE PURCHASE AGREEMENT AND THE DEBT RESTRUCTURING AGREEMENT

Principal factors considered

In arriving at our opinion with regard to the terms of the Share Purchase Agreement and the Debt Restructuring Agreement, we have taken into account the following principal factors and reasons into consideration:

1. Background

On 17 November 2006, the Company and the Purchaser entered into the Share Purchase Agreement, whereby the Company has agreed to dispose of the Sale Shares. 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.

Information of the Group

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

LETTER FROM HANTEC CAPITAL LIMITED

Information of the Purchaser

The Purchaser, Mr. Frank Henri Vanderhaeghen, is a director of Yangtzekiang (France).

Information 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 31 March 2006 respectively.

2. *Reasons for entering into the Share Purchase Agreement and the Debt Restructuring Agreement*

As set out in the Letter from the Board, the Board considers that 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 of 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.

As confirmed by the Directors, the Company has used its best endeavour to find the best purchaser for Yangtzekiang (France), but no alternative purchaser was found and the Directors consider the offer from the Purchaser is the best available offer to the Company. The Board considers 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 the Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

Yangtzekiang (France) has been suffering losses in the recent years with an accumulated loss of approximately HK\$35.9 million as at 31 March 2006. The Company has continuously provided financing to Yangtzekiang (France) and the total loan (including shareholders' loan and trade debt) due by Yangtzekiang (France) to the Company accounted for approximately HK\$41.1 million as at 31 March 2006. Without the Disposal, the Group has to continuously share the losses of Yangtzekiang (France), as a result, the Group would continue be suffered from the financial burden from Yangtzekiang (France). The Directors anticipate that, 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.

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The Company and the Purchaser recognize that Yangtzekiang (France), considering its financial situation, is not in a position to repay the total trade debt of US\$4,691,589 (approximately HK\$36,594,394) due by Yangtzekiang (France) to the Company (the “**Total Debt**”), and therefore propose to restructure the Total Debt on 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), including Yangtzekiang (France) shall repay to the Company an amount of US\$216,451 (approximately HK\$1,688,318) on the Completion Date, the remaining debt of US\$2,500,000 (approximately HK\$19,500,000) (“**Remaining Debt**”) shall be paid by Yangtzekiang (France) by installments while balance of the Total Debt of US\$1,975,138 (approximately HK\$15,406,076) (“**Waived Debt**”) shall be deemed to have waived by the Company. Please refer to the Letter from the Board for summarized terms of the Debt Restructuring Agreement to be entered.

Having considered that (i) without the Disposal, the Group has to continuously share the losses of Yangtzekiang (France) and there is 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; (ii) the Disposal not only allows the Group exit from subsidizing a loss making subsidiary but also, following completion the Disposal, allows the Company to 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; and (iii) there has an increasing difficulties for the Company to find a purchaser for Yangtzekiang (France) given its loss making position, we are of the view that the entering into of the Share Purchase Agreement and the Debt Restructuring Agreement is in the interests of the Company and the Independent Shareholders as a whole.

3. Terms of the Share Purchase Agreement and the Debt Restructuring Agreement

(a) Payment of consideration under the Share Purchase Agreement

Pursuant to the Share Purchase Agreement, the consideration of the Disposal of EURO300,000 (approximately HK\$3,000,000) shall be payable in cash in the following manner:

- (i) a sum of EURO25,000 (approximately HK\$250,000) shall be paid on the Completion Date directly to the Company;
- (ii) a sum of EURO20,000 (approximately HK\$200,000) shall be paid on or before 1 April 2008;
- (iii) a sum of EURO15,000 (approximately HK\$150,000) shall be paid on or before 1 April 2009; and
- (iv) the remaining balance of the consideration amounting to EURO240,000 (approximately HK\$2,400,000) 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 31 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.

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The Shareholders should note the risk that if the Purchaser cannot turnaround the financial position of YangtzeKiang (France) and YangtzeKiang (France) subsequently be wound up on or before the third anniversary of the Completion Date, the remaining balance of the consideration amounting to EURO240,000 (approximately HK\$2,400,000) would not be paid by the Purchaser.

(b) Basis of consideration under the Share Purchase Agreement and the Debt Restructuring Agreement

As set out in the Letter from the Board, the consideration for the Disposal was EURO300,000 (approximately HK\$3,000,000). As advised by the Directors, the consideration 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) of EURO524,400 (approximately HK\$5,244,000) as at 31 March 2006 and the unaudited net liability of YangtzeKiang (France) of EURO300,000 (approximately HK\$3,000,000) as at 30 September 2006.

In forming our opinion on the consideration for the Disposal, we have considered the following approaches, namely price to earning approach, dividend approach and net asset approach which are commonly used references for assessing the fairness of the consideration.

Price to earning approach

YangtzeKiang (France) has been suffering losses 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 31 March 2006 respectively. Since YangtzeKiang (France) recorded losses in recent years, the use of price to earning multiple as reference to assess the consideration of YangtzeKiang (France) would not be applicable.

Dividend approach

YangtzeKiang (France) has not declared any dividend to its shareholders during the three years ended 31 March 2006. As such, there is no basis to assess the consideration of YangtzeKiang (France) based on the historical dividend yield and the dividend approach would not be applicable.

On the basis that the price to earning approach and the dividend approach are not applicable, we consider that we should focus on the net asset approach in the determination of the reasonableness and fairness of the consideration of the Disposal.

Net asset approach

Based on the unaudited management accounts of YangtzeKiang (France), the net liability of YangtzeKiang (France) as at 30 September 2006 was approximately HK\$3,000,000, and the Board estimates that, the book value of the Sale Shares as at 30 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 Waived Debt upon the entering into the Debt Restructuring Agreement, the book value of the Sale Shares would be expected to

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increase by approximately HK\$14,173,586. Accordingly, the consideration of HK\$3,000,000 represent (i) a premium of approximately HK\$6 million to the net liability of YangtzeKiang (France) of HK\$3,000,000 as at 30 September 2006 (without taking into account of the Waived Debt); and (ii) approximately 26% of the estimated book value of the Sale Shares (after taking into account of the Waived Debt) i.e. a discount of approximately 74% to the estimated book value of the Sale Shares after taking into account of the Waived Debt.

On the basis that (i) the Disposal provides a good opportunity for the Company to cut losses and avoid further losses from subsidizing YangtzeKiang (France) with reference to the loss making track record of YangtzeKiang (France); (ii) 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; (iii) the consideration for the Disposal is based on arm's length negotiation between the Purchaser and the Company with reference to the net liability of YangtzeKiang (France) as at 31 March 2006 and 30 September 2006; and (iv) there has no better option or alternative purchaser available for the Company, we are of the view that it is reasonable for the Company to offer discount in respect of the consideration of the Disposal and the terms of the Share Purchase Agreement and the Debt Restructuring Agreement, including the consideration, are in the interests of the Company and the Independent Shareholders as a whole.

4. Financial effects on the Group

Net asset value

The loss on disposal of YangtzeKiang (France) amounting to approximately HK\$8.2 million mainly represents the shortfall between the consideration of HK\$3.0 million for the Disposal and the book value of the Sale Shares (after taking into account of the Waived Debt). As a result, the Disposal will result in a decrease in net assets of the Group by approximately HK\$8.2 million, representing approximately 1.4% of the Group's net asset value as at 31 March 2006 of HK\$583.6 million. We consider the effect is insignificant and acceptable to the Company and the Shareholders as a whole.

Earnings

With the consideration of HK\$3.0 million for the Disposal, the Directors estimate that the Group will record a one-off loss on disposal of approximately HK\$8.2 million (taking into account of the Waived Debt) upon completion of the Disposal, which will be included in the forthcoming financial statements of the Group.

Taken into account that (i) YangtzeKiang (France) has been making operating loss for the last three consecutive years resulting in a relatively weak finance position having a huge amount of accumulated loss of approximately HK\$35.9 million, the Company has continuously provided financing to YangtzeKiang (France) and the accumulated loan due by YangtzeKiang (France) to the Company accounted for approximately HK\$41.1 million as at 31 March 2006; (ii) the Directors anticipated that, 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; and (iii) the Disposal not only enables the Group to exit from sharing the loss of YangtzeKiang (France) but also allows the Company to free up a significant amount of capital commitment and management resources of the Group and will better enhance the financial performance of the Group by focusing on its other principal business, in this case, we consider that the one-off loss on disposal of approximately HK\$8.2 million is acceptable to the Company.

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Based on the above financial analysis, save as the loss on disposal of approximately HK\$8.2 million which would decrease the Group's net asset value as discussed above, we consider that the Disposal has no material impact on the Group's financial position.

Conclusion and opinion

Taking into consideration of the above principal factors and reasons, we are of the view that the terms of the Share Purchase Agreement and the Debt Restructuring Agreement are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders to support the Share Purchase Agreement and the Debt Restructuring Agreement.

II. CONTINUING CONNECTED TRANSACTIONS

Principal factors considered

In arriving at our opinion with regard to the terms of the Master Agreement, we have taken into account the following principal factors and reasons into consideration:

1. Background and reasons of the Master Agreement

The Group is principally engaged in the manufacturing and sale of garment products and textiles, the provision of processing services and the rental of properties. As stated in the Letter from the Board, 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.

As stated in the Letter from the Board, the Company and Yangtzekiang (France) entered into the Master Agreement on 17 November 2006, pursuant to which 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 31 March 2008. 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 will constitute continuing connected transactions of the Company under the Listing Rules.

Considering the business nature of the Group and Yangtzekiang (France), we are therefore of the view that, the supply of the Products under the Master Agreement are in line with the principal business of the Group and are conducted in the ordinary and usual course of the business of the Company.

2. The Master Agreement

(a) Principal terms of the Master Agreement

Pursuant to the Master Agreement, Yangtzekiang (France) may from time to time purchase the Products from the Group by placing orders for trading purposes for a period ending 31 March 2008. As stated in the Letter from the Board, the prices and terms of the continuing connected transactions will be agreed on an order-by-order basis after arm's

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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).

To access whether the prices of the continuing connected transactions are fair and reasonable, we have compared the prices of similar products recently offered by the Group to its independent customer and to Yangtzekiang (France) and found that the Group adopts the same pricing formula for the sales of the Products to Yangtzekiang (France) and to independent customer and the prices sold to Yangtzekiang (France) are fall within the range of the comparable.

Pursuant to the Master Agreement, the payment shall be made against production of carriage documents or by way of wire transfer before delivery of the Products (or such other methods as Yangtzekiang (France) and the Company agree). We have reviewed the payment term offered to independent customer by the Group in respect of the Products sales and found that, under the Master Agreement the Group offered similar payment term to its independent customer. On the basis that the payment term offered by the Group to Yangtzekiang (France) under the Master Agreement is comparable to those to independent customer, we consider such payment term to Yangtzekiang (France) is not more favourable to Yangtzekiang (France) than that offered to independent customers.

On the basis that (i) the supply of the Products to Yangtzekiang (France) by the Group are conducted in the ordinary and usual course of business of the Group; (ii) the prices offered by the Group to Yangtzekiang (France) have been and will continue to be no more favourable to the Group than those offered to independent customers of the Group; and (iii) the payment term is in line with the overall payment term of the Group to its independent customer, we are of the view that the terms of the Master Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

(b) Rationale for determining the Annual Cap

The table below sets out (i) the actual transaction amounts of the Products sales for each of the three years ended 31 March 2004, 2005 and 2006; and (ii) the Annual Cap for each of the two years ending 31 March 2007 and 2008:

	Total transaction amounts	Increase/(decrease) from the preceding year
Actual transaction amounts:		
2004	approximately HK\$119,444,000	N/A
2005	approximately HK\$113,684,000	approximately (4.8%)
2006	approximately HK\$96,387,000	approximately (15.2%)
Annual Cap:		
2007	HK\$50,000,000	approximately (48.1%)
2008	HK\$60,000,000	approximately 20%

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As stated in the Letter from the Board, the Annual Cap for the two years ending 31 March 2008 are estimated by the Directors taking 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.

To assess whether the Annual Cap for the two years ending 31 March 2008 are fair and reasonable, we have discussed with the management of the Company and reviewed (i) the Group's historical sales to YangtzeKiang (France); and (ii) the projected sales to YangtzeKiang (France) for the two financial years ending 31 March 2008 prepared by the management of the Company.

We noted that (i) the sales to YangtzeKiang (France) showed a decreasing trend during the financial year ended 31 March 2005 and 2006; (ii) the actual transaction amount for the six months ended 30 September 2006 represent a decrease of approximately 51.7% as compared with the corresponding period in 2005; and (iii) the projected sales to YangtzeKiang (France) for the remaining six months ending 31 March 2007 represent a decrease of approximately 43.2% as compared with the respective period in 2005. The Directors explain that sales to YangtzeKiang (France) in this financial year have substantially decreased as YangtzeKiang (France) has commenced to source and purchase from other independent suppliers. Taking into consideration of (i) the decrease in the transaction amount for the six months ended 30 September 2006 as compared with the corresponding period in 2005; (ii) the weak financial conditions of YangtzeKiang (France); and (iii) YangtzeKiang (France) has commenced to source from other suppliers, we consider that the decrease of the Annual Cap for the year ending 31 March 2007 as compared with the actual transaction amount for the year ended 31 March 2006 is in line with the Group's sales trend with YangtzeKiang (France) and is reasonable.

The Directors advised that the Annual Cap for the year ending 31 March 2008 is determined with reference to the projected sales for the year ending 31 March 2007 and the possible growth in the year ending 31 March 2008. As advised by the Directors, the performance of YangtzeKiang (France) after the Disposal is uncertain and the Annual Cap for the year ending 31 March 2008 provides flexibility to the Company to increase the sales to YangtzeKiang (France) in the event that YangtzeKiang (France) can turnaround its financial position and increases its purchases from the Company. We are therefore consider that the increase of the Annual Cap for the year ending 31 March 2008 as compared with the Annual Cap for the year ending 31 March 2007 is to allow the flexibility of the Company to increase its sales to YangtzeKiang (France) if YangtzeKiang (France) can improve its financial performance and is therefore reasonable.

In light of the above, we are of the opinion that the Annual Cap of HK\$50,000,000 and HK\$60,000,000 for the two financial years 2007 and 2008 are fair and reasonable.

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Conclusion and opinion

Taking into consideration of the above principal factors and reasons, we are of the view that the transactions under the Master Agreement are conducted in the ordinary and usual course of business of the Company and the Master Agreement are in the interests of the Company and the Shareholders as a whole, and the terms of the Master Agreement (and the Annual Cap) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders to support the Master Agreement (and the Annual Cap).

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 Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular 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

As at the Latest Practicable date, the interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) of the Directors and the chief executive of the Company 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 were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follow:

Name of Director	Number of issued Shares beneficially held			
	Personal interests	Family interests	Corporate interests	Other 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)
Chan Suk Ling, Shirley	1,728,816	24,000	–	(i) & (ii) & (iii)
Chan Suk Man	1,535,442	–	–	(i) & (ii) & (iii) & (iv)
So Ying Woon, Alan	12,000	–	–	–

Notes:

- (i) 44,600,260 shares of the Company were held by Chan Family Investment Corporation Ltd. (which is owned by Messrs Chan Sui Kau, Chan Wing Fui, Peter, Chan Wing Kee, Chan Wing To and Chan Wing Sun, Samuel, Madam Chan Suk Ling, Shirley and Madam Chan Suk Man 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 indirectly owned by Messrs Chan Wing Fui, Peter, Chan Wing Kee, Chan Wing To and Chan Wing Sun, Samuel, Madam Chan Suk Ling, Shirley and 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 indirectly 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 indirectly owned by Messrs Chan Wing Kee, Chan Wing To, 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 and chief executive of the Company had any interests or short position in the shares, underlying shares and debentures of the Company and its associated corporations (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 were

taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(b) Interests of substantial shareholders

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.

(c) Service contracts

There is no existing or proposed service contract between any of the Directors or proposed Directors and the Company or any other member of the Group (excluding contracts expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation)).

(d) Miscellaneous

Save as disclosed herein and as at the Latest Practicable Date,

- (i) none of the Directors or Hantec Capital Limited had any direct or indirect interests in any assets which have been, since 31 March 2006 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any other member of the Group;
- (ii) none of the Directors is materially interested in any contract or arrangement entered into by the Company or any other member of the Group which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group; and
- (iii) Hantec Capital Limited was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

3. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, in so far as the Directors were aware, none of the Directors or their respective associates had any interests in a business, which competes or may compete with the business of the Group.

4. MATERIAL CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006, the date to which the latest published audited consolidated accounts of the Group were made up.

5. EXPERT'S QUALIFICATION AND CONSENT

Hantec Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name in the form and context in which it appears.

The qualification of the expert who has provided its advice which is contained in this circular is set out as follows:

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

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claims which are in the opinion of the Directors of material importance and, so far as the Directors were aware, no litigation or arbitration or claims of material importance was pending or threatened against any member of the Group.

7. GENERAL

- (a) The secretary and qualified accountant of the Company is Hui Sau Ling, *FCCA, CPA*.
- (b) The share registrar of the Company is Computershare Hong Kong Investor Services Limited, Shop 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal office of the Company at 22 Tai Yau Street, San Po Kong, Kowloon, Hong Kong from the date of this circular up to and including the date which is 14 days from the date of this circular:–

- (a) the memorandum and articles of association of the Company;
- (b) the Share Purchase Agreement, the Debt Restructuring Agreement, and the Master Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 11 to 12 of this circular;
- (d) the letter of advice from Hantec Capital Limited, the text of which is set out on pages 13 to 22 of this circular; and
- (e) the written consent referred to in this appendix.