THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt about this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold all your shares in YUGANG INTERNATIONAL LIMITED (the "Company"), you should at once hand this circular to the purchaser or to the bank or stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

YUGANG

YUGANG INTERNATIONAL LIMITED
(渝港國際有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 613)

CIRCULAR ON GENERAL MANDATE FOR REPURCHASE BY THE COMPANY OF ITS OWN SHARES

This circular explains the repurchase mandate to be passed as an ordinary resolution at the Annual General Meeting of the Company to be held on 6 May 2004.

The notice convening an Annual General Meeting of Yugang International Limited to be held at Boardroom I, M Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on Thursday, 6 May 2004 at 11:30 a.m. is enclosed with this circular. Whether or not you propose to attend the meeting, you are advised to read the notice and to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's principal place of business in Hong Kong at Rooms 3301-3307 China Resources Building, 26 Harbour Road, Wanchai, Hong Kong not later than 11:30 a.m. on Tuesday, 4 May 2004.

29 March 2004

* *For identification purposes only.*

YUGANG INTERNATIONAL LIMITED
(渝港國際有限公司)*

(Incorporated in Bermuda with limited liability)

(the "Company")

(Stock Code: 613)

Executive Directors:
Cheung Chung Kiu
(Chairman and Managing Director)
Yuen Wing Shing
Zhang Qing Xin
Lam Hiu Lo
Liang Kang

Independent Non-Executive Directors:
Wong Wai Kwong, David
Lee Ka Sze, Carmelo

Registered Office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
Rooms 3301-3307
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

29 March 2004

To: the shareholders of the Company
(and for information only, the convertible note holders)

Dear Sir or Madam,

GENERAL MANDATE FOR REPURCHASE BY THE COMPANY OF ITS OWN SHARES

INTRODUCTION

The purpose of this circular is to provide you with information regarding an ordinary resolution to be proposed at the annual general meeting of the Company (the "Annual General Meeting") to be held on 6 May 2004 relating to a general mandate for repurchase by the Company of its own shares (the "Securities").

GENERAL MANDATE TO REPURCHASE SECURITIES

The ordinary resolution no. 6 of the notice of the Annual General Meeting, if passed, will give the directors of the Company (the "Directors") a general and unconditional mandate to exercise the powers of the Company to repurchase shares of HK$0.01 each in the share capital of the Company ("Shares") up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of the resolution until the next annual general meeting of the Company following the passing of the said ordinary resolution or such earlier period as stated in the said ordinary resolution (the "Repurchase Mandate").

An explanatory statement to provide shareholders with all the information reasonably necessary for them to make an informed decision in relation to this proposed resolution as required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") concerning the regulation of repurchases by companies of their own securities on the Stock Exchange is set out in the Appendix to this circular.

ANNUAL GENERAL MEETING

A notice convening the Annual General Meeting of the Company to be held on 6 May 2004 is enclosed with this circular. Whether or not you intend to be present at the Annual General Meeting, you are requested to complete the accompanying form of proxy and return it to the Company's principal place of business in Hong Kong at Rooms 3301-3307 China Resources Building, 26 Harbour Road, Wanchai, Hong Kong in accordance with the instructions printed thereon not later than 48 hours before the time for holding the Annual General Meeting. Completion and delivery of the form of proxy will not prevent shareholders of the Company from attending and voting at the Annual General Meeting if they so wish.

RECOMMENDATION

The Directors consider that the Repurchase Mandate is in the best interests of the Company and its shareholders and accordingly recommend that you should vote in favour of the resolution referred to above to be proposed at the Annual General Meeting.

By Order of the Board of Directors
Yuen Wing Shing
Director

** For identification purposes only*

This explanatory statement contains all the information required pursuant to rule 10.06(1)(b) and other relevant provisions of the Listing Rules.

THE SHARE REPURCHASE RULES

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their fully-paid up Shares on the Stock Exchange subject to certain restrictions. In this regard, the definition of "Shares" in the Listing Rules would, and where used below in this explanatory statement (including the use of the word "Share") shall (unless the context otherwise requires) include shares of all classes and securities which carry a right to subscribe or purchase shares of the Company.

EXERCISE OF THE REPURCHASE MANDATE

Exercise in full of the Repurchase Mandate, on the basis of 8,453,321,700 existing Shares of the Company in issue as at 25 March 2004 (the "Latest Practicable Date", being the latest practicable date prior to the printing of this circular) and on the basis that no new Shares of the Company are issued or repurchased prior to the date of the resolution approving the Repurchase Mandate, could accordingly result in up to 845,332,170 Shares of the Company as at the date of the Annual General Meeting, being repurchased by the Company during the course of the period from the date of resolution granting the Repurchase Mandate until the earlier of the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next Annual General Meeting of the Company is required by law or the bye-laws of the Company to be held or the revocation or variation of the existing repurchase mandate by shareholders of the Company in general meeting.

The directors would like to draw the attention of the Shareholders as regards the amendments to the Listing Rules promulgated by the Stock Exchange as announced on 30 January 2004 and in particular those amendments made to paragraph 10.06(2) on "Dealing Restrictions". Upon the taking effect of the amendments to the Listing Rules on 31 March 2004, major changes in relation to repurchase by the Company of its securities in the market are as follows:

1. The restriction to repurchase by the Company in any one calendar month of not more than 25% of the total number of a certain kind of shares which were traded on the Stock Exchange in the preceding calendar month is cancelled;

2. The Company shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the 5 preceding trading days on which Shares would be traded on the Stock Exchange;

3. The Company shall not purchase Shares during the period of 1 month immediately preceding the earlier of

   3.1. the date of the board meeting (as such date is first notified to the Exchange in accordance with the Exchange Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Exchange Listing Rules); and

   3.2. the deadline for the Company to publish an announcement of its results for any year or half-year under the Exchange Listing Rules, or quarterly or any other interim period (whether or not required under the Exchange Listing Rules).

   and ending on the date of the results announcement unless the circumstances are exceptional.

   Shareholders are advised to refer to the new Listing Rules for details.

REASONS FOR REPURCHASES

The Directors believe that it is in the best interests of the Company and its shareholders to have a general authority from shareholders to enable the Directors to repurchase securities of the Company in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets and/or earnings per Share of the Company and will only be made if the Directors believe that such repurchases will benefit the Company and its shareholders.

FUNDING OF REPURCHASES

In repurchasing its securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and bye-laws, the laws of Bermuda.

Under Bermuda law, purchases may only be effected out of the capital paid up on the purchased shares or out of funds of the Company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the Company otherwise available for dividend or distribution or out of the Company's share premium account.

As compared with the position as disclosed in the Company's most recent published audited accounts for the year ended 31 December 2003 and taking into account the current working capital position of the Company, the Directors consider that no material adverse effect on the working capital and gearing position of the Company may result in the event that the Repurchase Mandate was to be exercised in full in the period before the Repurchase Mandate expires. The

Directors however do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

GENERAL

None of the Directors, and to the best of their knowledge having made all reasonable enquiries, any associates of any Director, have any present intention in the event that the Repurchase Mandate is approved by shareholders of the Company to sell any of the Company's Shares to the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

If, as a result of a Share repurchase, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers ("Takeover Code"). In certain circumstances, a shareholder or a group of shareholders acting in concert could as a result of increase of its or their interest, obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code.

As at the Latest Practicable Date, the following persons hold the following percentage of the Shares of the Company:

Name	**Number of shares of HK$0.01 each**	**Percentage of holding**
Chongqing Industrial Limited *(Note 1)*	3,194,434,684	37.79%
Cheung Chung Kiu *(Note 2)*	3,247,754,684	38.42%

Note :

(1) The voting rights of these shares are exercisable by Chongqing Industrial Limited. Cheung Chung Kiu controls Chongqing Industrial Limited.

(2) Out of 3,247,754,684 shares of HK$0.01 each, 3,194,434,684 shares of HK$0.01 each are held by Chongqing Industrial Limited and 53,320,000 shares of HK$0.01 each are held by Cheung Chung Kiu personally.

Apart from the aforesaid shareholders, the Directors are not aware of any single shareholder who holds more than 10% of the issued share capital of the Company. If, which is not presently contemplated, the Company was to exercise the Repurchase Mandate in full, the percentage shareholding of Chongqing Industrial Limited and Mr. Cheung Chung Kiu in aggregate would increase to 42.69% and they (including other companies or persons acting in concert with them) would then be obligated to make a mandatory offer in accordance with Rule 26 of the Takeover Code.

However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, cause Chongqing Industrial Limited and/or Mr. Cheung Chung Kiu to become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares of the Company to the Company, or has undertaken not to do so, if the Repurchase Mandate was approved by shareholders of the Company.

The Company has not repurchased any of its Shares, whether on the Stock Exchange or otherwise, during the previous six months.

The highest and lowest prices at which the Shares of the Company have traded on the Stock Exchange during the previous twelve months prior to the date of this circular were as follows:—

	Shares	
	Highest	**Lowest**
	HK$	*HK$*
March 2003	0.040	0.025
April 2003	0.029	0.025
May 2003	0.045	0.028
June 2003	0.043	0.035
July 2003	0.060	0.035
August 2003	0.067	0.046
September 2003	0.068	0.054
October 2003	0.067	0.058
November 2003	0.066	0.056
December 2003	0.106	0.057
January 2004	0.125	0.095
February 2004	0.114	0.099
March 2004#	0.108	0.084

figures as updated to the Latest Practicable Date