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Asia Alliance Holdings Limited

亞洲聯盟集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 616

VERY SUBSTANTIAL ACQUISITION ACQUISITION OF PROPERTY, CONSTRUCTION OF PLANT AND DEVELOPMENT OF MANUFACTURING OPERATIONS IN PRC

The Directors announce that on 24 December 2004 and 28 December 2004, the Agreement and the Supplemental Agreement were entered into between the Vendor and the Subsidiary which set out the terms in respect of the acquisition of the Property at a consideration of RMB10,050,000 (equivalent to approximately HK\$9,472,196), the construction of the Plant at a cost of not more than HK\$30,000,000 and the proposed development of manufacturing operations in Huzhou, PRC to be held through the PRC Entities. The Transaction being phase 1 of the Project involves setting up manufacturing operations initially comprising garment manufacturing and bleaching and dyeing capabilities, the acquisition of the Property and the construction of the Plant for treating waste water. The proposed development in phase 1 of the Project will involve building on the Property factories to house equipment and machinery for manufacturing operations, storage and maintenance facilities, packaging facilities and employee quarters and the construction of the Plant. The total investment under phase 1 of the Project, including the aggregate cost of HK\$40,000,000 for the acquisition of the Property and the construction of the Plant under the Agreement and the Supplemental Agreement and the intended investment of HK\$160,000,000 for other parts of phase 1, is expected to be up to HK\$200,000,000.

The Transaction constitutes a very substantial acquisition of the Company under the Listing Rules and is therefore subject to the approval of the shareholders of the Company at a general meeting. A circular of the Company in relation to the Transaction containing among others, details of the Agreement and the Supplemental Agreement, an accountants' report of the Company and a valuation report of the Property and the Plant will be dispatched to the shareholders of the Company as soon as practicable.

At the request of the Company, trading of the shares of the Company has been suspended with effect from 9:30 a.m. on 28 December 2004 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading of the shares of the Company with effect from 9:30 a.m. on 4 January 2005.

Agreement dated 24 December 2004 as supplemented by the Supplemental Agreement dated 28 December 2004

The Agreement and the Supplemental Agreement were entered into by the Vendor and the Subsidiary on 24 December 2004 and 28 December 2004 respectively, in respect of the proposed acquisition of the Property at a consideration of RMB10,050,000 (equivalent to approximately HK\$9,472,196), the construction of the Plant at a cost of not more than HK\$30,000,000 and the development of manufacturing operations in Huzhou, PRC to be held through the PRC Entities. The acquisition of the Property, the construction of the Plant for treating waste water and the development of the manufacturing operations which will initially comprise garment manufacturing and bleaching and dyeing capabilities will form phase 1 of the Project and is the subject of the Transaction, and the development of knitting capability will form phase 2 of the Project which will not be constructed until completion of phase 1. Separate approvals for operation shall be applied for each part of the Project.

The Agreement and the Supplemental Agreement only provide for detailed capital commitment of HK\$40,000,000 in respect of the Property acquisition and the construction of the Plant. No commitment has been made in respect of other parts of phase 1 the investment of which is expected to be HK\$160,000,000 or phase 2 of the Project. References to other parts of the Project are stated as broad intended plans.

Parties

Vendor: The People's Government of Zhili Town, Wuxin District, Huzhou City

Purchaser: The Subsidiary

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendor is an Independent Third Party.

Assets to be Acquired

Pursuant to the Agreement and the Supplemental Agreement, the Subsidiary has agreed to acquire the Property, comprising the land use rights for 50 years for land of about 670 hectares situate at the West of Dongliang Road, Zhili Town, Huzhou, PRC and the South of Hengtang Harbour, PRC from the Vendor. 70 hectares of land comprised in the Property has been reserved but will only be delivered upon demand by the Subsidiary at no extra cost. It is intended that multifunctional manufacturing facilities will be built on the Property to expand the manufacturing capacity of the Group.

The Agreement and the Supplemental Agreement also provide that the waste water treatment plant will be built on the Property.

Consideration

Under the Agreement and the Supplemental Agreement, the Property Consideration is RMB10,050,000 (equivalent to approximately HK\$9,472,196), which has been determined at arm's length negotiation with reference to (i) the value of the Property as approved by the People's Government of Huzhou City as an incentive for the Group to invest in the Huzhou

City and to build its facilities in that city which will bring follow on employment and growth and (ii) the expenses for the issue of the certificate of land use right and related tax to be borne by the Vendor (the tax for the acquisition of the Property of 3% of the Property Consideration will be payable by the Subsidiary, the Vendor will coordinate the refund to the Subsidiary of 80% of the tax paid, which will involve approval(s) by relevant government authority).

In addition, the Agreement and the Supplemental Agreement provide that the Plant shall be constructed at a cost of not more than HK\$30,000,000 and the Deposit of HK\$15,000,000 shall be paid and will be applied for the purpose of construction of the Plant.

The Directors believe that the terms of the Transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Property Consideration of RMB10,050,000 (equivalent to approximately HK\$9,472,196) and related expenses of approximately HK\$527,804 and the Deposit of HK\$15,000,000 are payable within 10 days from the signing of the Agreement. If the condition precedent is not satisfied, the above sums of HK\$25,000,000 in total will be refundable.

The Company will inject further funds through the PRC Entities as and when necessary for the purpose of development of the Project. The Agreement and the Supplemental Agreement do not provide for any further commitment of funds other than stating that the total registered capital of the PRC Entities shall be HK\$500,000,000 in total which shall be injected as required.

The Group will finance the Acquisition and the Construction through bank borrowings of HK\$30,000,000 which is guaranteed by a personal guarantee from Mr. Koon Wing Yee, a director of the Company. The Company has not granted any security to Mr. Koon in connection with the finance arrangements. The Group will also make use of an existing bank facility of HK\$10,000,000 for the Construction if required.

Condition Precedent

The Agreement and the Supplemental Agreement will be binding on the Subsidiary upon the Company and the Subsidiary having obtained all necessary approvals, if any, in respect of the transaction contemplated under the Agreement and the Supplemental Agreement and pursuant to the Listing Rules, including without limitations obtaining shareholders' approval of the Company.

Completion

The Property shall be capable of being transferred to the Subsidiary or its subsidiaries within 15 business days of payment of the Property Consideration. The Vendor will also arrange for infrastructure connections including water, electricity, roads, gas and others within 45 business days of the Group obtaining relevant approvals.

The construction of the Plant shall be completed before March 2006.

The Agreement and the Supplemental Agreement further provide for indicative timetable for the completion of other parts of the manufacturing operations as follows:

- (i) construction including the Plant must commence in early 2005;
- (ii) strive to complete garment manufacturing and bleaching and dyeing capabilities by early 2006; and
- (iii) strive to complete knitting operation by the end of 2006.

Other Terms

Additional terms include in summary the following:

- (1) The Subsidiary may nominate any of its subsidiaries or affiliates to hold assets (including the Property and the Plant) relating to the development of manufacturing operations in Huzhou, PRC.
- (2) The Vendor has agreed to provide the Group with infrastructure support to ensure the Plant can be functional, including the construction of drainage linking the Plant to the canal nearby.

Information about the Project

The Company intends to divide the Project into 2 phases. Phase 1 of the Project consists of the acquisition of the Property, the construction of the Plant, and the development of the garment manufacturing and bleaching and dyeing operations which will involve erecting factories for housing equipment and machinery for manufacturing process, storage and maintenance facilities, packaging facilities and employee quarters. The Plant is an integral part of the Project to develop the manufacturing facilities, and a clear plan as to how to deal with waste water treatment to the standard required under PRC laws is an important factor taken into account by the Group in choosing the Property to be the site of developing such facilities. The Agreement and the Supplemental Agreement provide for what the Vendor has agreed to provide the Group to ensure the Plant can be functional, including the construction of drainage linking the Plant to the canal nearby.

The intended investment of phase 1 is up to HK\$200,000,000, among which HK\$40,000,000 has been committed for the acquisition of the Property and construction of the Plant under the Agreement and the Supplemental Agreement and will be financed through bank borrowings. No other commitment as to capital has been made by the Group. The Group will proceed with its investment in phase 1 of the Project as and when it has obtained further funding either through bank borrowings, or to the extent possible through internal resources depending on when such funding is needed.

Phase 2 of the Project will consist of the development of the knitting operation. The Company has no present intention to move forward to phase 2 unless and until phase 1 of the Project has been completed and has demonstrated its value to the business of the Group. The Group will make further announcement as and when necessary if it decides to pursue phase 2 of the Project.

Reasons for and benefits of the Transaction

The Company is engaged in the business of bleaching, dyeing and knitting. The Company wishes to strengthen its manufacturing operations and capability of its existing main business by developing a multi function base in Huzhou, PRC and as part of that development, to acquire the Property and to construct the Plant for the purpose of establishing a manufacturing base for its business. The Company chose the Property in the PRC so as to benefit from its inexpensive land and low cost base including labour.

The Company further believes that the development of the Project will consolidate and significantly increase its manufacturing capabilities and to enjoy further economy of scale. It also enhances relationship with the Vendor which will assist in ensuring the smooth running of the operations, including providing infrastructure support as contemplated in the Agreement and the Supplemental Agreement.

Special General Meeting

The Transaction constitutes a very substantial acquisition of the Company under the Listing Rules. The Agreement and the Supplemental Agreement are subject to, among other things, the approval by the shareholders of the Company at the special general meeting of the Company. A circular in compliance with Rule 14.63 of the Listing Rules and containing further information as required under Rule 14.69 of the Listing Rules, together with the notice of the special general meeting of the Company and the form of proxy for use at the special general meeting will be dispatched to shareholders of the Company as soon as practicable.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, as at the date of this announcement, no shareholder of the Company is required to abstain from voting at the special general meeting for the shareholders to consider and, if thought fit, approve the Transaction.

General

At the request of the Company, trading of the shares of the Company has been suspended with effect from 9:30 a.m. on 28 December 2004 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading of the shares of the Company with effect from 9:30 a.m. on 4 January 2005.

As of the date of this announcement, the executive directors of the Company are Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu and the independent non-executive directors are Mr. Kan Ka Hon, Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming.

Definitions:-

In this announcement, the following terms have the following meanings:-

“Acquisition”	the proposed acquisition of the Property pursuant to the Agreement and the Supplemental Agreement
“Agreement”	the agreement dated 24 December 2004 entered into between the Vendor and the Subsidiary in respect of the Transaction as amended by the Supplemental Agreement
“Company”	Asia Alliance Holdings Limited, a company incorporated in Bermuda with limited liability, which shares are listed on the Stock Exchange
“Construction”	the construction of the Plant
“Deposit”	the deposit of HK\$15,000,000 payable to the Vendor for construction of the Plant
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of PRC
“Independent Third Party”	any person who and whose ultimate beneficial owner are independent of and not connected to the Company, any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates (as defined in the Listing Rules) and is not a connected person of the Company (as defined in the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Plant”	waste water treatment plant to be built on the Property
“PRC”	The People’s Republic of China
“PRC Entities”	4 wholly owned foreign enterprises to be incorporated in the PRC and to be held by the Subsidiary or other wholly owned subsidiaries of the Company for the purposes of holding different assets in connection with the development of the manufacturing operations, and the total registered capital of which are expected to be in total HK\$500,000,000

“Project”	the Acquisition, the proposed development of manufacturing operations in Huzhou, PRC on the Property to be held through the PRC Entities, including garment manufacturing, bleaching and dyeing and knitting and the Construction
“Property”	the land of about 670 hectares situate at the West of Dongliang Road, Zhili Town, Huzhou, PRC and the South of Hengtang Harbour, PRC
“Property Consideration”	the consideration of RMB10,050,000 (equivalent to approximately HK\$9,472,196)
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	Easyknit (Mauritius) Limited, a company incorporated in the Republic of Mauritius and a wholly owned subsidiary of the Company
“Supplemental Agreement”	the supplemental agreement dated 28 December 2004 entered into between the Vendor and the Subsidiary varying certain terms in the Agreement
“Transaction”	phase 1 of the Project in Huzhou which involves the Acquisition, the Construction and the setting up of manufacturing operations initially comprising garment manufacturing and bleaching and dyeing capabilities
“Vendor”	The People’s Government of Zhili Town, Wuxin District, Huzhou City

In this announcement, the exchange rate of HK\$1.00 to RMB1.061 is adopted (for illustration only).

By order of the Board
Asia Alliance Holdings Limited
Koon Wing Yee
President and Chief Executive Officer

Hong Kong, 3 January 2005

** for identification only*

Please also refer to the published version of this announcement in The Standard.