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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

**PROPOSED CAPITAL REORGANISATION
AND
PROPOSED RIGHTS ISSUE ON THE BASIS OF
TEN RIGHTS SHARES FOR EVERY CONSOLIDATED SHARE HELD**

**GENERAL MANDATES TO ISSUE
NEW CONSOLIDATED SHARES
AND REPURCHASE CONSOLIDATED SHARES**

RESUMPTION OF TRADING

Joint Financial Advisers

ALTUS CAPITAL LIMITED



**結好融資有限公司
GET NICE CAPITAL LIMITED**

Underwriter of the Rights Issue



**結好投資有限公司
GET NICE INVESTMENT LTD.**

PROPOSED CAPITAL REORGANISATION

The Company proposes to put forward for approval by the Shareholders the Capital Reduction under which the nominal value of all Shares will be reduced from HK\$0.10 each to HK\$0.001 each by cancelling HK\$0.099 paid up capital on each issued Share. Accordingly, based on the number of Shares in issue as at the date of this announcement, the issued share capital of the Company of HK\$35,700,684 comprising 357,006,840 Shares will be reduced by HK\$35,343,677.16 to HK\$357,006.84 comprising 357,006,840 Reduced Shares. The amount cancelled arising from the Capital Reduction will be credited to a capital reserve account of the Company.

The Company also proposes to effect the Share Consolidation, immediately after the completion of the Capital Reduction, pursuant to which every 10 issued and unissued Reduced Shares will be consolidated into one Consolidated Share. As at the date of this announcement, the authorised share capital of the Company is HK\$650,000,000 comprising 6,500,000,000 Shares of HK\$0.10 each, of which 357,006,840 Shares have been issued and fully paid. Immediately after the completion of the Share Consolidation, the authorised share capital of the Company will comprise 35,700,684 issued Consolidated Shares and 614,299,316 unissued Consolidated Shares of HK\$0.01 each. The Capital Reorganisation is conditional upon, inter alia, the approval of the Shareholders at the SGM.

PROPOSED RIGHTS ISSUE

Upon completion of the Capital Reorganisation, the Company proposes to raise approximately HK\$142.8 million before expenses (assuming no exercise of Share Options before the Record Date) or approximately HK\$145.1 million before expenses (assuming all the Share Options are exercised before the Record Date) by way of the Rights Issue of not less than 357,006,840 Rights Shares and not more than 362,631,840 Rights Shares at a price of HK\$0.40 per Rights Share.

The Company will provisionally allot 10 Rights Shares in nil-paid form for every Consolidated Share held by the Qualifying Shareholders on the Record Date. The Rights Issue is not available to the Non-Qualifying Shareholders.

The Company has outstanding Share Options in issue as at the date of this announcement. Upon full conversion of the rights attaching to the outstanding Share Options, 5,625,000 Shares are to be issued or 562,500 Consolidated Shares are to be issued upon completion of the Capital Reorganisation.

The estimated net proceeds of the Rights Issue will be between HK\$140.3 million (assuming no outstanding Share Options are exercised before the Record Date) and HK\$142.6 million (assuming all outstanding Share Options are exercised before the Record Date). The Company plans to use the proceeds as follows: (a) approximately HK\$69.9 million for the repayment of all bank borrowings comprising approximately HK\$56.0 million of bank loans due within a year and approximately HK\$13.9 million due beyond a year; and (b) the balance of approximately HK\$70.4 to 72.7 million will be used as general working capital including for the construction of the garment manufacturing and bleaching and dyeing capabilities in relation to the phase 1 of the Project. The Company shall make announcements on any change in the use of proceeds of the Rights Issue as and when appropriate.

The Rights Issue is conditional, inter alia, upon the fulfillment of the conditions set out below under the section headed “Conditions of the Rights Issue”. In particular, the Rights Issue is conditional upon the approval of the Independent Shareholders at the SGM. The Rights Issue is also subject to the Underwriter not terminating the Underwriting Agreement. Accordingly, the Rights Issue may or may not proceed.

Easyknit, through Landmark Profits, owns approximately 35.93% of the issued share capital of the Company. Landmark Profits has irrevocably undertaken to the Company and the Underwriter that the Shares beneficially owned by it will not be disposed of or transferred and will remain registered in its name from the date of such undertaking to the Record Date and that it will take up its entitlement under the Rights Issue in full. Pursuant to the Underwriting Agreement, the Rights Shares (other than the Rights Shares to be issued to and accepted by Landmark Profits) have been fully underwritten by the Underwriter.

In accordance with the Listing Rules, Landmark Profits and its associates (as defined in the Listing Rules) will abstain from voting on the resolution(s) to approve the Rights Issue at the SGM. An independent board committee of the Company comprising the independent non-executive Directors will be appointed to make recommendations to the Independent Shareholders in respect of voting on the resolution(s) to approve the Rights Issue at the SGM by way of poll. Barits Securities (Hong Kong) Limited has been appointed to advise the independent board committee of the Company on the terms and conditions of the Rights Issue.

GENERAL MANDATES TO ISSUE NEW CONSOLIDATED SHARES AND REPURCHASE CONSOLIDATED SHARES

It is proposed that the Issue Mandates be granted to the Directors upon completion of the Capital Reorganisation and the Rights Issue. It is further proposed that the Directors be given the Repurchase Mandate. In accordance with the Listing Rules, Landmark Profits and its associates (as defined in the Listing Rules) will abstain from voting on the resolution(s) to approve the Issue Mandates. An independent board committee of the Company comprising the independent non-executive Directors will be appointed to make recommendations to the Independent Shareholders in respect of voting on the resolution(s) to approve the Issue Mandates at the SGM by way of poll. Barits Securities (Hong Kong) Limited has been appointed to advise the independent board committee of the Company on the terms and conditions of the Issue Mandates.

WARNING OF THE RISKS OF DEALINGS IN SHARES AND RIGHTS SHARES

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate their obligations on the occurrence of certain events including force majeure. Please refer to the section headed “Termination of the Underwriting Agreement” for further details.

Any Shareholders or other persons dealing in Shares or Consolidated Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Friday, 9 September, 2005 to Friday, 16 September, 2005 will bear the risk that the Rights Issue may not become unconditional or may not proceed. If in any doubt, investors are recommended to consult their professional advisers. Shareholders and potential investors should exercise caution in dealing in the securities of the Company.

To qualify for the Rights Issue, a Qualifying Shareholder's name must appear on the register of members of the Company on the Record Date, which is currently expected to be Tuesday, 6 September, 2005. In order to be registered as members on the Record Date, any transfers of Shares (together with the relevant share certificates) must be lodged for registration by 4:00 p.m. on Wednesday, 31 August, 2005 (the share register will be closed from Thursday, 1 September, 2005 to Tuesday, 6 September, 2005, both dates inclusive).

RESUMPTION IN TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Tuesday, 19 July, 2005 pending the release of this announcement. Application will be made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on Monday, 25 July, 2005.

CAPITAL REORGANISATION

Background

The Company proposes to put forward the Capital Reorganisation and the terms expressed below, for approval by the Shareholders:

- (a) the Capital Reduction under which the nominal value of all Shares will be reduced from HK\$0.10 each to HK\$0.001 each by cancelling HK\$0.099 paid up capital on each issued Share. Accordingly, based on the number of Shares in issue as at the date of this announcement, the issued share capital of the Company of HK\$35,700,684 comprising 357,006,840 Shares will be reduced by HK\$35,343,677.16 to HK\$357,006.84 comprising 357,006,840 Reduced Shares. The amount cancelled arising from the Capital Reduction will be credited to a capital reserve account of the Company; and
- (b) the Share Consolidation, immediately after the completion of the Capital Reduction, pursuant to which every 10 issued and unissued Reduced Shares will be consolidated into one Consolidated Share. As at the date of this announcement, the authorised share capital of the Company is HK\$650,000,000 comprising 6,500,000,000 Shares of HK\$0.10 each, of which 357,006,840 Shares have been issued and fully paid. Immediately after the completion of the Share Consolidation, the authorised share capital of the Company will comprise 35,700,684 issued Consolidated Shares and 614,299,316 unissued Consolidated Shares of HK\$0.01 each.

The issued Consolidated Shares will rank pari passu in all respects with each other and the Share Consolidation will not result in any change in the relative rights of the Shareholders.

Details of the arrangements with regard to the parallel trading arrangements, Consolidated Shares odd lot matching services and the free exchange of Consolidated Share certificates will be included in the Circular to be despatched to Shareholders.

Financial effects of the Capital Reorganisation

Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company or the interests of the Shareholders as a whole. The Directors believe that the Capital Reorganisation will not have any material adverse effect on the financial position of the Group.

Reasons for the Capital Reorganisation

The Board believes that the Capital Reorganisation is beneficial to the Company and the Shareholders as a whole. The credit in the capital reserve account arising as a result of the Capital Reduction could be applied to partially set off the accumulated losses of the Company of approximately HK\$101 million as at 31 March 2005 and the accumulated losses will have to be set off prior to any distributions to the Shareholders. The Board currently has no intention to set off the accumulated losses of the Company or make any distributions to the Shareholders.

The Share Consolidation will reduce the number of board lots in the market and increase the nominal value of the Reduced Shares. The existing Shares are presently traded in board lots of 4,000. It is proposed that the Consolidated Shares will also be traded in board lots of 4,000. Accordingly, the market price of the Shares will increase by 10 times theoretically upon the Share Consolidation becoming effective. Based on the closing price quoted on the Stock Exchange on the Last Trading Day of HK\$0.086 per Share, the value per board lot of 4,000 Shares and 4,000 Consolidated Shares are HK\$344 and HK\$3,440 respectively. The transaction cost per dollar value of each Consolidated Share will therefore be lower.

After the completion of the Capital Reorganisation and the Rights Issue (based on the theoretical ex-right price of approximately HK\$0.442 per Consolidated Share), the market value of the Consolidated Shares will be above the nominal value of the Consolidated Shares of HK\$0.01 each. The Board is of the opinion that the proposed nominal value of the Consolidated Shares to be maintained at HK\$0.01 each will provide the Company with greater flexibility for the issue of new Consolidated Shares in the future and is thus in the best interests of the Company and Shareholders as a whole. However, the Board has no present intention to issue further new Consolidated Shares except for the proposed Rights Issue.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon the following:

- (a) the passing by the Shareholders of the necessary resolutions at the SGM to approve the Capital Reduction and the Share Consolidation;
- (b) the publication of a notice in an appointed newspaper in Bermuda on a date not more than 30 days and not less than 15 days before the date as from which the Capital Reduction is to take effect, in accordance to section 46 of the Companies Act 1981 of Bermuda (as amended); and
- (c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares.

The Capital Reorganisation is not conditional upon the Rights Issue being approved by the Independent Shareholders at the SGM.

Expected effective date of the Capital Reorganisation

Subject to the above conditions being fulfilled, the Capital Reorganisation is expected to become effective on 7 September, 2005.

PROPOSED RIGHTS ISSUE

The Rights Issue is proposed to take place after the Capital Reorganisation becomes effective.

Issue statistics

Basis of the Rights Issue	: Ten (10) Rights Shares for every Consolidated Share held on the Record Date
Number of Shares in issue	: 357,006,840 Shares as at the date of this announcement
Number of Consolidated Shares after completion of the Capital Reorganisation	: 35,700,684 Consolidated Shares (assuming no outstanding Share Options are exercised before the Record Date) or 36,263,184 Consolidated Shares upon full conversion of the outstanding Share Options (which are convertible into 562,500 Consolidated Shares)
Number of Rights Shares	: not less than 357,006,840 Rights Shares and not more than 362,631,840 Rights Shares, assuming full conversion of the outstanding Share Options
	Save for the outstanding Share Options, the Company has no outstanding options, warrants or other securities convertible into or giving rights to subscribe for the Shares as at the date hereof.
Subscription price per Rights Share	: HK\$0.40 per Rights Share with nominal value of HK\$0.01 each

Assuming that no Share Options have been exercised before the Record Date, the 357,006,840 nil-paid Rights Shares proposed to be provisionally allotted represent (a) 10 times of the Company's issued share capital upon completion of the Capital Reorganisation; and (b) approximately 90.91% of the Company's issued share capital upon completion of the Capital Reorganisation and as enlarged by the issue of the Rights Shares.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders. For the Non-Qualifying Shareholders, the Company will send copies of the Prospectus to them for their information only, but the Company will not send any PAL and EAF to the Non-Qualifying Shareholders.

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and must be a Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Company's branch registrar in Hong Kong, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Wednesday, 31 August, 2005.

Holders of outstanding Share Options who wish to participate in the Rights Issue should exercise their Share Options in accordance with their respective terms before 4:00 p.m. on Wednesday, 31 August, 2005 so as to enable them to be registered as a Shareholder on or before the Record Date.

Closure of register of members

The register of members of the Company will be closed from Thursday, 1 September, 2005, to Tuesday, 6 September, 2005, both dates inclusive. No transfers of Shares will be registered during this period.

Subscription price

The subscription price for the Rights Shares is HK\$0.40 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for Rights Shares. The subscription price represents:

	Before Share Consolidation	After Share Consolidation
Rights Price	HK\$0.04	HK\$0.40
(a) Closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$0.086	HK\$0.86
<i>Discount (%)</i>	53.5%	53.5%
(b) Theoretical ex-right price calculated based on the closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$0.0442	HK\$0.442
<i>Discount (%)</i>	9.5%	9.5%
(c) Average closing price per Share for the last 10 full trading days quoted on the Stock Exchange on the Last Trading Day	HK\$0.089	HK\$0.89
<i>Discount (%)</i>	55.1%	55.1%
(d) Net tangible asset value per Share based on the audited net tangible asset value of the Group of approximately HK\$42.9 million and 357,006,840 Shares in issue as at 31 March 2005 as stated in the annual report of the Company for the year ended 31 March 2005	HK\$0.12	HK\$1.20
<i>Discount (%)</i>	66.7%	66.7%

The subscription price for the Rights Shares was determined after arm's length negotiations between the Company and the Underwriter with reference to the current market price and historical prices of the Shares. The Directors consider the terms of the Rights Issue, including the subscription price, to be fair and reasonable and in the best interests of the Company and the Shareholders.

Basis of provisional allotment

The basis of the provisional allotment shall be 10 Rights Shares for every Consolidated Share, being not less than 357,006,840 Rights Shares and not more than 362,631,840 Rights Shares at a price of HK\$0.40 per Rights Share. Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for.

Share certificates and refund cheques for Rights Issue

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted on or before Tuesday, 27 September, 2005 to those who have accepted and (where applicable) applied for, and paid for the Rights Shares by ordinary post at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Tuesday, 27 September, 2005 by ordinary post to the applicants at their own risk.

Status of the Rights Shares

The Rights Shares, when allotted and fully paid, will rank pari passu in all respects with the Consolidated Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares.

Rights of Non-Qualifying Shareholders

The Company is currently making enquiries regarding the feasibility of extending the Rights Issue to the Non-Qualifying Shareholders. If based on legal opinions provided by the legal advisers, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Non-Qualifying Shareholders on account either of the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place, the Rights Issue will not be available to the Non-Qualifying Shareholders. The basis for excluding the Non-Qualifying Shareholders, if any, from the Rights Issue will be set out in the Circular to be issued. The Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but the Company will not send any PAL and EAF to the Non-Qualifying Shareholders.

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and before dealings in nil-paid Rights Shares end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the Non-Qualifying Shareholders. The Company will retain individual amounts of HK\$100 or less for its own benefit. Any unsold entitlement of Non-Qualifying Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be made available for excess application on EAFs by Qualifying Shareholders.

Application for excess Rights Shares

Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders and for any Rights Shares provisionally allotted but not accepted.

Applications for excess Rights Shares may be made by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis but will give preference to the topping-up of odd lots to whole board lots.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of and permission to deal in (a) the Consolidated Shares in issue after the Capital Reorganisation becoming effective; and (b) the Rights Shares, in both their nil-paid and fully-paid forms to be allotted and issued pursuant to the Rights Issue.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms, both in board lots of 4,000, which are registered in the branch register of members of the Company in Hong Kong will be subject to the payment of stamp duty in Hong Kong.

Underwriting arrangements

Underwriting agreement dated 18 July, 2005

The Underwriter has agreed to fully underwrite up to 234,372,520 Rights Shares, other than Rights Shares which Landmark Profits has undertaken to subscribe (being Rights Shares, assuming full conversion of outstanding Share Options up to and including the Record Date, less the 128,259,320 Rights Shares to be issued to and accepted by Landmark Profits). The Underwriter and its ultimate beneficial controlling shareholders do not have any shareholding in the Company and are not connected persons (as defined in the Listing Rules) of the Company.

Conditions of the Rights Issue

The Rights Issue is conditional, among other things, on each of the following conditions being fulfilled:

- (i) the approval of the Capital Reorganisation by Shareholders at the SGM and the Capital Reorganisation becoming effective thereafter;
- (ii) the passing of the relevant resolutions by the Independent Shareholders approving the Rights Issue at the SGM;
- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders; and
- (iv) the Listing Committee of the Stock Exchange agreeing to grant listings of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any) by no later than the dates specified in such approval and not having withdrawn or revoked such listings and permission on or before 4:00 p.m. on the Settlement Date.

If the conditions of the Rights Issue under the Underwriting Agreement are not fulfilled (or waived in whole or in part by the Underwriter) by the relevant dates and times specified in the Underwriting Agreement (or, in each case, such later date or time as the Underwriter may agree in writing with the Company pursuant to the Underwriting Agreement), then all liabilities of the parties thereto shall cease and terminate and neither party shall have any

claim against the other (except in respect of any antecedent breaches and any matters or things arising out of or in connection with the Underwriting Agreement) and the irrevocable undertaking by Landmark Profits to accept its entitlement under the Rights Issue will lapse. The Rights Issue will not proceed accordingly.

Commission

The Company will pay the Underwriter an underwriting commission of 1% of the aggregate subscription price of the Rights Shares underwritten by it, out of which the Underwriter may pay sub-underwriting fees. The Directors believe that the underwriting commission accords with market rates.

Undertaking from Landmark Profits

As at the date of this announcement, Easyknit, through Landmark Profits, is interested in 128,259,324 Shares, representing approximately 35.93% of the total issued share capital of the Company. Landmark Profits has irrevocably undertaken to the Company and the Underwriter that the Shares beneficially owned by it will not be disposed of or transferred and will remain registered in its name from the date of the undertaking, being 18 July, 2005, to the close of business on the Record Date and that it will take up its entitlement in full, representing 128,259,320 Rights Shares. Landmark Profits will not apply for any excess Rights Shares.

Termination of the Underwriting Agreement

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to 4:00 p.m. on the second Business Day following the Acceptance Date if there occurs:

1. (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
- (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or

2. if, at or prior to 4:00 p.m. on the Settlement Date following the Acceptance Date:
 - (a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
 - (b) the Underwriter receives the relevant notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter, shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or
 - (c) the Prospectus Documents when published, contains information which would be untrue or inaccurate in any material respect and the Company has failed to promptly send out any announcements or circulars (after the despatch of the Circular or the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter such fees as may then be agreed by the relevant parties. If the Underwriter exercises such right, the Rights Issue will not proceed.

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

The Shares will be dealt in on an ex-rights basis from Tuesday, 30 August, 2005. Dealings in the Rights Shares in the nil-paid form will take place from Friday, 9 September, 2005 to Friday, 16 September, 2005 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares, the Consolidated Shares and Rights Shares in their nil-paid form during the period from Friday, 9 September, 2005 to Friday, 16 September, 2005 (both dates inclusive) who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in the Shares or the Consolidated Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the

Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Friday, 9 September, 2005 to Friday, 16 September, 2005 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Expected timetable

The expected timetable for the Capital Reorganisation and Rights Issue is set out below:

2005

Last day of dealings in Shares on a cum-rights basis	Monday, 29 August
First day of dealings in Shares on an ex-rights basis	Tuesday, 30 August
Latest time for lodging transfers of Shares in order to qualify for Rights Issue	4:00 p.m., Wednesday, 31 August
Register of members to be closed	Thursday, 1 September to Tuesday, 6 September (both dates inclusive)
Latest time for return of proxy form of SGM (not less than 48 hours)	9:00 a.m., Sunday, 4 September
Expected date of SGM	9:00 a.m., Tuesday, 6 September
Record Date	Tuesday, 6 September
Effective date of the Capital Reorganisation	9:00 a.m., Wednesday, 7 September
Register of members to be re-opened	Wednesday, 7 September
Prospectus Documents to be posted	Wednesday, 7 September
Commencement of dealings in Consolidated Shares	Wednesday, 7 September
Original counter for trading in Shares (in board lots of 4,000 Shares) to be closed	9:30 a.m., Wednesday, 7 September

Temporary counter for trading
in Consolidated Shares in board
lots of 400 Consolidated Shares
(in form of existing share certificates) to be opened9:30 a.m., Wednesday,
7 September

Free exchange of existing share certificates
for new share certificates commencesWednesday, 7 September

First day of dealings in nil-paid Rights SharesFriday, 9 September

Latest time for splitting of nil-paid Rights Shares4:00 p.m., Tuesday,
13 September

Last day of dealings in nil-paid Rights SharesFriday, 16 September

Latest time for payment for and
acceptance of Rights Shares4:00 p.m., Thursday, 22 September

Original counter for trading in Consolidated Shares
(in board lots of 4,000 Shares) to be re-opened9:30 a.m., Thursday, 22 September

Parallel trading in Consolidated Shares
(in form of new and existing certificates) begins ...9:30 a.m., Thursday, 22 September

Designated broker starts to stand
in the market to provide matching servicesThursday, 22 September

Rights Issue expected to become unconditional ...after 4:00 p.m., Monday, 26 September

Announcement of results of acceptance and
excess application of the Rights IssueTuesday, 27 September

Despatch of refund cheques for wholly and
partially unsuccessful excess applicationsTuesday, 27 September

Despatch of certificates for fully-paid Rights SharesTuesday, 27 September

First day of dealings in the fully-paid Rights SharesWednesday, 28 September

Temporary counter for trading in Consolidated Shares
in board lots of 400 Consolidated Shares
(in form of existing share certificates) to be closed4:00 p.m., Friday, 14 October

Parallel trading in Consolidated Shares
(in form of new and existing certificates) ends4:00 p.m., Friday, 14 October

Designated broker ceases to stand in the market
to provide matching services4:00 p.m., Friday, 14 October

Free exchange of existing share certificates
for new share certificates endsWednesday, 19 October

Dates or deadlines specified in this announcement are indicative only and may be exercised or varied by agreement between the Company and the Underwriter. Any consequential changes to the expected timetable will be published or notified to Shareholders appropriately.

Shareholding in the Company

Assuming **there is no exercise of Share Options before the Record Date**, the shareholding in the Company immediately after the Capital Reorganisation but before completion of the Rights Issue and immediately after completion of the Rights Issue is as follows:

	Existing shareholding		Immediately after the Capital Reorganisation but before completion of the Rights Issue		After completion of Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders)		After completion of Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders other than Landmark Profits)	
	Shares	%	Consolidated Shares	%	Consolidated Shares	%	Consolidated Shares	%
Landmark Profits	128,259,324	35.93	12,825,932	35.93	141,085,252	35.93	141,085,252	35.93
Underwriter (<i>Note</i>)	—	—	—	—	—	—	228,747,520	58.25
Public	228,747,516	64.07	22,874,752	64.07	251,622,272	64.07	22,874,752	5.82
Total	357,006,840	100.00	35,700,684	100.00	392,707,524	100.00	392,707,524	100.00

Note: The Underwriter has confirmed that it has sub-underwritten its underwriting obligations under the Rights Issue to sub-underwriters such that each of the Underwriter and the sub-underwriters will not own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

Assuming **all the Share Options are exercised before the Record Date**, the shareholding in the Company immediately after the Capital Reorganisation but before completion of the Rights Issue and immediately after completion of the Rights Issue is as follows:

	Existing shareholding		Immediately after the Capital Reorganisation but before completion of the Rights Issue		After completion of Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders)		After completion of Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders other than Landmark Profits)	
	Shares	%	Consolidated Shares	%	Consolidated Shares	%	Consolidated Shares	%
Landmark Profits	128,259,324	35.37	12,825,932	35.37	141,085,252	35.37	141,085,252	35.37
Underwriter (<i>Note</i>)	—	—	—	—	—	—	234,372,520	58.75
Public	<u>234,372,516</u>	<u>64.63</u>	<u>23,437,252</u>	<u>64.63</u>	<u>257,809,772</u>	<u>64.63</u>	<u>23,437,252</u>	<u>5.88</u>
Total	<u>362,631,840</u>	<u>100.00</u>	<u>36,263,184</u>	<u>100.00</u>	<u>398,895,024</u>	<u>100.00</u>	<u>398,895,024</u>	<u>100.00</u>

Note: The Underwriter has confirmed that it has sub-underwritten its underwriting obligations under the Rights Issue to sub-underwriters such that each of the Underwriter and the sub-underwriters will not own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

The Underwriter is a wholly-owned subsidiary of Get Nice Holdings Limited (stock code: 64) (“Get Nice Holdings”), a listed company on the main board of the Stock Exchange. According to the Underwriter, Get Nice Holdings is owned as to approximately 30.36% by Honeylink Agents Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and as to approximately 69.64% by the public as at the date of this announcement. The Underwriter and its ultimate controlling shareholders are Independent Third Parties and are not parties acting in concert with Landmark Profits. The sub-underwriters and their ultimate beneficial owners are Independent Third Parties and are not parties acting in concert with Landmark Profits and the Underwriter.

In the event that the Underwriter and the sub-underwriters are required to take up the Rights Shares pursuant to their underwriting obligations, the Underwriter and the sub-underwriters shall procure independent placees to take up such number of Rights Shares as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with.

The Stock Exchange has stated that it will closely monitor trading in the Consolidated Shares following the completion of the Rights Issue. If less than 25% (or such lower percentage as may be allowed under the Listing Rules) of the Consolidated Shares are held by the public, it will constitute a breach of the Listing Rules, and if the Stock Exchange believes that:

- a false market exists or may exist in the trading in the Consolidated Shares; or
- there are too few Consolidated Shares in public hands to maintain an orderly market,

then it will consider exercising its discretion to suspend trading in the Consolidated Shares until a sufficient public float is attained.

Reasons for the Rights Issue and use of proceeds

The Company is principally engaged in the bleaching, dyeing and knitting of garments. According to the annual report of the Company for the financial year ended 31 March 2005, the Group recorded an audited consolidated turnover of approximately HK\$53.7 million (2004: approximately HK\$5.1 million), net profit of approximately HK\$6.1 million (2004: net loss of approximately HK\$57.7 million), and net tangible asset value of approximately HK\$42.9 million (2004: approximately HK\$57.9 million). The Directors noted that such improvement in the financial operations of the Group was due largely to a gain of approximately HK\$9.0 million from the disposal of the loss-making wireless communication business in June 2004 and a profit of approximately HK\$4.1 million derived from the bleaching and dyeing business during the year ended 31 March 2005.

The Company intends to strengthen its manufacturing operations and capability of its existing main business by developing a multi-functional base in Huzhou, the PRC, details of the Project are set out in the circular of the Company dated 21 February 2005.

In order to partially fulfill the remaining funding requirements of the phase 1 of the Project of approximately HK\$160 million, which involves the acquisition of the Property, the setting up of manufacturing operations initially comprising garment manufacturing and bleaching and dyeing capabilities and the construction of the waste water treatment plant to be built on the Property, the Company intends to use part of the net proceeds from the Rights Issue to provide the necessary funding to the Project as described above. The Directors consider that it is in the interests of the Company and the Shareholders for the Company to raise additional finance through the issue of additional equity, to enlarge the Company's capital base in view of the above strategy.

The estimated net proceeds of the Rights Issue will be between HK\$140.3 million (assuming no outstanding Share Options are exercised before the Record Date) and HK\$142.6 million (assuming all outstanding Share Options are exercised before the Record Date). The Company plans to use the proceeds as follows: (a) approximately HK\$69.9 million for the repayment of all outstanding bank borrowings comprising approximately HK\$56.0 million of bank loans due within a year and approximately HK\$13.9 million due beyond a year; and (b) the balance of approximately HK\$70.4 to 72.7 million will be used as general working capital including for the construction of the garment manufacturing and bleaching and dyeing capabilities. The Company shall make announcements on any change in the use of proceeds of the Rights Issue as and when appropriate.

As the Rights Issue will allow Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company, the Directors consider that it is an appropriate method to raise funds.

Adjustments in relation to the Share Options

The Capital Reorganisation and the Rights Issue may lead to adjustment to the subscription price and/or the number of Consolidated Shares to be issued upon exercises of the Share Options. The Company will consult its auditors for the required adjustment and the holders of the Share Options will be informed of the required adjustments (if any) as soon as practicable.

PREVIOUS FUND RAISING EXERCISES OF THE COMPANY

The Company does not have any fund raising exercises in the past 12 months from the date of this announcement.

The Directors are of the view that the Company has sufficient funds to meet its current working capital requirements after the Rights Issue and has no immediate intention to issue further new Consolidated Shares to raise funds. The Group may however raise further funds in future for the remaining funding requirements of the Project, or when there is such other requirement, including if opportunities for new businesses or investments arise. Taking into account the use of proceeds of the Rights Issue, the remaining funding requirements of phase 1 of the Project is estimated to be approximately HK\$90 million. Phase 2 of the Project, which involves the development of knitting capabilities, will not commence until phase 1 of the Project has been completed and has demonstrated its value to the business of the Group. The amount of investment for phase 2 of the Project is still under review by the management of the Company.

GENERAL MANDATES TO ISSUE NEW CONSOLIDATED SHARES AND REPURCHASE CONSOLIDATED SHARES

It is proposed that the Issue Mandates be granted to the Directors upon completion of the Capital Reorganisation and the Rights Issue. It is further proposed that the Directors be given the Repurchase Mandate.

RESUMPTION IN TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Tuesday, 19 July, 2005 pending the release of this announcement. Application will be made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on Monday, 25 July, 2005.

GENERAL

Altus Capital and Get Nice Capital have been appointed as the joint financial advisers to the Company in relation to, inter alia, the Capital Reorganisation and the Rights Issue. Altus Capital and Get Nice Capital are independent of and not connected with the Directors, chief executive or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates (which has the meaning ascribed thereto under the Listing Rules).

The Circular containing, inter alia, further information on (a) the Capital Reorganisation, (b) the Rights Issue and (c) the Issue Mandates and the Repurchase Mandate, together with a notice of the SGM containing necessary resolution(s) to approve the above will be despatched to the Shareholders as soon as practicable. In accordance with the Listing Rules, the Capital Reorganisation and the Repurchase Mandate will be subject to the approval by the Shareholders at the SGM. The resolutions on the Rights Issue and the Issue Mandates will be subject to the approval by the Independent Shareholders at the SGM by way of poll, where Landmark Profits and its associates (as defined in the Listing Rules) will abstain from voting.

An independent board committee of the Company comprising the independent non-executive Directors will be appointed to make recommendations to the Independent Shareholders in respect of voting on the resolutions to approve the Rights Issue and the Issue Mandates at the SGM by way of poll. Barits Securities (Hong Kong) Limited has been appointed to advise the independent board committee of the Company on the terms and conditions of the Rights Issue and the Issue Mandates. The Circular will also contain the letter of advice from Barits Securities (Hong Kong) Limited and the recommendation of the independent board committee of the Company to the Independent Shareholders.

Subject to the Capital Reorganisation and the Rights Issue being approved at the SGM, the Prospectus or Prospectus Documents, where appropriate, containing further information on the Rights Issue will be despatched to Shareholders as soon as practicable. Shareholders and potential investors should exercise caution in dealing in the Shares.

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

DEFINITIONS

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

“Acceptance Date”	22 September, 2005 (or such other date as the Underwriter may agree in writing with the Company as the latest date for acceptance of, and payment of, Rights Shares)
“Altus Capital”	Altus Capital Limited, a licensed corporation to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company, and one of the Joint Financial Advisers
“Board”	the board of Directors
“Business Day”	a day on which banks are generally open for business for more than five hours in Hong Kong

“Capital Reduction”	the reduction of the issued share capital of the Company from HK\$0.10 each per Share to HK\$0.001 per Reduced Share by cancelling HK\$0.099 paid up capital on each issued Share and the reduction of the authorised share capital of the Company from HK\$650,000,000 to HK\$6,500,000
“Capital Reorganisation”	the Capital Reduction and the Share Consolidation
“Circular”	the circular containing further information on (a) the Capital Reorganisation, (b) the Rights Issue and (c) the Issue Mandates and the Repurchase Mandate, together with the notice of SGM to approve the relevant resolutions
“Company”	Asia Alliance Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Consolidated Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company after the Capital Reorganisation becoming effective
“Director(s)”	director(s) of the Company
“EAF(s)”	the excess application form(s) to be issued in connection with the Rights Issue
“Easyknit”	Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange and the Singapore Exchange Securities Trading Limited and the controlling shareholder of the Company, currently holding approximately 35.93% of the Company’s issued share capital
“Get Nice Capital”	Get Nice Capital Limited, a licensed corporation to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company, and one of the Joint Financial Advisers
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than Landmark Profits and its associates

“Independent Third Party(ies)”	independent third party(ies) not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Issue Mandates”	general mandates to allot, issue and deal with new Consolidated Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company upon completion of the Capital Reorganisation and the Rights Issue, and adding to such general mandate so granted to the Directors any Consolidated Shares representing the aggregate nominal amount of the Consolidated Shares repurchased by the Company pursuant to the Repurchase Mandate
“Joint Financial Advisers”	Altus Capital and Get Nice Capital
“Landmark Profits”	Landmark Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Easyknit
“Last Trading Day”	18 July, 2005, being the last trading day before the suspension of the trading of the Shares, pending the release of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong in respect of whom the Directors, based on legal opinions provided by the legal advisers, consider it necessary or expedient not to offer the Rights Issue to such Shareholders on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“PAL(s)”	the provisional allotment letter(s) to be issued in connection with the Rights Issue
“PRC”	The People’s Republic of China
“Project”	the acquisition of the Property, the proposed development of manufacturing operations on the Property, including garment manufacturing, bleaching and dyeing and knitting and the construction of a waste water treatment plant to be built on the Property

“Property”	a piece of land of approximately 630 mu situated at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC and the South of Hengtang Harbour, PRC
“Prospectus”	a prospectus to be issued containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date
“Record Date”	6 September, 2005 or such other date as the Underwriter may agree in writing with the Company as the date by reference to which entitlements to the Rights Issue are to be determined
“Reduced Share(s)”	share(s) of HK\$0.001 each in the share capital of the Company after the Capital Reduction becoming effective
“Repurchase Mandate”	a general mandate to repurchase Consolidated Shares not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company upon completion of the Capital Reorganisation and the Rights Issue
“Rights Issue”	the issue by way of rights of 10 Rights Shares for every one Consolidated Share in issue on the Record Date at a price of HK\$0.40 per Rights Share
“Rights Share(s)”	new Consolidated Share(s) to be issued and allotted under the Rights Issue, being not less than 357,006,840 Consolidated Shares and not more than 362,631,840 Consolidated Shares
“Settlement Date”	the date being the second Business Day following the Acceptance Date
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company expected to be held at 9:00 a.m. on Tuesday, 6 September, 2005 at which resolutions will be proposed to consider and, if thought fit, approve (a) the Capital Reorganisation, (b) the Rights Issue and (c) the Issue Mandates and the Repurchase Mandate

“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company before the Capital Reorganisation becoming effective
“Share Consolidation”	the consolidation of every 10 Reduced Shares into one Consolidated Share
“Shareholder(s)”	holder(s) of Share(s) or Consolidated Share(s) (as the case may be)
“Share Option(s)”	the outstanding share option(s) granted by the Company pursuant to the share option scheme of the Company adopted 22 May, 2001
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Underwriter”	Get Nice Investment Limited, a licensed corporation to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company
“Underwriting Agreement”	the underwriting agreement dated 18 July, 2005 entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of the Rights Issue
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%” or “per cent.”	percentage or per centum

By order of the Board
Koon Wing Yee
Chairman and Chief Executive Officer

Hong Kong, 22 July, 2005

* *For identification only*

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