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If you have sold or transferred all your shares of Asia Alliance Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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

A notice convening a special general meeting of Asia Alliance Holdings Limited to be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on 11 March 2005 at 9:00 a.m. is set out on pages 98 to 99 of this circular. Whether or not they are able to attend the special general meeting, Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by not less than 48 hours before the time appointed for holding the special general meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the special general meeting or any adjourned meeting should they so wish.

* For identification only

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DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context requires otherwise:

“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
“Board”	the board of Directors
“Company”	Asia Alliance 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
“Construction”	the construction of the Plant
“Deposit”	the deposit of HK\$15,000,000 to be paid to the Vendor for the Construction
“Director(s)”	the director(s) of the Company
“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 on the Singapore Exchange Securities Trading Limited
“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)
“Latest Practicable Date”	1 February 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Plant”	waste water treatment plant to be built on the Property
“PRC” or “China”	The People’s Republic of China (other than, for the purpose of this circular only, Hong Kong, the Macau Special Administrative Region of PRC and Taiwan)
“PRC Entities”	four wholly owned foreign enterprises to be incorporated in 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 under the Project, and the aggregate registered capital of which is expected to be HK\$500,000,000. As at the Latest Practicable Date, 永義製衣(湖州)有限公司, 永義漂染(湖州)有限公司 and 永義紡織(湖州)有限公司 have been incorporated
“Project”	the Acquisition, the proposed development of manufacturing operations in Huzhou City, Zhejiang Province, 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 mu situate at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC and the South of Hengtang Harbour, PRC
“Property Consideration”	the consideration of RMB10,050,000 (equivalent to approximately HK\$9,472,196) for the Acquisition
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme”	the share option scheme of the Company adopted on 22 May 2001
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	a special general meeting of the Company to be held to approve, among other things, the Agreement, the Supplemental Agreement and the Transaction
“Share Options”	share options granted under the Scheme
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“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 City, Zhejiang Province, PRC which involves the Acquisition, the Construction and the setting up of manufacturing operations initially comprising garment manufacturing, bleaching and dyeing capabilities
“Vendor”	The People’s Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC
“%”	per cent



Asia Alliance Holdings Limited

亞洲聯盟集團有限公司*

(Incorporated in Bermuda with limited liability)

Executive Directors:

Koon Wing Yee
Tsang Yiu Kai
Lui Yuk Chu

Independent Non-Executive Directors:

Kan Ka Hon
Kwong Jimmy Cheung Tim
Lau Sin Ming

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business

in Hong Kong:

7th Floor
Hong Kong Spinners Building
Phase 6, 481-483 Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

21 February 2005

*To the Shareholders, and for information only,
the holder of the Share Options*

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION

1. INTRODUCTION

On 3 January 2005, the Board announced that on 24 December 2004 and 28 December 2004, the Agreement and the Supplemental Agreement were entered into respectively between the Vendor and the Subsidiary which set out the terms in respect of the Acquisition at the Property Consideration of RMB10,050,000 (equivalent to approximately HK\$9,472,196), the Construction at a cost of not more than HK\$30,000,000 and the proposed development of manufacturing operations in Huzhou City, Zhejiang Province, PRC to be held through the PRC Entities.

* *For identification only*

LETTER FROM THE BOARD

The Transaction, being phase 1 of the Project, involves the setting up of manufacturing operations initially comprising garment manufacturing and bleaching and dyeing capabilities, the Acquisition and the Construction 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. The total investment under the Transaction, including the aggregate cost of HK\$40,000,000 for the Acquisition and the Construction under the Agreement and the Supplemental Agreement and the intended investment of HK\$160,000,000 for other parts of the Transaction, 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 at the SGM.

The purpose of this circular is to give you further information regarding the Transaction and to give you the notice of the SGM and other information required under the Listing Rules.

2. THE AGREEMENT AND SUPPLEMENTAL AGREEMENT

(1) Date

The Agreement and the Supplemental Agreement were entered into by the Vendor and the Subsidiary on 24 December 2004 and 28 December 2004 respectively.

(2) Parties

- (a) The Subsidiary, as the purchaser. The principal business activity of the Subsidiary is that of investment holding.
- (b) The People's Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC as the vendor. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendor is an Independent Third Party.

(3) The Transaction

The Transaction involves the Acquisition at the Property Consideration of RMB10,050,000 (equivalent to approximately HK\$9,472,196), the Construction at a cost of not more than HK\$30,000,000 and the development of manufacturing operations in Huzhou City, Zhejiang Province, PRC to be held through the PRC Entities. The Acquisition, the Construction 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 commenced until completion of the Transaction. Separate approvals for operation shall be applied for each part of the Project.

LETTER FROM THE BOARD

The Agreement and the Supplemental Agreement only provide for detailed capital commitment of HK\$40,000,000 by the Subsidiary in respect of the Acquisition and the Construction. No commitment has been made in respect of other parts of the Transaction, the total amount of which is expected to be HK\$160,000,000 upon completion, or phase 2 of the Project. References to other parts of the Project are stated as broad intended plans.

(4) **The Property to be acquired**

Pursuant to the Agreement and the Supplemental Agreement, the Subsidiary has agreed to acquire from the Vendor the Property, comprising the land use rights for 50 years for land of about 670 mu located at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC and the South of Hengtang Harbour, PRC. 70 mu 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 further provide that the Plant will be built on the Property for treating waste water and that the manufacturing operations comprising garment manufacturing and bleaching and dyeing capabilities be set up, which will be held through the PRC Entities.

(5) **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 transactions contemplated under the Agreement and the Supplemental Agreement and pursuant to the Listing Rules, including without limitations, the obtaining of the approval of the Shareholders.

(6) **Consideration and payment terms**

The aggregate investment for the Transaction is expected to be HK\$200,000,000. 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, Zhejiang Province, PRC as an incentive for the Group to invest in Huzhou City, Zhejiang Province, PRC and to build its facilities in that city which will bring subsequential 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, at 3% of the Property Consideration, will be payable by the Subsidiary, and the Vendor will coordinate the refund to the Subsidiary of 80% of the tax so paid, which will involve approval(s) by Huzhou municipal government and/or the Vendor).

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, half of which is in the form of the Deposit of HK\$15,000,000 that will be applied for the purpose of the Construction. The estimated costs of setting up the manufacturing operations consist of HK\$100,000,000 for establishing the bleaching and dyeing capabilities, and HK\$60,000,000 for establishing the garment manufacturing capabilities.

LETTER FROM THE BOARD

The Directors believe that the terms of the Agreement, the Supplemental Agreement and the Transaction are fair and reasonable and in the interests of the Shareholders as a whole.

No commitment has been made in respect of the costs of other parts of the Transaction, which is expected to be approximately HK\$160,000,000.

(7) Funding

An aggregate sum of HK\$25,000,000, which includes the Property Consideration of RMB10,050,000 (equivalent to approximately HK\$9,472,196), related expenses of approximately HK\$527,804 and the Deposit of HK\$15,000,000, will be paid to the Vendor upon confirmation by the Vendor of the payment details. If the condition precedent, as set out in paragraph headed "Condition precedent" on page 6 of this circular, is not satisfied, the above sum of HK\$25,000,000 will be refundable in full.

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 providing that the total registered capital of the PRC Entities shall be HK\$500,000,000, which shall be injected only when such fund is required in order to consummate the Project.

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, who is a Director. The Company has not granted any security to Mr. Koon Wing Yee in connection with him providing the personal guarantee. The Group will also make use of an existing bank facility of HK\$10,000,000 for the Construction if required.

The costs for setting up the manufacturing operations in the sum of HK\$160,000,000 will be financed through bank borrowing or other forms of financing available. As at the date hereof, the Company has not entered into any financing arrangement in respect thereof.

(8) 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 approvals from Huzhou municipal government and/or the Vendor.

The Construction shall be completed before March 2006.

LETTER FROM THE BOARD

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

- (a) Construction must commence in early 2005;
- (b) Strive to complete garment manufacturing and bleaching and dyeing capabilities by early 2006; and
- (c) Strive to complete knitting operation by the end of 2006.

(9) **Other terms of the Transaction**

Other terms of the Transaction include, in summary, the following:

- (a) 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 City, Zhejiang Province, PRC.
- (b) The Vendor has agreed to support the Group with infrastructure to ensure the Plant can be functional, including the construction of drainage linking the Plant to the canal nearby.

(10) **Implications under the Listing Rules**

The aggregate investment for the Transaction exceeds 100% of the relevant percentage ratios under Rule 14.07 of the Listing Rules and therefore the Transaction constitutes a very substantial acquisition of the Company under the Listing Rules and is subject to the approval by the Shareholders at the SGM pursuant to Rule 14.49 of the Listing Rules. To the best knowledge of the Directors, no Shareholder has a material interest in the Transaction, therefore no Shareholder and its associate will be required to abstain from voting at the SGM.

3. REASONS FOR AND BENEFITS OF THE TRANSACTION

The Company is primarily engaged in the business of bleaching, dyeing and knitting. The Company wishes to strengthen its manufacturing operations and the capability of its existing main business by developing a multi-functional base in Huzhou City, Zhejiang Province, 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 so as to benefit from the inexpensive land price and low cost base including low labour costs.

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

LETTER FROM THE BOARD

4. INFORMATION ABOUT THE PROJECT

The Company intends to divide the Project into 2 phases. Phase 1 of the Project consists of the Acquisition, the Construction, and the development of the garment manufacturing and bleaching and dyeing operations as described above. 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 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 consists of the development of the knitting operation. The Company has no present intention to move forward to phase 2 unless and until the Transaction is completed and it adds 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.

5. FINANCIAL EFFECTS OF THE TRANSACTION ON THE GROUP

There will not be any impact on the net assets of the Group arising from the Transaction based on financial resources committed under the Agreement. The total assets of the Group will be increased by HK\$25,000,000 representing the payment for acquisition of the Property and the deposit paid for the Construction which will be offset by an increase by the same amount of bank loans obtained for financing the Transaction as mentioned in the paragraph headed “Funding” on page 7 of this circular. Please also refer to the “Unaudited pro forma financial information on the Enlarged Group” in Appendix II to this circular as set out on pages 82 to 86.

Initially, the Transaction involves the acquisition of the Property and construction of the Plant as committed under the Agreement. As the Property is vacant land and the Plant is yet to be constructed, no revenues or expenses have been incurred and there was no profit and loss statement prepared on the Property or the Plant for the three preceding financial years, including the two years ended 31 December 2001 and 31 December 2002 and the 15 months ended 31 March 2004, as required under Rule 14.69(4)(b)(i) of the Listing Rules.

LETTER FROM THE BOARD

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As stated in the interim report of the Company for the six months period ended 30 September 2004 (the "Period"), the Group recorded a turnover of approximately HK\$22,000,000, representing more than tenfold increase from HK\$1,900,000 for the previous corresponding period. The increase was mainly attributable to the significant increase in turnover arising from the acquisition of the bleaching and dyeing business during the Period. Profit attributable to the Shareholders was HK\$6,200,000 as compared with a loss of HK\$17,700,000 for the same period in 2003. The Group has had a major change in operations following the completion of the acquisition of Po Cheong International Enterprises Limited (the "Po Cheong Acquisition") on 17 May 2004 which has introduced bleaching and dyeing business to the Group and has contributed positively to the Group's profitability. There will be no variation to the aggregate remuneration payable to and benefits in kind receivable by the Directors in consequence of the Po Cheong Acquisition. The Transaction will not only further consolidate the Group's bleaching and dyeing business by adding further and more centralized and modern manufacturing capabilities, but will also introduce garment manufacturing capabilities which are expected to contribute to the income base of the Group upon completion.

7. SGM

Set out on pages 98 to 99 is a notice convening the SGM to be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on 11 March 2005 at 9:00 a.m.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the form of proxy and return it to the Company's office at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

8. PROCEDURE FOR DEMANDING A POLL

Pursuant to bye-law 70 of the bye-laws of the Company, a poll may be demanded in relation to any resolution put to the vote of the SGM before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll:

- (a) by the chairman of the meeting; or
- (b) by at least three Shareholders present in person or by duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any Shareholder or Shareholders present in person or by duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

LETTER FROM THE BOARD

- (d) by any Shareholder or Shareholders present in person or by duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

9. RECOMMENDATION

The Directors consider that the terms of the Agreement, the Supplemental Agreement and the Transaction are fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Directors recommend that all the Shareholders should vote in favour of the ordinary resolution as set out in the notice of the SGM.

10. ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Koon Wing Yee
President and Chief Executive Officer

1. INTERIM RESULTS

Set out below are the extracts of the unaudited interim results for the six months ended 30 September 2004 of the Group with comparative figures for the six months ended 30 September 2003. These interim financial statements have been reviewed by the Company's audit committee.

The financial effects of the acquisition of the entire issued share capital of Po Cheong International Enterprises Limited as set out below will be subject to adjustment which will only be finalised in the mid of 2005.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004**

	NOTES	Six months ended 30 September	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	3	21,981	1,922
Cost of sales and services		<u>(18,504)</u>	<u>(1,705)</u>
Gross profit		3,477	217
Other operating income	4	123	369
Distribution costs		(149)	(333)
Administrative expenses		(4,191)	(11,120)
Other operating expenses		(1,757)	(2,814)
Impairment loss recognised in respect of long term investments		—	(3,900)
(Allowance) write-back of allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary		(198)	95
Write-back of allowance for doubtful debts		<u>17</u>	<u>931</u>
Loss from operations	5	(2,678)	(16,555)
Gain on disposal of subsidiaries	20	9,042	—
Finance costs	6	(138)	(1,023)
Share of results of jointly controlled entities		<u>—</u>	<u>(75)</u>
Net profit (loss) for the period		<u>6,226</u>	<u>(17,653)</u>
Basic earnings (loss) per share	8	<u>HK\$0.02</u>	<u>HK\$(0.59)</u>

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2004

	<i>NOTES</i>	30 September 2004 <i>HK\$'000</i> <i>(Unaudited)</i>	31 March 2004 <i>HK\$'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment	10	24,998	665
Goodwill		47,523	—
Loan to Acme Landis Operations Holdings Limited	11	205	403
		<u>72,726</u>	<u>1,068</u>
Current assets			
Inventories		3,469	—
Trade and other receivables	12	26,476	1,935
Bank balances and cash		4,128	66,131
		<u>34,073</u>	<u>68,066</u>
Current liabilities			
Trade and other payables	13	12,224	7,069
Bills payable		895	—
Amount due to a related company	17	121	—
Import loans		686	—
Bank loans — amount due within one year	14	3,486	—
Other loan, secured	15	—	4,000
Consideration payable on acquisition of subsidiaries	19	15,000	—
		<u>32,412</u>	<u>11,069</u>
Net current assets		<u>1,661</u>	<u>56,997</u>
		<u>74,387</u>	<u>58,065</u>
Capital and reserves			
Share capital	16	35,701	35,701
Reserves		28,397	22,155
		<u>64,098</u>	<u>57,856</u>
Minority interests		—	209
Non-current liabilities			
Bank loans — amount due after one year	14	10,289	—
		<u>74,387</u>	<u>58,065</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004**

	Share capital	Share premium	Capital reserve	Contributed surplus	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	110,187	255,030	—	—	(14)	(353,484)	11,719
Rights issue of shares	35,260	52,890	—	—	—	—	88,150
Issue of new shares by private placements	7,272	8,454	—	—	—	—	15,726
Reduction of share capital and share premium upon capital reorganisations	(117,018)	(255,030)	17,850	354,198	—	—	—
Elimination of accumulated losses	—	—	—	(353,484)	—	353,484	—
Realised on disposal of subsidiaries	—	—	—	—	(2)	—	(2)
Net loss for the period	—	—	—	—	—	(57,737)	(57,737)
At 31 March 2004 and 1 April 2004	35,701	61,344	17,850	714	(16)	(57,737)	57,856
Realised on disposal of subsidiaries	—	—	—	—	16	—	16
Net profit for the period	—	—	—	—	—	6,226	6,226
At 30 September 2004	<u>35,701</u>	<u>61,344</u>	<u>17,850</u>	<u>714</u>	<u>—</u>	<u>(51,511)</u>	<u>64,098</u>
At 1 April 2003	11,019	—	—	714	(14)	(14,758)	(3,039)
Rights issue of shares	5,509	8,264	—	—	—	—	13,773
Net loss for the period	—	—	—	—	—	(17,653)	(17,653)
At 30 September 2003	<u>16,528</u>	<u>8,264</u>	<u>—</u>	<u>714</u>	<u>(14)</u>	<u>(32,411)</u>	<u>(6,919)</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004**

	Six months ended 30 September	
	2004 <i>HK\$'000</i> <i>(Unaudited)</i>	2003 <i>HK\$'000</i> <i>(Unaudited)</i>
Net cash used in operating activities	(5,188)	(13,935)
Net cash used in investing activities	(61,815)	(12,023)
Net cash from financing activities	<u>5,000</u>	<u>13,773</u>
Net decrease in cash and cash equivalents	(62,003)	(12,185)
Cash and cash equivalents at beginning of the period	<u>66,131</u>	<u>24,644</u>
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u>4,128</u>	<u>12,459</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

1. GENERAL AND BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

On 1 September 2003, the board of directors of the Company resolved to change the financial year-end date of the Company from 31 December to 31 March to align the financial year-end date with that of Easyknit International Holdings Limited. The condensed financial statements for the current period therefore cover the six month period from 1 April 2004 to 30 September 2004.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The principal accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the fifteen months ended 31 March 2004.

3. SEGMENT INFORMATION

The Group’s primary format for reporting segment information is business segments. During the period, the Group acquired a new business of bleaching and dyeing upon the acquisition of subsidiaries (see note 19) and established a new business of knitting. An analysis of the Group’s turnover and result by business segments is as follows:

	Turnover	Segment result	Consolidated
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
For the six months ended 30 September 2004			
Bleaching and dyeing	20,892	1,176	
Knitting	1,089	(2,169)	
Wireless communication business	—	70	
Communication solutions consultancy services	—	(11)	
	<u>21,981</u>	<u>(934)</u>	
Segment result			(934)
Interest income			3
Unallocated corporate expenses			<u>(1,747)</u>
Loss from operations			<u><u>(2,678)</u></u>

	Turnover <i>HK\$'000</i>	Segment result <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the six months ended 30 September 2003			
Wireless communication business	967	(7,622)	
Communication solutions consultancy services	955	(1,545)	
Internet operations	<u>—</u>	<u>(153)</u>	
	<u>1,922</u>	<u>(9,320)</u>	
Segment result			(9,320)
Interest income			48
Unallocated corporate expenses			<u>(7,283)</u>
Loss from operations			<u>(16,555)</u>

4. OTHER OPERATING INCOME

	Six months ended 30 September	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest income	3	48
Others	<u>120</u>	<u>321</u>
	<u>123</u>	<u>369</u>

5. LOSS FROM OPERATIONS

	Six months ended 30 September	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Amortisation of goodwill, included in other operating expenses	1,639	—
Depreciation	1,120	2,991
Impairment loss recognised in respect of goodwill of subsidiaries, included in other operating expenses	—	388
Loss on disposal of property, plant and equipment	<u>—</u>	<u>149</u>

6. FINANCE COSTS

The amount represents interest on bank and other borrowings wholly repayable within five years.

7. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for both periods.

8. BASIC EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the net profit for the period of HK\$6,226,000 (six months ended 30 September 2003: net loss of HK\$17,653,000) and on 357,006,840 shares (six months ended 30 September 2003: weighted average number of 29,700,520 shares) in issue during the period.

The denominator for the purposes of calculating basic loss per share for the six months ended 30 September 2003 has been adjusted to reflect the consolidation of shares on the basis that forty shares were consolidated into one share and the rights issue of shares in September 2003.

No diluted earnings per share has been presented for the six months ended 30 September 2004 as the exercise prices of the Company's outstanding share options were higher than the average market price for the period.

No diluted loss per share has been presented for the six months ended 30 September 2003 as the exercise of the Company's outstanding share options would reduce the loss per share for that period.

9. DIVIDENDS

No dividend was paid by the Company during the period. The directors do not recommend the payment of an interim dividend for both periods.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$26,022,000 (six months ended 30 September 2003: HK\$12,076,000) on acquisition of property, plant and equipment, of which approximately HK\$14,529,000 (six months ended 30 September 2003: nil) was related to acquisition of subsidiaries.

11. LOAN TO ACME LANDIS OPERATIONS HOLDINGS LIMITED ("ALOH")

	30 September 2004	31 March 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loan to ALOH	45,815	45,815
Less: Allowance	<u>(45,610)</u>	<u>(45,412)</u>
	<u>205</u>	<u>403</u>

The loan to ALOH is secured by a pledge given by the purchaser of ALOH in respect of 1,900,000 shares of the Company of HK\$0.10 each. The loan is interest-free and has no fixed repayment terms. In the opinion of the directors, repayment of the loan due from ALOH is not probable. Accordingly, an allowance was made to reduce the carrying amount of the loan to the approximate prevailing market value of the secured shares at 30 September 2004.

12. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of up to 90 days to its customers. The aged analysis of trade receivables at the reporting date, based on invoice date, is as follows:

	30 September	31 March
	2004	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	16,590	—
61 - 90 days	2,626	—
Over 90 days	<u>6,018</u>	<u>—</u>
Trade receivables	25,234	—
Other receivables	<u>1,242</u>	<u>1,935</u>
	<u><u>26,476</u></u>	<u><u>1,935</u></u>

13. TRADE AND OTHER PAYABLES

The aged analysis of trade payables at the reporting date is as follows:

	30 September	31 March
	2004	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	7,868	—
61 - 90 days	2,199	—
Over 90 days	<u>472</u>	<u>101</u>
Trade payables	10,539	101
Other payables	<u>1,685</u>	<u>6,968</u>
	<u><u>12,224</u></u>	<u><u>7,069</u></u>

14. BANK LOANS

During the period, the Group obtained a new bank loan in the amount of HK\$5,000,000 for general working capital purposes and acquired bank loans in the amount of HK\$8,775,000 upon acquisition of subsidiaries. The loans are unsecured, bear interest at prevailing market rates and are repayable in instalments over a period of four years. At 30 September 2004, the Group had bank loans amounting to HK\$13,775,000 (31.3.2004: nil).

15. OTHER LOAN, SECURED

On 25 June 2004, the Group entered into a settlement agreement with the lender for the full settlement of the loan of HK\$4,000,000 and accrued interest of HK\$511,000 (up to the date of the agreement) by way of transferring all the issued shares of i100 Wireless Corporation, a wholly-owned subsidiary of the Company, to the lender. i100 Wireless Corporation and its subsidiaries are principally engaged in the wireless communication business.

16. SHARE CAPITAL

There was no movement in the authorised and issued and fully paid share capital of the Company during the interim period under review.

17. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

- (a) During the period, the Group had the following transactions carried out at prices determined by reference to market prices for similar transactions with related parties/persons deemed to be “connected persons” by the Stock Exchange, being entities controlled by certain relatives of Koon Wing Yee and his spouse Lui Yuk Chu, both of whom are directors of the Company:

	Six months ended	
	30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of bleached and dyed fabric	13,047	—
Bleaching and dyeing charges received	<u>166</u>	<u>—</u>

At the reporting date, amounts due from the above entities comprise:

	30 September	31 March
	2004	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	<u>13,295</u>	<u>—</u>

- (b) During the period, the Group received administrative services from Easyknit International Trading Company Limited, a company in which Koon Wing Yee, Tsang Yiu Kai and Lui Yuk Chu, all of whom are directors of the Company, have beneficial interests and paid services fee of approximately HK\$121,000 (six months ended 30 September 2003: nil). The services fee is determined based on mutually agreed terms. At 30 September 2004, the amount was not yet settled (31.3.2004: nil) and was disclosed as amount due to a related company in the condensed consolidated balance sheet.

18. CAPITAL COMMITMENTS

	30 September 2004 <i>HK\$'000</i>	31 March 2004 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the condensed financial statements in respect of:		
Acquisition of property, plant and equipment	10	9,923
Acquisition of the entire issued share capital of Po Cheong International Enterprises Limited ("Po Cheong")	—	65,000
Capital injection for interests in jointly controlled entities and non wholly-owned subsidiaries	<u>20,904</u>	<u>20,904</u>
	<u>20,914</u>	<u>95,827</u>

19. ACQUISITION OF SUBSIDIARIES

On 17 May 2004, the Group acquired the entire issued share capital of Po Cheong at a consideration of HK\$65,000,000, subject to adjustment, as described in the circular of the Company dated 23 April 2004. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. Acquisition of the subsidiaries was accounted for by the acquisition method of accounting. The consideration shall be satisfied in cash, of which HK\$50,000,000 was paid on 13 May 2004. Details of the arrangement of the consideration should be referred to the circular and the adjustment will be finalised in the mid of 2005.

	<i>HK\$'000</i>
Net assets acquired	16,572
Goodwill on acquisition (note)	<u>49,162</u>
	<u>65,734</u>
Satisfied by:	
Consideration	
- Cash paid	50,000
- Consideration payable	15,000
Expenses incurred in connection with acquisition	<u>734</u>
	<u>65,734</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	(50,000)
Expenses incurred in connection with acquisition	(734)
Bank balances and cash acquired	<u>423</u>
	<u>(50,311)</u>

The turnover and result of the subsidiaries acquired during the period are set out in note 3.

Note: Goodwill is amortised over ten years. The amount of goodwill and related amortisation shall be subject to adjustment, if any, after the finalisation of the adjustment in the mid of 2005.

20. DISPOSAL OF SUBSIDIARIES

As referred to in note 15, the Group disposed of i100 Wireless Corporation to the lender of the other loan on 25 June 2004. The effect of the disposal is summarised as follows:

	<i>HK\$'000</i>
Net liabilities disposed of	(4,547)
Exchange reserve realised on disposal of subsidiaries	16
Gain on disposal of subsidiaries	<u>9,042</u>
Total consideration	<u><u>4,511</u></u>
Satisfied by:	
Loan principal waived	4,000
Accrued interest thereof waived	<u>511</u>
	<u><u>4,511</u></u>
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	<u><u>(15)</u></u>

The subsidiaries disposed of during the period did not have any significant impact on the Group's turnover and loss from operations.

2. REPRODUCED REPORT OF ERNST & YOUNG (THE FORMER AUDITORS OF THE COMPANY) FOR THE YEAR ENDED 31 DECEMBER, 2002

The following is the full text of the reproduced report of Ernst & Young (the former auditors of the Company) for the year ended 31 December, 2002 extracted from pages 20 to 21 of the annual report 2002 of the Company (“Annual Report”). The page references in this reproduced report are the same as the Annual Report.



To the members

i100 Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 22 to 79 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis, being the basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the Group's operations generated a net loss during the year and negative cash flows. The Group also had net current liabilities of HK\$3,521,000 at the balance sheet date. Subsequent to the balance sheet date, the Group obtained a loan of approximately HK\$30,270,000 from a new holding company. The financial statements have been prepared on a going concern basis, the validity of which depends upon the Group attaining profitable and cash positive operations in the longer term and, in the meantime, the continuing financial support from the new holding company as detailed in note 2 to the financial statements. We consider that appropriate estimates and disclosures regarding the above fundamental uncertainties have been made and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young*Certified Public Accountants*

Hong Kong

24 April 2003

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated income statement of the Group for the two years ended 31 December 2001 and 31 December 2002 and the 15 months ended 31 March 2004, the audited consolidated balance sheet of the Group as at 31 December 2001, 31 December 2002 and 31 March 2004, the balance sheet of the Company as at 31 December 2002 and 31 March 2004, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2002 and the 15 months ended 31 March 2004. The information upon which the summary is based has been fully extracted from the annual reports of the Company for the relevant years.

CONSOLIDATED INCOME STATEMENT

	NOTES	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000	1.1.2001 to 31.12.2001 HK\$'000
Turnover	5	5,083	70,354	198,134
Cost of sales and services		<u>(3,352)</u>	<u>(52,216)</u>	<u>(170,172)</u>
Gross profit		1,731	18,138	27,962
Other operating income	7	709	2,398	6,817
Distribution costs		(6,948)	(19,942)	(23,521)
Administrative expenses		(26,597)	(55,775)	(78,522)
Other operating expenses		(5,417)	(5,399)	(55,576)
Impairment loss recognised in respect of property, plant and equipment		(9,971)	(785)	—
Impairment loss recognised in respect of long term investments		(3,900)	—	—
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary		(3,297)	(42,115)	—
Allowance for doubtful debts		(1,155)	(6,082)	—
Allowance for amounts due from associates		<u>(317)</u>	<u>—</u>	<u>—</u>
Loss from operations	9	(55,162)	(109,562)	(122,840)
Loss on disposal of subsidiaries/discontinued operations	31	(539)	(4,615)	—
Finance costs	10	(1,960)	(37)	(458)
Share of results of an associate		(4)	(13,991)	4,014
Impairment loss recognised in respect of goodwill of an associate		—	(48,807)	—
Allowance for loans to an associate		—	(14,216)	—
Share of results of jointly controlled entities		<u>(72)</u>	<u>(65)</u>	<u>(15)</u>
Loss before taxation		(57,737)	(191,293)	(119,299)
Taxation	12	<u>—</u>	<u>309</u>	<u>570</u>
Loss before minority interests		(57,737)	(190,984)	(118,729)
Minority interests		<u>—</u>	<u>(440)</u>	<u>269</u>
Net loss for the period/year		<u>(57,737)</u>	<u>(191,424)</u>	<u>(118,460)</u>
Basic loss per share	13	<u>HK\$(0.97)</u>	<u>HK\$(4.98)</u>	<u>HK\$(3.26)*</u>

* The basic loss per share as stated above has been adjusted for the effect of the consolidation of shares in September 2003 and rights issue of shares in September 2003 and March 2004, details of which are set out in the respective circulars.

CONSOLIDATED BALANCE SHEET

	<i>NOTES</i>	31.3.2004 <i>HK\$'000</i>	31.12.2002 <i>HK\$'000</i>	31.12.2001 <i>HK\$'000</i>
Non-current assets				
Property, plant and equipment	15	665	5,999	30,028
Goodwill	16	—	388	—
Investment properties		—	—	3,980
Interests in associates	18	—	—	13,584
Interests in jointly controlled entities	19	—	1,253	1,318
Long term investments	20	—	3,900	5,699
Loan to Acme Landis Operations Holdings Limited	21	403	3,700	—
		<u>1,068</u>	<u>15,240</u>	<u>54,609</u>
Current assets				
Construction contracts		—	—	13,825
Loans to an associate		—	—	9,823
Tax recoverable		—	—	277
Inventories, at cost		—	137	23,231
Trade and other receivables	22	1,935	2,669	32,597
Bank balances and cash		66,131	1,822	32,762
		<u>68,066</u>	<u>4,628</u>	<u>112,515</u>
Current liabilities				
Trade and other payables	23	7,069	6,915	35,116
Amounts due to jointly controlled entities	24	—	1,234	—
Other loan, secured	25	4,000	—	—
Interest-bearing bank loans		—	—	4,326
		<u>11,069</u>	<u>8,149</u>	<u>39,442</u>
Net current assets (liabilities)		<u>56,997</u>	<u>(3,521)</u>	<u>73,073</u>
		<u>58,065</u>	<u>11,719</u>	<u>127,682</u>
Capital and reserves				
Share capital	26	35,701	110,187	100,187
Reserves		22,155	(98,468)	26,666
		57,856	11,719	126,853
Minority interests		<u>209</u>	—	<u>829</u>
		<u>58,065</u>	<u>11,719</u>	<u>127,682</u>

BALANCE SHEET

	<i>NOTES</i>	31.3.2004 <i>HK\$'000</i>	31.12.2002 <i>HK\$'000</i>
Non-current assets			
Interests in subsidiaries	17	2,116	2,136
Interests in associates	18	—	—
Loan to Acme Landis Operations Holdings Limited	21	—	3,700
		<u>2,116</u>	<u>5,836</u>
Current assets			
Other receivables		109	73
Bank balances and cash		65,856	698
		65,965	771
Current liabilities			
Other payables		1,322	1,235
Net current assets (liabilities)			
		<u>64,643</u>	<u>(464)</u>
		<u>66,759</u>	<u>5,372</u>
Capital and reserves			
Share capital	26	35,701	110,187
Reserves	28	27,942	(106,165)
		63,643	4,022
Non-current liabilities			
Amounts due to subsidiaries	29	3,116	1,350
		<u>66,759</u>	<u>5,372</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve	Contributed surplus	Leasehold land and buildings revaluation reserve	Investment property revaluation reserve	Goodwill reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(note 28)	(note 28)						
At 1 January 2002	100,187	237,549	—	—	2,634	7,324	(48,780)	(80)	(171,981)	126,853
Share of exchange reserve of an associate	—	—	—	—	—	—	—	66	—	66
Revaluation deficit	—	—	—	—	(37)	—	—	—	—	(37)
Realised on disposal of subsidiaries	—	—	—	—	(2,597)	(7,324)	(27)	—	9,921	(27)
Net gains and losses not recognised in the consolidated income statement	—	—	—	—	(2,634)	(7,324)	(27)	66	9,921	2
	100,187	237,549	—	—	—	—	(48,807)	(14)	(162,060)	126,855
Issue of shares	10,000	20,000	—	—	—	—	—	—	—	30,000
Share issue expenses	—	(2,519)	—	—	—	—	—	—	—	(2,519)
Impairment loss in respect of goodwill of an associate	—	—	—	—	—	—	48,807	—	—	48,807
Net loss for the year	—	—	—	—	—	—	—	—	(191,424)	(191,424)
At 31 December 2002	110,187	255,030	—	—	—	—	—	(14)	(353,484)	11,719
Rights issue of shares	35,260	52,890	—	—	—	—	—	—	—	88,150
Issue of new shares by private placements	7,272	8,454	—	—	—	—	—	—	—	15,726
Reduction of share capital and share premium upon capital reorganisations (see note 26)	(117,018)	(255,030)	17,850	354,198	—	—	—	—	—	—
Elimination of accumulated losses	—	—	—	(353,484)	—	—	—	—	353,484	—
Realised on disposal of subsidiaries	—	—	—	—	—	—	—	(2)	—	(2)
Net loss for the period	—	—	—	—	—	—	—	—	(57,737)	(57,737)
At 31 March 2004	35,701	61,344	17,850	714	—	—	—	(16)	(57,737)	57,856

CONSOLIDATED CASH FLOW STATEMENT

	1.1.2003 to 31.3.2004 <i>HK\$'000</i>	1.1.2002 to 31.12.2002 <i>HK\$'000</i>
Cash flows from operating activities		
Loss before taxation	(57,737)	(191,293)
Adjustments for:		
Share of results of an associate	4	13,991
Share of results of jointly controlled entities	72	65
Interest income	(70)	(1,624)
Interest expense	1,960	37
Depreciation	6,495	9,165
Amortisation of goodwill	—	97
Loss on disposal of subsidiaries/discontinued operations	539	4,615
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary	3,297	42,115
Allowance for doubtful debts	1,155	6,082
Allowance for amounts due from associates	317	—
Allowance for loans to an associate	—	14,216
Deficit arising on revaluation of investment properties	—	350
Deficit arising on revaluation of leasehold land and buildings	—	158
Loss on disposal of property, plant and equipment	379	410
Loss on waiver of amount due from a minority shareholder of a subsidiary	117	—
Loss on waiver of loan to a jointly controlled entity	7	—
Impairment loss recognised in respect of property, plant and equipment	9,971	785
Impairment loss recognised in respect of long term investments	3,900	—
Impairment loss recognised in respect of goodwill of subsidiaries	492	—
Impairment loss recognised in respect of goodwill of an associate	—	48,807
Operating cash outflows before movements in working capital	(29,102)	(52,024)
Decrease in inventories	137	2,410
Increase in trade and other receivables	(864)	(3,702)
Increase in trade and other payables	132	2,187
Cash used in operations	(29,697)	(51,129)
Interest paid	(1,534)	(37)
Hong Kong Profits Tax refunded	—	(77)
Net cash used in operating activities	(31,231)	(51,243)

	<i>NOTES</i>	1.1.2003 to 31.3.2004 HK\$'000	1.1.2002 to 31.12.2002 HK\$'000
Cash flows from investing activities			
Interest received		70	1,624
Proceeds from disposal of property, plant and equipment		227	7
Purchase of property, plant and equipment		(12,125)	(4,476)
Advances from jointly controlled entities		—	1,234
Investment in an associate		(4)	—
Advances to associates		(317)	(4,394)
Acquisition of a subsidiary/subsidiaries, net of cash and cash equivalents acquired	30	(72)	(103)
Disposal of subsidiaries/discontinued operations net of cash and cash equivalents disposal of	31	<u>(115)</u>	<u>(4,894)</u>
Net cash used in investing activities		<u>(12,336)</u>	<u>(11,002)</u>
Cash flows from financing activities			
Proceeds from issue of new shares		103,876	27,481
Bank loans raised		—	4,424
Other borrowings raised		34,270	—
Repayment of bank loans		—	(600)
Repayment of other borrowings		<u>(30,270)</u>	<u>—</u>
Net cash from financing activities		<u>107,876</u>	<u>31,305</u>
Net increase (decrease) in cash and cash equivalents		64,309	(30,940)
Cash and cash equivalents at beginning of the period/year		<u>1,822</u>	<u>32,762</u>
Cash and cash equivalents at end of the period/year, represented by bank balances and cash		<u><u>66,131</u></u>	<u><u>1,822</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. Its subsidiaries are principally engaged in wireless communication business, communication solutions consultancy services and Internet operations.

On 24 January 2003, a sale and purchase agreement was entered into between Asia Pacific Growth Fund III, L.P., i100 Capital Corporation, i100 Holdings Corporation, Landmark Profits Limited (a wholly-owned subsidiary of Easyknit International Holdings Limited (“Easyknit”)) and Easyknit, pursuant to which Landmark Profits Limited agreed to purchase 609,000,000 shares of the Company of HK\$0.10 each. The completion of the above agreement took place on 28 January 2003 and the Company became a subsidiary of Easyknit. Easyknit is a company incorporated in Bermuda, whose shares are listed on the Stock Exchange and the Singapore Exchange Securities Trading Limited. Details of the above are set out, inter alia, in the announcement of the Company dated 6 February 2003.

As a result of two private placements of shares of the Company on 17 November 2003 and 22 December 2003, Easyknit’s shareholding in the Company was reduced to approximately 35.9%.

2. CHANGE OF FINANCIAL YEAR-END DATE

On 1 September 2003, the board of directors of the Company resolved to change the financial year-end date of the Company from 31 December to 31 March to align the financial year-end date with that of Easyknit. The financial statements therefore cover a fifteen month period from 1 January 2003 to 31 March 2004. The corresponding amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a twelve month period from 1 January 2002 to 31 December 2002 and therefore may not be comparable with amounts shown for the current period.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted, for the first time, the Hong Kong Financial Reporting Standards (“HKFRS”) - Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) issued by the Hong Kong Society of Accountants (“HKSA”). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from or up to the effective date of acquisition or disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions since 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Negative goodwill arising on acquisitions since 1 January 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the period/year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill in so far as it has not already been amortised, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the period/year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill in so far as it has not already been amortised, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Revenue recognition

Telecommunications revenue for services provided for fixed periods is recognised on a straight line basis over the respective periods. Other telecommunications revenue is recognised when products are delivered or services are rendered.

Sales of goods are recognised when goods are delivered and title has been passed.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Commission income is recognised when services are provided.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income is recognised on a straight line basis over the lease terms.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	20% - 33 $\frac{1}{3}$ %
Motor vehicles	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group intends to hold to maturity, which are held-to-maturity debt securities, are measured at amortised cost less any identified impairment losses. Any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments, as appropriate.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment losses.

Other investments are measured at fair value, with unrealised gains and losses included in the profit or loss for the period.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are included in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Retirement benefits costs

The amount of the Group's contributions payable under the Group's retirement benefits schemes is charged to the income statement as and when incurred.

5. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods sold, net of returns, and services rendered by the Group during the period/year. An analysis of the Group's turnover is as follows:

	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations:		
Wireless communication services	3,982	953
Communication solutions consultancy services	<u>1,101</u>	<u>1,131</u>
	<u>5,083</u>	<u>2,084</u>
Discontinued operations:		
Sales of sanitary fixtures and fittings	—	38,860
Sales of hardware, industrial and consumer products	—	20,258
Drainage, plumbing and engineering contracting services	<u>—</u>	<u>9,152</u>
	<u>—</u>	<u>68,270</u>
	<u><u>5,083</u></u>	<u><u>70,354</u></u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three main operating divisions - wireless communication business, communication solutions consultancy services and Internet operations. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the fifteen months ended 31 March 2004(i) *Income statement*

	Turnover	Segment result	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations:			
Wireless communication business	3,982	(31,873)	
Communication solutions consultancy services	1,101	(2,856)	
Internet operations	—	(304)	
	<u>5,083</u>	<u>(35,033)</u>	
Segment result			(35,033)
Interest income			70
Allowance for amounts due from associates (<i>note</i>)			(317)
Unallocated corporate expenses			<u>(19,882)</u>
Loss from operations			(55,162)
Loss on disposal of subsidiaries			(539)
Finance costs			(1,960)
Share of results of an associate			(4)
Share of results of jointly controlled entities			<u>(72)</u>
Net loss for the period			<u>(57,737)</u>

Note: The amount is related to the segment of wireless communication business.

(ii) *Balance sheet*

	Communication			
	Wireless communication business	solutions consultancy services	Internet operations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS				
Segment assets	76	59	2	137
Unallocated corporate assets				<u>68,997</u>
Consolidated total assets				<u><u>69,134</u></u>
LIABILITIES				
Segment liabilities	3,189	558	80	3,827
Unallocated corporate liabilities				<u>7,242</u>
Consolidated total liabilities				<u><u>11,069</u></u>

(iii) *Other information*

	Communication			
	Wireless communication business	solutions consultancy services	Internet operations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital additions	12,125	—	—	12,125
Depreciation	5,863	434	198	6,495
Impairment loss in respect of property, plant and equipment	9,971	—	—	9,971
Impairment loss in respect of long term investments	3,900	—	—	3,900
Allowance for doubtful debts	1,045	110	—	1,155
Allowance for amounts due from associates	317	—	—	317
Impairment loss in respect of goodwill of subsidiaries	104	388	—	492
Loss (gain) on disposal of property, plant and equipment	<u>323</u>	<u>58</u>	<u>(2)</u>	<u><u>379</u></u>

In addition, allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary of the Company, amounting to HK\$3,297,000 charged to the consolidated income statement is related to the segments of sanitary fixtures and fittings, hardware, industrial and consumer products, and drainage, plumbing and engineering contracting services.

For the year ended 31 December 2002

(i) *Income statement*

	External	Turnover Inter- segment	Total	Segment result	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations:					
Wireless communication business	953	—	953	(29,704)	
Communication solutions consultancy services	1,131	480	1,611	(4,122)	
Internet operations	—	—	—	(598)	
Discontinued operations:					
Sanitary fixtures and fittings	38,860	26	38,886	443	
Hardware, industrial and consumer products	20,258	—	20,258	(926)	
Drainage, plumbing and engineering contracting services	9,152	—	9,152	(1,907)	
	70,354	506	70,860	(36,814)	
Eliminations	—	(506)	(506)	(180)	
	<u>70,354</u>	<u>—</u>	<u>70,354</u>	<u>(36,994)</u>	
Segment result					(36,994)
Interest income					1,624
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary (<i>note a</i>)					(42,115)
Unallocated corporate expenses					<u>(32,077)</u>
Loss from operations					(109,562)
Loss on disposal of discontinued operations					(4,615)
Finance costs					(37)
Share of results of an associate					(13,991)
Impairment loss recognised in respect of goodwill of an associate					(48,807)
Allowance for loans to an associate					(14,216)
Share of results of jointly controlled entities (<i>note b</i>)					<u>(65)</u>
Loss before taxation					(191,293)
Taxation					<u>309</u>
Loss before minority interests					(190,984)
Minority interests					<u>(440)</u>
Net loss for the year					<u><u>(191,424)</u></u>

Inter-segment sales are charged at prevailing market prices.

Notes:

(a) The amount is related to the segments of sanitary fixtures and fittings, hardware, industrial and consumer products, and drainage, plumbing and engineering contracting services.

(b) The amount is related to the segment of wireless communication business.

(ii) *Balance sheet*

	Wireless communication business HK\$'000	Communication solutions consultancy services HK\$'000	Internet operations HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	4,696	1,980	342	7,018
Interests in jointly controlled entities	1,253	—	—	1,253
Unallocated corporate assets				<u>11,597</u>
Consolidated total assets				<u><u>19,868</u></u>
LIABILITIES				
Segment liabilities	3,207	2,035	88	5,330
Unallocated corporate liabilities				<u>2,819</u>
Consolidated total liabilities				<u><u>8,149</u></u>

(iii) Other information

	Continuing operations			Discontinued operations			Consolidated
	Wireless communication business	Communication solutions consultancy services	Internet operations	Sanitary fixtures and fittings	Hardware, industrial and consumer products	Drainage, plumbing and engineering contracting services	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Amortisation of goodwill	—	97	—	—	—	—	97
Capital additions	3,550	107	20	809	95	—	4,581
Depreciation	6,973	613	512	819	244	4	9,165
Impairment loss in respect of property, plant and equipment	785	—	—	—	—	—	785
Allowance (write back of allowance) for doubtful debts	7,224	747	—	(2,032)	143	—	6,082
Deficit arising on revaluation of investment properties	—	—	—	—	350	—	350
Deficit arising on revaluation of leasehold land and buildings	—	—	—	158	—	—	158
Deficit on revaluation recognised directly in equity	—	—	—	—	37	—	37
Loss on disposal of property, plant and equipment	—	340	—	70	—	—	410

In addition, allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary of the Company, amounting to HK\$42,115,000 charged to the consolidated income statement is related to the segments of sanitary fixtures and fittings, hardware, industrial and consumer products, and drainage, plumbing and engineering contracting services.

Geographical segments

An analysis of the Group's turnover by geographical market for the period/year is as follows:

	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	5,083	64,797
The People's Republic of China, excluding Hong Kong (the "PRC")	<u>—</u>	<u>5,557</u>
	<u>5,083</u>	<u>70,354</u>

An analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	31.3.2004	31.12.2002	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	67,425	13,973	12,125	4,475
PRC	<u>1,709</u>	<u>5,895</u>	<u>—</u>	<u>106</u>
	<u>69,134</u>	<u>19,868</u>	<u>12,125</u>	<u>4,581</u>

7. OTHER OPERATING INCOME

An analysis of the Group's other operating income is as follows:

	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commission income	471	—
Interest income	70	1,624
Rental income	—	251
Others	<u>168</u>	<u>523</u>
	<u>709</u>	<u>2,398</u>

8. DISCONTINUED OPERATIONS

- (a) On 4 May 2002, Acme Sanitary Ware Company, Limited (“ASW”), a former indirectly wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party for the disposal of ASW’s entire equity interest in Acme Sanitary Engineering Limited (“ASE”) at a consideration of HK\$2. This transaction was completed in year 2002, upon which the Group’s business of the provision of drainage, plumbing and engineering contracting services was discontinued.
- (b) On 29 May 2002, the Company entered into a share acquisition agreement with an independent third party for the disposal of the Group’s entire equity interest in Acme Landis Operations Holdings Limited (“ALOH”) at a consideration of HK\$1. This transaction was completed in year 2002 upon which ALOH ceased to be a subsidiary of the Company and the Group’s businesses relating to the distribution of sanitary fixtures and fittings, and a range of hardware, industrial and consumer products were discontinued.

The results of the discontinued operations for year 2002 were as follows:

	Sanitary fixtures and fittings	Hardware, industrial and consumer products	Drainage, plumbing and engineering contracting services	Eliminations	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	38,886	20,258	9,152	(26)	68,270
Cost of sales and services	<u>(26,612)</u>	<u>(14,308)</u>	<u>(9,380)</u>	26	<u>(50,274)</u>
Gross profit	12,274	5,950	(228)		17,996
Other operating income	1,326	513	—	(355)	1,484
Distribution costs	(4,353)	(1,622)	—	71	(5,904)
Administrative expenses	(9,623)	(5,117)	(1,679)	13	(16,406)
Other operating expenses	<u>1,659</u>	<u>(506)</u>	<u>—</u>	—	<u>1,153</u>
Profit (loss) from operations	1,283	(782)	(1,907)		(1,677)
Loss on disposal of subsidiaries	(6,355)	—	—	—	(6,355)
Finance costs	<u>(171)</u>	<u>(9)</u>	<u>(127)</u>	271	<u>(36)</u>
Loss before taxation	(5,243)	(791)	(2,034)		(8,068)
Taxation	<u>(29)</u>	<u>(1)</u>	<u>—</u>	—	<u>(30)</u>
Loss before minority interests	(5,272)	(792)	(2,034)		(8,098)
Minority interests	<u>(443)</u>	<u>—</u>	<u>—</u>	—	<u>(443)</u>
Net loss for the year	<u><u>(5,715)</u></u>	<u><u>(792)</u></u>	<u><u>(2,034)</u></u>		<u><u>(8,541)</u></u>

Note: The results covered a period from 1 January 2002 to the date of disposal of the discontinued operations.

The carrying amounts of the assets and liabilities of the discontinued operations at the date of disposal in year 2002 are set out in note 31.

The net cash flows of the discontinued operations attributable to the Group in year 2002 were as follows:

	Sanitary fixtures and fittings <i>HK\$'000</i>	Hardware, industrial and consumer products <i>HK\$'000</i>	Drainage, plumbing and engineering contracting services <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net cash used in operating activities	(1,414)	(871)	(3,049)	271	(5,063)
Net cash from investing activities	988	49	—	—	1,037
Net cash from financing activities	2,176	445	—	(271)	2,350
Net cash inflow (outflow)	<u>1,750</u>	<u>(377)</u>	<u>(3,049)</u>	<u>—</u>	<u>1,676</u>

9. LOSS FROM OPERATIONS

1.1.2003 to 31.3.2004 <i>HK\$'000</i>	1.1.2002 to 31.12.2002 <i>HK\$'000</i>
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Loss from operations has been arrived at after charging:

Directors' remuneration (<i>note 11(a)</i>)	868	6,657
Other staff costs, including retirement benefits costs	<u>11,869</u>	<u>32,922</u>
Total staff costs	<u>12,737</u>	<u>39,579</u>
Amortisation of goodwill (<i>note</i>)	—	97
Auditors' remuneration	350	1,000
Cost of inventories recognised as an expense	378	40,765
Deficit arising on revaluation of investment properties	—	350
Deficit arising on revaluation of leasehold land and buildings	—	158
Depreciation	6,495	9,165
Impairment loss recognised in respect of goodwill of subsidiaries (<i>note</i>)	492	—
Loss on disposal of property, plant and equipment	379	410
Loss on waiver of amount due from a minority shareholder of a subsidiary (<i>note</i>)	117	—
Loss on waiver of loan to a jointly controlled entity (<i>note</i>)	<u>7</u>	<u>—</u>

Note: The amounts are included in other operating expenses.

10. FINANCE COSTS

	1.1.2003 to 31.3.2004 <i>HK\$'000</i>	1.1.2002 to 31.12.2002 <i>HK\$'000</i>
Interest on borrowings wholly repayable within five years:		
— Easyknit Loan (see <i>note 14(a)</i>)	1,515	—
— bank borrowings	—	37
— other borrowings	445	—
	<u>1,960</u>	<u>37</u>

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

	1.1.2003 to 31.3.2004 <i>HK\$'000</i>	1.1.2002 to 31.12.2002 <i>HK\$'000</i>
Directors' fees:		
Executive	—	—
Independent non-executive	200	—
	<u>200</u>	<u>—</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	664	6,593
Retirement benefits costs	4	64
	<u>668</u>	<u>6,657</u>
Total directors' emoluments	<u>868</u>	<u>6,657</u>

The emoluments of the directors fall within the following bands:

	Number of directors	
	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
Nil to HK\$1,000,000	15	8
HK\$2,000,001 to HK\$2,500,000	—	2
	<u>15</u>	<u>10</u>

(b) Information regarding employees' emoluments

The five highest paid individuals of the Group included one director (1.1.2002 to 31.12.2002: two directors). The emoluments of the remaining four (1.1.2002 to 31.12.2002: three) highest paid individuals, not being directors, are as follows:

	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	4,028	4,773
Retirement benefits costs	62	35
Severance payments	<u>37</u>	<u>—</u>
Total employees' emoluments	<u><u>4,127</u></u>	<u><u>4,808</u></u>

Their emoluments were within the following bands:

	Number of employees	
	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
Nil to HK\$1,000,000	3	1
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$3,000,000	<u>—</u>	<u>1</u>
	<u><u>4</u></u>	<u><u>3</u></u>

During the period/year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss in office.

No director waived any emoluments in the fifteen months ended 31 March 2004. For the year ended 31 December 2002, two directors waived portion of their emoluments totalling HK\$450,000.

12. TAXATION

	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
The amount comprises:		
Taxation (credit) charge attributable to the Company and its subsidiaries		
Hong Kong Profits Tax	—	189
Overprovision in prior years	—	(159)
	<u>—</u>	<u>(159)</u>
	—	30
Share of taxation of an associate	—	(339)
	<u>—</u>	<u>(339)</u>
	<u>—</u>	<u>(309)</u>

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for the fifteen months ended 31 March 2004.

Hong Kong Profits Tax for the year ended 31 December 2002 was calculated at 16% of the estimated assessable profit for that year.

The tax credit for the period/year can be reconciled to the results per the consolidated income statement as follows:

	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	<u>(57,737)</u>	<u>(191,293)</u>
Tax credit of Hong Kong Profits Tax at 17.5% (1.1.2002 to 31.12.2002: 16%)	(10,104)	(30,607)
Tax effect of share of results of associates	1	1,899
Tax effect of share of results of jointly controlled entities	13	11
Tax effect of income not taxable for tax purpose	(22)	(45)
Tax effect of expenses not deductible for tax purpose	3,575	20,553
Tax effect of tax losses not recognised	5,929	7,999
Overprovision in prior years	—	(159)
Others	<u>608</u>	<u>40</u>
Tax credit for the period/year	<u>—</u>	<u>(309)</u>

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the purposes of basic loss per share	<u>(57,737)</u>	<u>(191,424)</u>
	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
Number of shares		
Weighted average number of shares for the purposes of basic loss per share	<u>59,376,993</u>	<u>38,433,085</u>

The denominator for the purposes of calculating basic loss per share of year 2002 has been adjusted to reflect the consolidation of shares in September 2003 on the basis that forty shares were consolidated into one share and the rights issue of shares in September 2003 and March 2004.

The calculation of diluted loss per share has not been disclosed as the exercise of the Company's outstanding share options would reduce the loss per share for both accounting periods.

14. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

- (a) During the period, the Group obtained a loan of HK\$30,270,000 from Planetic International Limited (the "Easyknit Loan"), a wholly-owned subsidiary of Easyknit, for working capital purposes. The loan was unsecured, bore interest at prevailing market rates and was repaid in full during the period. Interest paid by the Group during the period amounted to HK\$1,514,500.
- (b) The Group also had the following transactions with related parties in which certain former directors of the Company have beneficial interests:

	<i>Notes</i>	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Office rental expenses paid to Avon Limited	(i)	—	1,282
Warehouse rental expenses paid to:	(ii)		
Come Trend Limited		—	200
Chung Yuen Electrical Company Limited		—	200
Warehouse rental income received from Chung Yuen Electrical Company Limited	(ii)	<u>—</u>	<u>100</u>

Notes:

- (i) The office expenses were calculated by the then directors by reference to open market rentals prevailing at the times when the tenancy agreements were entered into, as confirmed to the Group by a firm of independent professional valuers.
- (ii) The warehouse rental income and expenses were determined by the then directors by reference to open market rentals prevailing at the times when the tenancy agreements were entered into.

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP			
COST			
At 1 January 2003	19,005	968	19,973
Additions	12,125	—	12,125
On disposal of subsidiaries	(1,202)	—	(1,202)
Disposals	<u>(2,120)</u>	<u>(429)</u>	<u>(2,549)</u>
At 31 March 2004	<u>27,808</u>	<u>539</u>	<u>28,347</u>
DEPRECIATION AND IMPAIRMENT LOSS			
At 1 January 2003	13,589	385	13,974
Provided for the period	6,360	135	6,495
Impairment loss recognised in the period	9,971	—	9,971
On disposal of subsidiaries	(815)	—	(815)
Eliminated on disposals	<u>(1,729)</u>	<u>(214)</u>	<u>(1,943)</u>
At 31 March 2004	<u>27,376</u>	<u>306</u>	<u>27,682</u>
NET BOOK VALUE			
At 31 March 2004	<u>432</u>	<u>233</u>	<u>665</u>
At 31 December 2002	<u>5,416</u>	<u>583</u>	<u>5,999</u>

During the period, the directors conducted a review of the Group's operating assets and determined that a number of those assets were impaired, due to the decrease in spending in the mobile communications market in Hong Kong which was contributed by the unfavourable overall economic conditions. Accordingly, an impairment loss of HK\$9,971,000 has been recognised in respect of furniture, fixtures and equipment. The impairment loss was recognised based on the recoverable amounts of furniture, fixtures and equipment which were determined by the estimated discounted net future cash flows from these assets. The carrying amounts of the furniture, fixtures and equipment were reduced to the respective recoverable amounts which were estimated using market borrowing rates.

16. GOODWILL

THE GROUP

HK\$'000

COST

At 1 January 2003	485
Arising on acquisition of a subsidiary	<u>104</u>

At 31 March 2004	<u>589</u>
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AMORTISATION AND IMPAIRMENT LOSS

At 1 January 2003	97
Impairment loss recognised in the period	<u>492</u>

At 31 March 2004	<u>589</u>
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CARRYING AMOUNT

At 31 March 2004	<u><u>—</u></u>
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At 31 December 2002	<u><u>388</u></u>
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Goodwill is amortised over five years.

Impairment loss was recognised based on the recoverable amounts of the subsidiaries acquired which were determined by the estimated discounted net future cash flows from these subsidiaries using market borrowing rates. The carrying amount of the goodwill was fully impaired in the fifteen months ended 31 March 2004.

17. INTERESTS IN SUBSIDIARIES

THE COMPANY

31.3.2004 31.12.2002

HK\$'000 HK\$'000

Unlisted shares, at cost	334,470	304,200
Less: Impairment loss recognised	<u>(334,470)</u>	<u>(304,200)</u>

— —

Amounts due from subsidiaries	<u>2,116</u>	<u>2,136</u>
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2,116 2,136

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, repayment of the amounts will not be demanded by the Company within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current assets in the balance sheet.

Impairment loss was recognised based on the recoverable amounts of subsidiaries which were determined by the estimated discounted net future cash flows from these subsidiaries using market borrowing rates. The carrying amount of the investments in subsidiaries was fully impaired during the fifteen months ended 31 March 2004.

Particulars of the Company's principal subsidiaries at 31 March 2004 are as follows:

Name of subsidiary	Place of incorporation and operation	Nominal value of issued share	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
Copplestone Limited	Cayman Islands/ Hong Kong	Ordinary US\$42,880,770	100%	—	Investment holding
Castlebright Limited	Hong Kong	Ordinary HK\$2	—	100%	Provision of management services
Digital Empires Company Limited	Hong Kong	Ordinary HK\$100	—	100%	Provision of computer system consultancy services
Good Fine Technology Limited	Hong Kong	Ordinary HK\$2	—	100%	Wireless communication business, communication solutions consultancy services and Internet operations
i100 Wireless (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	—	100%	Wireless data service provider

The above table lists the subsidiaries of the Company, which, in the opinion of the directors of the Company, principally affected the results of the period or constituted a substantial portion of the assets of the Group. To give details of other subsidiaries would in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at 31 March 2004.

20. LONG TERM INVESTMENTS

	THE GROUP	
	31.3.2004	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment securities:		
Unlisted equity investments, at cost	3,900	3,900
Less: Impairment loss recognised	<u>(3,900)</u>	<u>—</u>
	<u>—</u>	<u>3,900</u>

Impairment loss was recognised based on the recoverable amounts of the long term investments.

21. LOAN TO ACME LANDIS OPERATIONS HOLDINGS LIMITED (“ALOH”)

	THE GROUP		THE COMPANY	
	31.3.2004	31.12.2002	31.3.2004	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loan to ALOH	45,815	45,815	—	45,815
Less: Allowance	<u>(45,412)</u>	<u>(42,115)</u>	<u>—</u>	<u>(42,115)</u>
	<u>403</u>	<u>3,700</u>	<u>—</u>	<u>3,700</u>

The loan to ALOH is secured by a pledge given by the purchaser of ALOH in respect of 1,900,000 shares of the Company of HK\$0.10 each. The loan is interest-free and the principal of the loan will be reduced upon receipt of repayment from ALOH, or by the amount of the net proceeds of disposal of the secured shares at the prevailing market value, or upon the disposal of the last remaining shares, any principal outstanding will be reduced to zero.

During the fifteen months ended 31 March 2004, the loan to ALOH was assigned by the Company to a subsidiary at the carrying amount of the loan.

22. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of up to 90 days to its customers. The aged analysis of trade receivables at the balance sheet date, based on invoice date, is as follows:

	THE GROUP	
	31.3.2004	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 30 days	—	85
31 - 90 days	—	133
Over 90 days	—	1
	<u>—</u>	<u>1</u>
	<u>—</u>	<u>219</u>

23. TRADE AND OTHER PAYABLES

The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	31.3.2004	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 30 days	—	4
Over 90 days	101	689
	<u>101</u>	<u>693</u>

24. AMOUNTS DUE TO JOINTLY CONTROLLED ENTITIES

The amounts were unsecured and non-interest bearing.

25. OTHER LOAN, SECURED

During the period, the Group obtained a loan of HK\$4,000,000 from an outside party. The loan bears interest at market rates and is repayable on demand. The loan is secured by charges over all issued shares of i100 Wireless Corporation, a wholly-owned subsidiary of the Company.

On 25 June 2004, the Group entered into a settlement agreement with the lender for the full settlement of the loan of HK\$4,000,000 and accrued interest of HK\$511,000 (up to the date of the agreement) by way of transferring all the issued shares of i100 Wireless Corporation to the lender.

26. SHARE CAPITAL

	<i>Notes</i>	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 January 2002 and 31 December 2002		0.10	3,000,000,000	300,000
Effect of the First Reorganisation referred to below	(b)(i)		<u>27,000,000,000</u>	<u>—</u>
Effect of the Share Consolidation referred to below	(c)	0.01	<u>30,000,000,000</u> (29,250,000,000)	<u>300,000</u> <u>—</u>
Effect of the Second Reorganisation referred to below	(g)(i)	0.40	<u>750,000,000</u> <u>2,250,000,000</u>	<u>300,000</u> <u>—</u>
Increase of authorised share capital	(g)(iii)	0.10	<u>3,000,000,000</u> <u>3,500,000,000</u>	<u>300,000</u> <u>350,000</u>
At 31 March 2004		0.10	<u><u>6,500,000,000</u></u>	<u><u>650,000</u></u>
Issued and fully paid:				
At 1 January 2002		0.10	1,001,873,000	100,187
Issue of new shares at a price of HK\$0.30 per share	(a)	0.10	<u>100,000,000</u>	<u>10,000</u>
At 31 December 2002		0.10	1,101,873,000	110,187
Reduction of share capital	(b)(ii)		<u>—</u>	<u>(99,168)</u>
Effect of the Share Consolidation referred to below	(c)	0.01	<u>1,101,873,000</u> (1,074,326,175)	<u>11,019</u> <u>—</u>
Rights issue of shares at a price of HK\$1.00 per rights share	(d)	0.40	<u>27,546,825</u>	<u>11,019</u>
Issue of new shares by private placements	(e) & (f)	0.40	<u>13,773,412</u> <u>18,180,903</u>	<u>5,509</u> <u>7,272</u>
Reduction of share capital	(g)(ii)	0.40	<u>59,501,140</u> <u>—</u>	<u>23,800</u> <u>(17,850)</u>
Rights issue of shares at a price of HK\$0.25 per rights share	(h)	0.10	<u>59,501,140</u> <u>297,505,700</u>	<u>5,950</u> <u>29,751</u>
At 31 March 2004		0.10	<u><u>357,006,840</u></u>	<u><u>35,701</u></u>

Notes:

- (a) As announced by the Company on 4 June 2002, i100 Capital Corporation, a then substantial shareholder of the Company, conditionally agreed to place through its placing agents 124,000,000 then existing shares of HK\$0.10 each of the Company (the “2002 Placing Shares”) and to subscribe for 100,000,000 new shares of HK\$0.10 each in the capital of the Company at a price equal to the price per each 2002 Placing Share (the “2002 Placing Price”) net of all expenses incurred by i100 Capital Corporation. The 2002 Placing Price of HK\$0.30 per share represents a discount of approximately 24.1% to the closing price of HK\$0.395 per share quoted on the Stock Exchange on 3 June 2002, being the last full trading day of the Company’s shares prior to the date of the announcement.

The placing agents were Sun Hung Kai International Limited, Luen Fat Securities Company Limited and Ever-Long Securities Company Limited. The 2002 Placing Shares were placed to not less than six places. The places and the placing agents are independent of, not connected with and not acting in concert with i100 Capital Corporation or its associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”)) or its concert parties. They are also independent of, not connected with and not acting in concert with the Company’s then directors, chief executives or substantial shareholders, subsidiaries or any associates (as defined in the Listing Rules) or any of them. The 2002 Placing Shares represented approximately 12.4% of the then existing issued capital of the Company and approximately 11.3% of the Company’s then enlarged capital. The net proceeds from the subscription of approximately HK\$27.5 million were used in the development of the wireless data service business and as general working capital.

The placement and the subscription were completed in June 2002. The interest of i100 Capital Corporation, together with parties acting in concert with it and their associates (as defined in the Listing Rules), in the then issued capital of the Company decreased from approximately 60.8% prior to the placement and the subscription to approximately 53.1% immediately after the placement and the subscription.

- (b) In February 2003, the Company underwent a capital reorganisation (the “First Reorganisation”). Details of the First Reorganisation are set out in the circular dated 16 January 2003 issued by the Company.

At the special general meeting of the Company held on 7 February 2003, a special resolution approving the First Reorganisation was passed and the following capital reorganisation took effect on 10 February 2003:

- (i) unissued shares of HK\$0.10 each in the authorised share capital of the Company were subdivided into ten shares of HK\$0.01 each;
- (ii) nominal value of issued shares in the share capital of the Company was reduced from HK\$0.10 each to HK\$0.01 each (the “First Capital Reduction”);
- (iii) the entire amount of HK\$255,030,000 standing to the credit of the share premium account of the Company was cancelled (the “Share Premium Cancellation”); and
- (iv) the credit amounts arising from the First Capital Reduction and the Share Premium Cancellation were credited to the contributed surplus account of the Company where such amounts were utilised to eliminate the accumulated losses of the Company as at 31 December 2002 to the extent of HK\$353,484,000.
- (c) As announced by the Company on 1 August 2003, the Company proposed to effect a share consolidation pursuant to which every forty issued and unissued then existing shares of HK\$0.01 each were consolidated into one consolidated share of HK\$0.40 each (“Share Consolidation”). Details of the Share Consolidation are set out in the circular dated 20 August 2003 issued by the Company. The ordinary resolution approving the Share Consolidation was passed at the special general meeting of the Company held on 8 September 2003.

- (d) Rights issue of 13,773,412 shares of HK\$0.40 each at a subscription price of HK\$1.00 per rights share were allotted on 25 September 2003 to the shareholders of the Company in the proportion of one rights share for every two existing shares then held. The net proceeds of the rights issue were used for general working capital purposes.
- (e) As announced by the Company on 14 October 2003, the Company conditionally agreed to place through its placing agent, Get Nice Investment Limited, 8,264,047 new shares of HK\$0.40 each in the capital of the Company (the “2003 First Placing Shares”) at a price of HK\$0.865 per share which represents a discount of approximately 19.9% to the closing price of HK\$1.08 per share quoted on the Stock Exchange on 13 October 2003, being the last full trading day of the Company’s shares prior to the date of the announcement.

The 2003 First Placing Shares were placed to not less than six placees. The placees and their respective ultimate beneficial owners are independent individuals, corporate and/or institutional investors who are not connected persons (as defined in the Listing Rules) of the Company. The placing agent is not a connected person (as defined in the Listing Rules) and does not own any shares of the Company. The 2003 First Placing Shares represented approximately 20.0% of the then existing issued capital of the Company and approximately 16.7% of the Company’s then enlarged capital. The net proceeds from the placement amounted to approximately HK\$6.9 million of which HK\$5.0 million was used for the partial repayment of the Easyknit Loan and the balance as general working capital.

The placement was completed in November 2003.

- (f) As announced by the Company on 27 November 2003, the Company conditionally agreed to place through its placing agent, Kingston Securities Limited, 9,916,856 new shares of HK\$0.40 each in the capital of the Company (the “2003 Second Placing Shares”) at a price of HK\$0.865 per share which represents a discount of approximately 2.8% to the closing price of HK\$0.89 per share quoted on the Stock Exchange on 21 November 2003, being the last full trading day of the Company’s shares prior to the date of the announcement.

The 2003 Second Placing Shares were placed to not less than six placees. The placees and their respective ultimate beneficial owners are independent individuals, corporate and/or institutional investors who are not connected persons (as defined in the Listing Rules) of the Company. The placing agent is not a connected person (as defined in the Listing Rules) and does not own any shares of the Company. The 2003 Second Placing Shares represented approximately 20.0% of the then existing issued capital of the Company and approximately 16.7% of the Company’s then enlarged capital. The net proceeds from the placement amounted to approximately HK\$8.4 million of which HK\$4.0 million was used for the further repayment of the Easyknit Loan and the balance as general working capital.

The placement was completed in December 2003.

- (g) In March 2004, the Company underwent another capital reorganisation (the “Second Reorganisation”). Details of the Second Reorganisation are set out in the circular dated 10 February 2004 issued by the Company.

At the special general meeting of the Company held on 4 March 2004, resolutions approving the Second Reorganisation were passed and the following capital reorganisation took effect on 4 March 2004:

- (i) unissued shares of HK\$0.40 each in the authorised share capital of the Company were subdivided into four shares of HK\$0.10 each;
- (ii) nominal value of issued shares in the share capital of the Company was reduced from HK\$0.40 each to HK\$0.10 each (the “Second Capital Reduction”);
- (iii) authorised share capital of the Company was increased from HK\$300,000,000 to HK\$650,000,000 by the creation of an additional 3,500,000,000 shares of HK\$0.10 each; and

- (iv) the credit amount arising from the Second Capital Reduction was transferred to a capital reserve account of the Company where such amount may be applied in the future for distribution to the shareholders.
- (h) Rights issue of 297,505,700 shares of HK\$0.10 each at a subscription price of HK\$0.25 per rights share were allotted on 24 March 2004 to the shareholders of the Company in the proportion of five rights shares for every share then held. The net proceeds of the rights issue amounted to approximately HK\$73.2 million of which HK\$21,270,000 was used for repayment of the balance of the Easyknit Loan, HK\$50,000,000 for partial payment for the acquisition of the entire issued share capital of Po Cheong International Enterprises Limited (“Po Cheong”) from a wholly-owned subsidiary of Easyknit (see note 38(a)), and for general working capital purposes.

All shares issued rank *pari passu* with the then existing shares in issue in all respects.

27. SHARE OPTION SCHEMES

(a) Share option schemes of the Company:

On 21 August 1991, the Company approved a share option scheme (the “1991 Share Option Scheme”) which was terminated by an ordinary resolution of its shareholders at the annual general meeting held on 22 May 2001 but the subsisting options granted thereunder prior to its termination remain valid and exercisable in accordance with the terms of the 1991 Share Option Scheme.

On 22 May 2001, the Company approved a share option scheme (the “2001 Share Option Scheme”) which was terminated by an ordinary resolution of its shareholders at the annual general meeting held on 6 June 2002 but the subsisting options granted thereunder prior to the termination remain valid and exercisable in accordance with the terms of the 2001 Share Option Scheme.

On 6 June 2002, a new share option scheme (the “2002 Share Option Scheme”) was approved by the shareholders of the Company. Under the terms of the 2002 Share Option Scheme, the board of directors of the Company may, at their discretion, grant options to any employee (full-time and part-time), director, supplier, consultant or advisor of any member of the Group to subscribe for shares in the Company subject to the terms and conditions stipulated therein. No share options have been granted under the 2002 Share Option Scheme since its adoption.

The 2002 Share Option Scheme is for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

The maximum number of shares which may be issued under the 2002 Share Option Scheme must not (when aggregate with any shares subject to any other share option scheme of the Company) exceed 10% of the shares in issue at the date of adoption of the 2002 Share Option Scheme.

The maximum number of shares issuable under share options to each eligible participant in the 2002 Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant to share options in excess of this limit is subject to shareholders’ approval in a general meeting of the Company.

The exercise period of the share options granted is determined by the board of directors of the Company, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the option. The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

The exercise price in respect of any particular option of the 2002 Share Option Scheme may be determined by the board of directors of the Company in their absolute discretion and notified to each offeree but may not be less than the highest of (i) the closing price of the Company’s shares on the date of offer, which must be a business day; (ii) the average closing price of the Company’s shares for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Company’s shares on the date of offer.

The 2002 Share Option Scheme is valid during the period of 10 years commencing 6 June 2002, unless otherwise cancelled or amended.

A summary of the movements of share options granted during the fifteen months ended 31 March 2004 is as follows:

Grantee	Share option scheme	Date of grant	Exercise period	Exercise price HK\$ (note iii)	Number of share options (adjusted as appropriate)				At 31 March 2004	Share price at grant date of options HK\$ (note iv)
					At 1 January 2003	Reclassification	Adjustments*	Lapsed during the period		
Director	2001	31 August 2001 (note ii)	31 August 2001 to 30 August 2011	0.4032	25,000,000	(25,000,000)	—	—	—	0.50
Employees	1991	2 August 2000 (note i)	2 August 2001 to 1 August 2010	0.75	2,075,000	—	(245,000)	(1,830,000)	—	0.80
				20.00*	—	—	9,187	(1,687)	—	—
				3.333*	—	—	(7,500)	—	—	—
				3.333*	—	—	45,000	—	45,000	—
	1991	6 October 2000 (note i)	6 October 2001 to 5 October 2010	0.47	290,000	—	—	(290,000)	—	0.56
	1991	26 March 2001 (note i)	26 March 2002 to 25 March 2011	0.385	3,775,000	—	(275,000)	(3,500,000)	—	0.39
				10.267*	—	—	10,312	(937)	—	—
				1.711*	—	—	(9,375)	—	—	—
				1.711*	—	—	56,250	—	56,250	—
	2001	31 August 2001 (note i)	31 August 2002 to 30 August 2011	0.4032	7,068,000	—	(1,128,000)	(5,940,000)	—	0.50
				10.752*	—	—	42,300	(2,625)	—	—
				1.792*	—	—	(39,675)	—	—	—
				1.792*	—	—	238,050	—	238,050	—
	2001	31 August 2001 (note ii)	31 August 2001 to 30 August 2011	0.4032	—	25,000,000	(25,000,000)	—	—	0.50
				10.752*	—	—	937,500	—	—	—
				1.792*	—	—	(937,500)	—	—	—
				1.792*	—	—	5,625,000	—	5,625,000	—
					<u>38,208,000</u>	<u>—</u>	<u>(20,678,451)</u>	<u>(11,565,249)</u>	<u>5,964,300</u>	

* The number of share options and the corresponding exercise price have been adjusted as a result of share consolidation and rights issue of shares of the Company during the fifteen months ended 31 March 2004.

A summary of movements of share options granted during the year ended 31 December 2002 is as follows:

Grantee	Share option scheme	Date of grant	Exercise period	Exercise price HK\$ (note iii)	Number of share options			Share price at grant date of options HK\$ (note iv)	
					At 1 January 2002	Lapsed during the year	At 31 December 2002		
Director	2001	31 August 2001 (note ii)	31 August 2001 to 30 August 2011	0.4032	25,000,000	—	25,000,000	0.50	
Employees	1991	2 August 2000 (note i)	2 August 2001 to 1 August 2010	0.75	3,475,000	(1,400,000)	2,075,000	0.80	
	1991	6 October 2000 (note i)	6 October 2001 to 5 October 2010	0.47	1,540,000	(1,250,000)	290,000	0.56	
	1991	26 March 2001 (note i)	26 March 2002 to 25 March 2011	0.385	6,875,000	(3,100,000)	3,775,000	0.39	
	2001	31 August 2001 (note i)	31 August 2002 to 30 August 2011	0.4032	13,736,000	(6,668,000)	7,068,000	0.50	
					50,626,000	(12,418,000)	38,208,000		

Notes:

- (i) The vesting period is the period of three years after the date of grant. One-third of the share options become exercisable after 12 months from the date of grant, and after the subsequent 18 months, 24 months, 30 months and 36 months from the date of grant, further one-sixth of the options become exercisable.
- (ii) The vesting period is the period from the date of grant to six months after the date of grant. Half of the share options are exercisable from the date of grant and the remaining half becomes exercisable after 6 months from the date of grant.
- (iii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.
- (iv) The share price at grant date of options represents the closing price of the Company's shares as stated on the daily quotations sheets issued by the Stock Exchange on the trading day immediately preceding the date of grant of the options.

No share options have been granted or exercised during both accounting periods.

(b) Share option schemes of subsidiaries:

(i) *solution100 Corporation*

On 22 May 2001, solution100 Corporation, a wholly-owned subsidiary of the Company, adopted a share option scheme under which options to subscribe for shares in the share capital of solution100 Corporation may be granted to the qualifying persons from time to time subject to the terms and conditions stipulated therein. No share options have been granted under the share option scheme of solution100 Corporation since its adoption.

(ii) *i100 Wireless Corporation*

On 6 June 2002, i100 Wireless Corporation, a wholly-owned subsidiary of the Company, adopted a share option scheme pursuant to the then requirements of Chapter 17 of the Listing Rules and under which options to subscribe for shares in the share capital of i100 Wireless Corporation may be granted to the qualifying persons from time to time subject to the terms and conditions stipulated therein. No share options have been granted under the share option scheme of i100 Wireless Corporation since its adoption.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options in the period/year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

28. RESERVES**THE GROUP**

The capital reserve of the Group represents the credit arising from the reduction of share capital of the Company in March 2004 and can be applied in the future for distribution to the shareholders.

The contributed surplus of the Group represents the credit arising from the reduction of share capital of the Company in February 2003 which may then be utilised by the directors in accordance with the Company's Bye-laws and all applicable laws, including to fully eliminate the accumulated losses of the Company.

THE COMPANY

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	237,549	—	46,962	(248,926)	35,585
Premium arising from issue of new shares	17,481	—	—	—	17,481
Net loss for the year	—	—	—	(159,231)	(159,231)
At 31 December 2002	255,030	—	46,962	(408,157)	(106,165)
Premium arising from issue of new shares	61,344	—	—	—	61,344
Reduction of share capital and share premium upon capital reorganisations (see note 26)	(255,030)	17,850	354,198	—	117,018
Elimination of accumulated losses	—	—	(353,484)	353,484	—
Net loss for the period	—	—	—	(44,255)	(44,255)
At 31 March 2004	<u>61,344</u>	<u>17,850</u>	<u>47,676</u>	<u>(98,928)</u>	<u>27,942</u>

The capital reserve of the Company represents the credit arising from the reduction of share capital of the Company in March 2004 and can be applied in the future for distribution to the shareholders.

The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the fair value of the subsidiaries' shares acquired under the group reorganisation in August 1991 and the credit arising from the reduction of share capital of the Company in February 2003 which may then be utilised by the directors in accordance with the Company's Bye-laws and all applicable laws, including to fully eliminate the accumulated losses of the Company.

Under the laws in Bermuda, the contributed surplus account of a company is also available for distribution. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company has no reserves available for distribution at 31 March 2004 and 31 December 2002.

29. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

The amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. Repayment of the amounts will not be made by the Company within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current liabilities in the balance sheet.

30. ACQUISITION OF A SUBSIDIARY/SUBSIDIARIES

In December 2003, the Group acquired an additional interest of 45% of the issued share capital of Vector Entertainment Corporation ("Vector") for a cash consideration of approximately HK\$1.0 million. Vector was previously a jointly controlled entity of the Group in which the Group had a 45% equity interest amounting to HK\$954,000. Acquisition of the subsidiary was accounted for by the acquisition method of accounting.

	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	—	105
Inventories	—	52
Amounts due from shareholders	1,131	—
Trade and other receivables	—	436
Bank balances and cash	971	97
Trade and other payables	—	(672)
Minority interests	(209)	—
	<hr/>	<hr/>
	1,893	18
Goodwill on acquisition	104	485
	<hr/>	<hr/>
Total consideration	<u>1,997</u>	<u>503</u>

	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Satisfied by:		
Cash	1,043	500
Reclassification of interest in a jointly controlled entity	954	—
Shares allotted	—	3
	<u>1,997</u>	<u>503</u>
Net cash outflow arising on acquisition:		
Cash consideration paid	(1,043)	(200)
Bank balances and cash acquired	971	97
Net cash outflow of cash and cash equivalents in respect of the purchase of a subsidiary/subsidiaries	<u>(72)</u>	<u>(103)</u>

In August 2002, the consideration of HK\$502,500 for the acquisition of subsidiaries was satisfied by cash of HK\$500,000 and the issuance of 2,500 ordinary shares at par value of HK\$1 each of solution100 Limited, a subsidiary of the Company. Cash consideration of HK\$200,000 was paid upon completion of the acquisition in year 2002 and the remaining balance of HK\$300,000 was paid in the fifteen months ended 31 March 2004.

The subsidiary acquired during the period did not have any significant impact on the results and cash flows of the Group.

31. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS

In January 2003, the Group disposed of the entire issued shares in i100OnAir Limited, a then wholly-owned subsidiary of the Company, for a cash consideration of US\$1. In February 2004, the Group also disposed of the entire issued shares of Golden Throne Holdings Limited and Rainer Capital Limited which were then wholly-owned subsidiaries of the Company for a cash consideration of HK\$10.

	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	387	18,048
Investment properties	—	3,630
Long term investments	—	1,799
Inventories	—	20,736
Construction contracts	—	13,919
Trade and other receivables	443	35,153
Tax recoverable	—	323
Bank balances and cash	115	4,894
Loan from the Company	—	(53,000)
Trade and other payables	(404)	(31,360)
Bank borrowings other than bank overdrafts	—	(8,150)
Minority interests	—	(1,350)
	<u>541</u>	<u>4,642</u>

	1.1.2003 to 31.3.2004 <i>HK\$'000</i>	1.1.2002 to 31.12.2002 <i>HK\$'000</i>
Exchange reserve realised on disposal of subsidiaries	(2)	—
Loss on disposal of subsidiaries/discontinued operations	(539)	(4,615)
Negative goodwill released from goodwill reserve	<u>—</u>	<u>(27)</u>
Total consideration	<u>—</u>	<u>—</u>
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	<u>(115)</u>	<u>(4,894)</u>

The subsidiaries disposed of during the period did not contribute to the Group's turnover but incurred loss from operations of approximately HK\$982,000.

Details of the subsidiaries disposed of in year 2002 are disclosed in notes 8(a) and 8(b).

32. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation <i>HK\$'000</i>	THE GROUP Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002			
— as previously reported	—	—	—
— adjustment on adoption of SSAP 12 (Revised)	<u>791</u>	<u>(791)</u>	<u>—</u>
— as restated	791	(791)	—
(Credit) charge to income statement for the year	<u>(432)</u>	<u>432</u>	<u>—</u>
At 31 December 2002	359	(359)	—
(Credit) charge to income statement for the period	(389)	389	—
Effect of change in tax rate	<u>34</u>	<u>(34)</u>	<u>—</u>
At 31 March 2004	<u>4</u>	<u>(4)</u>	<u>—</u>

For the purposes of balance sheet presentation, the above deferred tax liabilities and assets have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	THE GROUP	
	31.3.2004	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax liabilities	4	359
Deferred tax assets	<u>(4)</u>	<u>(359)</u>
	<u>—</u>	<u>—</u>

At the balance sheet date, deductible temporary differences not recognised in the financial statements were analysed into:

	THE GROUP	
	31.3.2004	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax losses	189,674	166,531
Others	<u>2,179</u>	<u>2,155</u>
	<u>191,853</u>	<u>168,686</u>

No deferred tax asset has been recognised in respect of such deductible temporary differences due to the unpredictability of future profit streams. The tax losses at 31 March 2004 and 31 December 2002, which amounted to approximately HK\$4,105,000 and HK\$15,371,000 respectively, can only be carried forward for a maximum period of five years, other losses may be carried forward indefinitely.

The Company has unrecognised tax losses at 31 March 2004 and 31 December 2002. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

33. PLEDGE OF ASSETS

THE GROUP

At 31 March 2004, the entire issued share capital of i100 Wireless Corporation has been pledged to an outside party to secure the other loan of HK\$4,000,000 (see also notes 25 and 38(b)). There was no similar arrangement at 31 December 2002.

34. CONTINGENT LIABILITIES

THE GROUP AND THE COMPANY

	31.3.2004	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Corporate guarantees given to banks in respect of credit facilities granted to ALOH and its subsidiaries	<u>—</u>	<u>87,100</u>

35. CAPITAL COMMITMENTS

THE GROUP

	31.3.2004	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of:		
— acquisition of property, plant and equipment	9,923	—
— acquisition of the entire issued share capital of Po Cheong (see note 38(a))	65,000	—
— capital injection for interests in jointly controlled entities and non wholly-owned subsidiaries	<u>20,904</u>	<u>24,238</u>
	<u>95,827</u>	<u>24,328</u>

The Company had no significant capital commitments at the balance sheet date.

36. OPERATING LEASE ARRANGEMENTS

THE GROUP

	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payments recognised in the consolidated income statement during the period/year	<u>1,855</u>	<u>6,831</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	31.3.2004	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	654	911
In the second to fifth year inclusive	1,695	—
Over five years	<u>2,870</u>	<u>—</u>
	<u>5,219</u>	<u>911</u>

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for lease terms ranging from two to ten years.

Under the leases entered into by the Group, the lease payments are fixed and no arrangements have been entered into for contingent rental payments.

The Company had no significant lease commitments at the balance sheet date.

37. RETIREMENT BENEFITS SCHEMES

The Group operates defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer’s monthly contributions are calculated at 5% of the employee’s monthly salaries or up to a maximum of HK\$1,000 (the “mandatory contributions”). The employees are entitled to 100% of the employer’s mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Prior to the MPF Scheme becoming effective, the Group operates a defined contribution retirement benefits scheme (the “ORSO Scheme”) under the Occupational Retirement Schemes Ordinance, for those employees who were eligible to participate. The ORSO Scheme operates in a similar way to the MPF Scheme, except that when an employee leaves the ORSO Scheme before his/her interest in the Group’s employer contributions vesting fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited contributions. With effect from 1 December 2000, the Group operates both schemes and those employees who are not eligible to participate in the ORSO Scheme are eligible to participate in the MPF Scheme.

The assets of both schemes are held separately from those of the Group in independently administered funds.

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the period/year. The employers' contributions which have been dealt with in the income statement of the Group were as follows:

	THE GROUP	
	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Employers' contributions charged to the consolidated income statement	<u>410</u>	<u>1,034</u>

At the balance sheet date, there was no forfeited contributions available to reduce the contributions payable in the future years.

38. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 March 2004:

- (a) As announced by the Company on 5 March 2004, the Group conditionally agreed to purchase the entire issued shares of Po Cheong from a wholly-owned subsidiary of Easyknit at a consideration of HK\$65,000,000. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The consideration shall be satisfied in cash, of which HK\$50,000,000 was paid on 13 May 2004 and the remaining balance of HK\$15,000,000 shall be payable after finalisation of the adjustment (as described in the circular of the Company dated 23 April 2004) in the mid of 2005. Details of the above are set out, inter alia, in the circular of the Company dated 23 April 2004.

At the special general meeting of the Company held on 10 May 2004, resolutions approving the acquisition of Po Cheong were passed.

- (b) On 25 June 2004, the Group entered into a settlement agreement with the lender of the other loan (see note 25) for the full settlement of the loan of HK\$4,000,000 and accrued interest of HK\$511,000 (up to the date of the agreement) by way of transferring all the issued shares of i100 Wireless Corporation to the lender. i100 Wireless Corporation and its subsidiaries are principally engaged in the wireless communication business. Details of the above are set out in the announcement dated 14 July 2004 issued by the Company.

Financial Summary

RESULTS

	Year ended 31 December				1.1.2003 to
	1999	2000	2001	2002	31.3.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>449,123</u>	<u>247,003</u>	<u>198,134</u>	<u>70,354</u>	<u>5,083</u>
Profit (loss) before taxation	5,945	(130,111)	(119,299)	(191,293)	(57,737)
Taxation (charge) credit	<u>(1,661)</u>	<u>(3,056)</u>	<u>570</u>	<u>309</u>	<u>—</u>
Profit (loss) before minority interests	4,284	(133,167)	(118,729)	(190,984)	(57,737)
Minority interests	<u>(8)</u>	<u>587</u>	<u>269</u>	<u>(440)</u>	<u>—</u>
Net profit (loss) for the year/period	<u>4,276</u>	<u>(132,580)</u>	<u>(118,460)</u>	<u>(191,424)</u>	<u>(57,737)</u>

ASSETS AND LIABILITIES

	At 31 December				At 31
	1999	2000	2001	2002	March
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	2004
Total assets	193,981	306,387	167,124	19,868	69,134
Total liabilities	(57,416)	(59,783)	(39,442)	(8,149)	(11,069)
Minority interests	<u>(8)</u>	<u>(1,437)</u>	<u>(829)</u>	<u>—</u>	<u>(209)</u>
Shareholders' funds	<u>136,557</u>	<u>245,167</u>	<u>126,853</u>	<u>11,719</u>	<u>57,856</u>

4. INDEBTEDNESS

At the close of business on 31 December 2004, being the latest practicable date for ascertaining this indebtedness prior to the printing of this circular, the Group had in aggregate outstanding bank loans of approximately HK\$47.90 million of which HK\$25 million were guaranteed personally by a Director. In addition, the Group had outstanding at that date interest payable in respect of the above bank loans of approximately HK\$0.08 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have at the close of business on 31 December 2004 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

5. WORKING CAPITAL

Taking into account the financial and trading prospects for the Group discussed in the section headed “Financial and trading prospects of the Group” set out on page 10 of this circular, the Directors are of the opinion that, with the internal resources and existing banking facilities available, the Group has sufficient working capital for its day to day operations for a period of at least 12 months commencing from the date of this circular.

6. MATERIAL ADVERSE CHANGE

Apart from the acquisition of the entire issued share capital of Po Cheong International Enterprises Limited as disclosed in the unaudited interim results for the six months ended 30 September 2004 of the Group, as set out on page 21, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 March 2004, the date to which the latest published audited consolidated financial statements were made up.

7. BUSINESS REVIEW OF THE GROUP

Set out below are the reproduction of the “management discussion and analysis” section of the Group for the two years ended 31 December 2001 and 31 December 2002 and the 15 months ended 31 March 2004 contained in the Company’s annual reports for the corresponding years/period.

For the year ended 31 December 2001

Financial review

Revenue

Turnover of the Group was HK\$198 million, a 20% decrease from the previous year. The decrease in revenue was due to a continuing lethargic real estate market and the resulting reduction in sanitary engineering.

Gross Margin

Gross margins decreased to 14%, compared to 22.5% in the previous year, primarily due to an overall drop in sales prices and changes in revenue mix. Prices for our sanitary products and engineering services were under great pressure due to tough competition in the market.

Operating Expenses

Operating expenses were HK\$157.6 million for fiscal 2001, compared to HK\$156.7 million for fiscal 2000. During the year, significant expenses were incurred in all facets of development work for our wireless data service. The total operating expenses for the Acme Landis Division and the non-Acme Landis Division were HK\$73.1 million and HK\$84.5 million respectively, for fiscal 2001.

During the year, a director of the Acme Landis Division, who is also a director of the Company, received remuneration of HK\$5.3 million, HK\$3.5 million of which was related to his current and prior years' services.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2001, the total shareholders' equity of the Group was approximately HK\$126.9 million, a decrease of 48.3% over that as at 31 December 2000. At the balance sheet date, the cash and cash equivalents stood at HK\$32.7 million. The Group's cash is primarily in Hong Kong and US dollars, and placed in leading commercial banks as time deposits with various maturities. Bank borrowings amounted to HK\$4.3 million, a decrease of 72.2% over that of the previous year. The borrowings are all short-term bank loans. The gearing ratio of the Group, calculated by total interest bearing debts divided by shareholders' equity at the balance sheet date, was 3.4%. During the year, the Group acquired the business of Shanghai Cyberway CompuComm Limited for a consideration of HK\$454,000 which was satisfied by the issuance of 873,000 ordinary shares of the Company. The net assets acquired were approximately RMB1.2 million.

Charges on Group Assets

As at balance sheet date, certain leasehold land and buildings of the Group with an aggregate carrying value of HK\$13,900,000 were pledged to certain banks to secure banking facilities granted to the Group.

Contingent Liabilities

The Company's contingent liabilities amounted to HK\$87.1 million at the balance sheet date, compared to HK\$107.1 million in 2000. These contingent liabilities are corporate guarantees given to secure general banking facilities granted to subsidiaries.

Employees and Remuneration Policies

As at 31 December 2001, the Group employed approximately 215 full time management, technical and administrative staff in Hong Kong and in elsewhere in the People's Republic of China (the "PRC"). Among the total, 166 were in the Acme Landis Division. The Group remunerates its employees based on their performance, experience and prevailing industry standards. The Group has a share option scheme to motivate valued employees.

*Review of operations**solution100*

solution100 has continued to build alliances with leading companies from around the world in order to distribute their products and services, with added value, in the Greater China market. These include digital video recording solutions from Canada and innovative wireless security products from the United States. This business brings an immediate income to the company and continues to be part of a dual-pronged strategy in 2002.

However, solution100's current main business focus is in the provision of multimedia platforms. The company will build on existing software application design, implementation and service expertise to build an integrated multimedia platform that incorporates voice portal applications, next generation video streaming and a full messaging and data product portfolio. This strategy will provide solution100 with a solid revenue stream in the longer term. The company believes that by delivering a complete and cutting-edge foundation platform for businesses in this rapidly growing sector, solution100 can become a leading applications provider in the region.

Given the world market situation and the company's expertise and experience, solution100 continues to focus primarily on Hong Kong and China, whilst also sourcing partnerships to leverage expansion into other lucrative markets.

Joint Venture with The Leadcorp (formerly known as "Dong Teuk")

In June 2001, the Group announced Korean wireless leader The Leadcorp's 8% strategic equity investment in the Company and that the Group and The Leadcorp were to incorporate and unify their respective wireless entertainment businesses.

By pooling together the expertise of both companies, the Group and The Leadcorp are now strategically positioned to lead in wireless entertainment. The Group contributes its experience in wireless technology and telecommunications solutions, whereas The Leadcorp leverages its expansive network in Korea to identify and source game publishers, supported by its unique wireless entertainment expertise, and Korea's leading position in the worldwide wireless industry. This is a perfect partnership for meeting the expectations of the rapidly growing global market for wireless entertainment connectivity.

Together, the Group and The Leadcorp have already formed alliances with two major Korean wireless entertainment companies, Toysoft and Nazca. We are now working to aggregate and distribute games from these Korean companies, in addition to globally sourced games, throughout the China market.

Wireless Data Service

Throughout the year, the Group has worked to build a GPRS-driven and entertainment focused wireless data service for launch in 2002. The key principle of the service is that it fits perfectly with

our target audience's mobile lifestyle, and as such, building partnerships with a variety of international content providers has played a central role in this year's efforts. So far, a large plethora of content partnerships have been secured. The partnerships offer content breadth and depth, but above all, are immediately attractive to people "on the move".

We have also formed partnerships with leading wireless games companies from Europe, Korea and Taiwan, and are now able to incorporate their proven games into our wireless service as well as working with major telecommunication carriers towards exclusive deployment in China. In addition, we have developed unique wireless applications, including instant messaging, that provide a platform to generate interactive mobile communities, and we are now looking to develop advanced multimedia messaging services.

The partnerships we have formed, as well as marketing and technical expertise, guarantee a perfect fit with our target audience's mobile needs and we look forward to a successful launch.

Legacy Businesses

Although daily operations of Ask100 and OnAir100 have already been scaled down significantly, the Group has fully utilised their resources by redirecting them into the new wireless data venture. The subscriber databases, community base, content links and technical expertise of the team have been put to full use in the company's wireless data and entertainment initiatives.

Acme Landis

The Acme Landis business suffered negative growth in turnover and consequently higher losses were recorded. 2002 is the first synchronized global profits recession in over a decade. As a result, all divisions in the business reported lower sales, with sanitary ware and engineering departments being more markedly affected. The Hong Kong economy, in which a large percentage of the business depends, continued to deflate and the lack of pricing power is reflected in lowering margins both in the domestic wholesale business as well as in the engineering business.

Looking to 2002, the domestic deflationary pressures appear to be abating slowly, and with this, the likelihood of an increase in local demand, both in residential flats, as well as in the wholesale market of sanitary ware, is improved. However, as the Hong Kong economy has suffered a number of "false dawns" in the past, the directors remain extremely cautious regarding a sustainable rebound in demand for this coming year.

For the year ended 31 December 2002

Financial review

Revenue

Turnover of the Group was HK\$70 million, a 64% decrease from the previous year. The decrease in revenue was due to the disposal of the Group's entire shareholding in (i) Acme Sanitary Engineering Company Limited, which is engaged in the business of the provision of drainage, plumbing and

engineering contracting services, on 4 May 2002 and (ii) Acme Landis Operations Holdings Limited, which is engaged in the business of trading of sanitary fixtures and fittings and a range of hardware, industrial and consumer products, on 29 May 2002. Save for the disposal of Acme Landis business disclosed above, there is no change in market segment. It is the Group's strategy to concentrate on its wireless communication business. There are no material changes in other industry segment nor material developments within the segment other than wireless communication business.

Gross Margin

Gross margin increased to 26%, compared to 14% in the previous year, primary due to an overall increase in gross margin from Acme Sanitary Engineering Company Limited and Acme Landis Operations Holdings Limited before the disposals in May 2002.

Operating expenses

The Group's loss was HK\$191.4 million which included provision of HK\$42.1 million for a loan to Acme Landis Operations Holdings Limited ("Acme Landis"), provision of HK\$14.2 million for loans to an associate, impaired goodwill of an associate of HK\$48.8 million, loss on discontinued operations of HK\$4.6 million, impairment loss of fixed assets of HK\$0.8 million, provision for bad debts of HK\$6.1 million (net) and share of loss of an associate of HK\$14.0 million. The outstanding loan balance due from Acme Landis as at 31 December 2002 was HK\$45.8 million which is secured by a pledge in respect of 76 million shares of the Company. On prudence basis, provision of HK\$42.1 million is made to reflect the market value of the pledged shares as at 31 December 2002. The provision of HK\$14.2 million for loans to an associate is made because the proposed listing exercise of that associate is delayed. Loans were advanced to that associate mainly for its working capital requirements. Full provision is made because that associate has limited tangible assets and is unlikely to have sufficient funding to repay the outstanding amount in the near future. An impairment of goodwill on acquisition of an associate which was previously eliminated against consolidated reserves was recognized amounting to HK\$48.8 million in the fiscal 2002. The Group has the opinion that the associate is unlikely to generate sufficient profit and cashflow in the near future to match with the related goodwill because the proposed listing exercise of one of the subsidiary of that associate was delayed. The loss on discontinued operations of HK\$4.6 million arose from the disposal of Acme Landis Division in May 2002. Impairment loss of fixed assets of HK\$0.8 million was for furniture, fixtures, and equipment. The net provision of bad debt of HK\$6.1 million included a provision for bad debt of HK\$7.2 million which was made for other receivables because the debtor requested a change of selling price after the transaction was completed and the Group refused. Full provision is made on prudence basis. The share of loss of an associate of HK\$14.0 million was related to an associate which the Group owns 49%.

The Group has capital commitments of HK\$24.2 million related to the Group's interests in jointly-controlled entities and non-wholly-owned subsidiaries. Save as disclosed above, the Group has no other plans for material investments or capital assets, except for the Group's development of the wireless business.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2002, the total shareholders' equity of the Group was approximately HK\$11.7 million, a decrease of 90.8% over that as at 31 December 2001. At the balance sheet date, the cash and cash equivalents stood at HK\$1.8 million. The Group's cash is primarily in Hong Kong and US Dollars, and placed in leading commercial banks as time deposits with various maturities. There was no bank borrowing as at the balance sheet date, compared with that of HK\$4.3 million last year. The Group has no material exposure to fluctuations in exchange rates and any related hedges.

During the year, the group acquired the business of Digital Empires Company Limited for a consideration of HK\$502,500 which was satisfied by the issuance of 2,500 ordinary shares of solution100 Limited of HK\$1 each, a wholly-owned subsidiary of the Company, and cash of HK\$500,000. The consolidated net assets acquired were approximately HK\$18,000.

Charges on Group Assets

There was no charge on the Group's assets as at 31 December 2002.

Contingent Liabilities

As at 31 December 2002, the Group had contingent liabilities of approximately HK\$87.1 million in respect of bank guarantees given to secure banking facilities granted to certain subsidiaries which were disposed of by the Group in May 2002. Such guarantees were released by the relevant banks subsequent to the close of business on 31 December 2002. There are no other contingent liabilities of the Group.

Employees and Remuneration Policies

As at 31 December 2002, the Group employed approximately 80 full time management, technical and administrative staff in Hong Kong and elsewhere in the People's Republic of China (the "PRC"). The Group remunerates its employees based on their performance, experience and prevailing industry standards. The Group has a share option scheme to motivate valued employees.

Placing of New Shares

On 4 June 2002, the Group announced that i100 Capital Corporation, a substantial shareholder of the Company, placed 124 million shares of the Company to more than six independent professional and/or institutional investors at a price of HK\$0.3 per share ("Placing Price"). The Placing Price represented a discount of approximately 24.1% to the closing price of HK\$0.395 per share on 3 June 2002.

On the same date, i100 Capital Corporation agreed to subscribe for 100 million new shares issued by the Company at the price equal to the Placing Price less all expenses incurred in connection with the private placement. The new shares issued represented approximately 10% of the Group's issued

share capital immediately before the private placement and approximately 9.1% of the enlarged issued share capital. The net proceeds of the subscription of approximately HK\$29 million were used for development in wireless data service and as general working capital of the Group. All shares issued rank pari passu with the existing shares in issue in all respects.

Review of operations

solution100

The Group has redirected the extensive technological and market expertise of its wireless solutions arm, solution100, to support the wireless data service. This is a contingency tactic for solution100, as its traditional business environment remains subdued from reduced corporate IT spending.

Wireless Data Service

The Group's wholly-owned subsidiary, i100 Wireless (Hong Kong) Limited, is principally engaged in the provision of a branded wireless data services as a full service mobile operator using MVNO (Mobile Virtual Network Operator) business structure in Hong Kong. The key principle of the service is a GPRS-driven and entertainment focus wireless data service supported by international content providers, leading wireless games companies and major telecommunication carriers that fits with our target audience's mobile lifestyle. We believe the future of the mobile data business remains promising and we will continue to strive to become a leader in this market.

Legacy Businesses

Resources from legacy business Ask100 and OnAir100 continue to be adapted and utilized to develop the wireless data business. The subscriber data base, community base, content links and technical expertise of the team have been put to full use in Wireless data services.

Acme Landis

The Acme Landis business, which is engaged in the business of the provision of drainage, plumbing and engineering contracting services, trading of sanitary fixtures and fittings and a range of hardware, industrial and consumer products, suffered negative growth in turnover and consequently higher losses were recorded. The Group sold its entire shareholding in Acme Landis in May 2002.

For the 15 months ended 31 March 2004

Financial results

The Group's turnover and net loss for the fifteen months ended 31 March 2004 were approximately HK\$5,083,000 (for the year ended 31 December 2002: approximately HK\$70,354,000) and approximately HK\$57,737,000 (for the year ended 31 December 2002: approximately HK\$191,424,000), respectively, representing a decrease of approximately 92.8% and approximately 69.8% respectively when compared to the year ended 31 December 2002.

The decrease in turnover was mainly due to the disposal of the Group's entire shareholding in (i) Acme Sanitary Engineering Company Limited ("Acme Sanitary"), formerly a wholly-owned subsidiary of the Company which was engaged in the business of the provision of drainage, plumbing and engineering contracting services, on 4 May 2002 and (ii) Acme Landis Operations Holdings Limited ("Acme Landis"), formerly a wholly-owned subsidiary of the Company which was engaged in the business of trading of sanitary fixtures and fittings and a range of hardware, industrial and consumer products, on 29 May 2002.

The Group's net loss for the fifteen months ended 31 March 2004 amounted to approximately HK\$57,737,000 which includes impairment loss recognised in respect of long term investments of approximately HK\$3,900,000 and impairment loss recognised in respect of property, plant and equipment of approximately HK\$9,971,000. The Group's operating expenses for the period under review were approximately HK\$38,962,000 compared to approximately HK\$81,116,000 for the year ended 31 December 2002 and the decrease was mainly due to the disposal of Acme Sanitary and Acme Landis.

Business review

During the fifteen months ended 31 March 2004, the Group was principally engaged in wireless communication business, provision of communication solutions consultancy services and internet operations.

During the period under review, the Company's former wholly-owned subsidiary, i100 Wireless (Hong Kong) Limited, was engaged in the provision of a branded wireless data services in Hong Kong. The key principal service was a GPRS (general packet radio service)-driven and entertainment focused wireless data service supported by international content providers, leading wireless games companies and major telecommunication carriers that accommodated the lifestyle of the Group's target users.

The Group launched its 2.5G MVNO (mobile virtual network operator) business in October 2002, under the trade name Noodle. Noodle's technical platform was based on GPRS, the most popular 2.5G data technology used in Hong Kong. It offered its customers a wide array of mobile content such as games, up-to-date news, horoscopes, sports and other entertainment topics. Noodle mainly targeted the younger market for its services.

In June 2003, Noodle transferred all the active customer accounts of its 2.5G MVNO business to SUNDAY. Hence, i100 Wireless (Hong Kong) Limited became a content provider to SUNDAY. However, the wireless communication business still suffered from huge losses.

Prospects

The general economic climate affected the mobile communication business of the Group in Hong Kong. The Group will continue to streamline its operation in this business segment.

After the completion of the Po Cheong Acquisition (as defined in the section headed "Significant Corporate Events" below) on 17 May 2004, the bleaching and dyeing business of Po Cheong and its subsidiary is expected to contribute positively to the Group's profitability.

The Group will continue to explore potential investment projects or businesses with a view to diversify and expand its source of income.

Significant corporate events

On 28 January 2003, Easyknit, through its wholly-owned subsidiary, Landmark Profits Limited, acquired approximately 55.27% equity interest of the Company and subsequently made a mandatory general offer for the shares that it did not own. The general offer resulted in Easyknit holding approximately 55.30% equity interest of the Company as at 14 April 2003. A series of disposal of the Company's shares in June 2003 brought Easyknit's interest in the Company down to approximately 51.73% as at 30 June 2003.

As a result of the capital reorganisation which came into effect on 10 February 2003, the then issued share capital of the Company was reduced from HK\$110,187,300 to HK\$11,018,730 comprising 1,101,873,000 shares of HK\$0.01 each.

On 8 September 2003, every 40 issued and unissued shares of the Company of HK\$0.01 each were consolidated into one consolidated share of HK\$0.40 each. Immediately following the share consolidation, the share capital of the Company comprised 27,546,825 issued shares of HK\$0.40 each and 722,453,175 unissued shares of HK\$0.40 each.

On 25 September 2003, the Company issued 13,773,412 rights shares at a price of HK\$1.00 per rights share (the "First Rights Issue") and raised net proceeds of approximately HK\$13,300,000 for general working capital purposes.

On 17 November 2003, 8,264,047 shares of HK\$0.40 each were issued and allotted by the Company at a price of HK\$0.865 per placing share by way of placing (the "First Placing"). The net proceeds of the First Placing were approximately HK\$6,900,000 of which HK\$5,000,000 has been used for partial repayment of an unsecured interest-bearing loan of HK\$30,270,000 ("Easyknit Loan") extended by Planetic International Limited (a wholly owned subsidiary of Easyknit) to the Group in February 2003 and approximately HK\$1,900,000 are used as general working capital.

On 22 December 2003, the Company issued and allotted 9,916,856 shares of HK\$0.40 each at a price of HK\$0.865 per placing share by way of placing (the "Second Placing"). Out of the net proceeds of the Second Placing of approximately HK\$8,400,000, HK\$4,000,000 has been used for partial repayment of Easyknit Loan. The remaining net proceeds of approximately HK\$4,400,000 are for general working capital purposes.

As a result of the First Rights Issue, the First Placing and the Second Placing, the then issued share capital of the Company were increased to HK\$23,800,456 comprising 59,501,140 shares of HK\$0.40 each. Subsequent to the completion of the First Placing and the Second Placing, Easyknit's interest in the Company has been diluted to approximately 35.93% of the then issued share capital of the Company.

With effect from 19 November 2003, the name of the Company has been changed from “i100 Limited” to “Asia Alliance Holdings Limited” and the Chinese name “亞洲聯盟集團有限公司” has been adopted by the Company for identification purposes.

On 4 March 2004, the then issued share capital of the Company was reduced to HK\$5,950,114 consisting of 59,501,140 shares of HK\$0.10 each and the authorised share capital of the Company was increased to HK\$650,000,000 comprising 6,500,000,000 shares of HK\$0.10 each.

On 24 March 2004, the Company raised approximately HK\$73,200,000 (net of expenses) by way of the rights issue of 297,505,700 rights shares at a price of HK\$0.25 per rights share on the basis of five rights shares for every share held (the “Second Rights Issue”). Out of such proceeds, approximately HK\$22,000,000 has been used to repay the Easyknit Loan and the remaining balance of approximately HK\$51,000,000 has been applied for partial payment in respect of the Po Cheong Acquisition (as defined below). As a result of the Second Rights Issue, the issued share capital of the Company has been increased to HK\$35,700,684 comprising 357,006,840 shares of HK\$0.10 each.

On 17 May 2004, the acquisition of the entire issued share capital of Po Cheong International Enterprises Limited (“Po Cheong”) at a total consideration of HK\$65,000,000 (subject to adjustment) (the “Po Cheong Acquisition”) by Best Ability Limited, a wholly-owned subsidiary of the Company, from Easyknit International Trading Company Limited, a wholly-owned subsidiary of Easyknit, was completed and Po Cheong has become a wholly-owned subsidiary of the Company. Po Cheong and its subsidiary are principally engaged in the business of bleaching and dyeing.

On 15 June 2004, the Company entered into an agreement (the “Agreement”) with each of Mr. Louie Tsz Chung and Ms. Koon Po Fun, pursuant to which, amongst other things, the Group has agreed to sell fabrics and provide bleaching and dyeing services to the companies controlled by Mr. Louie Tsz Chung/companies controlled by Ms. Koon Po Fun respectively for the period from 17 May 2004 to 31 March 2007 subject to respective caps. The respective transactions (the “Ongoing Connected Transactions”) contemplated under the Agreement with each of Mr. Louie Tsz Chung and Ms. Koon Po Fun constitute non-exempt continuing connected transactions of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and are subject to reporting and independent shareholders’ approval at the special general meeting of the Company to be held on 25 August 2004. Details of the Ongoing Connected Transactions are set out in the circular of the Company dated 26 July 2004.

On 25 June 2004, Coplestone Limited (“Coplestone”), a wholly owned subsidiary of the Company, and Arco Consulting Inc. (“Arco”), a third party independent of the Company, entered into a settlement agreement (the “Settlement Agreement”). Pursuant to the Settlement Agreement, inter alia, the facility agreement entered into on 6 January 2003 between Coplestone as borrower and Arco as lender relating to a term loan facility of up to HK\$4,000,000 (the “Facility Loan”) secured by all the shares in the share capital of i100 Wireless Corporation held by Coplestone was terminated and Coplestone transferred the entire issued share capital of i100 Wireless Corporation to Arco. The disposal of i100 Wireless Corporation constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Details of the Settlement Agreement and the disposal of i100 Wireless Corporation are set out in the announcement of the Company dated 14 July 2004.

Liquidity and financial resources

During the period under review, the Group obtained the Easyknit Loan of HK\$30,270,000 which has been fully repaid in March 2004 and the Facility Loan of HK\$4,000,000. Both loans bore interest at market rate and were repayable on demand. The Group's total borrowings at 31 March 2004 were HK\$4,000,000. During the period under review, the Group raised aggregate net proceeds of approximately HK\$101,800,000 from the First Rights Issue, the First Placing, the Second Placing and the Second Rights Issue. As at 31 March 2004, the remaining balance of the net proceeds was approximately HK\$65,856,000. During the fifteen months ended 31 March 2004, the Group's operation was mainly financed by the Easyknit Loan, the Facility Loan and the net proceeds of the aforesaid fund raising exercises.

As at 31 March 2004, the Group had net current assets of approximately HK\$56,997,000 (net current liabilities as at 31 December 2002: approximately HK\$3,521,000) and cash and cash equivalents of approximately HK\$66,131,000 (31 December 2002: approximately HK\$1,822,000). The Group's cash is primarily in Hong Kong and US dollars and placed in leading commercial banks as time deposits with various maturities.

As at 31 March 2004, the Group had a gearing ratio of 6.9%. The gearing ratio is calculated on the basis of the Group's total borrowings of HK\$4,000,000 over the shareholders' fund of HK\$57,856,000. As the Group had no borrowings as at 31 December 2002, no gearing ratio of the Group is presented at 31 December 2002.

The directors believe that the Group has sufficient working capital for its operations.

Exposure to fluctuations in exchange rates and related hedges

As at 31 March 2004, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

Capital structure

The Group had no debt securities or other capital instruments as at 31 March 2004 and up to the date of this report.

Material acquisitions and disposals

Save as the Po Cheong Acquisition as set out in "Significant Corporate Events" above, the Group had no material acquisitions and disposals of subsidiaries or associates during the fifteen months ended 31 March 2004.

Charges on Group assets

As at 31 March, 2004, the Facility Loan of HK\$4,000,000 from an independent third party was secured by all the issued shares of i100 Wireless Corporation, a former wholly-owned subsidiary of the Company.

Capital expenditure

During the fifteen months ended 31 March 2004, the Group spent approximately HK\$12,125,000 on acquisition of property, plant and equipment.

Contingent liabilities

As at 31 March 2004, the Group did not have any contingent liabilities.

Significant investment

As at 31 March 2004, the Group did not have any significant investment held or any significant investment plans.

Employees and remuneration policies

As at 31 March 2004, the Group employed approximately 29 full time management, technical and administrative staff in Hong Kong and elsewhere in the People's Republic of China. Employees' cost (including directors' emoluments) amounted to approximately HK\$12,737,000 for the period under review. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has share option schemes to motivate valued employees.

**APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE GROUP

The Unaudited Pro Forma Net Assets Statement of the Group has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Acquisition and the payment of deposit for the Construction on the assets and liabilities of the Group on the assumption that the Acquisition and the payment of deposit for the Construction had taken place on 30 September 2004.

The Unaudited Pro Forma Net Assets Statement of the Group is based on the unaudited consolidated balance sheet of the Group as at 30 September 2004, which has been extracted from the Interim Report of the Company for the six months ended 30 September 2004, adjusted for the transaction resulting from the Acquisition and the payment of deposit for the Construction. A narrative description of the unaudited pro forma adjustments of the Acquisition and the payment of deposit for the Construction that are (i) directly attributable to the Acquisition and the payment of deposit for the Construction; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, are summarised in the accompanying notes.

The Unaudited Pro Forma Net Assets Statement of the Group is based on a number of assumptions, estimates and uncertainties. The accompanying Unaudited Pro Forma Net Assets Statement of the Group does not purport to describe the actual financial position of the Group that would have been attained had the Acquisition and the payment of deposit for the Construction been completed. The Unaudited Pro Forma Net Assets Statement of the Group does not purport to predict the future financial position of the Group.

The Unaudited Pro Forma Net Assets Statement of the Group should be read in conjunction with the historical financial information of the Group as set out in the Interim Report of the Company for the six months ended 30 September 2004 and other financial information included elsewhere in this circular.

	The Group as at 30 September 2004 HK\$'000	Pro forma adjustments HK\$'000	<i>Notes</i>	Pro forma balance HK\$'000
Non-current assets				
Property, plant and equipment	24,998	10,000	a	34,998
Deposit for the Construction	—	15,000	b	15,000
Goodwill	47,523	—		47,523
Loan to Acme Landis Operations Holdings Limited	<u>205</u>	<u>—</u>		<u>205</u>
	<u>72,726</u>	<u>25,000</u>		<u>97,726</u>

	The Group as at 30 September 2004 HK\$'000	Pro forma adjustments HK\$'000	<i>Notes</i>	Pro forma balance HK\$'000
Current assets				
Inventories	3,469	—		3,469
Trade and other receivables	26,476	—		26,476
Bank balances and cash	<u>4,128</u>	<u>—</u>	a, b & c	<u>4,128</u>
	<u>34,073</u>	<u>—</u>		<u>34,073</u>
Current liabilities				
Trade and other payables	12,224	—		12,224
Bills payable	895	—		895
Amount due to a related company	121	—		121
Import loans	686	—		686
Bank loans — amount due within one year	3,486	25,000	c	28,486
Consideration payable on acquisition of subsidiaries	<u>15,000</u>	<u>—</u>		<u>15,000</u>
	<u>32,412</u>	<u>25,000</u>		<u>57,412</u>
Net current assets (liabilities)	<u>1,661</u>	<u>(25,000)</u>		<u>(23,339)</u>
	<u>74,387</u>	<u>—</u>		<u>74,387</u>

	The Group as at 30 September 2004	Pro forma adjustments	<i>Notes</i>	Pro forma balance
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Capital and reserves				
Share capital	35,701	—		35,701
Reserves	<u>28,397</u>	<u>—</u>		<u>28,397</u>
	64,098	—		64,098
Non-current liabilities				
Bank loans — amount due after one year	<u>10,289</u>	<u>—</u>		<u>10,289</u>
	<u>74,387</u>	<u>—</u>		<u>74,387</u>

This statement has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group.

Notes:

- a. The adjustment reflects the Acquisition at a total consideration of approximately HK\$10,000,000 (inclusion of estimated related expenses of approximately HK\$527,804).
- b. The adjustment reflects a deposit of HK\$15,000,000 contracted for the Construction for treating waste water.
- c. The adjustment reflects a bank loan of HK\$25,000,000 raised to finance the Acquisition and the payment of deposit for the Construction. The loan is guaranteed personally by a Director, it bears interest at the prevailing market rate and is repayable within one year.



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Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

21 February 2005

The Directors
Asia Alliance Holdings Limited

Dear Sirs,

We report on the unaudited pro forma net assets statement (the “Unaudited Pro Forma Net Assets Statement”) of Asia Alliance Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out in Appendix II to the circular of the Company dated 21 February 2005 (the “Circular”) issued by the Company in connection with the very substantial acquisition, which has been prepared by the Directors of the Company (the “Directors”), for illustrative purpose only, to provide information about how the Acquisition and the payment of deposit for the Construction might have affected the relevant assets and liabilities of the Group.

Responsibilities

It is solely the responsibility of the Directors to prepare the Unaudited Pro Forma Net Assets Statement of the Group in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Net Assets Statement of the Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Net Assets Statement of the Group beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Net Assets Statement of the Group with the Directors.

**APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and, accordingly, we do not express such assurance on the Unaudited Pro Forma Net Assets Statement of the Group.

The Unaudited Pro Forma Net Assets Statement of the Group has been prepared on the basis set out in Appendix II to the Circular for illustrative purpose only and, because of its nature, it may not be indicative of the financial position as at 30 September 2004 or at any future date.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Net Assets Statement of the Group has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Net Assets Statement of the Group as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a letter, a summary of valuation and valuation certificate, prepared for the purpose of inclusion in the circular to shareholders issued by the Company, received from Merryshine Surveyors Limited, an independent property valuer, in connection with its valuation on the property interests as at 31 December 2004.

MERRYSHINE SURVEYORS LIMITED

Valuation · Investment Agency · Development Consultancy

Rm 1403, Kwai Hung Holdings Centre,
89 King's Road, North Point,
Hong Kong

17 February 2005

The Directors
Asia Alliance Holdings Limited
7/F., Hong Kong Spinners Building, Phase 6,
481-483 Castle Peak Road, Cheung Sha Wan,
Kowloon,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests in the People's Republic of China (referred hereinafter as the "PRC") for the purpose of future development. We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 31 December 2004 (the "date of valuation").

Our valuation of the interests in property is our opinion of the market value which we would define as intended to mean — "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interests which are for future development in the PRC, we have valued the property on the basis that the property will be developed and completed in accordance with the Company's latest development proposals provided to us. We have assumed that approvals for the proposal have been obtained. We have also taken into account the construction costs that will be expended to complete the development to reflect the quality of the completed development.

Our valuation has been made on the assumption that the property interests are sold on the market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. Furthermore, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

Direct comparison approach is adopted with reference to comparable transactions in the market and on the basis of vacant possession. Reference has been made to the information on past comparable sales as available to us and standard land price in the locality. Comparison based on prices realized on actual sales or offerings of comparable properties is made. Factors of sizes, character and locations are analyzed, and carefully weighted against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

We have been provided with extracts from title documents relating such property interests. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions, measurements and areas are approximations.

In undertaking our valuation for property, we have relied on the legal opinion provided by the Company's legal adviser (the "PRC Legal Opinion").

We understand the current status of titles, grant of major approvals, licenses and documents of the property is as follows:

	Property
State-owned Land Use Rights Grant Contract	No
State-owned Land Use Rights Certificate	No
Building Ownership Certificate	No

We have inspected the exterior of the property and, where possible, the interior of the premises. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us by the Company on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, site and floor areas.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuating the property interests, we have complied with all the requirements contained in the Practice Note 12, and Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and “The HKIS Valuation Standards on Properties” published by the Hong Kong Institute of Surveyors. The valuation has been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuation.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollar. The exchange rate used in valuing the property interests in the PRC on 31 December 2004 was HK\$1 = RMB1.06. There has been no significant fluctuation in exchange rate between that date and the date of this letter.

We enclose herewith a summary of our valuation and valuation certificate.

Yours faithfully,
For and on behalf of
Merryshine Surveyors Limited
Li Chi Ho
BLE, MRICS, MHKIS, RPS(GP)
Director

Note: Li Chi Ho, Chartered Surveyor, has over 10 years’ experience in undertaking valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUATION

Property interests for future development in the PRC

Property	Market value in existing state as at 31 December 2004
1. An industrial site located at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC and the South of Hengtang Harbour, PRC	No commercial value

Note:

1. In the absence of a State-owned Land Use Rights Certificate, the property cannot be freely transferred, let or mortgaged in the market. As a result of this, we have assigned it with no commercial value.

VALUATION CERTIFICATE

Property	Description	Particulars of Occupancy	Market value in existing state as at 31 December 2004										
An industrial site located at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC and the South of Hengtang Harbour, PRC	<p>The property comprises an industrial site with a total site area of approximately 421,631.1sq.m. located at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC and the South of Hengtang Harbour, PRC.</p> <p>The property is planned to be developed in three plots, the site areas are listed as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">Plot</th> <th style="text-align: left;">Site Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Plot I</td> <td>156,996.1</td> </tr> <tr> <td>Plot II</td> <td>79,643.4</td> </tr> <tr> <td>Plot III</td> <td>184,991.6</td> </tr> <tr> <td>Total:</td> <td style="border-top: 1px solid black; border-bottom: 3px double black;">421,631.1</td> </tr> </tbody> </table>	Plot	Site Area (sq.m.)	Plot I	156,996.1	Plot II	79,643.4	Plot III	184,991.6	Total:	421,631.1	The property is at present a flat land for agricultural use with several buildings scattered around.	No commercial value
Plot	Site Area (sq.m.)												
Plot I	156,996.1												
Plot II	79,643.4												
Plot III	184,991.6												
Total:	421,631.1												

Notes:

1. We understand that the current status of the titles, grant of major approvals, licenses and documents of the property are as follows:

(a) Contract for Land Compensation and Obtaining of Land Use Rights	No
(b) State-owned Land Use Rights Certificate	No
(c) Construction Land Planning Permit	No
(d) Construction Work Planning Permits	No
(e) Construction Commencement Permits	No

2. According to the information given, the Company planned to hold and develop the property through four subsidiaries of the Company which will be incorporated as wholly owned foreign enterprises in the PRC. As at 1 February 2005, 永義製衣(湖州)有限公司, 永義漂染(湖州)有限公司 and 永義紡織(湖州)有限公司 have been incorporated.

3. We have been provided the following information, as at the date of valuation, the Company or its subsidiary company has not obtained a State-owned Land Use Rights Certificate over the property. Thus due to the absence of this title document, at our valuation date, the property can not be freely transferred, let or mortgaged in the market. As a result of this, we have assigned it with no commercial value.

4. For indicative purposes, we have valued the property assuming that the property will be developed and completed in accordance with the Company's latest development proposals where (a) construction of certain waste water treatment plant on the property must commence in early 2005; (b) strive to complete garment manufacturing and bleaching and dyeing capabilities by early 2006; and (c) strive to complete knitting operation by the end of 2006. The total intended gross floor area is of not more than 421,631.1 sq.m. approximately. As at the date of valuation, under the assumption that if the State-owned Land Use Rights Certificate has been obtained with the land use right for a term of 50 years for industrial uses and the property can be freely transferred, leased and mortgaged in the market, the market value of the property is approximately RMB50,595,000 (equivalent to HK\$47,731,000).

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 inquiries, 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 OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the shares, underlying shares and debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers in Appendix 10 of the Listing Rules are as follows:

Name of Director	Nature of interest	Number of ordinary shares held (long position)	Approximate percentage of interest
Mr. Koon Wing Yee (<i>Note</i>)	Interest of spouse	128,259,324	35.93%
Ms. Lui Yuk Chu (<i>Note</i>)	Beneficiary of a trust	128,259,324	35.93%

Note: The 128,259,324 shares relate to the same block of shares in the Company. These shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 128,259,324 shares by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers.

Save as disclosed in the section headed “Material Contracts” in this appendix, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

As at the Latest Practicable Date, save for the acquisition of Po Cheong International Enterprises Limited as disclosed in the section headed “Material Contracts” below, none of the Directors had any direct or indirect interest in any assets which had been, since 31 March 2004 (the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the persons (other than the Directors or the chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or had any options in respect of such capital are set out below:

Name of Substantial Shareholder	Nature of interest	Number of ordinary shares held (long position)	Approximate percentage of interest
Landmark Profits Limited (Notes 1 & 2)	Beneficial owner	128,259,324	35.93%
Easyknit (Notes 1 & 2)	Interest of controlled corporation	128,259,324	35.93%
Magical Profits Limited (Notes 1 & 3)	Interest of controlled corporation	128,259,324	35.93%
Accumulate More Profits Limited (Notes 1 & 4)	Interest of controlled corporation	128,259,324	35.93%
Trustcorp Limited (Note 1)	Trustee	128,259,324	35.93%
Au Yeung Man Yin	Beneficial owner	47,624,136	13.34%
Chan So Chun	Beneficial owner	37,191,000	10.42%

Notes:

- The 128,259,324 shares relate to the same block of shares in the Company. These shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, a Director, and her family members other than spouse).

2. Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu, being the Directors, are also the directors of Landmark Profits Limited and Easyknit.
3. Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits Limited.
4. Mr. Koon Wing Yee, being a Director, is also a director of Accumulate More Profits Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company are not aware of any other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital.

4. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company and its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

- (a) an underwriting agreement dated 30 July 2003 entered into between the Company and Get Nice Investment Limited in relation to the underwriting of a rights issue of not less than 13,773,412 rights shares at a price of HK\$1.00 per rights share;
- (b) a placing agreement dated 13 October 2003 entered into between the Company and Get Nice Investment Limited in relation to the placing of 8,264,047 new shares at a price of HK\$0.865 per placing share and the underwriting arrangements;
- (c) a placing agreement dated 21 November 2003 entered into between the Company and Kingston Securities Limited in relation to the placing of 9,916,856 new shares at a price of HK\$0.865 per placing share and the underwriting arrangements;
- (d) an underwriting agreement dated 2 January 2004 entered into among the Company, Get Nice Investment Limited, Kingston Securities Limited and Cheer Union Securities Limited in relation to the underwriting of a rights issue of not less than 297,505,700 rights shares at a price of HK\$0.25 per rights share;
- (e) a sale and purchase agreement dated 5 March 2004 between Best Ability Limited, a wholly owned subsidiary of the Company, as purchaser and Easyknit International Trading Company Limited, a wholly owned subsidiary of Easyknit, as vendor in relation to the acquisition of entire issued share capital of Po Cheong International Enterprises Limited at a consideration of HK\$65,000,000, subject to adjustment (for details, please refer to the announcements dated 5 March 2004, 26 March 2004, 2 April 2004, 8 April 2004, 21 April 2004 and 10 May 2004, and the circular dated 23 April 2004 of the Company);

- (f) a settlement agreement dated 25 June 2004 between Copplestone Limited (“Copplestone”), a wholly owned subsidiary of the Company and Arco Consulting Inc. (“Arco”) in relation to the full settlement of a loan of HK\$4,000,000 provided by Arco to Copplestone and the accrued interest of HK\$511,000 (up to the date of the agreement) by way of transferring all the issued shares of i100 Wireless Corporation, a then wholly owned subsidiary of Copplestone, to Arco (for details, please refer to the announcement dated 14 July 2004 and the circular dated 4 August 2004 of the Company);
- (g) the Agreement; and
- (h) the Supplemental Agreement.

5. LITIGATION

As at the Latest Practicable Date, there was no litigation or claims of material importance pending or threatened against any member of the Group.

6. DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

8. QUALIFICATIONS OF EXPERTS AND CONSENTS

The following are the qualifications of the professional advisers who have given opinions or advice contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
Ernst & Young	Certified Public Accountants
Merryshine Surveyors Limited	Professional Surveyors and Property Valuers

Each of Deloitte Touche Tohmatsu, Ernst & Young and Merryshine Surveyors Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report and letter (if any), as the case may be, or references to its name in the form and context in which they respectively appear.

9. EXPERT'S INTERESTS IN ASSETS

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu, Ernst & Young and Merryshine Surveyors Limited:

- (a) was not interested, directly or indirectly in any assets which have been, since 31 March 2004 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group; and
- (b) did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

10. MISCELLANEOUS

- (a) The secretary of the Company is Tsang Yiu Kai, FHKICPA, FCCA, AHKIT, CGA and CPA.
- (b) The qualified accountant of the Company is Chan Chung Keung, AHKICPA.
- (c) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda and the principal place of business of the Company in Hong Kong is at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong up to and including 11 March 2005:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the Agreement and the Supplemental Agreement;
- (c) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (d) the annual reports of the Company for the year ended 31 December 2002 and for the fifteen months ended 31 March 2004;

- (e) the interim report of the Company for the six months ended 30 September 2004;
- (f) the circular of the Company dated 23 April 2004 regarding a major and connected transaction;
- (g) the circular of the Company dated 26 July 2004 regarding the ongoing connected transactions and adoption of new bye-laws of the Company;
- (h) the circular of the Company dated 4 August 2004 regarding a discloseable transaction;
- (i) the letters of consent referred to in the section headed “Qualifications of Experts and Consents” in this appendix;
- (j) the report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the enlarged Group dated 21 February 2005, the text of which is set out in Appendix II to this circular; and
- (k) the property valuation report from Merryshine Surveyors Limited dated 17 February 2005, the text of which is set out in Appendix III to this circular.



Asia Alliance Holdings Limited

亞洲聯盟集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 616

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of Asia Alliance Holdings Limited (the “Company”) will be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on 11 March 2005 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendment as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (1) the agreement dated 24 December 2004 (the “Agreement”) and the supplemental agreement dated 28 December 2004 (the “Supplemental Agreement”), copies of which have been produced to this meeting marked “A” and “B” respectively and signed by the Chairman of this meeting for the purpose of identification, made between the People’s Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, the People’s Republic of China as vendor and Easyknit (Mauritius) Limited, a wholly owned subsidiary of the Company, as purchaser and the transactions contemplated thereunder including the acquisition of land and construction of waste water treatment plant and the investment in the setting up of manufacturing operations comprising garment manufacturing and bleaching and dyeing capabilities, upon the terms and subject to the conditions therein contained, be and are hereby approved, confirmed and ratified; and
- (2) the directors of the Company be and are hereby authorised to do all acts or execute all documents which in their opinion are necessary, desirable or expedient to carry out or to give effect to the terms of the Agreement and the Supplemental Agreement.”

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

Hong Kong, 21 February 2005

* *For identification only*

NOTICE OF THE SGM

Notes:

1. Any shareholder entitled to attend and vote at the meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.
3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be delivered to the Company's principal place of business in Hong Kong at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting (as the case may be) at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.
4. Completion and return of the instrument appointing a proxy will not preclude shareholders from attending and voting in person at the meeting convened by the above notice or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the instrument appointing the proxy shall be deemed to be revoked.
5. In the case of joint holders of a share, if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

As of the date hereof, 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.



Asia Alliance Holdings Limited

亞洲聯盟集團有限公司*

(Incorporated in Bermuda with limited liability)

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FORM OF PROXY FOR USE AT THE SPECIAL GENERAL MEETING (OR AT ANY ADJOURNMENT THEREOF)

I/We (Note 1), _____

of _____

being the registered holder(s) of (Note 2) _____ ordinary share(s) of HK\$0.10 each in the capital of ASIA ALLIANCE HOLDINGS LIMITED (the "Company") hereby appoint the Chairman of the special general meeting

of the Company, or (Note 3) _____

of _____ as my/our proxy to attend and vote for me/us and on my/our behalf at the special general meeting of the Company (the "Meeting") to be held at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong on 11 March 2005 at 9:00 a.m. and at any adjournment thereof for the purpose of considering and, if thought fit, passing the resolution as set out in the notice convening the Meeting as ordinary resolution, as indicated below or if no such indication is given, as my/our proxy thinks fit and in respect of any other business that may properly come before the Meeting and/or at any adjournment thereof:

Ordinary Resolution	For (Note 4)	Against (Note 4)
<p>(1) to approve, confirm and ratify the agreement dated 24 December 2004 (the "Agreement") and the supplemental agreement dated 28 December 2004 (the "Supplemental Agreement") between the People's Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, the People's Republic of China as vendor and Easyknit (Mauritius) Limited, a wholly owned subsidiary of the Company, as purchaser and the transactions contemplated thereunder including the acquisition of land, the construction of waste water treatment plant and the investment in the setting up of manufacturing operations comprising garment manufacturing and bleaching and dyeing capabilities, upon the terms and subject to the conditions therein contained; and</p> <p>(2) to authorise the directors of the Company to do all acts or execute all documents which in their opinion are necessary, desirable or expedient to carry out or to give effect to the terms of the Agreement and the Supplemental Agreement.</p>		

Dated this _____ day of _____, 2005 Signature: _____

Notes:

- Full name(s) and address(es) must be inserted in **BLOCK CAPITAL**.
- Please insert the number of shares registered in your name(s) to which the proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the shares of the Company registered in your name(s).
- If any proxy other than the Chairman is preferred, please strike out "the Chairman of the special general meeting of the Company, or" and insert the name and address of the proxy desired in the space provided. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALED BY THE PERSON(S) WHO SIGN(S) IT.**
- IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTION, TICK THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, TICK THE BOX MARKED "AGAINST".** Failure to tick either box will entitle your proxy to cast your vote or abstain at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the Meeting and/or at any adjournment thereof other than those referred to in the notice convening the Meeting.
- Any shareholder entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend the Meeting. A proxy need not be a shareholder of the Company.
- This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must either be executed under its common seal or under the hand of an officer or attorney duly authorised.
- This form of proxy and the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, shall be delivered to the Company's principal place of business in Hong Kong at 7th Floor, Hong Kong Spinners Building, Phase 6, 481-483 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the Meeting or adjourned meeting at which the person named in this form of proxy proposes to vote, and in default this form of proxy shall not be treated as valid.
- In the case of joint holders of a share, if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.
- Completion and return of this form of proxy will not preclude you from attending and voting in person at the Meeting and, in such event, the form of proxy shall be deemed to be revoked.

* For identification only