

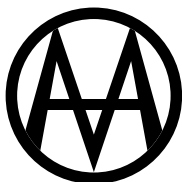
# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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

If you have sold or transferred all your shares in Asia Alliance Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the shareholders of the Company and, for information only, the holder of share options in connection with a special general meeting of the Company to be held on Tuesday, 6 September, 2005. This circular is not and does not constitute an offer of, nor is it intended to invite offers for, shares in or other securities of the Company.



## Asia Alliance Holdings Limited

亞洲聯盟集團有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 616)

### PROPOSED CAPITAL REORGANISATION AND PROPOSED RIGHTS ISSUE ON THE BASIS OF TEN RIGHTS SHARES FOR EVERY CONSOLIDATED SHARE HELD GENERAL MANDATES TO ISSUE NEW CONSOLIDATED SHARES AND REPURCHASE CONSOLIDATED SHARES

Joint Financial Advisers

ALTUS CAPITAL LIMITED



結好融資有限公司  
GET NICE CAPITAL LIMITED

Underwriter of the Rights Issue



結好投資有限公司  
GET NICE INVESTMENT LTD.

Independent financial adviser to the Independent Board Committee



Barits Securities (Hong Kong) Limited

It should be noted that the Underwriting Agreement (as defined herein) contains provisions granting the Underwriter the right to terminate its obligations on the occurrence of certain force majeure events. The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to 4:00 p.m. on the Settlement Date if there occurs:

- an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
  - any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
  - any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;
- and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or
- if, at or prior to 4:00 p.m. on the Settlement Date following the Acceptance Date:
  - the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
  - the Underwriter receives the relevant notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter, shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or
  - the Prospectus Documents when published, contain information which would be untrue or inaccurate in any material respect and the Company has failed to promptly send out any announcements or circulars (after the despatch of this circular or the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

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

It should be noted that the Shares will be dealt in on an ex-rights basis from Tuesday, 30 August, 2005. Dealings in the Rights Shares in the nil-paid form will take place from Friday, 9 September, 2005 to Friday, 16 September, 2005 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated, the Rights Issue will not proceed. Any dealing in the Shares or nil-paid Rights Shares during the period from Friday, 9 September, 2005 to Friday, 16 September, 2005 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

A notice convening the SGM of the Shareholders 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 at 9:00 a.m. on Tuesday, 6 September, 2005 is set out on pages 61 to 66 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit 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 later than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you wish.

A letter of advice from Barits Securities (Hong Kong) Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders of Asia Alliance Holdings Limited, is set out on pages 31 to 50 of this circular.

\* For identification only

15 August, 2005

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## DEFINITIONS

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

“Acceptance Date”	22 September, 2005 (or such other date as the Underwriter may agree in writing with the Company as the latest date for acceptance of, and payment of, Rights Shares)
“Altus Capital”	Altus Capital Limited, a licensed corporation to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company, and one of the Joint Financial Advisers
“Announcement”	the announcement of the Company dated 22 July, 2005 relating to the proposed Capital Reorganisation, the Rights Issue, the Issue Mandates and the Repurchase Mandate
“associates”	the same meaning ascribed to it in the Listing Rules
“Barits”	Barits Securities (Hong Kong) Limited, a licensed corporation to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company and which is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Board”	the board of Directors
“Business Day”	a day on which banks are generally open for business for more than five hours in Hong Kong
“Capital Reduction”	the reduction of the issued share capital of the Company from HK\$0.10 each per Share to HK\$0.001 per Reduced Share by cancelling HK\$0.099 paid up capital on each issued Share and the reduction of the authorised share capital of the Company from HK\$650,000,000 to HK\$6,500,000
“Capital Reorganisation”	the Capital Reduction and the Share Consolidation
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	Asia Alliance Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Companies Act”	The Companies Act 1981 of Bermuda (as amended)

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## DEFINITIONS

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“Consolidated Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company after the Capital Reorganisation becoming effective
“Director(s)”	director(s) of the Company
“EAF(s)”	the excess application form(s) to be issued in connection with the Rights Issue
“Easyknit”	Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange and the Singapore Exchange Securities Trading Limited and the controlling shareholder of the Company, currently holding approximately 35.93% of the Company’s issued share capital
“Get Nice Capital”	Get Nice Capital Limited, a deemed licensed corporation to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company, and one of the Joint Financial Advisers
“Group”	the Company and its subsidiaries
“HKSCC”	the Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising the independent non-executive Directors, namely, Mr. Kan Ka Hon, Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming
“Independent Shareholders”	Shareholders other than Landmark Profits and its associates
“Independent Third Party(ies)”	independent third party(ies) not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Issue Mandates”	general mandate to allot, issue and deal with new Consolidated Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company upon completion of the Capital Reorganisation and the Rights Issue, and adding to such general mandate so granted to the Directors any Consolidated Shares representing the aggregate nominal amount of the Consolidated Shares repurchased by the Company pursuant to the Repurchase Mandate

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## DEFINITIONS

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“Joint Financial Advisers”	Altus Capital and Get Nice Capital
“Landmark Profits”	Landmark Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Easyknit
“Last Trading Day”	18 July, 2005, being the last trading day of the Shares prior to the release of the Announcement
“Latest Practicable Date”	12 August, 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
“Non-Qualifying Shareholder(s)”	Overseas Shareholder(s) in respect of whom the Directors, based on legal opinions provided by the legal advisers, consider it necessary or expedient not to offer the Rights Issue to such Overseas Shareholder(s) on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Overseas Shareholders”	Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) to be issued in connection with the Rights Issue
“PRC”	The People’s Republic of China
“Project”	the acquisition of the Property, the proposed development of manufacturing operations on the Property, including garment manufacturing, bleaching and dyeing and knitting and the construction of a waste water treatment plant to be built on the Property
“Property”	a piece of land of approximately 630 mu situated at the West of Dongliang Road, Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, PRC and the South of Hengtang Harbour, PRC
“Prospectus”	a prospectus to be issued containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF

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## DEFINITIONS

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“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date
“Record Date”	6 September, 2005 or such other date as the Underwriter may agree in writing with the Company as the date by reference to which entitlements to the Rights Issue are to be determined
“Reduced Share(s)”	share(s) of HK\$0.001 each in the share capital of the Company after the Capital Reduction becoming effective
“Registrar”	the Company’s branch share registrar and transfer office in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
“Repurchase Mandate”	a general mandate to repurchase Consolidated Shares not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company upon completion of the Capital Reorganisation and the Rights Issue
“Rights Issue”	the issue by way of rights of 10 Rights Shares for every one Consolidated Share in issue on the Record Date at a price of HK\$0.40 per Rights Share
“Rights Share(s)”	new Consolidated Share(s) to be issued and allotted under the Rights Issue, being not less than 357,006,840 Consolidated Shares and not more than 362,631,840 Consolidated Shares
“Settlement Date”	the date being the second Business Day following the Acceptance Date
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company expected to be held on Tuesday, 6 September, 2005 at which resolutions will be proposed to consider and, if thought fit, approve (a) the Capital Reorganisation, (b) the Rights Issue and (c) the Issue Mandates and the Repurchase Mandate
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company before the Capital Reorganisation becoming effective
“Share Consolidation”	the consolidation of every 10 Reduced Shares into one Consolidated Share

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## DEFINITIONS

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

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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

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

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

2. if, at or prior to 4:00 p.m. on the Settlement Date following the Acceptance Date:
  - (a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
  - (b) the Underwriter receives the relevant notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter, shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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- (c) the Prospectus Documents when published, contain information which would be untrue or inaccurate in any material respect and the Company has failed to promptly send out any announcements or circulars (after the despatch of this circular or the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

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

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## EXPECTED TIMETABLE

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2005

Last day of dealings in Shares on a cum-rights basis .....	Monday, 29 August
First day of dealings in Shares on an ex-rights basis .....	Tuesday, 30 August
Latest time for lodging transfers of Shares in order to qualify for the Rights Issue .....	4:00 p.m., Wednesday, 31 August
Register of members to be closed .....	Thursday, 1 September to Tuesday, 6 September (both dates inclusive)
Latest time for return of proxy form of SGM (not less than 48 hours) .....	9:00 a.m., Sunday, 4 September
Expected date of SGM .....	9:00 a.m., Tuesday, 6 September
Record Date .....	Tuesday, 6 September
Effective date of the Capital Reorganisation .....	9:00 a.m., Wednesday, 7 September
Register of members to be re-opened .....	Wednesday, 7 September
Prospectus Documents to be posted .....	Wednesday, 7 September
Commencement of dealings in Consolidated Shares .....	Wednesday, 7 September
Original counter for trading in Shares (in board lots of 4,000 Shares) to be closed .....	9:30 a.m., Wednesday, 7 September
Temporary counter for trading in Consolidated Shares in board lots of 400 Consolidated Shares (in form of existing share certificates) to be opened .....	9:30 a.m., Wednesday, 7 September
Free exchange of existing share certificates for new share certificates commences .....	Wednesday, 7 September
First day of dealings in nil-paid Rights Shares .....	Friday, 9 September
Latest time for splitting of nil-paid Rights Shares .....	4:00 p.m., Tuesday, 13 September
Last day of dealings in nil-paid Rights Shares .....	Friday, 16 September
Latest time for payment for and acceptance of Rights Shares .....	4:00 p.m., Thursday, 22 September

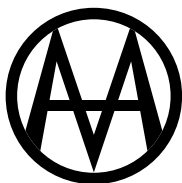
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## EXPECTED TIMETABLE

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Original counter for trading in Consolidated Shares (in board lots of 4,000 Shares) to be re-opened . . . . .	9:30 a.m., Thursday, 22 September
Parallel trading in Consolidated Shares (in form of new and existing certificates) begins . . . . .	9:30 a.m., Thursday, 22 September
Designated broker starts to stand in the market to provide matching services . . . . .	Thursday, 22 September
Rights Issue expected to become unconditional . . . . .	after 4:00 p.m., Monday, 26 September
Announcement of results of acceptance and excess application of the Rights Issue . . . . .	Tuesday, 27 September
Despatch of refund cheques for wholly and partially unsuccessful excess applications . . . . .	Tuesday, 27 September
Despatch of certificates for fully-paid Rights Shares . . . . .	Tuesday, 27 September
First day of dealings in the fully-paid Rights Shares . . . . .	Wednesday, 28 September
Temporary counter for trading in Consolidated Shares in board lots of 400 Consolidated Shares (in form of existing share certificates) to be closed . . . . .	4:00 p.m., Friday, 14 October
Parallel trading in Consolidated Shares (in form of new and existing certificates) ends . . . . .	4:00 p.m., Friday, 14 October
Designated broker ceases to stand in the market to provide matching services . . . . .	4:00 p.m., Friday, 14 October
Free exchange of existing share certificates for new share certificates ends . . . . .	Wednesday, 19 October

*Note:* All times refer to Hong Kong local time in 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)**

*Executive Directors:*

Koon Wing Yee

*(Chairman and Chief Executive Officer)*

Tsang Yiu Kai

*(Vice Chairman)*

Lui Yuk Chu

*Independent Non-Executive Directors:*

Kan Ka Hon

Kwong Jimmy Cheung Tim

Lau Sin Ming

*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

*Registered office:*

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

15 August, 2005

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

Dear Sir or Madam,

**PROPOSED CAPITAL REORGANISATION  
AND  
PROPOSED RIGHTS ISSUE ON THE BASIS OF  
TEN RIGHTS SHARES FOR EVERY CONSOLIDATED SHARE HELD  
GENERAL MANDATES TO ISSUE NEW CONSOLIDATED SHARES  
AND REPURCHASE CONSOLIDATED SHARES**

**INTRODUCTION**

On 22 July, 2005, the Company announced the proposed Capital Reorganisation, the proposed Rights Issue, the Issue Mandates and the Repurchase Mandate.

\* *For identification only*

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## LETTER FROM THE BOARD

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Subject to the approval of the Capital Reorganisation by Shareholders at the SGM and the Capital Reorganisation becoming effective and the fulfillment of the relevant conditions, the Company proposes to raise approximately HK\$142.8 million before expenses (assuming no Share Options are exercised before the Record Date) or approximately HK\$145.1 million before expenses (assuming all the Share Options are exercised before the Record Date) by way of the Rights Issue of not less than 357,006,840 Rights Shares and not more than 362,631,840 Rights Shares at a price of HK\$0.40 per Rights Share. The Company will provisionally allot 10 Rights Shares in nil-paid form for every Consolidated Share held by the Qualifying Shareholders on the Record Date. The Rights Issue is not available to the Non-Qualifying Shareholders.

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

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

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

Altus Capital and Get Nice Capital have been appointed as the joint financial advisers to the Company. Barits has been appointed to advise the Independent Board Committee and the Independent Shareholders on the terms and conditions of the Rights Issue and Issue Mandates.

The purpose of this circular is to provide you with further details of the Capital Reorganisation, the Rights Issue, the Issue Mandates and the Repurchase Mandate and to give you notice of the SGM at which resolutions will be proposed to consider and, if thought fit, approve these matters.

### **CAPITAL REORGANISATION**

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

- (a) the Capital Reduction under which the nominal value of all Shares will be reduced from HK\$0.10 each to HK\$0.001 each by cancelling HK\$0.099 paid up capital on each issued Share. Accordingly, based on the number of Shares in issue as at the Latest Practicable Date, the issued share capital of the Company of HK\$35,700,684 comprising 357,006,840 Shares will be reduced by HK\$35,343,677.16 to HK\$357,006.84 comprising 357,006,840 Reduced Shares. The amount cancelled arising from the Capital Reduction will be credited to a capital reserve account of the Company; and

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## LETTER FROM THE BOARD

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- (b) the Share Consolidation, immediately after the completion of the Capital Reduction, pursuant to which every 10 issued and unissued Reduced Shares will be consolidated into one Consolidated Share. As at the Latest Practicable Date, the authorised share capital of the Company is HK\$650,000,000 comprising 6,500,000,000 Shares of HK\$0.10 each, of which 357,006,840 Shares have been issued and fully paid. Immediately after the completion of the Share Consolidation, the authorised share capital of the Company will comprise 35,700,684 issued Consolidated Shares and 614,299,316 unissued Consolidated Shares of HK\$0.01 each.

The issued Consolidated Shares will rank *pari passu* in all respects with each other and the Share Consolidation will not result in any change in the relative rights of the Shareholders. The Capital Reorganisation is conditional upon, *inter alia*, the approval of the Shareholders at the SGM.

### **Financial effects of the Capital Reorganisation**

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

### **Reasons for the Capital Reorganisation**

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

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

After the completion of the Capital Reorganisation and the Rights Issue (based on the theoretical ex-rights price of approximately HK\$0.402 per Consolidated Share on the Latest Practicable Date), the market value of the Consolidated Shares will be above the nominal value of the Consolidated Shares of HK\$0.01 each. The Board is of the opinion that the proposed nominal value of the Consolidated Shares to be maintained at HK\$0.01 each will provide the Company with greater flexibility for the issue of new Consolidated Shares in the future and is thus in the best interests of the Company and Shareholders as a whole. However, the Board has no present intention to issue further new Consolidated Shares except for the proposed Rights Issue.

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## LETTER FROM THE BOARD

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### Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon the following:

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

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

### Expected effective date of the Capital Reorganisation

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

### Fractional entitlement of the Consolidated Shares

Where the Share Consolidation will result in fractions of Consolidated Shares, such fractional Consolidated Shares will not be issued but will be aggregated, sold and retained for the benefit of the Company.

### Odd lots matching service

In order to alleviate Shareholders' difficulty in dealing in odd lots that may arise as a result of the Capital Reorganisation, the Company has appointed Get Nice Investment to stand in the market to provide matching services on a best effort basis for the odd lots of Consolidated Shares during the period from Thursday, 22 September, 2005 to Friday, 14 October, 2005 (both dates inclusive). Shareholders who wish to take advantage of this matching facility either to dispose of odd lots of Consolidated Shares or to top up to a board lot of 4,000 Consolidated Shares, may contact Mr. Lau Shek Ki of Get Nice Investment at 10th Floor, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong at telephone number (852) 2526 7738.

**Shareholders should note that the matching service is on a "best efforts" basis only and successful matching of the sale and purchase of odd lots of Consolidated Shares is not guaranteed** and will depend on there being adequate amounts of odd lots of Consolidated Shares available for such matching.

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## LETTER FROM THE BOARD

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Shareholders are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser if they are not sure about the matching service described above.

### **Free exchange of Consolidated Share certificates**

The new share certificates for the Consolidated Shares will be orange in colour in order to distinguish them from the existing share certificates which are green in colour. Upon the Capital Reorganisation becoming effective which is expected to be on or around Wednesday, 7 September, 2005, Shareholders may on or after Wednesday, 7 September, 2005 until Wednesday, 19 October, 2005 (both dates inclusive) submit their share certificates for the existing Shares to the Registrar for exchange, at the expense of the Company, for certificates for Consolidated Shares. Thereafter, certificates for the existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for the Consolidated Shares. Nevertheless, certificates for the existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for the Consolidated Shares at any time.

It is expected that the new share certificates for the Consolidated Shares will be available for collection within a period of 10 Business Days after the submission of the existing share certificates to the Registrar for exchange.

### **Trading arrangements for Consolidated Shares**

Subject to the Capital Reorganisation becoming effective, the arrangement for trading in the Consolidated Shares will be as follows:

- (a) from 9:30 a.m. on Wednesday, 7 September, 2005, the original counter for trading in Shares in board lots of 4,000 Shares will be temporarily closed;
- (b) with effect from 9:30 a.m. on Wednesday, 7 September, 2005, a temporary counter for trading in Consolidated Shares in board lots of 400 Consolidated Shares, in the form of existing share certificates for the Shares, will be opened, and for the purposes of the settlement and delivery for trading at this temporary counter every 10 Reduced Shares will be deemed to represent one Consolidated Share. Only existing share certificates for existing Shares (in green colour) can be traded in this temporary counter;
- (c) with effect from 9:30 a.m. on Thursday, 22 September, 2005, the original counter will be re-opened for trading in Consolidated Shares in board lots of 4,000 Consolidated Shares. Only share certificates for the Consolidated Shares (in orange colour) can be traded at this counter;
- (d) during the period from 9:30 a.m. on Thursday, 22 September, 2005 to 4:00 p.m. on Friday, 14 October, 2005 (both days inclusive), parallel trading will be permitted at the above two counters;

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## LETTER FROM THE BOARD

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- (e) the temporary counter for trading in the existing share certificates in board lots of 400 Consolidated Shares will be removed after the close of trading at 4:00 p.m. on Friday, 14 October, 2005; and
- (f) with effect from 9:30 a.m. on Monday, 17 October, 2005, trading will only be done in Consolidated Shares in board lots of 4,000 Consolidated Shares (in the form of new share certificates in orange colour). Existing share certificates (in green colour) will only be valid for delivery and settlement in respect of dealings for the period up to and including 4:00 p.m. on Friday, 14 October, 2005 and thereafter will not be acceptable for trading and settlement purposes. However, existing certificates for existing Shares (in green colour) will continue to be good and valid evidence of legal title to the Consolidated Shares on the basis of 10 Reduced Shares for one Consolidated Share and may be exchanged for share certificates for the Consolidated Shares (in orange colour) at the Registrar at any time on payment of a prescribed fee.

### PROPOSED RIGHTS ISSUE

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

#### Issue statistics

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

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## LETTER FROM THE BOARD

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

### **Qualifying Shareholders**

The Company will send the Prospectus Documents to the Qualifying Shareholders but the Company will not send any Prospectus Documents to the Non-Qualifying Shareholders.

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

In order to be registered as members of the Company at the close of business on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Registrar for registration no later than 4:00 p.m. on Wednesday, 31 August, 2005.

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

### **Closure of register of members**

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

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## LETTER FROM THE BOARD

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### Subscription price

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

	<b>Before Share Consolidation</b>	<b>After Share Consolidation</b>
<i>Rights Price</i>	HK\$0.04	HK\$0.40
(a) Closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$0.086	HK\$0.86
<i>Discount (%)</i>	53.5%	53.5%
(b) Theoretical ex-rights price calculated based on the closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$0.0442	HK\$0.442
<i>Discount (%)</i>	9.5%	9.5%
(c) Closing price per Share quoted on the Stock Exchange on the Latest Practicable Date	HK\$0.042	HK\$0.42
<i>Discount (%)</i>	4.76%	4.76%
(d) Average closing price per Share for the last 10 full trading days quoted on the Stock Exchange up to and including the Latest Practicable Date	HK\$0.0404	HK\$0.404
<i>Discount (%)</i>	0.99%	0.99%
(e) Theoretical ex-rights price calculated based on the closing price per Share as quoted on the Stock Exchange on the Latest Practicable Date	HK\$0.0402	HK\$0.402
<i>Discount (%)</i>	0.50%	0.50%
(f) Net tangible asset value per Share based on the audited net tangible asset value of the Group of approximately HK\$42.9 million and 357,006,840 Shares in issue as at 31 March, 2005 as stated in the annual report of the Company for the year ended 31 March, 2005	HK\$0.120	HK\$1.20
<i>Discount (%)</i>	66.7%	66.7%

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## LETTER FROM THE BOARD

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

### **Basis of provisional allotment**

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

### **Share certificates and refund cheques for Rights Issue**

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

### **Status of the Rights Shares**

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

### **Rights of Non-Qualifying Shareholders**

Based on the register of members of the Company as at the Latest Practicable Date, there were two Shareholders with registered addresses in Malaysia and one Shareholder with registered address in Spain. The Company has made enquiry regarding the legality and feasibility of extending the Rights Issue to such Overseas Shareholders.

Based on the preliminary legal opinion from legal adviser in Spain, there is no restriction to extend the Rights Issue to the Shareholder in Spain. Accordingly, the Rights Issue will be extended to such Overseas Shareholder. In respect of the Shareholders in Malaysia, based on the legal opinion from legal adviser in Malaysia, the Company will have to comply with the Securities Commission Act 1993 of Malaysia ("SCA") and the Policies and Guidelines on Issue/Offer of Securities ("Issues Guidelines") issued by the Securities Commission ("SC") in Malaysia before the Rights Issue can be extended to the Shareholders in Malaysia. Under the SCA, prior approval of the SC will be required for the offer/issue of the Rights Shares in Malaysia to the Malaysian Shareholders under the Rights Issue. The application to be made for SC's approval must include certain prescribed information such as underwriting arrangements and the minimum level of subscription. The requirements set out in the

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## LETTER FROM THE BOARD

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Issues Guidelines issued by the SC may also apply to the rights issue prospectus. The Issues Guidelines set out certain requirements for the rights issue of securities which include, amongst others, requirements in respect of the underwriting arrangements, minimum level of subscription, pro-rata entitlement and whether the title to the shares is renounceable. In addition, under the SCA, the Company is not permitted to distribute or circulate any form of application for securities in Malaysia unless a prospectus conforming to the requirements of the SCA and the relevant guidelines has been registered with the SC.

Should the Company extend the Rights Issue to the Shareholders in Malaysia, the estimated costs to be incurred, which included but not limited to the legal fees, application, submission and registration fees to the SC, is approximately HK\$250,000. Such costs do not include other fees such as merchant banker's fees, other professional advisers fees and printing fees etc.. Also, as the time to be required to obtain the necessary approvals from the SC is uncertain, the Directors have determined that it is expedient not to offer the Rights Shares to such Overseas Shareholders on account of the legal restrictions under the laws of the place of their registered address and the requirements of the relevant regulatory body in that place as the relevant costs of complying with the regulations and requirements will likely exceed materially any potential benefit to the Company. Accordingly, the Rights Issue will not be available to such Overseas Shareholders. In light of the restrictions, the Company will not send any Prospectus Documents to the Non-Qualifying Shareholders.

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

### **Application for excess Rights Shares**

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

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

### **Listing and dealings**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in (a) the Consolidated Shares in issue after the Capital Reorganisation becoming

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## LETTER FROM THE BOARD

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effective; and (b) the Rights Shares, in both their nil-paid and fully-paid forms on the Stock Exchange. It is expected that dealings in the Consolidated Shares will commence on Wednesday, 7 September, 2005 and dealings in the Rights Shares in their nil-paid form will take place from Friday, 9 September, 2005 to Friday, 16 September, 2005, both days inclusive.

No part of the share capital of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares and Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Capital Reorganisation becoming effective and the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Shareholders should seek advice from their stockbroker or other professional adviser for details of those settlement arrangement and how such arrangement will affect their rights and interests.

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

### **Underwriting arrangements**

#### *Underwriting agreement dated 18 July, 2005*

The Underwriter has agreed to fully underwrite up to 234,372,520 Rights Shares, other than Rights Shares which Landmark Profits has undertaken to subscribe (being 362,631,840 Rights Shares, assuming full conversion of outstanding Share Options up to and including the Record Date, less the 128,259,320 Rights Shares to be issued to and accepted by Landmark Profits). The Underwriter and its ultimate beneficial controlling shareholders do not have any shareholding in the Company and are not connected persons (as defined in the Listing Rules) of the Company.

#### *Conditions of the Rights Issue*

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

- (i) the approval of the Capital Reorganisation by Shareholders at the SGM and the Capital Reorganisation becoming effective thereafter;

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## LETTER FROM THE BOARD

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

If the conditions of the Rights Issue under the Underwriting Agreement are not fulfilled (or waived in whole or in part by the Underwriter) by the relevant dates and times specified in the Underwriting Agreement (or, in each case, such later date or time as the Underwriter may agree in writing with the Company pursuant to the Underwriting Agreement), then all liabilities of the parties thereto shall cease and terminate and neither party shall have any claim against the other (except in respect of any antecedent breaches and any matters or things arising out of or in connection with the Underwriting Agreement) and the irrevocable undertaking by Landmark Profits to accept its entitlement under the Rights Issue will lapse. The Rights Issue will not proceed accordingly.

### *Commission*

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

### *Undertaking from Landmark Profits*

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

### *Termination of the Underwriting Agreement*

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

1. (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or

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## LETTER FROM THE BOARD

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

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

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

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

## LETTER FROM THE BOARD

### WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

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

Any Shareholders or other persons contemplating selling or purchasing Shares, the Consolidated Shares and Rights Shares in their nil-paid form during the period from Friday, 9 September, 2005 to Friday, 16 September, 2005 (both dates inclusive), who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in the Shares or the Consolidated Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Friday, 9 September, 2005 to Friday, 16 September, 2005 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

#### Shareholding in the Company

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

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

## LETTER FROM THE BOARD

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

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

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

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

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

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

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## LETTER FROM THE BOARD

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

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

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

### Reasons for the Rights Issue and use of proceeds

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

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

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

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

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## LETTER FROM THE BOARD

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

### **Adjustments in relation to the Share Options**

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

### **PREVIOUS FUND RAISING EXERCISES OF THE COMPANY**

The Company does not have any fund raising exercises in the past 12 months immediately preceding the Latest Practicable Date.

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

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

As at the Latest Practicable Date, the issued share capital of the Company comprised 357,006,840 Shares and the general mandate granted to the Directors at the annual general meeting of the Company held on 25 August, 2004 had not been utilised.

It is proposed that the Issue Mandates be granted to the Directors at the SGM. In accordance with the Listing Rules, Landmark Profits and its associates (as defined in the Listing Rules) will abstain from voting on the resolution(s) to approve the Issue Mandates.

It is further proposed that the Directors be given the Repurchase Mandate at the SGM. An explanatory statement, as required by the Listing Rules to be sent to the Shareholders in connection with the Repurchase Mandate, is set out in Appendix II to this circular.

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## LETTER FROM THE BOARD

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### THE SGM

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 at 9:00 a.m. on Tuesday, 6 September, 2005 is set out on pages 61 to 66 of this circular at which resolutions will be proposed to consider and, if thought fit, to approve the Capital Reorganisation, the Rights Issue, the Issue Mandates and the Repurchase Mandate.

Landmark Profits, which is the controlling shareholder of the Company, held 128,259,324 Shares, representing approximately 35.93% of the issued share capital of the Company as at the Latest Practicable Date. In accordance with the Listing Rules, Landmark Profits and its associates will abstain from voting on the resolution(s) to approve the Rights Issue and Issue Mandates at the SGM by way of poll.

An Independent Board Committee has been formed to advise the Independent Shareholders on how they should vote in respect of the Rights Issue and the Issue Mandates. The Independent Board Committee comprises Mr. Kan Ka Hon, Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming.

A form of proxy for use at the SGM is enclosed. If you are not able to attend the SGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of the Company 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 such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting (as the case may be) should you so wish.

### RIGHT TO DEMAND A POLL

Pursuant to bye-law 70 of the bye-laws of the Company, at a general meeting a resolution put to vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the chairman of the meeting; or
- (ii) 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
- (iii) 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 the Shareholders having the right to vote at the meeting;
- (iv) 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.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

In relation to the Rights Issue and Issue Mandates, your attention is drawn to the letter from the Independent Board Committee on pages 29 to 30 and the letter from Barits, the independent financial adviser of the Company, sets out on pages 31 to 50 of this circular. In relation to the Repurchase Mandate, your attention is drawn to Appendix II on pages 58 to 60 of this circular. The Directors believe that the proposed resolutions in relation to the Capital Reorganisation, the Rights Issue, the Issue Mandates and the Repurchase Mandate are fair and reasonable and in the interest of the Company and the Shareholders as a whole and, accordingly, the Directors recommend Shareholders to vote in favour of the aforesaid resolutions to be proposed at the SGM.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendices I and II to this circular.

Yours faithfully,  
For and on behalf of  
**Asia Alliance Holdings Limited**  
**Koon Wing Yee**  
*Chairman and Chief Executive Officer*



**Asia Alliance Holdings Limited**

**亞洲聯盟集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 616)**

15 August, 2005

*To the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF  
TEN RIGHTS SHARES FOR EVERY CONSOLIDATED SHARE HELD  
AND  
GENERAL MANDATES TO ISSUE NEW CONSOLIDATED SHARES**

We refer to the circular dated 15 August, 2005 (the “Circular”) issued to the Shareholders of which this letter forms part. Terms defined in the Circular shall bear the same meanings herein unless the context requires otherwise.

We have been appointed to constitute the Independent Board Committee and to advise the Independent Shareholders in connection with the terms of the Rights Issue and the Issue Mandates. Barits Securities (Hong Kong) Limited (“Barits”) has been appointed as the independent financial adviser of the Company to advise us and the Independent Shareholders in this respect.

Your attention is drawn to the letter from the Board set out on pages 10 to 28 of the Circular, which sets out information relating to, inter alia, the Rights Issue and the Issue Mandates. We also draw your attention to the letter from Barits as set out on pages 31 to 50 of the Circular, which contains its advice to us regarding the Rights Issue and the Issue Mandates.

\* *For identification only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the principal factors and reasons considered by and the recommendation of Barits, the Independent Board Committee considers the terms of the Rights Issue and the Issue Mandates to be fair and reasonable and are in the interest of the Company so far as the Independent Shareholders are concerned and recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve or in connection with the Rights Issue and the Issue Mandates.

Yours faithfully,  
For and on behalf of  
**Independent Board Committee**

**Kan Ka Hon**  
*Independent Non-Executive  
Director*

**Kwong Jimmy Cheung Tim**  
*Independent Non-Executive  
Director*

**Lau Sin Ming**  
*Independent Non-Executive  
Director*

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## LETTER FROM BARITS

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*The following is the text of the letter of advice from Barits to the Independent Board Committee and the Independent Shareholders dated 15 August, 2005 for incorporation in this circular.*



### **BARITS SECURITIES (HONG KONG) LIMITED**

Room 3406, 34/F  
Edinburgh Tower, The Landmark  
15 Queen's Road Central  
Hong Kong

15 August, 2005

*To the Independent Board Committee and the  
Independent Shareholders of Asia Alliance Holdings Limited*

Dear Sir,

### **PROPOSED RIGHTS ISSUE ON THE BASIS OF TEN RIGHTS SHARES FOR EVERY CONSOLIDATED SHARE HELD**

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

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the terms and conditions of the Rights Issue and the Issue Mandates, details of which are set out in the Announcement and this circular of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in this circular unless the context otherwise requires.

Immediately after completion of the Share Consolidation, the authorised share capital of the Company will comprise 35,700,684 issued Consolidated Shares and 614,299,316 unissued Consolidated Shares of HK\$0.01 each. The Capital Reorganisation is conditional upon, inter alia, the approval of the Shareholders at the SGM. As at the date of the Announcement, the authorised share capital of the Company was HK\$650,000,000 comprising 6,500,000,000 Shares of HK\$0.10 each, of which 357,006,840 Shares have been issued and fully paid. Upon completion of the Capital Reorganisation, the Company proposes to raise approximately HK\$142.8 million before expenses (assuming no exercise of Share Options before the Record Date) or approximately HK\$145.1 million before expenses (assuming all the Share Options are exercised before the Record Date) by way of the Rights Issue of not less than 357,006,840 Rights Shares and not more than 362,631,840 Rights Shares at a price of HK\$0.40 per Rights Share.

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## LETTER FROM BARITS

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

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

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

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

In accordance with the Listing Rules, Landmark Profits and its associates (as defined in the Listing Rules) will abstain from voting on the resolution(s) to approve the Rights Issue and the Issue Mandates at the SGM. The Independent Board Committee comprising the independent non-executive Directors has been appointed to make recommendations to the Independent Shareholders in respect of voting on the resolution(s) to approve the Rights Issue and the Issue Mandates at the SGM by way of poll. Details of, among other things, the terms and conditions of the Rights Issue are set out in the letter from the Board on pages 10 to 28 of this circular.

In formulating our opinion and advice, we have relied on the accuracy of the information and representations contained in this circular and information and facts provided to us by the Company, the Directors and the management of the Company. We have also assumed that all statements of belief and intention made by the Directors in this circular were reasonably made after due enquiry. We have assumed that all statements and representations made or referred to in this circular were true at the time they were made and continue to be true at the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, the Directors and management of the Company and have no reason to doubt that any relevant material facts have been withheld or omitted.

We have reviewed, among other things, the published information of the Group, including the Group's audited financial statements for the year ended 31 March, 2005, the period from 1 January, 2003 to 31 March, 2004 and the year ended 31 December, 2002, and the circulars dated 21 February, 2005 and 23 April, 2004 in relation to the Company's "Very substantial acquisition" and "Major and connected transaction, proposed acquisition of the entire issued share capital of Po Cheong International Enterprises Limited" respectively. We have discussed with the Directors the rationale and timing of the Rights Issue and the funding requirements of the Group. We have also reviewed the past performance of the Share price and the trading volume of the Shares since 1 September, 2004 up

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## LETTER FROM BARITS

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to and including the Latest Practicable Date, as well as the rights issues of 12 listed companies in Hong Kong announced during the period from 1 January, 2005 up to and including the Latest Practicable Date. In addition, we have reviewed the Underwriting Agreement. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in this letter and to provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business affairs, financial position or future prospects of the Group nor have we carried out any independent verification of the information supplied.

We have not considered any tax implications on Qualifying Shareholders arising from the subscription for, holding of or dealing in the Rights Shares or otherwise, since these are dependent on their individual circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Rights Shares or otherwise. Qualifying Shareholders are urged to consult their own professional advisers if they are in doubt as to the investment value of the Rights Shares or as to their individual tax position.

# LETTER FROM BARITS

## PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons we have taken into account in assessing the proposed Rights Issue and the proposed Issue Mandates and in giving our recommendation to the Independent Board Committee and the Independent Shareholders are set out below:

### Reasons for the Rights Issue

#### *Business review of the Group*

The Company is an investment holding company and its subsidiaries are principally engaged in bleaching, dyeing and knitting. Set out below is a summary of the audited consolidated results of the Group for the year ended 31 March, 2005, the period from 1 January, 2003 to 31 March, 2004 and the year ended 31 December, 2002:-

	1 April, 2004 to 31 March, 2005 (audited)		1 January, 2003 to 31 March, 2004 (audited)		1 January, 2002 to 31 December, 2002 (audited)	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Turnover						
1. Bleaching and dyeing						
— sales of goods	43,908		—		—	
— service income	9,310		—		—	
2. Knitting services	444		—		—	
3. Wireless communication services	—		3,982		953	
4. Communication solutions consultancy services	—		1,101		1,131	
5. Other discontinued operations (Note)	—		—		68,270	
Cost of sales and services	<u>(43,700)</u>		<u>(3,352)</u>		<u>(52,216)</u>	
Gross profit	9,962	18.6	1,731	34.1	18,138	25.8
Other operating income	265		709		2,398	
Distribution costs	(303)		(6,948)		(19,942)	
Administrative expenses	(9,773)		(26,597)		(55,775)	
Other operating expenses	(2,279)		(5,417)		(5,399)	
Write-back of allowance (allowance) for doubtful debts	17		(1,155)		(6,082)	
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary	(403)		(3,297)		(42,115)	
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 amounts due from associates	—		(317)		—	
Loss from operations	(2,514)	(4.7)	(55,162)	(1,085)	(109,562)	(155.7)
Gain (loss) on disposal of subsidiaries	9,042		(539)		(4,615)	
Finance cost	(424)		(1,960)		(37)	
Share of results of an associate	—		(4)		(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	—		(72)		(65)	
Net profit (loss) for the year/period	<u>6,104</u>		<u>(57,737)</u>		<u>(191,293)</u>	

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## LETTER FROM BARITS

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*Note:* Other discontinued operations include: (1) sales of sanitary fixtures and fittings; (2) sales of hardware, industrial and consumer products; and (3) drainage, plumbing and engineering contracting services.

As stated in the Group's annual report and the audited financial statements for the fifteen months ended 31 March, 2004 (the "2004 Annual Report"), the Company changed its financial year-end date from 31 December to 31 March to align the financial year-end date with that of Easyknit.

As shown above, for the fifteen months ended 31 March, 2004, the Group's turnover and gross profits were approximately HK\$5.1 million and HK\$1.7 million respectively, which represent a decrease of approximately 92.8% and 90.5% respectively when compared to the turnover and gross profits for the year ended 31 December, 2002 of approximately HK\$70.4 million and HK\$18.1 million. As stated in the 2004 Annual Report, such decrease was mainly due to the disposal of the Group's other discontinued business. Upon such disposal, the Group's turnover for the fifteen months ended 31 March, 2004 was generated from its wireless communication business, provision of communication solutions consultancy services and internet operations. Although the Group intended to streamline its business to enhance its profitability, the general economic climate in 2003 and early 2004 affected the mobile communication business of the Group in Hong Kong, and the wireless communication business suffered from huge losses. In view of such, the Group continued to streamline its wireless communication business, and to diversify and expand its source of income.

As stated in the Company's circular dated 23 April, 2004 in relation to the "Major and connected transaction, proposed acquisition of the entire issued share capital of Po Cheong International Enterprises Limited", in view of the strong growth of garment manufacturing industry in the PRC in the past decade, the Group acquired from Easyknit International Trading Company Limited, a wholly-owned subsidiary of Easyknit, all the issued shares of Po Cheong International Enterprises Limited, which, together with its subsidiary (the "Po Cheong Group"), is principally engaged in the business of bleaching and dyeing (the "Po Cheong Acquisition"). Please refer to the next paragraph headed "Acquisition of Po Cheong International Enterprises Limited" for details of the Po Cheong Acquisition. After the completion of the Po Cheong Acquisition on 17 May, 2004, turnover and gross profit soared to approximately HK\$53.7 million and HK\$10.0 million for the year ended 31 March, 2005, which represents an increase of approximately 955.7% and 475.5% as compared to the fifteen months ended 31 March, 2004.

The Group's net loss for the fifteen months ended 31 March, 2004 amounted to approximately HK\$57.7 million, which includes impairment loss recognised in respect of long term investments of approximately HK\$3.9 million and impairment loss recognised in respect of property, plant and equipment of approximately HK\$9.9 million. The net loss represents a decrease of approximately 69.8% as compared to net loss of approximately HK\$191.4 million for the year ended 31 December, 2002. The decrease was mainly due to the disposal of loss-making subsidiaries.

Upon disposal of the persistent loss-making wireless communication business in June 2004, the net loss situation was reversed, and for the year ended 31 March, 2005, the Group recorded net profit amounted to approximately HK\$6.1 million, contributed largely by a gain of approximately HK\$9.0 million on the disposal. Notwithstanding this, taking out the effect from the gain on disposal of subsidiaries, the Group would still record a net loss of approximately HK\$2.9 million. As advised by

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## LETTER FROM BARITS

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the Directors, the loss was mainly attributable to the knitting business established by the Group in May 2004, in which full operations have not commenced, contributed an operating loss of HK\$2.4 million. Apart from the knitting business, the bleaching and dyeing business of the Po Cheong Group contributed to an operating profit of approximately HK\$4.1 million to the Group.

### *Acquisition of Po Cheong International Enterprises Limited*

Prior to the Po Cheong Acquisition, the Group was principally engaged in the wireless communication business, provision of communication solutions consultancy services and internet operations. As stated above, in 2003 and early 2004 the wireless communication business of the Group continued to suffer substantial losses and the outlook of the wireless communication industry remained uncertain. The Directors intended to continue the wireless communication business on a prudent basis while streamlining the operations. Hence, the Directors believe that it was in the interest of the Group to explore new investments and business opportunities and they had preliminary negotiations with various parties. Having considered the financial position of the Group and having reviewed the status of the negotiations, the Directors came to a conclusion that it was an opportune time to acquire the bleaching and dyeing business of the Po Cheong Group as it was a stable business which the Company's management was familiar with and would provide steady cash flow to the Group. As a result, the Po Cheong Acquisition commenced, and was completed on 17 May, 2004, with an expectation that it would enhance the revenue base of the Group and diversify its source of income.

As seen from the section headed "Business review of the Group" above, the Directors believe that the Group's recent financial performance of the bleaching and dyeing business has justified the Po Cheong Acquisition and the Group's change in principal business upon disposal of the wireless communication business in June 2004. The Directors further believe that the Po Cheong Group will contribute positively to the Group's profitability.

### *The Project*

After the Po Cheong Acquisition, the subsequent disposal of its loss-making business and its setting up of a knitting manufacturing capabilities in PRC in May 2004, the Group is primarily engaged in the business of bleaching, dyeing and knitting. As stated in the Company's circular dated 21 February, 2005 in relation to the "Very substantial acquisition", 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.

To facilitate this development, the Project was introduced. The Company intends to divide the Project into 2 phases. Phase 1 of the Project consists of the acquisition of a piece of land at Huzhou City, Zhejiang Province, PRC (the "Property") at a consideration of approximately RMB9.5 million (the "Acquisition"), the construction of a waste water treatment plant to be built on the Property at a cost of not more than HK\$30 million (the "Construction"), and the development of the garment manufacturing and bleaching and dyeing operations on the Property, which amount to an intended investment of HK\$160 million. The total investment under phase 1 of the Project is expected to be up

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## LETTER FROM BARITS

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to HK\$200 million. Phase 2 of the Project will involve the development of knitting capability, which will not be commenced until phase 1 of the Project has been completed and has demonstrated its value to the business of the Group as stated in the Announcement. As advised by the Directors, the amount of investment for phase 2 of the Project is still under review by the management of the Company.

The first part of phase 1 of the Project, including the Acquisition and the Construction, has been financed through bank borrowings of HK\$30 million which is guaranteed by a personal guarantee from a Director, as well as an existing bank facility of HK\$10 million. As advised by the Directors, the Acquisition is yet to be completed. The Directors further advised that the Construction will commence upon completion of the Acquisition.

The second part of phase 1 of the Project, which consists of the development of the garment manufacturing and bleaching and dyeing operations on the Property with intended investment of HK\$160 million, will be partially funded by proceeds from the proposed Rights Issue. As stated in the Announcement, the Directors have no immediate intention to issue further new Consolidated Shares to raise funds. The Group may however raise further funds in future for the remaining funding requirements of the Project, or when there is such other requirement, including if opportunities for new businesses or investments arise. Taking into account the use of proceeds of the Rights Issue, the remaining funding requirements of phase 1 of the Project is estimated to be approximately HK\$90 million, the fund raising activities of which, as advised by the Directors, are not expected to take place until late 2005. As at the Latest Practicable Date, the Company has not entered into any financing arrangement in respect thereof.

The Directors believes that the Project will consolidate and significantly increase its manufacturing capabilities and provide the Company with further economy of scale while capturing the business opportunities resulting from the strong growth in the garment manufacturing industry in the PRC as stated in the Company's circular dated 21 February, 2005. It also enhances relationship with the vendor (the People's Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, the PRC) which will assist in the smooth running of its operations.

### *Use of proceeds*

Pursuant to the Announcement, the estimated net proceeds of the Rights Issue will be between HK\$140.3 million (assuming no outstanding Share Options are exercised before the Record Date) and HK\$142.6 million (assuming all outstanding Share Options are exercised before the Record Date). The Company plans to use the proceeds as follows:

1. approximately HK\$69.9 million for the repayment of all outstanding bank borrowings comprising approximately HK\$56.0 million of bank loans due within a year and approximately HK\$13.9 million due beyond a year; and

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## LETTER FROM BARITS

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2. the balance of approximately HK\$70.4 million (Note 1) to HK\$72.7 million (Note 2) will be used as general working capital including for the construction of the garment manufacturing and bleaching and dyeing capabilities.

*Notes:*

1. Based on the estimated net proceeds of approximately HK\$140.3 million (assuming no outstanding Share Options are exercised before the Record Date).
2. Based on the estimated net proceeds of approximately HK\$142.6 million (assuming all outstanding Share Options are exercised before the Record Date).

Given the above, we are of the view that proceeds from the Rights Issue will allow the Group to strengthen its manufacturing operations and capability of its existing main business by partially fulfilling the remaining funding requirements of the phase 1 of the Project of approximately HK\$160 million, and to release the Group from its current bank borrowings such that it will be in a better position to secure future bank borrowings for funding the remaining parts of the Project as well as other business opportunities, which is in the interest of the Group.

### **Alternatives to the Rights Issue**

The Directors advised that they have considered other methods of fund raising, such as bank financing and placing of new Shares. In order for the Group to be in a better position to pursue future bank borrowings, the Directors intend to maintain a healthy balance sheet and a low interest level for the Group rather than to increase its gearing ratio and interest burden by increasing the level of bank financing by approximately HK\$140 million, being the estimated net proceeds from the Rights Issue. In addition, as advised by the Directors, should the Group requires bank borrowings in the future, it will be in a better position to negotiate more favourable terms than the existing ones due to the improved outlook and the strengthened financial position of the Group after the Rights Issue. As stated in the Group's annual report for the year ended 31 March, 2005, the Group's gearing ratio, which was calculated based on the total borrowings to the shareholders' fund, rose from approximately 6.9% as at 31 March, 2004 to approximately 72.5% as at 31 March, 2005.

The Directors consider that it is more conservative for the Company to implement its business plans through raising funds in the equity capital market. However, the Directors advised that if equity financing in the size comparable to the Rights Issue were raised through a placing of new Shares, it would result in a dilution shareholding effect.

Unlike other methods of fund raising, the Directors consider that the Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interest in the Company and to continue to participate in the future development of the Group should they wish to do so. Hence, compared with bank financing and placing of new Shares, we are of the view that the Rights Issue under the prevailing arrangement will be a better alternative of fund raising to finance the Group's business expansion plans and to decrease the Group's interest burden, at the same time enable the Shareholders to maintain their proportionate interests in the Company should they wish to do so.

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## LETTER FROM BARITS

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### Principal terms of the Rights Issue

#### *Subscription Price*

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

<b>Rights Price</b>	<b>After Share Consolidation</b>
(a) Closing price per Share quoted on the Stock Exchange on the Latest Practicable Date	HK\$ 0.42
<i>Discount (%)</i>	4.8%
(b) Closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$ 0.86
<i>Discount (%)</i>	53.5%
(c) Theoretical ex-right price calculated based on the closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$ 0.442
<i>Discount (%)</i>	9.5%
(d) Average closing price per Share for the last 5 full trading days quoted on the Stock Exchange on the Last Trading Day	HK\$ 0.86
<i>Discount (%)</i>	53.5%
(e) Average closing price per Share for the last 10 full trading days quoted on the Stock Exchange on the Last Trading Day	HK\$ 0.89
<i>Discount (%)</i>	55.1%

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## LETTER FROM BARITS

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<b>Rights Price</b>	<b>After Share Consolidation</b>
(f) Average closing price per Share for the last 15 full trading days quoted on the Stock Exchange on the Last Trading Day	HK\$ 0.94
<i>Discount (%)</i>	<i>57.5%</i>
(g) Average closing price per Share for the last 30 full trading days quoted on the Stock Exchange on the Last Trading Day	HK\$ 0.99
<i>Discount (%)</i>	<i>59.6%</i>
(h) Net tangible asset value per Share based on the audited net tangible asset value of the Group of approximately HK\$42.9 million and 357,006,840 Shares in issue as at 31 March, 2005 as stated in the annual report of the Company for the year ended 31 March, 2005	HK\$ 1.20
<i>Discount (%)</i>	<i>66.7%</i>

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

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## LETTER FROM BARITS

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### *Share price performance*

The average daily closing prices, the monthly highest closing price and the monthly lowest closing price of the Shares traded on the Stock Exchange in each of the twelve months during the period commencing from 1 September, 2004 up to and including the Latest Practicable Date (the “Review Period”) are shown as follow:-

<b>Month</b>	<b>Average daily closing price (Note 2) (HK\$)</b>	<b>Highest closing price (Note 2) (HK\$)</b>	<b>Lowest closing price (Note 2) (HK\$)</b>
<b>2004</b>			
September	1.057	1.120	0.920
October	0.998	1.080	0.860
November	1.244	1.700	1.000
December	1.192	1.280	1.020
<b>2005</b>			
January	1.185	1.270	1.040
February	1.065	1.160	1.010
March	1.018	1.150	0.920
April	1.000	1.050	0.970
May	1.050	1.160	1.000
June	1.030	1.100	0.960
July	0.778	1.020	0.420
August (Note 1)	0.404	0.420	0.390

Source: Bloomberg

Notes: 1. Up to and including the Latest Practicable Date

2. Assuming Share Consolidation has taken place

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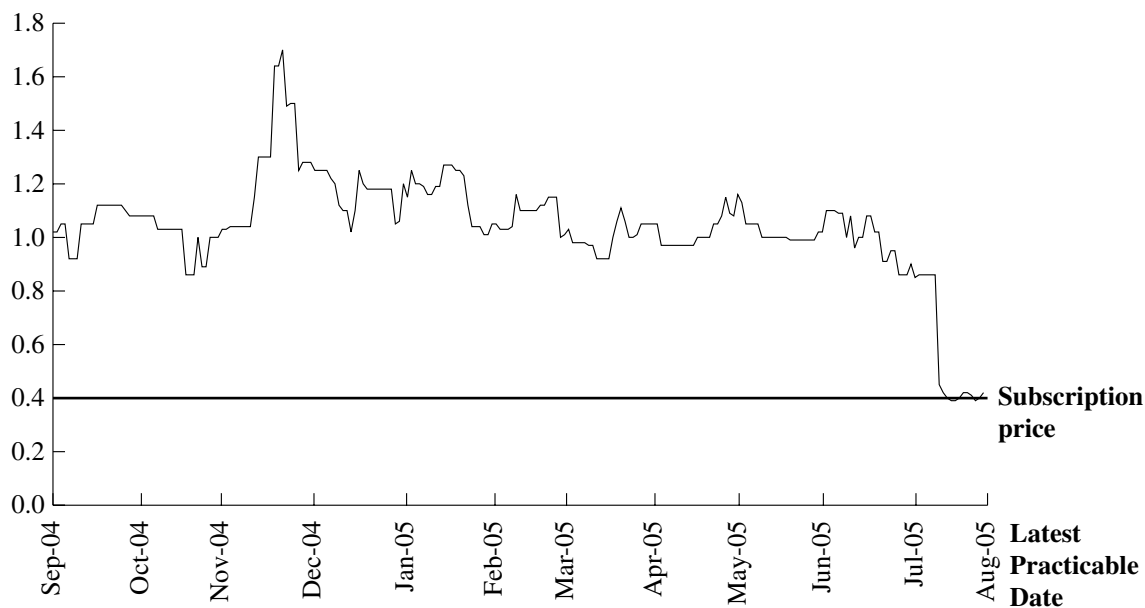
## LETTER FROM BARITS

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The following charts illustrate the closing price (assuming Share Consolidation has taken place) of the Shares on the Stock Exchange versus the subscription price of HK\$0.40 per Rights Share and the trading volume of the Shares during the Review Period:

### Closing price

(in HK\$)



Date

Source: Bloomberg

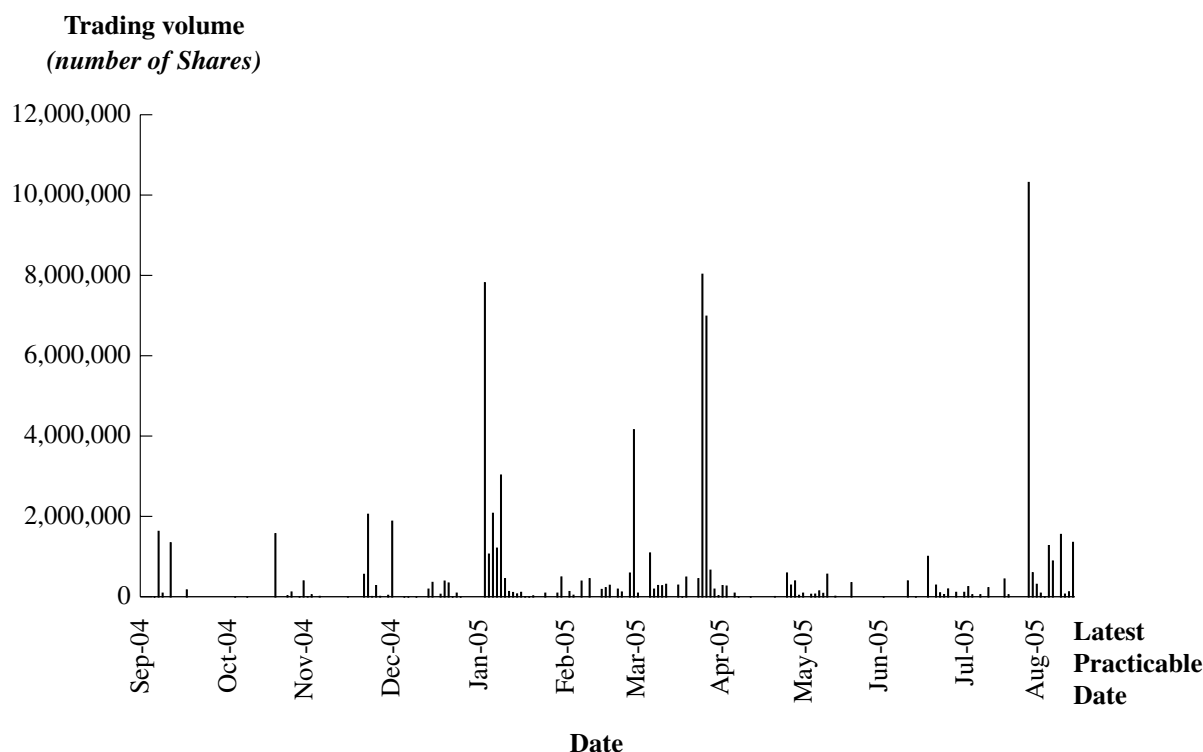
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## LETTER FROM BARITS

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We note that during the Review Period, the daily closing prices of the Shares were within the range of HK\$0.39 per Share to HK\$1.70 per Share. In particular, the closing price ranged from HK\$0.86 per Share to HK\$1.70 per Share during the period from 1 September, 2004 to the Last Trading Day, which is above the subscription price of each Rights Share. The subscription price of HK\$0.40 per Rights Share also represents a discount of approximately 61.2% to the average daily closing price of the Shares of approximately HK\$1.03 during the Review Period. Our assessment on the fairness and reasonableness of the subscription price per Rights Share is set out in the following section.

### *Review on the trading volume of the Shares*



Source: Bloomberg

During the Review Period covered by the above chart, the trading volume of the Shares has been sporadic with some intervals of low or nil trading interspersed with periods of more active trading in January 2005, March 2005 and July 2005. The Company had made a number of clarification announcements for those periods stating that the Directors were not aware of the reasons for the increases in the trading volume of the Shares during such periods.

## LETTER FROM BARITS

*Comparison with recent rights issues by listed companies in Hong Kong*

We have reviewed and included, so far as we are aware, all the companies listed on the Mainboard of the Stock Exchange which have announced rights issues during the Period. Based on publicly available information, the rights issues of 12 companies listed on the Mainboard of the Stock Exchange (the “Comparable Companies”) announced during the period from 1 January, 2005 up to and including the Latest Practicable Date (the “Period”) is summarised in the following two tables below:

**Table A**

No.	Company (Stock Code)	Date of announcement	Offer Ratio	Subscription price (in HK\$)	Closing price of shares on the last trading day prior to the date of announcement (in HK\$)	Theoretical ex-right price (in HK\$)	Net Assets Value per Share (in HK\$)
1	Tonic Industries Holdings Limited (978)	28 January, 2005	1 for 2	0.200	0.27	0.2467	0.6081
2	Hang Fung Gold Technology Limited (870)	7 February, 2005	1 for 3	1.010	1.16	1.12	1.3
3	New World China Land Limited (917)	18 February, 2005	3 for 2	2.800	4.00	3.28	10.99
4	Mae Holdings Limited (851)	1 April, 2005	1 for 1	0.100	0.26	0.18	0.0653
5	Takson Holdings Limited (918)	4 April, 2005	1 for 5	0.100	0.16	0.15	0.133
6	China Rich Holdings Limited (1191)	4 April, 2005	1 for 2	0.040	0.04	0.04	0.1648
7	Ruili Holdings Limited (491)	29 April, 2005	3 for 1	0.100	0.242	0.1355	(Note 1)
8	Lai Sun Garment (International) Limited (191)	18 May, 2005	1 for 8	0.500	0.53	0.527	1.58
9	Hualing Holdings Limited (382)	19 May, 2005	3 for 2	0.100	0.23	0.152	(Note 1)
10	SNP Leefung Holdings Limited (623)	25 May, 2005	1 for 4	1.200	1.4	1.36	1.87
11	Unity Investments Holdings Limited (913) (Note 2)	26 July, 2005	10 for 1	0.100	0.27	0.115	2.1
12	Symphony Holdings Limited (1223)	27 July, 2005	1 for 2	0.630	1.65	1.31	0.79
	The Company (616) (Note 3)	22 July, 2005	10 for 1	0.400	0.86	0.442	1.2

# LETTER FROM BARITS

**Table B**

No.	Company (Stock Code)	Discount of subscription price to closing price (%)	Discount of subscription price to theoretical ex-right price (%)	Discount of subscription price to net asset value per share (%)
1	Tonic Industries Holdings Limited (978)	25.90	18.90	67.10
2	Hang Fung Gold Technology Limited (870)	12.93	10.02	22.31
3	New World China Land Limited (917)	30.00	14.60	74.50
4	Mae Holdings Limited (851)	61.50	44.40	53.10
5	Takson Holdings Limited (918)	37.50	33.30	24.80
6	China Rich Holdings Limited (1191)	0.00	0.00	75.73
7	Ruili Holdings Limited (491)	58.70	26.20	<i>(Note 1)</i>
8	Lai Sun Garment (International) Limited (191)	5.70	5.10	68.35
9	Hualing Holdings Limited (382)	56.50	34.20	<i>(Note 1)</i>
10	SNP Leefung Holdings Limited (623)	14.29	11.76	35.83
11	Unity Investments Holdings Limited (913) <i>(Note 2)</i>	62.96	13.04	95.24
12	Symphony Holdings Limited (1223)	61.80	51.90	20.10
	<b>Mean/Average</b>	<b>35.65</b>	<b>21.95</b>	<b>53.70</b>
	<b>Median</b>	<b>33.75</b>	<b>16.75</b>	<b>60.10</b>
	The Company (616) <i>(Note 3)</i>	53.50%	9.50%	66.70%

*Notes:*

1. The companies are in net liabilities position.
2. Assuming the consolidation of every 10 shares (of HK\$0.01 each) in the issued and unissued share capital of the company into one consolidated share (of HK\$0.10 each) in the issued and unissued share capital of the company has taken place.
3. Assuming Share Consolidation has taken place.

*Source:* The Stock Exchange of Hong Kong Limited

We are mindful of the fact that the pricing of a rights issue may vary under different stock market condition as well as for companies with different financial standing and business performance. Nevertheless, we consider that a broader comparison of rights issues announced recently would provide a more general reference during a comprehensive period for the reasonableness of the pricing of the Rights Issue.

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## LETTER FROM BARITS

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As advised by the Directors, given the low trading price of the Shares, in order to fulfill the funding requirements of the Group, the required amount of net proceeds can only be raised through the existing offer basis. Moreover, in order to attract Qualifying Shareholders to participate in the Rights Issue, the subscription price must be set at a higher discount to the trading price of the Shares and the net asset value per Share.

The Comparable Companies' subscription prices to their respective theoretical ex-right closing price ranged from a discount of approximately 0.0% to approximately 51.9%, with mean and median discounts of approximately 22.0% and 16.8% respectively. Moreover, the Comparable Companies' subscription prices to their net asset value per share ranged from a discount of approximately 20.1% to approximately 95.2%, with mean and median discounts of approximately 53.7% and 60.1% respectively. As shown in Table B, the Company's discount of subscription price to net asset value per share is close to the mean and median of the Comparable Companies. Given the diverse business nature, financial standing, offer ratio and purpose of rights issue for the Comparable Companies, as the subscription price of the Rights Issue to the net asset value per share is similar to those of the Comparable Companies and the Project will allow the Company to capture the business opportunities resulting from the strong growth in the garment manufacturing industry in the PRC, we consider that the subscription price of the Rights Issue is reasonable.

### *Status of the Rights Shares*

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

### *Dilution effect on the Shareholders*

Given that the Rights Issue is on the basis of ten Rights Shares for every Consolidated Share held, the attributable interest in the Company (in terms of percentage shareholding) of Qualifying Shareholders who do not elect to subscribe for in full their assured allotments under the Rights Issue will be diluted after completion of the Rights Issue to a maximum dilution of approximately 90.9%, assuming no outstanding Share Options are exercised before the Record Date. On the other hand, for those Shareholders who wish to increase their shareholding in the Company, they may apply for the Rights Shares in excess of their assured allotments. As stated in the paragraph headed "Alternatives to the Rights Issue", as we are of the view that the Rights Issue will be a better alternative of fund raising to finance the Group's expansion plans and to decrease the Group's interest burden, at the same time to enable the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to do so, we consider that the possible dilution effect on the Shareholders under the Rights Issue acceptable.

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## LETTER FROM BARITS

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### *Trading in nil-paid Rights Shares and application for excess Rights Shares*

The Company will apply to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Rights Shares in both nil-paid and fully paid forms to be allotted and issued pursuant to the Rights Issue. Since the subscription price of HK\$0.40 per Rights Share represents a discount over the recent market price of the Shares, theoretically, the Rights Shares in their nil-paid form is valuable, and the current arrangement of the Rights Issue will allow those Qualifying Shareholders who wish to increase their shareholdings in the Company through Rights Shares to acquire additional nil-paid Rights Shares on the Stock Exchange.

On the other hand, for those Qualifying Shareholders who do not wish to take up all or part of their Rights Shares entitlements, they may dispose of all or part of their nil-paid Rights Shares on the Stock Exchange provided that there are purchasers for such nil-paid Shares. Nevertheless, we must reiterate that those Qualifying Shareholders who do not subscribe for all or part of their entitlements under the Rights Issue will suffer a dilution of their shareholdings.

### **Financial effects of the Rights Issue**

#### *Net asset value*

The Directors are of the view that the discount of the subscription price of approximately 66.7% to the net tangible asset value per Share presents a valuable opportunity for Qualifying Shareholders to take up the Rights Shares at a more attractive price while providing the Company with the necessary funding. We concur with the view of the Directors in this regard.

#### *Gearing ratio*

As approximately HK\$69.9 million of the net proceeds raised would be used for repayment of all the Group's outstanding bank borrowings, the Directors believe the gearing ratio will improve upon completion of the Rights Issue. Taking into account that even upon utilisation of the proceeds from the Rights Issue, the remaining funding requirements of phase 1 of the Project is still estimated to be approximately HK\$90 million, and that the amount of investment for phase 2 of the Project is yet to be determined. Therefore, we consider that the decrease in gearing ratio will enhance the flexibility for the Group to raise additional capital to develop the Project, which is in the interest of the Group.

Moreover, as advised by the Directors, should the Group requires bank borrowings in the future, it will be in a better position to negotiate more favourable terms than the existing ones due to the improved outlook and the strengthened financial position of the Group after the Rights Issue, hence, we consider that the timing for loan repayment acceptable.

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## LETTER FROM BARITS

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### *Earnings/earnings per Share*

Although the Project is expected to generate profit for the Group, details of which are subject to change and future profits from the Project cannot be estimated nor quantified at this stage. Therefore, the Project has no immediate significant impact on the earnings of the Group.

As the proposed Rights Issue is expected to increase the total number of issued Shares upon completion, the earnings per Share is expected to decrease subsequently. Having considered the Project is yet to be completed, we consider the temporary decrease in earnings per Share to be reasonable, taking into account the potential profit that may be generated for the Group by the Project.

### **Underwriting arrangements**

Easyknit, through Landmark Profits, owns approximately 35.93% of the issued share capital of the Company. Landmark Profits has irrevocably undertaken to the Company and the Underwriter that the Shares beneficially owned by it will not be disposed of or transferred and will remain registered in its name from the date of such undertaking to the Record Date and that it will take up its entitlement under the Rights Issue in full. In light of the above, we consider that the above underwriting arrangement demonstrate the financial commitment of Landmark Profits to the future development of the Group.

## **PROPOSED GENERAL MANDATE TO ISSUE NEW CONSOLIDATED SHARES AND REPURCHASE CONSOLIDATED SHARES**

### **Background of the Issue Mandates**

As at the Latest Practicable Date, the issued share capital of the Company comprised 357,006,840 Shares and the general mandate granted to the Directors at the annual general meeting of the Company held on 25 August, 2004 had not been utilised.

It is proposed that the Issue Mandates be granted to the Directors at the SGM. In accordance with the Listing Rules, Landmark Profits and its associates (as defined in the Listing Rules) will abstain from voting on the resolution(s) to approve the Issue Mandates.

It is further proposed that the Directors be given the Repurchase Mandate at the SGM. An explanatory statement, as required by the Listing Rules to be sent to the Shareholders in connection with the Repurchase Mandate, is set out in Appendix II to this circular.

The Directors consider that the granting of the Issue Mandates help to maintain the flexibility of the Company to raise funds in the future for its future business development.

### **Financial flexibility**

The Company does not have any fund raising exercises in the past 12 months from the date of the Announcement. The Directors are of the view that the Company has sufficient funds to meet its current working capital requirements after the Rights Issue and has no immediate intention to issue further new Consolidated Shares to raise funds, except that the Group may raise further funds in future for the remaining funding requirements of the Project, or when there is such other requirement,

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## LETTER FROM BARITS

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including if opportunities for new businesses or investments arise. Given this, the Directors consider that the Issue Mandates will provide the flexibility as allowed under the Listing Rules to allot and issue new Consolidated Shares as consideration for funding future investments and/or acquisitions as and when such opportunities arise in a timely manner.

Having considered the facts that the Issue Mandates will enhance the flexibility for the Group to raise additional capital for any business opportunities that may arise in the future, we consider that the Issue Mandates not to be prejudicial to the interests of the Company and the Shareholders as a whole.

### **Other financing alternatives**

The Directors advised that other than equity financing, the Directors will also consider other alternatives such as debt financing, bank borrowing and funding through internal resources in the future in order to meet funding requirements arising from future business development of the Group, depending on the then financial position, capital structure and cost of funding of the Group as well as the then market conditions. The Issue Mandates will serve as one of the alternatives for the Company to finance the Group's business expansion. The Directors have confirmed that they will take due and careful consideration in choosing the financing method which best serves the interest of the Group. We consider that it is reasonable to make reference to the then financial position of the Group in order to decide on a financing method for the future business development of the Group.

### **RECOMMENDATION**

Having considered the abovementioned principal factors and reasons, in particular:

- the net proceeds from the Rights Issue will enable the Group to improve the Group's gearing ratio and implement the second part of phase 1 of the Project, which is in the interest of the Group;
- compared with bank financing and placing of new Shares, the Rights Issue under the prevailing arrangement will be a better alternative of fund raising to finance the Group's business expansion plans and enable the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to do so; and
- the Issue Mandates will enhance the flexibility for the Group to raise additional capital for any business opportunities that may arise in the future,

we consider that the terms and conditions of the Rights Issue and the Issue Mandates are fair and reasonable so far as the Independent Shareholders generally are concerned and that the Rights Issue and the Issue Mandates are in the interests of the Company. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution approving the Rights Issue and the Issue Mandates at the SGM.

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## LETTER FROM BARITS

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Notwithstanding our recommendation above, Independent Shareholders should note that the recent Share price has dropped close to the subscription price for almost all trading days, and have dropped below the subscription price for three trading days since the date of the Announcement. Under such circumstances, we recommend the Independent Shareholder who wish to take up part or all of their entitlements under the Rights Issue to closely monitor the market price of the Shares during the period until the last day of acceptance of the Rights Shares, which is expected to be on 22 September, 2005. In particular, we recommend the above Independent Shareholders to consider, instead of taking up any Rights shares, acquiring the Shares in the market if the effective acquisition cost of the Shares in the market is lower than the amount payable under the Rights Issue.

Yours faithfully,  
For and on behalf of  
**Barits Securities (Hong Kong) Limited**  
**Terence Hong** **Alfred Wong**  
*Managing Director* *Executive Director*

**1. RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable 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:

**Interests in issued Shares**

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of issued ordinary Shares (long position)</b>	<b>% to existing issued share capital of the Company</b>
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 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.

## Interests in unissued Consolidated Shares

Name of Director	Nature of interest	Number of unissued ordinary Consolidated Shares (long position)	% to the Consolidated Shares to be issued under the Rights Issue (assuming no Share Options are exercised before the Record Date)
Mr. Koon Wing Yee ( <i>Note</i> )	Interest of spouse	128,259,320	35.93
Ms. Lui Yuk Chu ( <i>Note</i> )	Beneficiary of a trust	128,259,320	35.93

*Note:* The 128,259,320 Consolidated Shares are the Rights Shares which Landmark Profits has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Landmark Profits 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 128,259,320 Rights 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, none of the Directors had any direct or indirect interest in any assets which had been, since 31 March, 2005 (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:

#### Interest in issued Shares

Name of substantial shareholder	Nature of interest	Number of issued ordinary Shares (long position)	% to existing issued share capital of the Company
Landmark Profits (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 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).
- Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu, being the Directors, are also the directors of Landmark Profits and Easyknit.
- Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits Limited.
- Mr. Koon Wing Yee, being a Director, is also a director of Accumulate More Profits Limited.

## Interests in unissued Consolidated Shares

Name of substantial shareholder	Nature of interest	Number of unissued Consolidated Shares (long position)
Landmark Profits (Notes 1 & 2)	Beneficial owner	128,259,320
Easyknit (Notes 1 & 2)	Interest of controlled corporation	128,259,320
Magical Profits Limited (Notes 1 & 3)	Interest of controlled corporation	128,259,320
Accumulate More Profits Limited (Notes 1 & 4)	Interest of controlled corporation	128,259,320
Trustcorp Limited (Note 1)	Trustee	128,259,320
Get Nice Holdings Limited (Note 5)	Interest of controlled corporation	234,372,520
Get Nice Incorporated (Note 5)	Interest of controlled corporation	234,372,520
Honeylink Agents Limited (Note 5)	Interest of controlled corporation	234,372,520
Business Securities Limited (Note 6)	Other	78,124,172
Willie International Holdings Limited (Note 7)	Interest of controlled corporation	78,124,172

## Notes:

- The 128,259,320 Consolidated Shares are the Rights Shares which Landmark Profits has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Landmark Profits 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).
- Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu, being the Directors, are also the directors of Landmark Profits and Easyknit.
- Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits Limited.
- Mr. Koon Wing Yee, being a Director, is also a director of Accumulate More Profits Limited.
- The 234,372,520 Consolidated Shares are the Rights Shares which the Underwriter has underwritten in respect of the Rights Issue (assuming all the Share Options are exercised before the Record Date). The Underwriter was wholly-owned by Get Nice Incorporated, which in turn was wholly-owned by Get Nice Holdings Limited. Get Nice Holdings Limited was owned as to approximately 30.36% by Honeylink Agents Limited.
- The 78,124,172 Consolidated Shares are the Rights Shares which Business Securities Limited has sub-underwritten in respect of the Rights Issue (assuming all the Share Options are exercised before the Record Date) from the Underwriter.
- The 78,124,172 Consolidated Shares are the Rights Shares which Chung Nam Securities Limited has sub-underwritten in respect of the Rights Issue (assuming all the Share Options are exercised before the Record Date) from the Underwriter. Willie International Holdings Limited is the ultimate holding company of Chung Nam Securities 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) a placing agreement dated 13 October, 2003 entered into between the Company and the Underwriter 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;
- (b) 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;
- (c) an underwriting agreement dated 2 January, 2004 entered into among the Company, the Underwriter, 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;
- (d) 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, which has been subsequently adjusted downwards to HK\$38,879,778 (for details, please refer to the announcements dated 5 March, 2004, 26 March, 2004, 2 April, 2004, 8 April, 2004, 21 April, 2004, 10 May, 2004 and 16 June, 2005, and the circular dated 23 April, 2004 of the Company);
- (e) 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);
- (f) an agreement dated 24 December, 2004 and two supplemental agreements dated 28 December, 2004 and 18 April, 2005 between Easyknit (Mauritius) Limited, a wholly-owned

subsidiary of the Company and the People's Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, the PRC in relation to the Project (for details, please refer to the announcements dated 3 January, 2005, 24 January, 2005, 8 February, 2005 and 21 February, 2005 and the circular dated 21 February, 2005 of the Company); and

(g) the Underwriting 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:

<b>Name</b>	<b>Qualification</b>
Barits	Licensed corporation under the SFO

Barits 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, Barits:

- (a) was not interested, directly or indirectly in any assets which have been, since 31 March, 2005 (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 6 September, 2005:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the Underwriting 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 two years ended 31 March, 2005;
- (e) the letter of advice from Barits, the text of which is set out on pages 31 to 50;
- (f) the letters of consent referred to in the section headed "Qualifications of Experts and Consents" in this appendix; and
- (g) this circular.

*This section serves as an explanatory statement as required by the Listing Rules to provide information to Shareholders for their consideration of the Repurchase Mandate.*

## **1. SHARE CAPITAL**

As at the Latest Practicable Date, the issued share capital of the Company comprised 357,006,840 Shares and will be increased to 392,707,524 Consolidated Shares upon completion of the Capital Reorganisation and the Rights Issue (assuming no Share Options are exercised before the Record Date).

Subject to the passing of the relevant resolution as set out in the notice of the SGM in respect of the Repurchase Mandate and assuming that the issued share capital of the Company upon completion of the Capital Reorganisation and the Rights Issue becoming a total of 392,707,524 Consolidated Shares, the Company will be allowed to repurchase Consolidated Shares up to a maximum of 39,270,752 Consolidated Shares.

## **2. REASONS FOR REPURCHASE**

The Directors have no present intention to repurchase any Shares or Consolidated Shares should the Capital Reorganisation and Rights Issue becoming effective. The Directors believe that the Repurchase Mandate is in the interests of the Company and the Shareholders as it will provide the Company with the flexibility to make such repurchase when appropriate. Such repurchase may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or its earnings per Consolidated Share and will only be made when the Directors believe that such repurchase will benefit the Company and the Shareholders.

## **3. FUNDING OF REPURCHASES**

In repurchasing Consolidated Shares, the Company may only apply internal funds legally available for such purpose in accordance with its bye-laws adopted by the Company, the Listing Rules and the applicable laws of Bermuda. Any repurchases will be made out of funds of the Company legally permitted to be utilised in this connection, including capital paid up on the Consolidated Shares to be repurchased, profits otherwise available for dividend and in the case of premiums payable on repurchase, sums standing to either the share premium account or contributed surplus account of the Company.

There might be a material adverse impact on the working capital requirements or gearing levels of the Company, as compared with the position disclosed in the latest published audited accounts as at 31 March, 2005, in the event that the Repurchase Mandate was to be exercised in full at any time during the proposed purchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels that in the opinion of the Directors are from time to time appropriate for the Company.

#### **4. DIRECTORS' UNDERTAKING**

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the power of the Company to make repurchases pursuant to the Repurchase Mandate and in accordance with its bye-laws adopted by the Company, the Listing Rules and the applicable laws of Bermuda.

#### **5. DIRECTORS, THEIR ASSOCIATES AND CONNECTED PERSONS**

None of the Directors, to the best of their knowledge having made all reasonable enquiries, nor their associates (as defined in the Listing Rules) have any present intention to sell Consolidated Shares to the Company or its subsidiaries under the Repurchase Mandate if such is approved by the Shareholders.

No connected persons (as defined in the Listing Rules) of the Company have notified the Company that they have a present intention to sell Consolidated Shares to the Company or its subsidiaries, or have undertaken not to do so, in the event that the Repurchase Mandate is approved by the Shareholders.

#### **6. HONG KONG CODE ON TAKEOVERS AND MERGERS**

As at the Latest Practicable Date, Landmark Profits held 128,259,324 Shares, representing approximately 35.93% of the issued share capital of the Company. Immediately after the completion of the Capital Reorganisation and the Rights Issue (assuming no Share Options are exercised before the Record Date), Landmark Profits will hold 141,085,252 Consolidated Shares, representing approximately 35.93% of the then issued share capital of the Company. Landmark Profits is a wholly-owned subsidiary of Easyknit. Magical Profits Limited ("Magical") is interested in approximately 36.74% of the issued share capital of Easyknit. Magical is wholly owned by Accumulate More Profits Limited ("Accumulate") which in turn is wholly owned by Trustcorp Limited ("Trustcorp") 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 is the spouse of Ms. Lui Yuk Chu. Easyknit, Magical, Accumulate, Trustcorp, Ms. Lui Yuk Chu and Mr. Koon Wing Yee are taken to have an interest under the SFO in the same block of 141,085,252 Consolidated Shares to be held by Landmark Profits.

In the event that the Directors exercise in full the power to repurchase Consolidated Shares under the Repurchase Mandate, then (assuming that the Company has 392,707,524 Consolidated Shares in issue upon the completion of the Capital Reorganisation and the Rights Issue) the attributable shareholdings of each of Landmark Profits, Easyknit, Magical, Accumulate, Trustcorp, Ms. Lui Yuk Chu and Mr. Koon Wing Yee in the Company would be increased by more than 2% from approximately 35.93% to approximately 39.92% of the issued share capital of the Company immediately after the full exercise of the Repurchase Mandate. In the opinion of the Directors, such increase will trigger the Takeovers Code and will give rise to an obligation to make a mandatory offer under Rule 26 of the Takeovers Code. The Directors have no present intention to exercise the Repurchase Mandate to such an extent as would result in takeover obligations.

**7. SHARE PRICES**

The highest and lowest prices at which the Shares were traded on the Stock Exchange during each of the previous twelve months preceding the Latest Practicable Date were as follows:

	<b>PER SHARE</b>	
	<b>Highest</b>	<b>Lowest</b>
	<i>HK\$</i>	<i>HK\$</i>
<b>2004</b>		
August	0.118	0.102
September	0.113	0.085
October	0.100	0.086
November	0.184	0.089
December ( <i>Note 1</i> )	0.132	0.102
<b>2005</b>		
January	0.135	0.103
February	0.120	0.101
March	0.122	0.091
April	0.110	0.087
May	0.116	0.095
June	0.115	0.095
July ( <i>Note 2</i> )	0.102	0.041
August (up to the Latest Practicable Date)	0.042	0.039

*Notes:*

1. Trading of the Shares was suspended from 28 December, 2004 to 3 January, 2005.
2. Trading of the Shares was suspended from 19 July, 2005 to 22 July, 2005 pending the release of the Announcement.

**8. SHARE REPURCHASES MADE BY THE COMPANY**

During the six months preceding the Latest Practicable Date, no Shares have been repurchased by the Company (whether on the Stock Exchange or otherwise).



## 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 Tuesday, 6 September, 2005 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

### **SPECIAL RESOLUTION**

1. “**THAT**, conditional upon (a) the Listing Committee of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) granting listing of, and permission to deal in, the Consolidated Shares (as defined below) and (b) compliance by the Company with the relevant legal procedures and requirements under the Company’s Bye-laws and the Companies Act 1981 of Bermuda (as amended) to effect the Capital Reorganisation (as defined below):
  - (i) the par value of the authorised, issued and unissued share capital of the Company be reduced from HK\$0.10 to HK\$0.001 which results in the (a) reduction of authorised share capital of the Company from HK\$650,000,000 divided into 6,500,000,000 ordinary shares of HK\$0.10 each (“**Shares**”) to HK\$6,500,000 divided into 6,500,000,000 ordinary shares of HK\$0.001 each (“**Reduced Shares**”); and (b) reduction of issued share capital of the Company from a level of issued capital in the range of HK\$35,700,684 divided into 357,006,840 Shares (based on a total of 357,006,840 Shares in issue as at the date of the notice convening the meeting at which this resolution is considered) to HK\$36,263,184 divided into 362,631,840 Shares (based on a total of 362,631,840 Shares in issue upon exercise in full of the subscription rights attaching to the outstanding options issued by the Company) by not less than HK\$35,343,677.16 and not more than HK\$35,900,552.16 to not less than HK\$357,006.84 divided into 357,006,840 Reduced Shares (based on a total of 357,006,840 Shares in issue as at the date of the notice convening the meeting at which this resolution is considered) and not more than HK\$362,631.84 divided into 362,631,840 Reduced Shares (based on a total of 362,631,840 Shares in issue upon exercise in full of the subscription rights attaching to the outstanding options issued by the Company) (collectively referred to as “**Capital Reduction**”) and the amount of the cancelled paid-up capital in the sum of between HK\$35,343,677.16 to HK\$35,900,552.16 arising from the Capital Reduction (depending on the Shares in issue at the time of the Capital Reduction, as above described) to be credited to a capital reserve account of the Company;

\* For identification only

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- (ii) thereafter, every ten issued and unissued Reduced Shares be consolidated (“**Share Consolidation**”) into one share of HK\$0.01 each (“**Consolidated Share**”) resulting in an authorised share capital of HK\$6,500,000 divided into 650,000,000 Consolidated Shares of which there are between 35,700,684 Consolidated Shares to 36,263,184 Consolidated Shares issued;

(the Capital Reduction and the Share Consolidation are collectively referred to as “**Capital Reorganisation**”); and

- (iii) the directors of the Company be and are hereby authorised generally to do all such acts, deeds and things as they may, in their absolute discretion, deem necessary, desirable or appropriate to effect and implement any of the foregoing.”

### ORDINARY RESOLUTIONS

2. “**THAT** conditional on (a) the passing of Special Resolution No. 1 as set out in the notice convening the special general meeting at which this resolution is proposed and the Capital Reorganisation (as defined in the said Special Resolution No.1) becoming effective and (b) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Rights Shares (as defined below) in their nil-paid and fully-paid forms:

- (i) the underwriting agreement dated 18 July, 2005 (“**Underwriting Agreement**”) between the Company and Get Nice Investment Limited (“**Underwriter**”) (a copy of the Underwriting Agreement has been produced to this meeting and marked “**A**” and initialled by the chairman of the meeting for the purpose of identification) be and is hereby confirmed, approved and ratified;
- (ii) the issue of not less than 357,006,840 Consolidated Shares and not more than 362,631,840 Consolidated Shares (“**Rights Shares**”) pursuant to an offer by way of rights to holders of Consolidated Shares in the Company at HK\$0.40 per Rights Share (“**Rights Issue**”) in the proportion of ten Rights Shares for every one Consolidated Share held by holders of Consolidated Shares (“**Shareholders**”) whose names appear on the register of members of the Company on 6 September, 2005 (or such other date as the Underwriter may be agreed in writing with the Company) (“**Record Date**”) other than those Shareholders whose addresses on the register of members of the Company are outside Hong Kong on the Record Date and whom the directors of the Company, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Issue to such Shareholders on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, on and subject to the terms and conditions set out in a prospectus to be sent to the Shareholders of the Company in respect of the Rights Issue (“**Prospectus**”) (a final version of the Prospectus has been produced to this meeting and marked “**B**” and initialled by the chairman of the meeting for the purpose of identification) and on such other terms and conditions as may be determined by the directors of the Company be and is hereby approved; and

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- (iii) the directors of the Company be and are hereby authorised to issue and allot the Rights Shares on terms as set out in the Prospectus and to do all such acts and things, to sign and execute all such further documents and to take such steps as the directors of the Company may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Rights Issue and the Underwriting Agreement or any of the transactions contemplated thereunder.”
3. “**THAT** conditional on the passing of Special Resolution No.1 and Ordinary Resolution No. 2 as set out in the notice convening the special general meeting at which this resolution is proposed and the completion of the Capital Reorganisation (as defined in the said Special Resolution No. 1) and the Rights Issue (as defined in the said Ordinary Resolution No. 2):-
- (a) if the ordinary resolution no. 4(A) as set out in the notice (“**AGM Notice**”) convening the annual general meeting of the Company held on 18 August, 2005 (“**AGM**”) was passed at the AGM, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with the shares pursuant to such ordinary resolution be and is hereby revoked (without prejudice to any valid exercise of such general mandate prior to the date on which this resolution becomes effective);
  - (b) subject to paragraph (d) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
  - (c) the directors of the Company be and are hereby authorised during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period (as hereinafter defined);
  - (d) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (b) above, otherwise than pursuant to: (i) a General Rights Issue (as hereinafter defined); (ii) the exercise of rights of subscription or conversion under the terms of any securities which are convertible into shares of the Company; (iii) the exercise of options granted under the share option scheme adopted by the Company; or (iv) an issue of shares as scrip dividends pursuant to the bye-laws of the Company from time to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue following the Capital Reorganisation becoming effective and as enlarged by the issue of the Rights Shares (as defined in Ordinary Resolution No.2), and the said approval shall be limited accordingly; and

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(e) for the purposes of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law of Bermuda to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

“General Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to the holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange).”

4. “**THAT** conditional on the passing of Special Resolution No.1 and Ordinary Resolution No.2 as set out in the notice (“**Notice**”) convening the special general meeting at which this resolution is proposed and the completion of the Capital Reorganisation (as defined in the said Special Resolution No.1) and the Rights Issue (as defined in the said Ordinary Resolution No. 2):-

- (a) if the ordinary resolution no. 4(B) as set out in the AGM Notice (as defined in Ordinary Resolution No. 3) was passed at the AGM (as defined in Ordinary Resolution No. 3), the general mandate granted to the directors of the Company to exercise the powers of the Company to purchase issued shares of the Company pursuant to such ordinary resolution be and is hereby revoked (without prejudice to any valid exercise of such general mandate prior to the date on which this resolution becomes effective);
- (b) subject to paragraph (d) below, the exercise by the directors of the Company during the Relevant Period (as defined in Ordinary Resolution No.2 as set out in the Notice) of all the powers of the Company to purchase issued shares of the Company on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

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- (c) the approval in paragraph (b) shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors of the Company on behalf of the Company during the Relevant Period to procure the Company to purchase its shares at a price determined by the directors of the Company; and
  - (d) the aggregate nominal amount of shares of the Company which are authorised to be purchased by the Company pursuant to the approval in paragraph (b) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company in issue following the Capital Reorganisation becoming effective and as enlarged by the issue of the Rights Shares (as defined in Ordinary Resolution No.2), and the said approval shall be limited accordingly.”
5. “**THAT** conditional upon the passing of Special Resolution No.1 and Ordinary Resolutions No.2, 3 and 4 in the notice (“**Notice**”) convening the special general meeting at which this resolution is proposed, the aggregate nominal amount of the shares in the capital of the Company which are purchased by the Company pursuant to and in accordance with the said Ordinary Resolution No.4 shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to and in accordance with Ordinary Resolution No.3 set out in the Notice.”

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

Hong Kong, 15 August, 2005

**Notes:**

1. Any shareholder entitled to attend and vote at the meeting convened by the above notice 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.

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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. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, then one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.

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.