

IMPORTANT

If you are in any doubt about this prospectus or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Asia Alliance Holdings Limited (the "Company"), you should at once hand this prospectus and the accompanying provisional allotment letter and form of application for excess Rights Shares, to the purchaser or bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

Dealings in the shares of the Company may be settled through the Central Clearing and Settlement System operated by Hong Kong Securities Clearing Company Limited ("HKSCC") and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

A copy of this prospectus, together with copies of the provisional allotment letter and the form of application for excess Rights Shares and the written consent of Deloitte Touche Tohmatsu, have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus has been filed with the Registrar of Companies in Bermuda in accordance with the Companies Act 1981 of Bermuda (as amended). The Registrar of Companies in Hong Kong, the Securities and Futures Commission of Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of any of the documents referred to above.

The Stock Exchange of Hong Kong Limited and HKSCC take no responsibility for the contents of this prospectus, 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 prospectus.



Asia Alliance Holdings Limited

亞洲聯盟集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 616)

RIGHTS ISSUE OF 357,006,840 RIGHTS SHARES OF HK\$0.01 EACH AT HK\$0.40 PER RIGHTS SHARE PAYABLE IN FULL UPON ACCEPTANCE ON THE BASIS OF TEN RIGHTS SHARES FOR EVERY SHARE HELD

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.

Dealings in the Rights Shares in nil-paid form will take place from Monday, 12 September, 2005 to Tuesday, 20 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 Shares or nil-paid Rights Shares during the period from Monday, 12 September, 2005 to Tuesday, 20 September, 2005 will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

It should be noted that the Underwriting Agreement contains provisions entitling the Underwriter, by notice in writing, to terminate the obligations of the Underwriter if at or prior to 4:00 p.m. on the Settlement Date 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: (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) 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 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.

The latest time for acceptance and payment for the Rights Shares is 4:00 p.m., on Friday, 23 September, 2005. The procedure for acceptance or transfer of the Rights Shares is set out on pages 16 to 17 of this Prospectus.

* For identification only

9 September 2005

SUMMARY OF THE RIGHTS ISSUE

The following information is derived from, and should be read in conjunction with, the full text of this Prospectus:

Number of Rights Shares to be issued:	357,006,840 Rights Shares
Amount to be raised:	Approximately HK\$142.8 million before expenses
Subscription price:	HK\$0.40 per Rights Share payable in full on acceptance
Latest time for acceptance:	4:00 p.m. on Friday, 23 September, 2005
Basis of the Rights Issue:	Ten Rights Shares for every Share held on the Record Date
Right of excess applications:	Provisional allottees have the right to apply for Rights Shares in excess of their provisional allotments

EXPECTED TIMETABLE

2005

Record Date	Thursday, 8 September
Register of members re-opens	Friday, 9 September
First day of dealings in nil-paid Rights Shares	Monday, 12 September
Latest time for splitting of nil-paid Rights Shares	4:00 p.m., Wednesday, 14 September
Last day of dealings in nil-paid Rights Shares	Tuesday, 20 September
Latest time for payment for and acceptance of Rights Shares.	4:00 p.m., Friday, 23 September
Rights Issue becomes unconditional.	after 4:00 p.m., Tuesday, 27 September
Announcement of results of acceptance and excess applications of the Rights Issue	Wednesday, 28 September
Despatch of refund cheques for wholly and partially unsuccessful excess applications	Wednesday, 28 September
Despatch of certificates for fully-paid Rights Shares	Wednesday, 28 September
First day of dealings in the fully-paid Rights Shares	Thursday, 29 September
Free exchange of existing share certificates for new share certificates ends	Friday, 21 October

All times in this Prospectus refer to Hong Kong times.

FORCE MAJEURE

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriting Agreement contains provisions to the effect that 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:
 - (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

FORCE MAJEURE

- (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 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.

Dealings in the Rights Shares in their nil-paid form will take place from Monday, 12 September, 2005 to Tuesday, 20 September, 2005 (both dates inclusive) whilst the conditions to which the Rights Issue is subject remain unfulfilled. Any Shareholders or other persons dealing in the Shares from now up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be Tuesday, 27 September, 2005), or in the Rights Shares in their nil-paid form during the period from Monday, 12 September, 2005 to Tuesday, 20 September, 2005 (being the first and the last day of dealings in the nil-paid Rights Shares respectively) (both dates inclusive), will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in their nil-paid form during such periods who are in any doubt about their position are recommended to consult their professional advisers.

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DEFINITIONS

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

“Acceptance Date”	Friday, 23 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 for, Rights Shares)
“Announcement”	the announcement of the Company dated 22 July, 2005 regarding, among other things, the Rights Issue
“associates”	the meaning ascribed to it in the Listing Rules
“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 Old Share to HK\$0.001 per Reduced Share by cancelling HK\$0.099 paid up capital on each issued Old 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, which take effect at 9:00 a.m. on Friday, 9 September, 2005
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	The Companies Act 1981 of Bermuda (as amended)
“Company”	Asia Alliance Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Director(s)”	director(s) of the Company
“EAF(s)”	the excess application form(s) 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
“Group”	the Company and its subsidiaries

DEFINITIONS

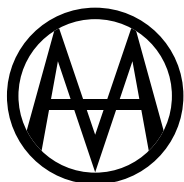
“HKSCC”	the Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Landmark Profits”	Landmark Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Easyknit
“Last Trading Day”	18 July, 2005, being the last trading day of the Old Shares prior to the release of the Announcement
“Latest Practicable Date”	5 September, 2005, being the latest practicable date prior to the printing of this Prospectus for ascertaining certain information contained herein
“Listing Committee”	the listing committee of the Stock Exchange
“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 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
“Old Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company before the Capital Reorganisation became effective
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appeared 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) 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

DEFINITIONS

“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”	this prospectus
“Prospectus Documents”	the Prospectus, PAL and EAF
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appeared on the register of members of the Company at the close of business on the Record Date
“Record Date”	Thursday, 8 September, 2005
“Reduced Share(s)”	share(s) of HK\$0.001 each in the share capital of the Company after the Capital Reduction becomes effective on Friday, 9 September, 2005
“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
“Rights Issue”	the issue by way of rights of 10 Rights Shares for every Share in issue on the Record Date at a price of HK\$0.40 per Rights Share
“Rights Share(s)”	the 357,006,840 new Shares under the Rights Issue
“Settlement Date”	Tuesday, 27 September, 2005, 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 held on Tuesday, 6 September, 2005 at which resolutions to approve, inter alia, the Capital Reorganisation and the Rights Issue were passed
“Share(s)”	the share(s) of HK\$0.01 each in the share capital of the Company in issue on the Capital Reorganisation becoming effective
“Share Consolidation”	the consolidation of every 10 Reduced Shares into one Share, which takes effect at 9:00 a.m., on Friday, 9 September, 2005

DEFINITIONS

“Shareholder(s)”	holder(s) of Old Share(s) or, where the context requires, Share(s)
“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”	Get Nice Investment Limited, a corporation deemed licensed 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



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

9 September, 2005

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

Dear Sir or Madam,

**RIGHTS ISSUE
OF 357,006,840 RIGHTS SHARES
OF HK\$0.01 EACH AT HK\$0.40 PER RIGHTS SHARE
PAYABLE IN FULL UPON ACCEPTANCE
ON THE BASIS OF
TEN RIGHTS SHARES FOR EVERY SHARE HELD**

INTRODUCTION

On 22 July, 2005, the Company announced that, among other things, subject to the Capital Reorganisation becoming effective and the fulfilment of the conditions of the Rights Issue, the Company proposed to raise approximately HK\$142.8 million before expenses, by the Rights Issue at a price of HK\$0.40 per Rights Share payable in full on acceptance. The Capital Reorganisation was approved at the SGM and becomes effective at 9:00 a.m. on Friday, 9 September, 2005.

* For identification only

LETTER FROM THE BOARD

The Company had Share Options in issue as at the Latest Practicable Date. As at the Latest Practicable Date, no Share Options had been exercised. Accordingly, the number of Rights Shares is fixed at 357,006,840.

The terms of the share option scheme of the Company adopted on 22 May, 2001 stipulate that adjustments shall be made to the exercise prices of the Share Options and the number of Shares to be issued on exercise of the Share Options upon the happening of certain events including the Rights Issue. Such adjustments if made will be certified by the auditors as fair and reasonable. The Company will make an announcement about the adjustment in the exercise prices of the Share Options and the number of Shares to be issued on exercise of the Share Options after completion of the Rights Issue.

Save for the Share Options, there are no outstanding warrants, share options or other securities which are convertible into or give rights to subscribe for Shares.

The purpose of this Prospectus is to provide you with full details of the Rights Issue, including information on dealing and transfer of Rights Shares in their nil-paid form and the procedure for acceptance of provisional allotment of Rights Shares and certain financial and other information about the Group.

TERMS OF THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	10 Rights Shares for every Share held on the Record Date
Number of Shares in issue:	35,700,684 Shares
Number of Rights Shares:	357,006,840 Rights Shares
Subscription price per Rights Share:	HK\$0.40 per Rights Share

The nil-paid Rights Shares 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 as enlarged by the issue of the Rights Shares.

LETTER FROM THE BOARD

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 have lodged any transfers of Old Shares (together with the relevant share certificates) with the Registrar for registration no later than 4:00 p.m. on Wednesday, 31 August, 2005.

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

Closure of register of members

The register of members of the Company has been closed from Thursday, 1 September, 2005, to Thursday, 8 September, 2005, both dates inclusive. No transfers of Old Shares were registered during this period.

Subscription price

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

The subscription price represents:

	Before Share Consolidation	After Share Consolidation
<i>Rights Price</i>	HK\$0.04	HK\$0.40
(a) Closing price per Old 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 Old Share quoted on the Stock Exchange on the Last Trading Day	HK\$0.0442	HK\$0.442
<i>Discount (%)</i>	9.5%	9.5%

LETTER FROM THE BOARD

	Before Share Consolidation	After Share Consolidation
(c) Average closing price per Old Share on ex-rights basis for the last 10 full trading days quoted on the Stock Exchange up to and including the Latest Practicable Date	HK\$0.0413	HK\$0.413
<i>Discount (%)</i>	<i>3.15%</i>	<i>3.15%</i>
(d) Theoretical ex-rights price calculated based on the closing price per Old Share as quoted on the Stock Exchange on the Latest Practicable Date	HK\$0.04	HK\$0.4
<i>Discount (%)</i>	<i>0%</i>	<i>0%</i>
(e) Net tangible asset value per Old Share based on the audited net tangible asset value of the Group of approximately HK\$42.9 million and 357,006,840 Old 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>	<i>66.7%</i>	<i>66.7%</i>

The subscription price for the Rights Shares was determined after arm's length negotiations between the Company and the Underwriter with reference to the market price and historical prices of the Old Shares. The Directors therefore 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.

The Directors believe that in order to attract Qualifying Shareholders to participate in the Rights Issue so as to fulfill the funding requirements of the Group as mentioned in the paragraph headed "Reasons for the Rights Issue and use of proceeds" below, the subscription price of the Rights Issue must be set at a higher discount to the trading price of the Shares and the net asset value per Share.

Given that the Rights Issue is on the basis of ten Rights Shares for every 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 to a maximum of approximately 90.91% after completion of the Rights Issue. The Directors have considered other methods of fund raising, such as debt financing and equity financing. As the debt financing will increase the Group's gearing ratio and interest burden, the Directors consider it is more conservative for the Company to raise funds in the equity capital market. However, 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 on the shareholding of existing Shareholders in the Company. As 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, the Directors consider the Rights Issue will be a better alternative of the fund raising to finance the Group's business expansion plans and to decrease the Group's interest burden and therefore the possible dilution effect on the Qualifying Shareholders acceptable.

LETTER FROM THE BOARD

Basis of provisional allotment

The basis of the provisional allotment was 10 Rights Shares for each Share, held by Qualifying Shareholders at the close of business on the Record Date, being 357,006,840 Rights Shares at a price of HK\$0.40 per Rights Share. Acceptance of 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 accepted.

Status of the Rights Shares

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

Share certificates and refund cheques for the Rights Shares

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares will be posted on or before Wednesday, 28 September, 2005 to those who have accepted or, where applicable, applied 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 (if any) are expected to be posted on or before Wednesday, 28 September, 2005 by ordinary post to the applicants at their own risk.

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 an 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 of Rights Shares

The Company has applied to the Listing Committee for the listing of and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue.

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 listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in 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

LETTER FROM THE BOARD

respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other date 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.

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

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 a 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 on extending the Rights Issue to the Shareholder in Spain. Accordingly, a provisional allotment has been made 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 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. As advised by the legal adviser in Malaysia, the Prospectus, even for information only, shall not be sent to the Shareholders in Malaysia unless the relevant requirements under the SCA and the relevant guidelines are complied with.

Should the Company extend the Rights Issue to the Shareholders in Malaysia, the estimated costs to be incurred, which include 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. Also, as the time 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

LETTER FROM THE BOARD

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 is not available to such Overseas Shareholders. In light of the restrictions, the Company has not sent 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.

CONDITIONS OF THE RIGHTS ISSUE

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

1. the approval of the Capital Reorganisation by Shareholders at the SGM and the Capital Reorganisation becoming effective thereafter;
2. the approval of the Rights Issue by the Shareholders (other than Landmark Profits and its associates) at the SGM;
3. the posting of the Prospectus Documents to the Qualifying Shareholders; and
4. the Listing Committee agreeing to grant the 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.

As at the date of this Prospectus, conditions (1), (2) and (3) have been fulfilled.

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.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENTS

Underwriting agreement dated 18 July, 2005

The Underwriter has agreed to fully underwrite 228,747,520 (such amount is adjustable under the Underwriting Agreement and can be fixed at the Record Date) Rights Shares, other than Rights Shares which Landmark Profits has undertaken to subscribe (being 357,006,840 Rights Shares 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.

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, was interested in 128,259,324 Old 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 Old 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 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

LETTER FROM THE BOARD

- (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:

- (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 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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WARNING OF THE RISKS OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES

Dealings in the Rights Shares in the nil-paid form will take place from Monday, 12 September, 2005 to Tuesday, 20 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 Shareholders or other persons contemplating selling or purchasing Shares and Rights Shares in their nil-paid form during the period from Monday, 12 September, 2005 to Tuesday, 20 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 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 Monday, 12 September, 2005 to Tuesday, 20 September, 2005 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

SHAREHOLDINGS IN THE COMPANY

The shareholdings in the Company immediately before and after completion of the Rights Issue are as follows:

	Immediately 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	%	Shares	%	Shares	%
Landmark Profits	12,825,932	35.93	141,085,252	35.93	141,085,252	35.93
Underwriter	—	—	—	—	228,747,520	58.25
Public	<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>
Total	<u>35,700,684</u>	<u>100.00</u>	<u>392,707,524</u>	<u>100.00</u>	<u>392,707,524</u>	<u>100.00</u>

The Underwriter has confirmed that it has sub-underwritten its underwriting obligations under the Rights Issue to sub-underwriters such that each of the Underwriter and these sub-underwriters will not own more than 30% of the issued share capital of the Company after completion of the Rights Issue. The Underwriter is a wholly-owned subsidiary of Get Nice Holdings Limited (stock code: 64) ("Get Nice Holdings"), a listed company on the main board of the Stock Exchange. According to the Underwriter, Get Nice Holdings is owned as to approximately 30.36% by Honeylink Agents Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and as

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to approximately 69.64% by the public as at the Latest Practicable Date. The Underwriter and its ultimate controlling shareholders are independent third parties and are not parties acting in concert with Landmark Profits. The sub-underwriters and their ultimate beneficial owners are independent third parties and are not parties acting in concert with Landmark Profits and the Underwriter.

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

The Stock Exchange has stated that it will closely monitor trading in the 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 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 Shares; or
- there are too few Shares in public hands to maintain an orderly market,

then it will consider exercising its discretion to suspend trading in the 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

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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 approximately HK\$140.3 million. 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 million will be used as general working capital including for the construction of the garment manufacturing and bleaching and dyeing capabilities. The Company shall make announcements on any change in the use of proceeds of the Rights Issue as and when appropriate.

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

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 it has no present intention to issue further new 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.

PROCEDURE FOR ACCEPTANCE OR TRANSFER

A PAL is enclosed with this Prospectus which entitles you to subscribe for the number of Rights Shares indicated on the PAL. If you wish to exercise your right to subscribe for all the Rights Shares specified in the enclosed PAL, you must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance of the number of Rights Shares provisionally allotted to you, with the Registrar no later than 4:00 p.m. on Friday, 23 September, 2005. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "Asia Alliance Holdings Limited — Rights Issue Account" and crossed "Account Payee Only".

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It should be noted that unless the PAL, together with the appropriate remittance, has been lodged to the Registrar by 4:00 p.m. on Friday, 23 September, 2005, whether by the original allottee or any person in whose favour the rights have been transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If you wish to accept only part of your provisional allotment or transfer a part of your rights to subscribe for the Rights Shares provisionally allotted under the PAL or to transfer all of your rights, the entire PAL must be surrendered by not later than 4:00 p.m. on Wednesday, 14 September, 2005 to the Registrar who will cancel the original PAL and issue a new PAL in the denominations required. The PALs contain full information regarding the procedures to be followed if you wish to accept only part of your provisional allotment or if you wish to transfer all or part of your provisional allotment.

All cheques and cashier's orders will be presented for payment following receipt and any interest earned on such monies will be retained for the benefit of the Company. Any PAL in respect of which a cheque or cashier's order is dishonoured on first presentation are liable to be rejected and in that event the provisional allotment of Rights Shares and all rights thereunder will be deemed to have been declined and will be cancelled. If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement before 4:00 p.m. on Tuesday, 27 September, 2005, being the second Business Day following the Acceptance Date, the monies received in respect of the relevant provisional allotment of Rights Shares will be returned to the relevant persons without interest, by means of cheques to be despatched by the ordinary post at the risk of the relevant applicants on or before Wednesday, 28 September, 2005.

APPLICATIONS FOR EXCESS RIGHTS SHARES

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

Application for excess Rights Shares can be made only by completing the EAF. The Directors will allocate the excess Rights Shares on a fair and reasonable basis, but will give preference to topping-up odd lots to whole board lots.

If you wish to apply for any Rights Shares in addition to your provisional allotment, you must complete and sign the enclosed EAF as indicated thereon and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Registrar no later than 4:00 p.m. on Friday, 23 September, 2005. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "Asia Alliance Holdings Limited — Excess Application Account" and crossed "Account Payee Only". The Registrar will notify you of any allotment of excess Rights Shares made to you.

If no excess Rights Shares are allotted to you, the amount tendered on application is expected to be refunded in full on or before Wednesday, 28 September, 2005. If the number of excess Rights Shares allotted to you is less than that applied for, the surplus application monies are also expected to be refunded to you on or before Wednesday, 28 September, 2005. If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement before 4:00 p.m. on Tuesday, 27

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September, 2005, being the second Business Day following the Acceptance Date, the monies received in respect of relevant applications for excess Rights Shares will be returned to the relevant persons without interest, by means of cheques to be despatched by the ordinary post at the risk of the relevant applicants on or before Wednesday, 28 September, 2005.

All cheques and cashier's orders will be presented for payment following receipt and any interest earned on such monies will be retained for the benefit of the Company. Any EAF in respect of which a cheque or cashier's order is dishonoured on first presentation is liable to be rejected.

The EAF is for use only by the person(s) named in it and is not transferable. All documents, including cheques or cashier's orders for refund, will be sent by ordinary post at the risk of the persons entitled thereto to their registered addresses by no later than Wednesday, 28 September, 2005.

SHARE CERTIFICATES

Shareholders are advised, to submit their certificates for the Old Shares to the Registrar for exchange, free of charge, for new certificates for Shares during business hours from Friday, 9 September, 2005 to Friday, 21 October, 2005 (both dates inclusive). Thereafter, certificates for the Old Shares will continue to be good evidence of legal title to the Shares and may be exchanged for certificates for the Shares at any time but 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 to be issued for these Shares.

It is expected that certificates for the fully-paid Rights Shares will be posted to those entitled thereto at their own risk by the Registrar on or before Wednesday, 28 September, 2005.

Where entitlements to Rights Shares exceed one board lot, it is proposed, so far as is practicable, to issue share certificates in integral multiples of board lots of 4,000 Shares each, with a certificate for the balance.

BUSINESS REVIEW AND PROSPECTS

Business review

During the year ended 31 March, 2005, the Group experienced major changes in operations following the acquisition of Po Cheong International Enterprises Limited in May 2004 which has introduced bleaching and dyeing businesses to the Group, the streamlining of the wireless communication business, communication solutions consultancy services and internet operations of the Group, which continued to suffer substantial losses in the past few years, and the commencement of production of a knitting mill in the People's Republic of China (the "PRC") in May 2004. As a result of the above events, the Group became principally engaged in the business of bleaching, dyeing and knitting during the year under review.

For the year ended 31 March, 2005, the Group attained notable growth in both turnover and profit. Turnover soared more than ninefold from approximately HK\$5,083,000 for the fifteen months ended 31 March, 2004 (the "Last Period") to approximately HK\$53,662,000 for the year ended 31 March, 2005. This drastic increase was predominately due to the acquisition of the bleaching and dyeing business in May 2004.

LETTER FROM THE BOARD

Gross profit for the year ended 31 March, 2005 shot up nearly five times to approximately HK\$9,962,000 from approximately HK\$1,731,000 in the Last Period. Net profit attributable to shareholders amounted to approximately HK\$6,104,000, reversing the net loss of approximately HK\$57,737,000 in the Last Period. This remarkable change resulted largely from a gain of approximately HK\$9,042,000 on the disposal of the persistent loss-making wireless communication business in June 2004 and a profit of approximately HK\$4,095,000 derived from the bleaching and dyeing business during the year. This was partly offset by the loss of approximately HK\$2,370,000 recorded in the knitting business. Earnings per share were approximately HK\$0.02 (Last Period: loss per share of approximately HK\$0.97).

Cost of sales and services leaped twelve times to approximately HK\$43,700,000 for the year compared to approximately HK\$3,352,000 in the Last Period, reflecting the robust growth in sales. The Group's total operating expenses were down approximately 68.3% to approximately HK\$12,355,000 for the year from approximately HK\$38,962,000 in the Last Period. This was mainly on account of the savings in salaries, rentals and other operating expenses following the disposal of the wireless communication business in June 2004, which was partly offset by the costs of running the garment related businesses.

Finance costs declined significantly by approximately 78.4% to approximately HK\$424,000 from approximately HK\$1,960,000 in the Last Period, principally by reason of repayment of a loan of HK\$30,270,000 from Easyknit in March 2004 and settlement of a facility loan of HK\$4,000,000 in June 2004, which was partly offset by the bank loans drawn by the Group during the year.

Prospects

To stem a rising tide of the Chinese textile imports following the lifting of the global trade quotas on textiles on 1 January, 2005, the United States of America (the "US"), in May 2005, imposed safeguard quotas limiting the increase in 7 categories of Chinese textile imports to 7.5% this year by relying upon the terms of the PRC's accession to World Trade Organisation (the "WTO"). The PRC abolished its self-imposed export tariffs on 81 categories of textile products in June 2005, escalating trade tensions with the US. In June 2005, the European Union (the "EU") and the PRC also agreed to limit the growth of 10 categories of Chinese textile products to the EU to between 8% and 12.5% a year until the end of 2007. Our customers whose garment products are mainly sold to the US and the EU member countries are likely to be affected and may in turn impact the business of the Group. We will constantly monitor the market conditions and adjust accordingly.

The Directors are of the view that the long-term prospect of the textile and apparel industry is promising as the WTO China textile safeguard mechanism will be in effect only until 31 December, 2008 and progressive liberalisation of textile trade is inevitable. More importantly, the PRC is experiencing strong economic growth which has elevated the living standard for part of its population and will in turn spur the domestic demand for high quality textile products. We believe that the setting up of a multi-functional base in Huzhou City, Zhejiang Province, the PRC for developing vertical integrated operations ranging from knitting, bleaching and dyeing and garment manufacturing will not only consolidate and significantly increase the Group's manufacturing capabilities, but will also help to minimise cost, maximise efficiency and increase the Group's competitiveness so as to pave the way for future business growth in the challenging but expanding textile industry.

LETTER FROM THE BOARD

The management remains cautiously optimistic about the results for the first half year ended 30 September, 2005 based on the orders on hand. It is believed that the bleaching and dyeing business will continue to generate stable revenue for the Group. We also anticipate the production of the knitting mill in Heyuan, the PRC will grow steadily. Coupled with our stable clientele, improved efficiency, advanced production facilities and experienced management team, we are confident that the Group will eventually benefit from the booming economy.

The Group will endeavour to provide high quality fabric products to its customers, further expand its sourcing network and customer base and implement an effective control in production cost and pricing strategy in order to generate higher returns to its Shareholders.

GENERAL

All documents, including cheques for amount due, will be sent by post at the risk of the persons entitled thereto to their registered addresses.

FURTHER INFORMATION

Your attention is drawn to the additional information set out in Appendix I to III to this Prospectus.

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

1. DIRECTORS**Particulars of Directors**

Name	Address
Executive Directors:	
Koon Wing Yee	No. 11 Keng Hau Road Shatin New Territories Hong Kong
Tsang Yiu Kai	House B, Richwood Park 33 Lo Fai Road Tai Po, New Territories Hong Kong
Lui Yuk Chu	No. 11 Keng Hau Road Shatin New Territories Hong Kong
Independent Non-Executive Directors:	
Kan Ka Hon	Unit GB, No. 11 La Serene Discovery Bay New Territories Hong Kong
Kwong Jimmy Cheung Tim	Flat 15C, Block 1 Ronsdale Garden 25 Tai Hang Drive Hong Kong
Lau Sin Ming	Flat D, 4th Floor Wah Shing Building 19 Castle Peak Road Kowloon Hong Kong

Executive Directors

Koon Wing Yee, aged 49, is an executive Director, Chairman and Chief Executive Officer of the Company and a member and Chairman of the Remuneration Committee and Executive Committee of the Board. He was appointed to the Board in March 2003. Mr. Koon is responsible for the overall management and development of the and Group. He is a co-founder of Easyknit and an executive director, President and Chief Executive Officer of Easyknit and an independent non-executive director of Chinese Estates Holdings Limited. Mr. Koon has been involved in the textiles industry for more than 27 years. He is the husband of Ms. Lui Yuk Chu, who is also an executive Director. Mr. Koon was awarded the “Young Entrepreneur Award” in Hong Kong in December 1994 for his outstanding achievements as an entrepreneur.

Tsang Yiu Kai, aged 53, is an executive Director, Vice Chairman and Company Secretary of the Company, a member and secretary of the Remuneration Committee and Executive Committee of the Board and the secretary of the Audit Committee of the Board. He was appointed to the Board in March 2003. Mr. Tsang is responsible for the corporate affairs, finance and general management of the Group. He is also an executive director, Vice President and Company Secretary of Easyknit. Mr. Tsang holds a Diploma in Accountancy from Hong Kong Baptist University (formerly known as The Hong Kong Baptist College) and is a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. He has over 29 years of working experience.

Lui Yuk Chu, aged 48, is an executive Director of the Company and a member of the Executive Committee of the Board. She was appointed to the Board in March 2003. Ms. Lui is a co-founder and an executive director of Easyknit. She is the wife of Mr. Koon Wing Yee. She has been involved in the textiles industry for more than 27 years and has extensive experience in design, manufacturing, marketing and distribution of apparel.

Independent Non-Executive Directors

Kan Ka Hon, aged 54, was appointed to the Board in April 2003. He is a member and Chairman of the Audit Committee of the Board and a member of the Remuneration Committee of the Board. Mr. Kan holds a Bachelor Degree in Science from The University of Hong Kong and is a fellow member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. He has 30 years of experience in accounting. Mr. Kan is an executive director of Chevalier International Holdings Limited and Chevalier iTech Holdings Limited. He is also an independent non-executive director of Victory City International Holdings Limited.

Kwong Jimmy Cheung Tim, aged 62, was appointed to the Board in April 2003. He is a member of the Audit Committee and Remuneration Committee of the Board. Mr. Kwong graduated from The University of Hong Kong in 1965 and was admitted as Barrister-at-law in the United Kingdom in 1970 and Hong Kong in 1973 respectively. He has over 30 years of experience in the legal field and is now a practising Barrister.

Lau Sin Ming, aged 44, was appointed to the Board in September 2004. He is a member of the Audit Committee and Remuneration Committee of the Board. He is a fellow member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. He has over 23 years of experience in accounting and auditing. He is now working as an associate in Dominic K. F. Li & Co..

2. CORPORATE INFORMATION

Registered office	Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda
Principal place of business	7th Floor, Hong Kong Spinners Building Phase 6, 481-483 Castle Peak Road Cheung Sha Wan, Kowloon Hong Kong
Company secretary	Tsang Yiu Kai FCPA, FCCA, AHKIT, CGA and CPA (practising)
Qualified Accountant	Hsu Kei Leung CPA, FCCA, ACMA, ASA
Authorised representatives	Koon Wing Yee Tsang Yiu Kai
Legal advisers to the Company	<i>On Hong Kong law:</i> Richards Butler 20th Floor Alexandra House 16-20 Chater Road Hong Kong <i>On Bermuda law:</i> Appleby Spurling Hunter 5511 The Center 99 Queen's Road Central Central Hong Kong
Auditors	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 26th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Registrar and transfer office in Hong Kong	Secretaries Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong

**Principal share registrar and
transfer office in Bermuda**

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Principal banker

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road
Central
Hong Kong

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following table summarises the results, assets and liabilities of the Group for the last three financial years/period, and was extracted from the published audited financial statements.

	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004	1.1.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Results			
Turnover	<u>53,662</u>	<u>5,083</u>	<u>70,354</u>
Profit (loss) before taxation	6,104	(57,737)	(191,293)
Taxation	<u>—</u>	<u>—</u>	<u>309</u>
Profit (loss) before minority interests	6,104	(57,737)	(190,984)
Minority interests	<u>—</u>	<u>—</u>	<u>(440)</u>
Net profit (loss) for the year/period	<u>6,104</u>	<u>(57,737)</u>	<u>(191,424)</u>
Basic earnings (loss) per share	<u>HK\$ 0.02</u>	<u>HK\$ (0.97)</u>	<u>HK\$ (4.98)</u>
	At 31.3.2005	At 31.3.2004	At 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets and Liabilities			
Total assets	119,667	69,134	19,868
Total liabilities	(55,646)	(11,069)	(8,149)
Minority interests	<u>—</u>	<u>(209)</u>	<u>—</u>
Shareholders' funds	<u>64,021</u>	<u>57,856</u>	<u>11,719</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH, 2005

The financial information set out below is copied from pages 17 to 61 of the annual report of the Company for the financial year ended 31 March, 2005. All information in this paragraph should be read in conjunction with the audited accounts which are included in the annual report of the Company for the financial year ended 31 March, 2005.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March, 2005

	<i>Notes</i>	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Turnover	5	53,662	5,083
Cost of sales and services		<u>(43,700)</u>	<u>(3,352)</u>
Gross profit		9,962	1,731
Other operating income	7	265	709
Distribution costs		(303)	(6,948)
Administrative expenses		(9,773)	(26,597)
Other operating expenses		(2,279)	(5,417)
Write-back of allowance (allowance) for doubtful debts		17	(1,155)
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary		(403)	(3,297)
Impairment loss recognised in respect of property, plant and equipment		—	(9,971)
Impairment loss recognised in respect of long term investments		—	(3,900)
Allowance for amounts due from associates		<u>—</u>	<u>(317)</u>
Loss from operations	8	(2,514)	(55,162)
Gain (loss) on disposal of subsidiaries	30	9,042	(539)
Finance costs	9	(424)	(1,960)
Share of results of an associate		—	(4)
Share of results of jointly controlled entities		<u>—</u>	<u>(72)</u>
Net profit (loss) for the year/period		<u>6,104</u>	<u>(57,737)</u>
Basic earnings (loss) per share	12	<u>HK\$ 0.02</u>	<u>HK\$ (0.97)</u>

CONSOLIDATED BALANCE SHEET

At 31 March, 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	14	23,661	665
Goodwill	15	21,122	—
Long term investments	17	—	—
Loan to Acme Landis Operations Holdings Limited	18	—	403
		<u>44,783</u>	<u>1,068</u>
Current assets			
Inventories	19	4,646	—
Trade and other receivables	20	25,766	1,935
Consideration receivable on acquisition of subsidiaries	29	11,120	—
Bank balances and cash		<u>33,352</u>	<u>66,131</u>
		<u>74,884</u>	<u>68,066</u>
Current liabilities			
Trade and other payables	21	8,040	7,069
Bills payable	22	1,200	—
Bank loans - amount due within one year	23	30,985	—
Other loan, secured	24	—	4,000
		<u>40,225</u>	<u>11,069</u>
Net current assets		<u>34,659</u>	<u>56,997</u>
		<u>79,442</u>	<u>58,065</u>
Capital and reserves			
Share capital	25	35,701	35,701
Reserves		<u>28,320</u>	<u>22,155</u>
		<u>64,021</u>	<u>57,856</u>
Minority interests		—	209
Non-current liabilities			
Bank loans - amount due after one year	23	<u>15,421</u>	—
		<u>79,442</u>	<u>58,065</u>

BALANCE SHEET*At 31 March 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current assets			
Interests in subsidiaries	16	<u>61,626</u>	<u>2,116</u>
Current assets			
Other receivables		125	109
Bank balances and cash		<u>459</u>	<u>65,856</u>
		584	65,965
Current liabilities			
Other payables		<u>545</u>	<u>1,322</u>
Net current assets		<u>39</u>	<u>64,643</u>
		<u>61,665</u>	<u>66,759</u>
Capital and reserves			
Share capital	25	35,701	35,701
Reserves	27	<u>25,964</u>	<u>27,942</u>
		61,665	63,643
Non-current liabilities			
Amounts due to subsidiaries	28	<u>—</u>	<u>3,116</u>
		<u>61,665</u>	<u>66,759</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2005

	Share capital	Share premium	Capital reserve	Contributed surplus	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	110,187	255,030	—	—	(14)	(353,484)	11,719
Rights issue of shares	35,260	52,890	—	—	—	—	88,150
Issue of new shares by private placements	7,272	8,454	—	—	—	—	15,726
Reduction of share capital and share premium upon capital reorganisations	(117,018)	(255,030)	17,850	354,198	—	—	—
Elimination of accumulated losses	—	—	—	(353,484)	—	353,484	—
Realised on disposal of subsidiaries	—	—	—	—	(2)	—	(2)
Net loss for the period	—	—	—	—	—	(57,737)	(57,737)
At 31 March 2004	35,701	61,344	17,850	714	(16)	(57,737)	57,856
Realised on disposal of subsidiaries	—	—	—	—	16	—	16
Exchange differences on translation of overseas operations and net gain not recognised in the consolidated income statement	—	—	—	—	45	—	45
Net profit for the year	—	—	—	—	—	6,104	6,104
At 31 March 2005	<u>35,701</u>	<u>61,344</u>	<u>17,850</u>	<u>714</u>	<u>45</u>	<u>(51,633)</u>	<u>64,021</u>

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

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

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 March 2005*

	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities		
Net profit (loss) for the year/period	6,104	(57,737)
Adjustments for:		
Share of results of an associate	—	4
Share of results of jointly controlled entities	—	72
Interest income	(45)	(70)
Interest expense	424	1,960
Depreciation	2,744	6,495
Amortisation of goodwill	1,920	—
(Gain) loss on disposal of subsidiaries	(9,042)	539
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary	403	3,297
Allowance for inventories	94	—
(Write-back of) allowance for doubtful debts	(17)	1,155
Allowance for amounts due from associates	—	317
Loss on disposal of property, plant and equipment	—	379
Loss on waiver of amount due from a minority shareholder of a subsidiary	—	117
Loss on waiver of loan to a jointly controlled entity	—	7
Impairment loss recognised in respect of property, plant and equipment	—	9,971
Impairment loss recognised in respect of long term investments	—	3,900
Impairment loss recognised in respect of goodwill of subsidiaries	—	492
	<hr/>	<hr/>
Operating cash inflows (outflows) before movements in working capital	2,585	(29,102)
(Increase) decrease in inventories	(1,730)	137
Increase in trade and other receivables	(4,127)	(864)
(Decrease) increase in trade and other payables	(4,211)	132
Decrease in bills payable	(637)	—
	<hr/>	<hr/>
Cash used in operations	(8,120)	(29,697)
Interest paid	(275)	(1,534)
	<hr/>	<hr/>
Net cash used in operating activities	<u>(8,395)</u>	<u>(31,231)</u>

	<i>Notes</i>	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Cash flows from investing activities			
Interest received		45	70
Proceeds from disposal of property, plant and equipment		—	227
Purchase of property, plant and equipment		(11,779)	(12,125)
Investment in an associate		—	(4)
Advances to associates		—	(317)
Acquisition of subsidiaries/a subsidiary, net of cash and cash equivalents acquired	29	(39,191)	(72)
Excess payment on acquisition of subsidiaries		(11,120)	—
Disposal of subsidiaries, net of cash and cash equivalents disposal of	30	<u>(15)</u>	<u>(115)</u>
Net cash used in investing activities		<u>(62,060)</u>	<u>(12,336)</u>
Cash flows from financing activities			
Bank loans raised		40,000	—
Proceeds from issue of new shares		—	103,876
Other loans raised		—	34,270
Repayment of bank loans		(2,369)	—
Repayment of other loans		<u>—</u>	<u>(30,270)</u>
Net cash from financing activities		<u>37,631</u>	<u>107,876</u>
Net (decrease) increase in cash and cash equivalents		(32,824)	64,309
Cash and cash equivalents at beginning of the year/period		66,131	1,822
Effect of foreign exchange rate changes		<u>45</u>	<u>—</u>
Cash and cash equivalents at end of the year/period, represented by bank balances and cash		<u><u>33,352</u></u>	<u><u>66,131</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

1. GENERAL

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

The Company is an investment holding company. Its subsidiaries are principally engaged in bleaching, dyeing and knitting.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the current period cover the twelve month period ended 31 March 2005. The corresponding amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a fifteen month period from 1 January 2003 to 31 March 2004 and therefore may not be comparable with amounts shown for the current period. The period covered by the preceding consolidated financial statements was greater than twelve months because the directors of the Company determined to bring the balance sheet date in line with that of the controlling shareholder, Easyknit International Holdings Limited (“Easyknit”). No further changes to reporting dates are anticipated.

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 Business Combinations. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31 March 2005.

The Group has commenced considering the potential impact of the other new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Goodwill

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

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

Investments in subsidiaries

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

Interests in associates

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

Jointly controlled entities

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

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

Revenue recognition

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

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

Service income is recognised when bleaching, dyeing and knitting services are rendered.

Commission income is recognised when services are provided.

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

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

Impairment

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

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

Property, plant and equipment

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

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

Plant and machinery	9% to 18%
Furniture, fixtures and equipment	9% to 30%
Motor vehicles	9% to 20%

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

Investments in securities

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

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Taxation

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

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

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

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

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

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

Foreign currencies

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

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

Operating leases

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

Retirement benefits costs

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

5. TURNOVER

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

	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bleaching and dyeing		
- sales of goods	43,908	—
- service income	9,310	—
	<u>53,218</u>	<u>—</u>
Knitting services	444	—
Wireless communication services	—	3,982
Communication solutions consultancy services	—	1,101
	<u>53,662</u>	<u>5,083</u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Segment information about these businesses is presented below:

For the year ended 31 March 2005

(i) Income statement

	Bleaching and dyeing	Knitting	Wireless communication business	Communication solutions consultancy services	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover						
External	53,218	444	—	—	—	53,662
Inter-segment	—	2,945	—	—	(2,945)	—
Total	<u>53,218</u>	<u>3,389</u>	<u>—</u>	<u>—</u>	<u>(2,945)</u>	<u>53,662</u>
Segment result	<u>4,095</u>	<u>(2,370)</u>	<u>56</u>	<u>(11)</u>	<u>—</u>	1,770
Interest income						45
Unallocated corporate expenses						<u>(4,329)</u>
Loss from operations						(2,514)
Gain on disposal of subsidiaries						9,042
Finance costs						<u>(424)</u>
Net profit for the year						<u>6,104</u>

(ii) Balance sheet

	Bleaching and dyeing <i>HK\$'000</i>	Knitting <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS			
Segment assets	71,022	11,747	82,769
Unallocated corporate assets			<u>36,898</u>
Consolidated total assets			<u><u>119,667</u></u>
LIABILITIES			
Segment liabilities	8,225	306	8,531
Unallocated corporate liabilities			<u>47,115</u>
Consolidated total liabilities			<u><u>55,646</u></u>

(iii) Other information

	Bleaching and dyeing <i>HK\$'000</i>	Knitting <i>HK\$'000</i>	Wireless communication business <i>HK\$'000</i>	Communication solutions consultancy services <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Addition of goodwill	23,042	—	—	—	23,042
Amortisation of goodwill	1,920	—	—	—	1,920
Capital additions	84	11,695	—	—	11,779
Depreciation	1,717	1,011	6	10	2,744
Allowance for inventories	94	—	—	—	94
Write back of allowance for doubtful debts	<u>—</u>	<u>—</u>	<u>(17)</u>	<u>—</u>	<u>(17)</u>

In addition, allowance for a loan to Acme Landis Operations Holdings Limited (“ALOH”), a former subsidiary of the Company, amounting to HK\$403,000 charged to the consolidated income statement is related to the segments of sanitary fixtures and fittings, hardware, industrial and consumer products, and drainage, plumbing and engineering contracting services, the businesses of which were discontinued by the Group in 2002.

For the fifteen months ended 31 March 2004

(i) Income statement

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

(ii) Balance sheet

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

(iii) Other information

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

In addition, allowance for a loan to ALOH, a former subsidiary of the Company, amounting to HK\$3,297,000 charged to the consolidated income statement is related to the segments of sanitary fixtures and fittings, hardware, industrial and consumer products, and drainage, plumbing and engineering contracting services, the business of which were discontinued by the Group in 2002.

Geographical segments

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

	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	—	5,083
The People's Republic of China, excluding Hong Kong (the "PRC")	<u>53,662</u>	<u>—</u>
	<u>53,662</u>	<u>5,083</u>

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

	Carrying amount of segment assets		Additions to property, plant and equipment and goodwill	
	31.3.2005	31.3.2004	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	11,718	67,425	—	12,229
PRC	<u>107,949</u>	<u>1,709</u>	<u>34,821</u>	<u>—</u>
	<u>119,667</u>	<u>69,134</u>	<u>34,821</u>	<u>12,229</u>

7. OTHER OPERATING INCOME

	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	45	70
Commission income	—	471
Others	<u>220</u>	<u>168</u>
	<u>265</u>	<u>709</u>

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

8. LOSS FROM OPERATIONS

	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Directors' remuneration (<i>note 10(a)</i>)	253	868
Other staff costs, including retirement benefits costs	<u>4,868</u>	<u>11,869</u>
Total staff costs	<u>5,121</u>	<u>12,737</u>
Allowance for inventories	94	—
Amortisation of goodwill (<i>note</i>)	1,920	—
Auditors' remuneration	545	350
Cost of inventories recognised as an expense	32,345	378
Depreciation	2,744	6,495
Impairment loss recognised in respect of goodwill of subsidiaries (<i>note</i>)	—	492
Loss on disposal of property, plant and equipment	—	379
Loss on waiver of amount due from a minority shareholder of a subsidiary (<i>note</i>)	—	117
Loss on waiver of loan to a jointly controlled entity (<i>note</i>)	<u>—</u>	<u>7</u>

Note: The amounts are included in other operating expenses.

9. FINANCE COSTS

	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on borrowings wholly repayable within five years:		
- loan of HK\$30,270,000 from Planetec International Limited (the "Easyknit Loan"), a wholly-owned subsidiary of Easyknit (<i>note 13(e)</i>)	—	1,515
- bank borrowings	339	—
- other borrowings	<u>85</u>	<u>445</u>
	<u>424</u>	<u>1,960</u>

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Directors' fees:		
Executive	—	—
Independent non-executive	<u>253</u>	<u>200</u>
	<u>253</u>	<u>200</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	—	664
Retirement benefits costs	<u>—</u>	<u>4</u>
	<u>—</u>	<u>668</u>
Total directors' emoluments	<u><u>253</u></u>	<u><u>868</u></u>

The emoluments of the directors fall within the following band:

	Number of directors	
	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
Nil to HK\$1,000,000	<u>6</u>	<u>15</u>

(b) Information regarding employees' emoluments

The five highest paid individuals of the Group did not include any director (1.1.2003 to 31.3.2004: included one director). The emoluments of the five (1.1.2003 to 31.3.2004: four) highest paid individuals, not being directors, are as follows:

	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Salaries and other benefits	1,175	4,028
Retirement benefits costs	47	62
Severance payments	<u>—</u>	<u>37</u>
Total employees' emoluments	<u><u>1,222</u></u>	<u><u>4,127</u></u>

Their emoluments were within the following bands:

	Number of employees	
	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
Nil to HK\$1,000,000	5	3
HK\$1,000,001 to HK\$1,500,000	—	1
	<u>5</u>	<u>4</u>

During the year/period, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss in office. In addition, during both periods, no director waived any emoluments.

11. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for the year ended 31 March 2005 and for the fifteen months ended 31 March 2004.

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

	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Net profit (loss) for the year/period	<u>6,104</u>	<u>(57,737)</u>
Tax charge (credit) of Hong Kong Profits Tax at 17.5% (1.1.2003 to 31.3.2004: 17.5%)	1,068	(10,104)
Tax effect of share of results of associates	—	1
Tax effect of share of results of jointly controlled entities	—	13
Tax effect of income not taxable for tax purposes	(1,654)	(22)
Tax effect of expenses not deductible for tax purposes	818	3,575
Tax effect attributable to tax exemption granted to a PRC subsidiary	(1,276)	—
Tax effect of tax losses not recognised	885	5,929
Others	<u>159</u>	<u>608</u>
Taxation for the year/period	<u>—</u>	<u>—</u>

Pursuant to Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, the Company's subsidiaries are entitled to preferential tax treatment with full exemption from PRC enterprise income tax for two years starting from the first profitable year of operations, after offsetting all tax losses brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years.

12. EARNINGS (LOSS) PER SHARE

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

	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the purposes of basic earnings (loss) per share	<u>6,104</u>	<u>(57,737)</u>
Number of shares		
Number/weighted average number of shares for the purposes of basic earnings (loss) per share	<u>357,006,840</u>	<u>59,376,993</u>

The denominator for the purposes of calculating basic loss per share for the fifteen months ended 31 March 2004 has been adjusted to reflect the consolidation of shares in September 2003 on the basis that forty shares were consolidated into one share and the rights issue of shares in September 2003 and March 2004.

No diluted earnings per share has been presented for the year ended 31 March 2005 as the exercise prices of the Company's outstanding share options were higher than the average market price for the year.

No diluted loss per share was presented for the fifteen months ended 31 March 2004 as the exercise of the Company's outstanding share options would reduce the loss per share for that period.

13. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

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

	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of bleached and dyed fabrics	23,647	—
Bleaching and dyeing charges received	<u>167</u>	<u>—</u>

At the balance sheet date, amounts due from the above entities comprise:

	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	<u>5,809</u>	<u>—</u>

- (b) During the year, the Group received administrative services from Easyknit International Trading Company Limited (“EITC”), a company in which Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu, all are directors of the Company, have beneficial interests and paid services fee of approximately HK\$241,000 (1.1.2003 to 31.3.2004: nil). The services fee is determined based on mutually agreed terms.
- (c) The Group purchased the entire issued shares of Po Cheong International Enterprises Limited (“Po Cheong”) from a wholly-owned subsidiary of Easyknit at a consideration of HK\$65,000,000 (note 29), subject to adjustment, as described in the circular of the Company dated 23 April 2004. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The acquisition of Po Cheong constituted a major and connected transaction of the Group and was approved by the shareholders at the special general meeting of the Company held on 10 May 2004. The consideration for the acquisition has been subsequently adjusted downwards to HK\$38,880,000 on 16 June 2005.
- (d) During the year, a director of the Company provided a personal guarantee for HK\$55,000,000 to a bank in respect of general banking facilities granted to a wholly-owned subsidiary of the Company.
- (e) During the fifteen months ended 31 March 2004, the Group obtained the Easyknit Loan for working capital purposes. The loan was unsecured, bore interest at prevailing market rates and was repaid in full during the fifteen months ended 31 March 2004. Interest paid by the Group during the fifteen months ended 31 March 2004 amounted to HK\$1,514,500.

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST				
At 1 April 2004	—	27,808	539	28,347
Additions	10,369	1,044	366	11,779
On acquisition of subsidiaries	12,339	1,422	768	14,529
On disposal of subsidiaries	—	(27,792)	(539)	(28,331)
Disposals	—	(15)	—	(15)
At 31 March 2005	<u>22,708</u>	<u>2,467</u>	<u>1,134</u>	<u>26,309</u>
DEPRECIATION AND IMPAIRMENT LOSS				
At 1 April 2004	—	27,376	306	27,682
Provided for the year	1,945	606	193	2,744
On disposal of subsidiaries	—	(27,430)	(333)	(27,763)
Eliminated on disposals	—	(15)	—	(15)
At 31 March 2005	<u>1,945</u>	<u>537</u>	<u>166</u>	<u>2,648</u>
NET BOOK VALUES				
At 31 March 2005	<u>20,763</u>	<u>1,930</u>	<u>968</u>	<u>23,661</u>
At 31 March 2004	<u>—</u>	<u>432</u>	<u>233</u>	<u>665</u>

15. GOODWILL

	THE GROUP
	<i>HK\$'000</i>
COST	
At 1 April 2004	589
On acquisition of subsidiaries	23,042
On disposal of subsidiaries	<u>(589)</u>
At 31 March 2005	<u>23,042</u>
AMORTISATION AND IMPAIRMENT LOSS	
At 1 April 2004	589
Provided for the year	1,920
On disposal of subsidiaries	<u>(589)</u>
At 31 March 2005	<u>1,920</u>
CARRYING AMOUNTS	
At 31 March 2005	<u><u>21,122</u></u>
At 31 March 2004	<u><u>—</u></u>

Goodwill is amortised over ten years.

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	334,470	334,470
Less: Impairment loss recognised	<u>(334,470)</u>	<u>(334,470)</u>
	—	—
Amounts due from subsidiaries	<u>61,626</u>	<u>2,116</u>
	<u><u>61,626</u></u>	<u><u>2,116</u></u>

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

Particulars of the Company's principal subsidiaries at 31 March 2005 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share/ registered capital/ stated capital	Proportion of nominal value of issued share capital/ registered capital/ stated capital held by the Company		Principal activities
			Directly	Indirectly	
Copplestone Limited	Cayman Islands/ Hong Kong	Ordinary US\$42,880,770	100%	—	Investment holding
Easyknit (Mauritius) Limited	Republic of Mauritius/ Hong Kong	Stated US\$1	100%	—	Investment holding
Good Fine Technology Limited	Hong Kong	Ordinary HK\$2	—	100%	Wireless communication business, communication solutions consultancy services and Internet operations
Po Cheong International Enterprises Limited	Hong Kong	Ordinary HK\$90	—	100%	Investment holding
Tat Cheong International (HK) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
東莞永耀漂染有限公司 ("Wing Yiu")*	PRC	Registered HK\$11,260,000	—	100%	Bleaching and dyeing
永義紡織(河源)有限公司 ("He Yuan")**	PRC	Registered US\$1,000,000	—	100%	Knitting

Notes:

* Wing Yiu is a wholly foreign owned enterprise established in the PRC, to be operated for 10 years up to 20 August 2011.

** He Yuan is a wholly foreign owned enterprise established in the PRC, to be operated for 15 years up to 7 March 2019.

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

None of the subsidiaries had issued any debt securities at 31 March 2005.

17. LONG TERM INVESTMENTS

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment securities:		
Unlisted equity investments, at cost	—	3,900
Less: Impairment loss recognised	—	(3,900)
	<u>—</u>	<u>(3,900)</u>
	<u>—</u>	<u>—</u>

The investment securities were disposed of by the Group on disposal of subsidiaries during the year ended 31 March 2005.

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

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loan to ALOH	45,815	45,815
Less: Allowance	(45,815)	(45,412)
	<u>—</u>	<u>403</u>

The loan to ALOH is interest-free and has no fixed repayment terms. In the opinion of the directors, repayment of the loan due from ALOH is not probable. Accordingly, an allowance was made to reduce the carrying amount of the loan to zero at 31 March 2005.

19. INVENTORIES

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	4,097	—
Work-in-progress	391	—
Finished goods	158	—
	<u>4,646</u>	<u>—</u>

At 31 March 2005, raw materials of HK\$3,745,000 were carried at net realisable value.

20. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	7,150	—
61 - 90 days	3,398	—
Over 90 days	<u>13,883</u>	<u>—</u>
Trade receivables	24,431	—
Other receivables	<u>1,335</u>	<u>1,935</u>
	<u><u>25,766</u></u>	<u><u>1,935</u></u>

21. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	4,615	—
61 - 90 days	961	—
Over 90 days	<u>277</u>	<u>101</u>
Trade payables	5,853	101
Other payables	<u>2,187</u>	<u>6,968</u>
	<u><u>8,040</u></u>	<u><u>7,069</u></u>

22. BILLS PAYABLE

At the balance sheet date, the bills payable is aged within 30 days.

23. BANK LOANS

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
The bank loans are unsecured, bear interest at prevailing market rates and are repayable as follows:		
Within one year	30,985	—
Between one to two years	5,985	—
Between two to five years	<u>9,436</u>	<u>—</u>
	46,406	—
Less: Amount due within one year shown under current liabilities	<u>(30,985)</u>	<u>—</u>
Amount due after one year	<u><u>15,421</u></u>	<u><u>—</u></u>

An amount of HK\$25,000,000 of the bank loans which are due within one year, is guaranteed personally by a director of the Company.

24. OTHER LOAN, SECURED

On 25 June 2004, the Group entered into a settlement agreement with the lender for the full settlement of the loan of HK\$4,000,000 and accrued interest of HK\$511,000 (up to the date of the agreement) by way of transferring all the issued shares of i100 Wireless Corporation, a wholly-owned subsidiary of the Company, to the lender. i100 Wireless Corporation and its subsidiaries are principally engaged in the wireless communication business (note 30).

25. SHARE CAPITAL

	<i>Notes</i>	Nominal value per share <i>HK\$</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised:				
At 1 January 2003		0.10	3,000,000,000	300,000
Effect of the First Reorganisation referred to below	(a)(i)		<u>27,000,000,000</u>	<u>—</u>
Effect of the Share Consolidation referred to below	(b)	0.01	30,000,000,000 <u>(29,250,000,000)</u>	300,000 <u>—</u>
Effect of the Second Reorganisation referred to below	(f)(i)	0.40	750,000,000 <u>2,250,000,000</u>	300,000 <u>—</u>
Increase of authorised share capital	(f)(iii)	0.10	3,000,000,000 <u>3,500,000,000</u>	300,000 <u>350,000</u>
At 31 March 2004 and 31 March 2005		0.10	<u>6,500,000,000</u>	<u>650,000</u>
Issued and fully paid:				
At 1 January 2003		0.10	1,101,873,000	110,187
Reduction of share capital	(a)(ii)		<u>—</u>	<u>(99,168)</u>
Effect of the Share Consolidation referred to below	(b)	0.01	1,101,873,000 <u>(1,074,326,175)</u>	11,019 <u>—</u>
Rights issue of shares at a price of HK\$1.00 per rights share	(c)	0.40	27,546,825 13,773,412	11,019 5,509
Issue of new shares by private placements	(d) & (e)	0.40	<u>18,180,903</u>	<u>7,272</u>
Reduction of share capital	(f)(ii)	0.40	59,501,140 <u>—</u>	23,800 <u>(17,850)</u>
Rights issue of shares at a price of HK\$0.25 per rights share	(g)	0.10	59,501,140 <u>297,505,700</u>	5,950 <u>29,751</u>
At 31 March 2004 and 31 March 2005		0.10	<u>357,006,840</u>	<u>35,701</u>

Notes:

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

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

- (i) unissued shares of HK\$0.10 each in the authorised share capital of the Company were subdivided into ten shares of HK\$0.01 each;
 - (ii) nominal value of issued shares in the share capital of the Company was reduced from HK\$0.10 each to HK\$0.01 each (the “First Capital Reduction”);
 - (iii) the entire amount of HK\$255,030,000 standing to the credit of the share premium account of the Company was cancelled (the “Share Premium Cancellation”); and
 - (iv) the credit amounts arising from the First Capital Reduction and the Share Premium Cancellation were credited to the contributed surplus account of the Company where such amounts were utilised to eliminate the accumulated losses of the Company as at 31 December 2002 to the extent of HK\$353,484,000.
- (b) As announced by the Company on 1 August 2003, the Company proposed to effect a share consolidation pursuant to which every forty issued and unissued then existing shares of HK\$0.01 each were consolidated into one consolidated share of HK\$0.40 each (“Share Consolidation”). Details of the Share Consolidation are set out in the circular dated 20 August 2003 issued by the Company. The ordinary resolution approving the Share Consolidation was passed at the special general meeting of the Company held on 8 September 2003.
- (c) Rights issue of 13,773,412 shares of HK\$0.40 each at a subscription price of HK\$1.00 per rights share were allotted on 25 September 2003 to the shareholders of the Company in the proportion of one rights share for every two existing shares then held. The net proceeds of the rights issue were used for general working capital purposes.
- (d) As announced by the Company on 14 October 2003, the Company conditionally agreed to place through its placing agent, Get Nice Investment Limited, 8,264,047 new shares of HK\$0.40 each in the capital of the Company (the “2003 First Placing Shares”) at a price of HK\$0.865 per share which represents a discount of approximately 19.9% to the closing price of HK\$1.08 per share quoted on the Stock Exchange on 13 October 2003, being the last full trading day of the Company’s shares prior to the date of the announcement.

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

The placement was completed in November 2003.

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

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

The placement was completed in December 2003.

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

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

- (i) unissued shares of HK\$0.40 each in the authorised share capital of the Company were subdivided into four shares of HK\$0.10 each;
 - (ii) nominal value of issued shares in the share capital of the Company was reduced from HK\$0.40 each to HK\$0.10 each (the “Second Capital Reduction”);
 - (iii) authorised share capital of the Company was increased from HK\$300,000,000 to HK\$650,000,000 by the creation of an additional 3,500,000,000 shares of HK\$0.10 each; and
 - (iv) the credit amount arising from the Second Capital Reduction was transferred to a capital reserve account of the Company where such amount may be applied in the future for distribution to the shareholders.
- (g) Rights issue of 297,505,700 shares of HK\$0.10 each at a subscription price of HK\$0.25 per rights share were allotted on 24 March 2004 to the shareholders of the Company in the proportion of five rights shares for every share then held. The net proceeds of the rights issue amounted to approximately HK\$73.2 million of which HK\$21,270,000 was used for repayment of the balance of the Easyknit Loan, HK\$50,000,000 for partial payment for the acquisition of the entire issued share capital of Po Cheong from a wholly-owned subsidiary of Easyknit, and for general working capital purposes.

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

26. SHARE OPTION SCHEMES**(a) Share option schemes of the Company:**

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

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

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

The purposes of the 2002 Share Option Scheme are to attract and retain the best available personnel, to provide additional incentives to eligible participants and to promote the success of the business of the Company and its subsidiaries.

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

The maximum number of shares issuable upon the exercise of the share options granted to each eligible participant of the 2002 Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting of the Company with such grantee and his associate(s) abstaining from voting.

The exercise period of the share options is determined by the board of directors of the Company and shall end on a date which is not later than 10 years from the date of the grant of the option. There is no specific requirement under the 2002 Share Option Scheme that an option must be held for any minimum period before it can be exercised, but its terms provide that the board of directors of the Company has the discretion to impose a minimum period at the time of offer of any particular option. The offer of a grant of share options may be accepted within 14 days from the date of the offer, with the payment of a nominal consideration of HK\$1 in total by the offeree.

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

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

A summary of the movements of the outstanding share options during the year ended 31 March 2005 is as follows:

Grantee	Share option scheme	Date of grant	Exercise period	Exercise price HK\$ (note iii)	Number of share options		
					At 1 April 2005	Lapsed during the year	At 31 March 2005
Former employees	1991	2 August 2000	2 August 2001 to 1 August 2010 (note i)	3.333	45,000	(45,000)	—
	1991	26 March 2001	26 March 2002 to 25 March 2011 (note i)	1.711	56,250	(56,250)	—
	2001	31 August 2001	31 August 2002 to 30 August 2011 (note i)	1.792	238,050	(238,050)	—
	2001	31 August 2001	31 August 2001 to 30 August 2011 (note ii)	1.792	5,625,000	—	5,625,000
					<u>5,964,300</u>	<u>(339,300)</u>	<u>5,625,000</u>

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

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

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

Notes:

- (i) The vesting period is the period of three years after the date of grant. One-third of the share options become exercisable after 12 months from the date of grant, and after the subsequent 18 months, 24 months, 30 months and 36 months from the date of grant, further one-sixth of the options become exercisable.
- (ii) The vesting period is the period from the date of grant to six months after the date of grant. Half of the share options are exercisable from the date of grant and the remaining half becomes exercisable after 6 months from the date of grant.
- (iii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

No share options were granted, exercised or cancelled during both accounting periods.

(b) **Share option schemes of subsidiaries:**

(i) *solution100 Corporation*

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

solution100 Corporation ceased to be a subsidiary of the Company on 25 June 2004.

(ii) *i100 Wireless Corporation*

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

i100 Wireless Corporation ceased to be a subsidiary of the Company on 25 June 2004.

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

27. RESERVES

	Share premium	Capital reserve	Contributed surplus	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2003	255,030	—	46,962	(408,157)	(106,165)
Premium arising from issue of new shares	61,344	—	—	—	61,344
Reduction of share capital and share premium upon capital reorganisations	(255,030)	17,850	354,198	—	117,018
Elimination of accumulated losses	—	—	(353,484)	353,484	—
Net loss for the period	—	—	—	(44,255)	(44,255)
At 31 March 2004	61,344	17,850	47,676	(98,928)	27,942
Net loss for the year	—	—	—	(1,978)	(1,978)
At 31 March 2005	<u>61,344</u>	<u>17,850</u>	<u>47,676</u>	<u>(100,906)</u>	<u>25,964</u>

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

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

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

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

The Company has no reserves available for distribution at 31 March 2005 and 2004.

28. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

The amounts due to subsidiaries were unsecured and non-interest bearing. The amounts were fully repaid during the year.

29. ACQUISITION OF SUBSIDIARIES/A SUBSIDIARY

On 17 May 2004, the Group acquired the entire issued shares of Po Cheong at a consideration of HK\$65,000,000, subject to adjustment, as described in the circular of the Company dated 23 April 2004. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. Acquisition of the subsidiaries was accounted for by the acquisition method of accounting. The total consideration of HK\$65,000,000 shall be satisfied in cash, of which HK\$50,000,000 was paid on 13 May 2004. Details of the arrangement of the consideration should be referred to the circular and the adjustment was finalised on 16 June 2005 (see note 36). The revised consideration was determined to be HK\$38,880,000 and accordingly, an amount of HK\$11,120,000 was recognised as consideration receivable in the consolidated balance sheet.

During the fifteen months ended 31 March 2004, the Group acquired an additional interest of 45% of the issued share capital of Vector Entertainment Corporation (“Vector”) for a cash consideration of approximately HK\$1,000,000. Vector was previously a jointly controlled entity of the Group in which the Group had a 45% equity interest amounting to HK\$954,000. Acquisition of the subsidiary was accounted for by the acquisition method of accounting.

	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	14,529	—
Inventories	3,010	—
Amounts due from shareholders	—	1,131
Trade and other receivables	19,973	—
Bank balances and cash	423	971
Trade and other payables	(10,751)	—
Bills payable	(1,837)	—
Bank loans	(8,775)	—
Minority interests	—	(209)
	<u>16,572</u>	<u>1,893</u>
Goodwill on acquisition	<u>23,042</u>	<u>104</u>
Total consideration	<u><u>39,614</u></u>	<u><u>1,997</u></u>

	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Satisfied by:		
Cash paid	38,880	1,043
Expenses incurred in connection with acquisition	734	—
Reclassification of interest in a jointly controlled entity	—	954
	<u>39,614</u>	<u>1,997</u>
Net cash outflow arising on acquisition:		
Cash consideration paid	(38,880)	(1,043)
Expenses incurred in connection with acquisition	(734)	—
Bank balances and cash acquired	423	971
	<u>(39,191)</u>	<u>(72)</u>
Net cash outflow of cash and cash equivalents in respect of the purchase of subsidiaries/a subsidiary	<u>(39,191)</u>	<u>(72)</u>

The subsidiaries acquired during the year contributed HK\$53,218,000 to the Group's turnover and HK\$6,018,000 to the Group's profit from operations.

30. DISPOSAL OF SUBSIDIARIES

In April 2004, the Group disposed of the entire issued shares in Photo2U Company Limited, a then wholly-owned subsidiary of the Company, for a cash consideration of HK\$2. In addition, as referred to in note 23, the Group disposed of i100 Wireless Corporation to the lender of the other loan on 25 June 2004.

During the fifteen months ended 31 March 2004, the Group disposed of the entire issued shares in i100Onair Limited, a then wholly-owned subsidiary of the Company, for a cash consideration of US\$1. In February 2004, the Group also disposed of the entire issued shares of Golden Throne Holdings Limited and Rainer Capital Limited which were then wholly-owned subsidiaries of the Company for a cash consideration of HK\$10.

The effect of the disposal is summarised as follows:

	1.4.2004 to 31.3.2005 <i>HK\$'000</i>	1.1.2003 to 31.3.2004 <i>HK\$'000</i>
Net liabilities released/assets disposed of:		
Property, plant and equipment	568	387
Trade and other receivables	286	443
Bank balances and cash	15	115
Trade and other payables	(5,207)	(404)
Minority interests	<u>(209)</u>	<u>—</u>
	(4,547)	541
Exchange reserve realised on disposal of subsidiaries	16	(2)
Gain (loss) on disposal of subsidiaries	<u>9,042</u>	<u>(539)</u>
Total consideration	<u><u>4,511</u></u>	<u><u>—</u></u>
Satisfied by:		
Loan principal waived	4,000	—
Accrued interest thereof waived	<u>511</u>	<u>—</u>
	<u><u>4,511</u></u>	<u><u>—</u></u>
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	<u><u>(15)</u></u>	<u><u>(115)</u></u>

The subsidiaries disposed of during the year did not have any significant impact on the results and cash flows of the Group.

31. DEFERRED TAXATION

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

	THE GROUP		
	Accelerated tax depreciation	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2003	359	(359)	—
(Credit) charge to income statement for the period	(389)	389	—
Effect of change in tax rate	<u>34</u>	<u>(34)</u>	<u>—</u>
At 31 March 2004	4	(4)	—
(Credit) charge to income statement for the year on disposal of subsidiaries	<u>(4)</u>	<u>4</u>	<u>—</u>
At 31 March 2005	<u>—</u>	<u>—</u>	<u>—</u>

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

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax losses	11,968	189,674
Others	<u>—</u>	<u>2,179</u>
	<u>11,968</u>	<u>191,853</u>

No deferred tax asset has been recognised in respect of such deductible temporary differences due to the unpredictability of future profit streams. The tax losses at 31 March 2005 may be carried forward indefinitely. The tax losses at 31 March 2004, which amounted to approximately HK\$4,105,000, can only be carried forward for a maximum period of five years, other losses may be carried forward indefinitely.

At 31 March 2005 and 2004, the Company has unrecognised tax losses of approximately HK\$7,544,000 and HK\$5,205,000 respectively. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

32. CONTINGENT LIABILITIES

At 31 March 2005, the Company has given unlimited corporate guarantee to banks in respect of general banking facilities granted to its subsidiaries (2004: nil).

33. CAPITAL COMMITMENTS

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of:		
— acquisition of land use rights	9,538	—
— construction of plants	19,080	—
— acquisition of property, plant and equipment	—	9,923
— acquisition of the entire issued shares of Po Cheong	—	65,000
— capital injection for interests in a jointly controlled entity and a non wholly-owned subsidiary	<u>20,904</u>	<u>20,904</u>
	<u><u>49,522</u></u>	<u><u>95,827</u></u>

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

34. OPERATING LEASE ARRANGEMENTS

	THE GROUP	
	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payments recognised in the consolidated income statement during the year/period	<u>1,097</u>	<u>1,855</u>

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

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,376	654
In the second to fifth year inclusive	5,470	1,695
Over five years	<u>3,246</u>	<u>2,870</u>
	<u><u>10,092</u></u>	<u><u>5,219</u></u>

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

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

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

35. RETIREMENT BENEFITS SCHEMES

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

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

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

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

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

	THE GROUP	
	1.4.2004 to 31.3.2005	1.1.2003 to 31.3.2004
	<i>HK\$’000</i>	<i>HK\$’000</i>
Employers’ contributions charged to the consolidated income statement	<u>87</u>	<u>410</u>

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

36. POST BALANCE SHEET EVENT

On 16 June 2005, the Company announced that the consideration of the acquisition of the entire issued shares of Po Cheong from EITC, a wholly-owned subsidiary of Easyknit, was adjusted downwards from the original amount of HK\$65,000,000 to HK\$38,880,000 based on the adjustment mechanism as described in the circular of the Company dated 23 April 2004. According to the adjustment mechanism, when seven times of the audited consolidated results of the Po Cheong group is less than HK\$65,000,000, the consideration of the acquisition shall be adjusted downwards by the amount of such shortfall. As a result, instead of receiving the balance of the consideration of HK\$15,000,000, EITC shall compensate Best Ability Limited, a wholly-owned subsidiary of the Company for an amount of HK\$11,120,000. The adjusting post balance sheet event has already been reflected in the consolidated financial statements of the Company for the year ended 31 March 2005.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present available financial resources, the borrowings and debts and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements in the absence of unforeseen circumstances.

4. INDEBTEDNESS

At the close of business on 31 July, 2005, being the latest practicable date for ascertaining this indebtedness prior to the printing of this Prospectus, the Group had in aggregate outstanding bank loans of approximately HK\$69.7 million of which HK\$50 million were guaranteed personally by a Director. In addition, the Group had outstanding at that date interest payable in respect of the above bank loans of approximately HK\$0.2 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have at the close of business on 31 July, 2005 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Foreign currency amounts for the purpose of the calculations in respect of the indebtedness have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31 July, 2005.

5. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March, 2005, the date to which the latest audited financial statements of the Company were made up, save as publicly disclosed.

6. REPORT ON PRO FORMA FINANCIAL INFORMATION RELATING TO
UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS VALUE

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9 September 2005

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

Dear Sirs,

We report on the pro forma statement of unaudited adjusted consolidated net tangible assets value (the “Pro Forma Financial Information”) of Asia Alliance Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out in Appendix II to the prospectus of the Company dated 9 September 2005 (the “Prospectus”) issued by the Company in connection with the proposed rights issue of 357,006,840 rights shares of HK\$0.01 each at HK\$0.40 per rights share payable in full upon acceptance on the basis of ten rights shares for every consolidated share held (the consolidated share represents ordinary share of HK\$0.01 each created upon the capital reduction in the nominal value of each of the issued ordinary shares from HK\$0.10 each to HK\$0.001 each and the share consolidation of ten then issued ordinary shares of HK\$0.001 each into one consolidated share) (the “Rights Issue”), which has been prepared by the Directors of the Company (the “Directors”), for illustrative purpose only, to provide information about how the capital reorganisation and Rights Issue might have affected the Pro Forma Financial Information of the Group presented.

Responsibilities

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

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Pro Forma Financial Information of the Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information of the Group beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

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

Our work does not constitute an assurance engagement in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and, accordingly, we do not express such assurance on the Pro Forma Financial Information of the Group.

The Pro Forma Financial Information of the Group has been prepared on the basis set out in Appendix II to the Prospectus for illustrative purpose only and, because of its nature, it may not be indicative of the consolidated net tangible assets value of the Group as at 31 March 2005 or at any future date.

Opinion

In our opinion:

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

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

7. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The Pro Forma Statement of Unaudited Adjusted Consolidated Net Tangible Assets Value of the Group has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the capital reorganisation and Rights Issue on the pro forma financial information of the Group on the assumption that the capital reorganisation and Rights Issue had taken place on 31 March 2005.

The Pro Forma Statement of Unaudited Adjusted Consolidated Net Tangible Assets Value of the Group is based on the audited consolidated balance sheet of the Group as at 31 March 2005, which has been extracted from the Annual Report of the Company for the year ended 31 March 2005, as adjusted for the effect of the capital reorganisation and Rights Issue. A narrative description of the effect of the capital reorganisation and Rights Issue that are (i) directly attributable to the capital reorganisation and Rights Issue; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, are summarised in the accompanying notes.

The Pro Forma Statement of Unaudited Adjusted Consolidated Net Tangible Assets Value of the Group is based on a number of assumptions, estimates and uncertainties. The accompanying Pro Forma Statement of Unaudited Adjusted Consolidated Net Tangible Assets Value of the Group does not purport to describe the actual net tangible assets value of the Group that would have been attained had the capital reorganisation and Rights Issue been completed. The Pro Forma Statement of Unaudited Adjusted Consolidated Net Tangible Assets Value of the Group does not purport to predict the future net tangible assets value of the Group.

The Pro Forma Statement of Unaudited Adjusted Consolidated Net Tangible Assets Value of the Group should be read in conjunction with the historical financial information of the Group as set out in the Annual Report of the Company for the year ended 31 March 2005 and other financial information included elsewhere in the Prospectus.

Audited consolidated net assets as at 31 March 2005 <i>HK\$'000</i>	Less: Goodwill as at 31 March 2005 <i>HK\$'000</i>	Estimated net proceeds from the Rights Issue <i>(Note 1)</i> <i>HK\$'000</i>	Unaudited adjusted consolidated net tangible assets <i>HK\$'000</i>	Unaudited adjusted consolidated net tangible assets per share immediately after completion of the capital reorganisation and Rights Issue <i>(Note 2)</i> <i>HK\$</i>
<u>64,021</u>	<u>21,122</u>	<u>140,300</u>	<u>183,199</u>	<u>0.467</u>

Notes:

1. The estimated net proceeds from the Rights Issue are based on 357,006,840 rights shares of HK\$0.01 each at HK\$0.40 per rights share, after deducting the estimated underwriting fees and other related expenses to be incurred by the Company. The 357,006,840 rights shares are determined assuming no exercise of the outstanding share options granted by the Company before the record date. The unaudited adjusted consolidated net tangible assets and net tangible assets per share would have been increased if all the outstanding share options are exercised in full.
2. The calculation of the unaudited adjusted consolidated net tangible assets value per share is based on 392,707,524 shares expected to be in issue immediately after the completion of the capital reorganisation and Rights Issue.

1. RESPONSIBILITY STATEMENT

This Prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus 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. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following the Rights Issue were as follows:

	<i>HK\$</i>
<i>Authorised</i>	
<u>6,500,000,000</u> Old Shares as at the Latest Practicable Date	<u>650,000,000.00</u>
<u>650,000,000</u> Shares upon the Capital Reorganisation became effective	<u>6,500,000.00</u>
	<i>HK\$</i>
<i>Issued and fully paid</i>	
<u>357,006,840</u> Old Shares in issue as at the Latest Practicable Date	<u>35,700,684.00</u>
35,700,684 Shares in issue upon the Capital Reorganisation became effective	357,006.84
<u>357,006,840</u> Rights Shares to be issued pursuant to the Rights Issue	<u>3,570,068.40</u>
<u>392,707,524</u> Shares in issue immediately following the Rights Issue	<u>3,927,075.24</u>

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. The Shares in issue are listed on the Stock Exchange.

All of the Rights Shares to be issued will rank pari passu in all respect with each other, including, in particular, as to dividends, voting rights and capital, and with all Shares in issue as at the date of allotment and issue of the Rights Shares. The Rights Shares to be issued will be listed on the Stock Exchange.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

Dealings in the shares of the Company may be settled through CCASS and you should consult your stockbroker or other registered dealer of securities, bank manager, solicitors, professional accountant or other professional adviser for details of these settlement arrangements and how such arrangements may affect your rights and interest.

(b) **Share Options**

Details of outstanding Share Options granted by the Company are as follows:

Grantee	Date of grant	Exercise period	Exercise price HK\$	Number of Old Shares to be allotted and issued upon exercise of the outstanding Share Options
Former employee	31 August, 2001	31 August, 2001 to 30 August, 2011	1.792	<u>5,625,000</u>

Save as the 5,625,000 Share Options disclosed above, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

3. 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 Old Shares

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

Note: The 128,259,324 Old Shares relate to the same block of Old Shares in the Company. These Old Shares were registered in the name of and were beneficially owned by Landmark Profits which was a wholly-owned subsidiary of Easykmit. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easykmit. 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 Old Shares by virtue of the SFO.

Interests in unissued Shares

Name of Director	Nature of interest	Number of unissued Shares (long position)	Approximate percentage of interest
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 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 Easykmit. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easykmit. 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.

4. 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 Old Shares

Name of substantial shareholder	Nature of interest	Number of issued Old Shares (long position)	Approximate percentage of interest
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:

1. The 128,259,324 Old Shares relate to the same block of Old Shares in the Company. These Old 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).
2. 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.
3. Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits Limited.
4. Ms. Lui Yuk Chu, being a Director, is also a director of Accumulate More Profits Limited.

Interests in unissued Shares

Name of substantial shareholder	Nature of interest	Number of unissued 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:

1. The 128,259,320 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).
2. 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.
3. Ms. Lui Yuk Chu, being a Director, is also a director of Magical Profits Limited.

4. Ms. Lui Yuk Chu, being a Director, is also a director of Accumulate More Profits Limited.
5. The 234,372,520 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.
6. The 78,124,172 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.
7. The 78,124,172 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.

5. 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 Prospectus 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.

6. 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.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any other member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

8. QUALIFICATION OF EXPERT AND CONSENT

The following is the qualification of the professional adviser who has given opinion or advice contained in this Prospectus:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this Prospectus 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, Deloitte Touche Tohmatsu:

- (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. EXPENSES

The expenses in connection with the Right Issue, including financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to amount to approximately HK\$2.5 million and are payable by the Company.

11. MISCELLANEOUS

The English text of this Prospectus, the PAL and the EAF shall prevail over the Chinese text in the case of inconsistency.

12. 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 27 September, 2005:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (c) the annual reports of the Company for the year ended 31 March, 2005 and for the fifteen months ended 31 March, 2004 ;
- (d) the report regarding the unaudited pro forma consolidated net tangible assets of the Group from Deloitte Touche Tohmatsu, the text of which is set out on pages 68 to 69; and
- (e) the letter of consent referred to in the section headed "Qualification of Expert and Consent" in this appendix.