Asia Alliance Holdings Limited
亞 洲 聯 盟 集 團 有 限 公 司

Interim Report

中 期 業 績 報 告

2004

The board of directors of Asia Alliance Holdings Limited (the "Company") is pleased to present the unaudited condensed financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2004 together with comparative figures. These interim financial statements have been reviewed by the Company's audit committee.

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

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

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2004

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

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

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

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

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

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

1. GENERAL AND BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

3. SEGMENT INFORMATION

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

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

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

4. OTHER OPERATING INCOME

	Six months ended 30 September	
	2004	2003
	HK$'000	*HK$'000*
Interest income	**3**	48
Others	**120**	321
	123	369

5. LOSS FROM OPERATIONS

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

6. FINANCE COSTS

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

7. TAXATION

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

8. BASIC EARNINGS (LOSS) PER SHARE

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

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

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

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

9. DIVIDENDS

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

10. PROPERTY, PLANT AND EQUIPMENT

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

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

	30 September 2004 *HK$'000*	31 March 2004 *HK$'000*
Loan to ALOH	**45,815**	45,815
Less: Allowance	**(45,610)**	(45,412)
	205	403

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

12. TRADE AND OTHER RECEIVABLES

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

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

13. TRADE AND OTHER PAYABLES

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

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

14. BANK LOANS

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

15. OTHER LOAN, SECURED

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

16. SHARE CAPITAL

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

17. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

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

	Six months ended 30 September	
	2004	2003
	HK$'000	*HK$'000*
Sales of bleached and dyed fabric	**13,047**	—
Bleaching and dyeing charges received	**166**	—

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

	30 September 2004	31 March 2004
	HK$'000	*HK$'000*
Trade receivables	**13,295**	—

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

18. CAPITAL COMMITMENTS

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

19. ACQUISITION OF SUBSIDIARIES

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

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

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

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

20. DISPOSAL OF SUBSIDIARIES

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

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

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

INTERIM DIVIDEND

The board of directors has resolved not to declare an interim dividend for the six months ended 30 September 2004 (six months ended 30 September 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group achieved satisfactory growth in both turnover and profit for the period under review. The Group's turnover surged to approximately HK$21,981,000 for the six months ended 30 September 2004, representing more than tenfold increase over approximately HK$1,922,000 for the same period last year. The remarkable increase in turnover was predominately due to the acquisition of the bleaching and dyeing business in May 2004.

Net profit for the six months ended 30 September 2004 attributable to shareholders amounted to approximately HK$6,226,000, a turnaround as compared to the net loss of approximately HK$17,653,000 for the corresponding period last year. Such significant improvement resulted largely from a gain of approximately HK$9,042,000 on the disposal of the continued loss-making wireless communication business in June 2004 and a profit of approximately HK$1,176,000 derived from the bleaching and dyeing business during the period. This was partly offset by the loss of approximately HK$2,169,000 recorded in the knitting business.

Cost of sales jumped nearly ten times to approximately HK$18,504,000 for the six months ended 30 September 2004 compared to approximately HK$1,705,000 for the same period last year, reflecting the drastic growth in sales. The Group's total operating expenses for the six months ended 30 September 2004 fell to approximately HK$6,097,000, a decrease of approximately 57.3% compared to approximately HK$14,267,000 for the parallel period of the previous year. The decrease was mainly attributable to the savings in salaries, rentals and other operating expenses as a result of the disposal of the wireless communication business in June 2004, which was partly offset by the costs generated from the newly introduced garment related businesses.

Finance costs dropped by approximately 86.5% to approximately HK$138,000 (six months ended 30 September 2003: approximately HK$1,023,000), principally by reason of repayment of a loan of HK$30,270,000 from Easyknit International Holdings Limited ("Easyknit") in March 2004 and settlement of the Facility Loan (as defined in "Significant Corporate Events" below) of HK$4,000,000 in June 2004, which was offset by the banking loans drawn by the Group during the period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Business Review

Given that the wireless communication business, communication solutions consultancy services and internet operations of the Group continued to suffer substantial losses, effort was made to streamline their operations during the period. To grasp the business opportunities arising from the accession by the People's Republic of China (the "PRC") to the World Trade Organisation (the "WTO") and the lifting of the textile quotas in 2005, the Group acquired the bleaching and dyeing business carried on by Po Cheong International Enterprises Limited ("Po Cheong") and its subsidiary in May 2004. The directors believe that such business which the management of the Company is familiar with will provide steady cash flow to the Group. By entering into the Settlement Agreement (as defined in "Significant Corporate Events" below) in June 2004, the Group no longer has any interest in the wireless communication business of i100 Wireless Corporation and its subsidiaries.

During the six months ended 30 September 2004, the Group was principally engaged in the business of bleaching and dyeing, which contributed to approximately 95.0% of the Group's total turnover, amounting to approximately HK$20,892,000. The Group's bleaching and dyeing factory located in Dongguan, the PRC currently has a daily production capacity of about 30,000 pounds.

The knitting mill in Heyuan, the PRC commenced production in May this year with a daily production capacity of about 20,000 pounds. Turnover in the knitting services only accounted for approximately 5.0% of the Group's total turnover for the six months ended 30 September 2004 and its share is expected to grow going forward.

Geographically, almost all the Group's customers were located in the PRC.

Prospects

The global economy is on the upward trend. In particular, Mainland China is experiencing strong economic growth which has elevated the standard of living for much of its population and will in turn spur the demand for high quality textile products. Also, European and American firms are likely to move sourcing of apparel to lower-cost countries like the PRC following the removal of the WTO's quotas on global textiles, which will enhance the growth prospects of the Group's business in the long run. However, market sentiments have been dampened by the macro economic adjustments in the PRC, volatile oil prices and the beginning of a rising interest rate cycle in the United States of America (the "US"). The short-term outlook is also clouded by uncertainty stemming from trade tensions between the US and the PRC. To prevent the Chinese imports from flooding the US market and harming their textile industry when the textile quotas expire on 1 January 2005, the US government may impose stringent import restrictions on a variety of Chinese textile products. We will constantly monitor the market conditions and adjust accordingly.

Nevertheless, the management remains cautiously optimistic about the second half results based on the orders on hand. Bleaching and dyeing business will continue to make positive contribution to the Group. We also anticipate the production of the knitting mill in Heyuan, the PRC will grow steadily. Coupled with our strong relationships developed with our customers, improved efficiency, advanced production facilities and experienced management team, we are confident that the Group will eventually benefit from the growing 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.

Significant Corporate Events

As jointly announced by the Company and Easyknit on 5 March 2004, a wholly-owned subsidiary of the Company has conditionally agreed to acquire all the issued shares of Po Cheong from a wholly-owned subsidiary of Easyknit at a consideration of HK$65,000,000 (the "Acquisition"). Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The consideration shall be satisfied in cash, of which HK$50,000,000 was paid on 13 May 2004 and the remaining balance of HK$15,000,000 shall be payable after finalisation of the adjustment (as described in the circular of the Company dated 23 April 2004) in the mid of 2005. The Company is owned as to approximately 35.93% by Easyknit. Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Acquisition constitutes a major and connected transaction for the Company. An ordinary resolution to approve the Acquisition was duly passed at the special general meeting of the Company held on 10 May 2004. Completion of the Acquisition took place on 17 May 2004. Details of the Acquisition are set out in the circular of the Company dated 23 April 2004.

As announced by the Company on 2 July 2004, the Company entered into an agreement (the "LTC Agreement") with Mr. Louie Tsz Chung ("Mr. Louie") and an agreement (the "KPF Agreement") with Ms. Koon Po Fun ("Ms. Koon") on 15 June 2004, pursuant to which, amongst other things, the Group has agreed to sell fabrics and provide bleaching and dyeing services to the companies controlled by Mr. Louie (the "LTC Companies") and companies controlled by Ms. Koon (the "KPF Companies") respectively for the period from 17 May 2004 to 31 March 2007 subject to respective caps. In addition, under the terms of the LTC Agreement and the KPF Agreement, the Company has agreed to grant trade credit to the LTC Companies and the KPF Companies in respect of the sales of fabrics and provision of bleaching and dyeing services to the LTC Companies and the KPF Companies respectively. Such trade credit is unsecured and interest free with a credit period of 60 days. Mr. Louie is the nephew of Ms. Lui Yuk Chu, a director of the Company, and Ms. Koon is the sister of Mr. Koon Wing Yee, a director of the Company. Pursuant to the Listing Rules, Mr. Louie has been deemed to be a connected person of the Company and Ms. Koon is a connected person of the Company. The transactions (the "Transactions") contemplated under the LTC Agreement and the KPF Agreement constitute non-exempt continuing connected transactions of the Company. They are conducted in the ordinary and usual course of business of the Group and in accordance with the terms of the relevant agreements, which were negotiated on an arm's length basis. At the special general meeting of the Company held on 25 August 2004, both ordinary resolutions to approve the LTC Agreement and the KPF Agreement and the Transactions were duly passed by the independent shareholders. Details of the Transactions are set out in the circular of the Company dated 26 July 2004.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Significant Corporate Events *(Cont'd)*

Transactions with the LTC Companies and the KPF Companies for the period from 17 May 2004 to 30 September 2004 amounted to approximately HK$4,517,000 and approximately HK$8,696,000 respectively. As at 30 September 2004, the outstanding trade credits granted to the LTC Companies and the KPF Companies were approximately HK$4,513,000 and approximately HK$8,782,000 respectively.

The Company announced on 14 July 2004 that Copplestone Limited ("Copplestone"), a wholly-owned subsidiary of the Company, and Arco Consulting Inc. ("Arco"), a third party independent of the Company, entered into a settlement agreement (the "Settlement Agreement") on 25 June 2004 for the full settlement of a loan of HK$4,000,000 (the "Facility Loan") provided by Arco to Copplestone pursuant to a facility agreement dated 6 January 2003 between both parties together with the accrued interest of HK$511,000 (up to the date of the Settlement Agreement) by way of transferring all the issued shares of i100 Wireless Corporation, a then wholly-owned subsidiary of Copplestone, to Arco. i100 Wireless Corporation and its subsidiaries are principally engaged in the wireless communication business. The disposal of i100 Wireless Corporation (the "Disposal") constitutes a discloseable transaction of the Company under the Listing Rules. Details of the Settlement Agreement and the Disposal are set out in the circular of the Company dated 4 August 2004.

Liquidity and Financial Resources

During the six months ended 30 September 2004, the Group financed its operations mainly by net proceeds from the fund raising exercises conducted in 2003 and 2004, the Facility Loan of HK$4,000,000 and bank borrowings. In June 2004, the Facility Loan together with the accrued interests was settled pursuant to the Settlement Agreement (as defined in "Significant Corporate Events" above). During the period under review, the Group obtained a new bank loan of HK$5,000,000 for general working capital purposes, bank loans of HK$8,775,000 upon acquisition of subsidiaries and import loans from the bank of HK$686,000. All the loans are unsecured, denominated in Hong Kong dollars and repayable in instalments over a period of four years with prevailing market interest rates. As at 30 September 2004, the Group's total bank borrowings amounted to approximately HK$14,461,000 (31 March 2004: Nil), of which approximately 28.9% being short-term borrowings and approximately 71.1% being long-term borrowings. The Group's borrowings are mostly event driven, with little seasonality. Shareholders' fund of the Group as at 30 September 2004 was approximately HK$64,098,000 (31 March 2004: approximately HK$57,856,000). The Group's gearing ratio, which was calculated based on the total borrowings to the shareholders' fund, increased from approximately 0.069 as at 31 March 2004 to approximately 0.226 as at 30 September 2004.

Liquidity and Financial Resources *(Cont'd)*

The Group continued to sustain a liquidity position. As at 30 September 2004, the Group had net current assets of approximately HK$1,661,000 (31 March 2004: approximately HK$56,997,000) and cash and cash equivalents of approximately HK$4,128,000 (31 March 2004: approximately HK$66,131,000). As at 30 September 2004, the current ratio of the Group was approximately 1.1 (31 March 2004: approximately 6.1), which was calculated on the basis of current assets of approximately HK$34,073,000 (31 March 2004: approximately HK$68,066,000) to current liabilities of approximately HK$32,412,000 (31 March 2004: approximately HK$11,069,000). The drastic fall in the current ratio was primarily a result of the acquisition of the bleaching and dyeing business which not only reduced the bank and cash balance but also increased the Group's liabilities.

The directors believe that the Group has sufficient financial resources for its operations.

Exposure to Fluctuations in Exchange Rates and Related Hedges

As most of the Group's revenues and payments are in Hong Kong dollars and Renminbi, the Group had no significant exposure to fluctuations in exchange rates during the period under review. Hence, no financial instrument for hedging purposes was employed.

Capital Structure

The Group had no debt securities or other capital instruments as at 30 September 2004 and up to the date of this report.

Material Acquisitions and Disposals

Apart from the acquisition of Po Cheong and the disposal of i100 Wireless Corporation as disclosed in "Significant Corporate Events" above, the Group had no material acquisitions or disposals of subsidiaries or associates during the six months ended 30 September 2004.

Charges on Group Assets

The Group did not have any charges on assets as at 30 September 2004.

Capital Expenditure and Capital Commitments

During the six months ended 30 September 2004, the Group spent approximately HK$26,022,000 (six months ended 30 September 2003: approximately HK$12,076,000) on acquisition of property, plant and equipment, of which approximately HK$14,529,000 (six months ended 30 September 2003: Nil) was related to acquisition of subsidiaries.

As at 30 September 2004, the Group had capital commitments of approximately HK$20,914,000 (31 March 2004: approximately HK$95,827,000).

Contingent Liabilities

As at 30 September 2004, the Group's banking facilities utilised to the extent of approximately HK$14,461,000 (31 March 2004: Nil) were supported by the Company's unlimited guarantee and unlimited cross guarantee provided by two of its subsidiaries in favour of the bank.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 30 September 2004.

Significant Investment

As at 30 September 2004, the Group did not have any significant investment held or any significant investments plans.

Employment and Remuneration Policy

As at 30 September 2004, the Group employed approximately 300 full time management, technical, administrative staff and workers in Hong Kong and elsewhere in the PRC. Employees' cost (including directors' emoluments) amounted to approximately HK$2,214,000 for the period under review. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has a share option scheme to motivate valued employees.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2004, the interests and short positions of the directors and the chief executives of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Interests in the Company (Long Positions):

Name of director	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of the Company
Mr. Koon Wing Yee *(Note)*	Interest of spouse	128,259,324	35.93%
Ms. Lui Yuk Chu *(Note)*	Beneficiary of a trust	128,259,324	35.93%

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

Save as disclosed above, as at 30 September 2004, none of the directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 September 2004 was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

SHARE OPTION SCHEMES

A. 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 the 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 the shareholders at the annual general meeting held on 6 June 2002 but the subsisting options granted thereunder prior to its 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 pursuant to the new requirements of Chapter 17 of the Listing Rules. No share options have been granted under the 2002 Share Option Scheme since its adoption.

Particulars of the share options, which were granted to the former continuous contract employees of the Group under the 1991 Share Option Scheme and the 2001 Share Option Scheme, and their movements during the period under review were as follows:

		Number of share options				
Share Option Scheme	**Date of grant of share options**	**As at 1 April 2004**	**Lapsed during the period**	**As at 30 September 2004**	**Exercise price per share option** *HK$* *(note c)*	**Exercise period of share options**
1991	2 August 2000 *(note a)*	45,000	(45,000)	—	3.333	2 August 2001 to 1 August 2010
1991	26 March 2001 *(note a)*	56,250	(56,250)	—	1.711	26 March 2002 to 25 March 2011
2001	31 August 2001 *(note a)*	238,050	(238,050)	—	1.792	31 August 2002 to 30 August 2011
2001	31 August 2001 *(note b)*	5,625,000	—	5,625,000	1.792	31 August 2001 to 30 August 2011
		5,964,300	(339,300)	5,625,000		

SHARE OPTION SCHEMES *(Cont'd)*

Notes:

(a) 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 share options become exercisable.

(b) The vesting period is the period of 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.

(c) 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 the period.

B. Subsidiaries

(1) 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.

(2) i100 Wireless Corporation

On 6 June 2002, i100 Wireless Corporation adopted a share option scheme pursuant to the new 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the persons (other than the directors or the chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long Positions:

Name of substantial shareholder	**Capacity**	**Number of ordinary shares held**	**Approximate percentage to issued ordinary shares of the Company**
Landmark Profits Limited *(Note)*	Beneficial owner	128,259,324	35.93%
Easyknit *(Note)*	Interest of controlled corporation	128,259,324	35.93%
Magical Profits Limited *(Note)*	Interest of controlled corporation	128,259,324	35.93%
Accumulate More Profits Limited *(Note)*	Interest of controlled corporation	128,259,324	35.93%
Trustcorp Limited *(Note)*	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%

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

Save as disclosed above, as at 30 September 2004, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2004.

AUDIT COMMITTEE

Mr. Lau Sin Ming has been appointed as an independent non-executive director and a member of the audit committee of the Company with effect from 20 September 2004. The current audit committee comprises three members, Mr. Kan Ka Hon, Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming, who are independent non-executive directors of the Company. The audit committee has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2004.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules during the six months ended 30 September 2004, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2004.

By Order of the Board of
Asia Alliance Holdings Limited
KOON, Wing Yee
President and Chief Executive Officer

Hong Kong, 29 November 2004