Asia Alliance Holdings Limited
亞洲聯盟集團有限公司

2005

INTERIM REPORT
中期業績報告

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 2005 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 2005

	NOTES	**Six months ended 30 September**	
		2005	2004
		HK$'000	*HK$'000*
		(Unaudited)	*(Unaudited)*
Turnover	3	**26,858**	21,981
Cost of sales and services		**(24,874)**	(18,504)
Gross profit		**1,984**	3,477
Other operating income		**147**	123
Distribution costs		**(256)**	(149)
Administrative expenses		**(4,919)**	(4,191)
Other operating expenses		**(2,134)**	(1,757)
Impairment loss recognised in respect of goodwill	10	**(12,445)**	—
Allowance for a loan to Acme Landis Operations Holdings Limited, a former subsidiary		**—**	(198)
Write-back of allowance for doubtful debts		**—**	17
Loss from operations	4	**(17,623)**	(2,678)
Gain on disposal of subsidiaries		**—**	9,042
Finance costs	5	**(1,253)**	(138)
(Loss) profit for the period		**(18,876)**	6,226
Basic (loss) earnings per share	7	**HK$(0.37)**	HK$0.18

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2005

	NOTES	30 Septmber 2005 HK$'000 (Unaudited)	31 March 2005 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**22,634**	23,661
Goodwill	10	**8,677**	21,122
Prepaid lease payments	11	**9,007**	—
Deposits paid for acquisition of property, plant and equipment		**16,081**	—
		56,399	44,783
Current assets			
Inventories		**5,435**	4,646
Trade and other receivables	12	**23,881**	25,766
Consideration receivable on acquisition of subsidiaries		**—**	11,120
Bank balances and cash		**116,466**	33,352
		145,782	74,884
Current liabilities			
Trade and other payables	13	**11,186**	8,040
Bills payable	14	**1,687**	1,200
Bank loans — amount due within one year		**—**	30,985
		12,873	40,225
Net current assets		**132,909**	34,659
		189,308	79,442
Capital and reserves			
Share capital	15	**3,927**	35,701
Reserves		**185,381**	28,320
		189,308	64,021
Non-current liabilities			
Bank loans — amount due after one year		**—**	15,421
		189,308	79,442

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2004	35,701	61,344	17,850	714	(16)	(57,737)	57,856
Exchange differences on translation of overseas operations and net income recognised directly in equity	—	—	—	—	45	—	45
Realised on disposal of subsidiaries	—	—	—	—	16	—	16
Profit for the year	—	—	—	—	—	6,104	6,104
Total recognised income and expense for the year	—	—	—	—	61	6,104	6,165
At 31 March 2005	35,701	61,344	17,850	714	45	(51,633)	64,021
Exchange differences on translation of overseas operations and net income recognised directly in equity	—	—	—	—	1,360	—	1,360
Loss for the period	—	—	—	—	—	(18,876)	(18,876)
Total recognised income and expense for the period	—	—	—	—	1,360	(18,876)	(17,516)
Reduction of share capital upon capital reorganisation *(see note 15(a))*	(35,344)	—	35,344	—	—	—	—
Rights issue of shares *(see note 15(b))*	3,570	139,233	—	—	—	—	142,803
At 30 September 2005	3,927	200,577	53,194	714	1,405	(70,509)	189,308
At 1 April 2004	35,701	61,344	17,850	714	(16)	(57,737)	57,856
Realised on disposal of subsidiaries and net income recognised directly in equity	—	—	—	—	16	—	16
Profit for the period	—	—	—	—	—	6,226	6,226
Total recognised income and expense for the period	—	—	—	—	16	6,226	6,242
At 30 September 2004	35,701	61,344	17,850	714	—	(51,511)	64,098

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Net cash used in operating activities	**(237)**	(5,188)
Net cash used in investing activities	**(14,137)**	(61,815)
Net cash from financing activities		
Proceeds from issue of new shares	**142,803**	—
Bank loans raised	**25,000**	5,000
Repayment of bank loans	**(71,406)**	—
	96,397	5,000
Net increase (decrease) in cash and cash equivalents	**82,023**	(62,003)
Cash and cash equivalents at beginning of the period	**33,352**	66,131
Effect of foreign exchange rate changes	**1,091**	—
Cash and cash equivalents at end of the period, represented by bank balances and cash	**116,466**	4,128

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

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

The principal accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business Combinations", which is applicable for business combinations for which the agreement date is on or after 1 January 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current accounting period are prepared and presented.

Business combinations

In the current period, the Group has applied the transitional provisions of HKFRS 3 "Business Combinations" to goodwill arising on business combinations for which the agreement date was before 1 January 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on business combinations for which the agreement date was before 1 January 2005 was capitalised and amortised over its estimated useful life. With respect to goodwill arising on business combinations for which the agreement date was before 1 January 2005 and previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 April 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on business combinations for which the agreement date is on or after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. This change in accounting policy has resulted in a decrease in loss for the current period of approximately HK$1,152,000 other than the impairment loss recognised in respect of goodwill of approximately HK$12,445,000. Comparative figures for 2004 have not been restated.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Share-based payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment", which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. As all share options of the Group were granted before 7 November 2002 and the Group did not have share options granted after 7 November 2002, there is no financial effect on the loss or profit for the current or prior accounting periods.

Owner-occupied leasehold interests in land

In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis.

3. SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segments. For management purposes, the Group is currently organised into two main operating divisions - bleaching and dyeing and knitting. These divisions are the bases on which the Group reports its primary segment information. The divisions of wireless communication business and communication solutions consultancy services were discontinued by the management in view of the inactiveness of the relevant businesses during the period. The discontinued operations during the period did not have any significant impact on the results of the Group for the current and prior accounting periods.

For the six months ended 30 September 2005

	Bleaching and dyeing *HK$'000*	**Knitting** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
Turnover				
External	26,707	151	—	26,858
Inter-segment	—	2,157	(2,157)	—
Total	26,707	2,308	(2,157)	26,858
Segment result	(487)	(1,091)	—	(1,578)
Interest income				90
Impairment loss recognised in respect of goodwill	(12,445)			(12,445)
Unallocated corporate expenses				(3,690)
Loss from operations				(17,623)

3. SEGMENT INFORMATION *(Cont'd)*

For the six months ended 30 September 2004

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

4. LOSS FROM OPERATIONS

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Amortisation of goodwill, included in other operating expenses	**—**	1,639
Depreciation	**1,677**	1,120
Total staff costs (including directors' emolument)	**3,233**	2,214

5. FINANCE COSTS

The amount represents interest on bank loans wholly repayable within five years.

6. TAXATION

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

7. BASIC (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
(Loss) profit for the purposes of basic (loss) earnings per share	**(18,876)**	6,226

	Six months ended 30 September	
	2005	2004
Number of shares		
Weighted average number of shares for the purposes of basic (loss) earnings per share	**50,529,148**	34,886,708

The denominator for the purposes of calculating basic earnings per share for the six months ended 30 September 2004 has been adjusted to reflect the consolidation of shares on the basis that ten shares were consolidated into one share and the rights issue of shares in September 2005.

No diluted loss per share has been presented for the six months ended 30 September 2005 as the exercise of the Company's outstanding share options would reduce the loss per share for the period.

No diluted earnings per share was 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 that period.

8. 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.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$381,000 on acquisition of property, plant and equipment (six months ended 30 September 2004: HK$26,022,000 of which approximately HK$14,529,000 was related to acquisition of subsidiaries).

10. GOODWILL

	HK$'000
COST	
At 1 April 2005	23,042
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see note 2)*	(1,920)
At 30 September 2005	21,122
AMORTISATION	
At 1 April 2005	1,920
Elimination of accumulated amortisation upon the application of HKFRS 3	(1,920)
At 30 September 2005	—
IMPAIRMENT	
At 1 April 2005	—
Impairment loss recognised for the period	12,445
At 30 September 2005	12,445
CARRYING AMOUNTS	
At 30 September 2005	8,677
At 31 March 2005	21,122

Impairment loss was recognised based on the recoverable amounts of the subsidiaries acquired which were determined by the estimated discounted net future cash flows from these subsidiaries using market borrowing rates.

11. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise land use rights situated in the People's Republic of China (the "PRC") held under medium-term leases. At 30 September 2005, an amount of approximately HK$102,000 (31 March 2005: nil) was included in other receivables in the condensed consolidated balance sheet.

12. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of up to 100 days to its customers. The aged analysis of trade receivables at the reporting date, based on invoice date, is as follows:

	30 September 2005 *HK$'000*	31 March 2005 *HK$'000*
0 - 60 days	**8,029**	7,150
61 - 90 days	**2,415**	3,398
Over 90 days	**12,520**	13,883
Trade receivables	**22,964**	24,431
Other receivables	**917**	1,335
	23,881	25,766

13. TRADE AND OTHER PAYABLES

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

	30 September 2005 *HK$'000*	31 March 2005 *HK$'000*
0 - 60 days	**6,244**	4,615
61 - 90 days	**1,281**	961
Over 90 days	**256**	277
Trade payables	**7,781**	5,853
Other payables	**3,405**	2,187
	11,186	8,040

14. BILLS PAYABLE

At the reporting date, the bills payable is aged within 60 days.

15. SHARE CAPITAL

	NOTES	Nominal value per share	Number of shares	Amount
		HK$		HK$'000
Authorised:				
At 1 April 2005		0.10	6,500,000,000	650,000
Effect of the Capital Reduction referred to below	(a)(i)		—	(643,500)
		0.001	6,500,000,000	6,500
Effect of the share consolidation referred to below	(a)(iii)		(5,850,000,000)	—
At 30 September 2005		0.01	650,000,000	6,500
Issued and fully paid:				
At 1 April 2005		0.10	357,006,840	35,701
Effect of the Capital Reduction referred to below	(a)(i)		—	(35,344)
		0.001	357,006,840	357
Effect of the share consolidation referred to below	(a)(iii)		(321,306,156)	—
		0.01	35,700,684	357
Rights issue of shares at a price of HK$0.40 per rights share	(b)	0.01	357,006,840	3,570
At 30 September 2005		0.01	392,707,524	3,927

15. SHARE CAPITAL *(Cont'd)*

Notes:

(a) In September 2005, the Company underwent a capital reorganisation (the "Capital Reorganisation"). Details of the Capital Reorganisation are set out in the circular dated 15 August 2005 issued by the Company.

At the special general meeting of the Company held on 6 September 2005, a special resolution approving the Capital Reorganisation was passed and the following capital reorganisation became effective on 9 September 2005:

(i) the par value of the authorised, issued and unissued share capital of the Company was reduced from HK$0.10 each to HK$0.001 each (the "Capital Reduction");

(ii) the amount of the cancelled paid-up capital in the sum of approximately HK$35,344,000 arising from the Capital Reduction was credited to a capital reserve account of the Company; and

(iii) every ten issued and unissued reduced shares of HK$0.001 each were consolidated into one share of HK$0.01 each (the "Consolidated Share").

(b) Rights issue of 357,006,840 shares of HK$0.01 each at a subscription price of HK$0.40 per rights share were allotted on 27 September 2005 to the shareholders of the Company in the proportion of ten rights shares for every Consolidated Share then held. The net proceeds of the rights issue amounted to approximately HK$140.3 million of which approximately HK$69.9 million was used for repayment of all outstanding bank loans, and the balance for general working capital purposes. All shares issued rank pari passu with the then existing shares in issue in all respects.

16. 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 Mr. Koon Wing Yee and his spouse, Ms. Lui Yuk Chu, both of whom are directors of the Company:

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Sales of bleached and dyed fabrics	**2,738**	13,047
Bleaching and dyeing charges received	**1,255**	166

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

	30 September 2005	31 March 2005
	HK$'000	HK$'000
Trade receivables	**249**	5,809

16. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS *(Cont'd)*

(b) During the period, 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$120,000 (six months ended 30 September 2004: HK$121,000). The services fee is determined based on mutually agreed terms.

(c) During the period, 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. The relevant bank loans of the subsidiary were fully repaid by applying the net proceeds from the rights issue of the Company in September 2005.

17. CAPITAL COMMITMENTS

	30 September 2005	31 March 2005
	HK$'000	*HK$'000*
Capital expenditure contracted but not provided for in respect of:		
— construction of plants	**4,647**	19,080
— acquisition of property, plant and equipment	**10**	—
— acquisition of land use rights	**—**	9,538
— capital injection for interests in a jointly controlled entity and a non wholly-owned subsidiary	**20,904**	20,904
	25,561	49,522
Capital expenditure authoised but not contracted for in respect of acquisition of property, plant and equipment *(note)*	**169,693**	171,382

Note: In December 2004, the Group entered into agreements in connection with the acquisition of the land use rights, the construction of the plants and the proposed development of manufacturing operations in Huzhou City, Zhejiang Province, the PRC (the "Project") with the People's Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, the PRC (the "Vendor"). The Project was divided into two phases and the investment in phase 1 was expected to be up to HK$200,000,000. The related capital commitment has been presented above. The total investment of the Project (being phase 1 and phase 2) was not determined. Details of the agreements are set out in the circular issued by the Company dated 21 February 2005.

18. POST BALANCE SHEET EVENT

In November 2005, the Group entered into a supplemental agreement (the "Supplemental Agreement") in respect of the Project with the Vendor. The total investment of the Project (being phase 1 and phase 2), which is subject to shareholders' approval, as agreed by the parties in the Supplemental Agreement is estimated to be approximately HK$499,000,000 (equivalent to RMB519,000,000), out of which approximately HK$25,660,000 has been paid before the balance sheet date. The Group intends to finance the Project through internal resources, bank borrowings and other forms of financing available to the Group. Details of the above are set out in the announcement dated 30 November 2005 issued by the Company.

INTERIM DIVIDEND

The board of directors has resolved not to declare an interim dividend for the six months ended 30 September 2005 (six months ended 30 September 2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 September 2005, the Group recorded a turnover of approximately HK$26,858,000, an increase of approximately 22.2% over approximately HK$21,981,000 for the same period last year. Gross profit dropped approximately 42.9% to approximately HK$1,984,000 (six months ended 30 September 2004: approximately HK$3,477,000). Net loss attributable to shareholders amounted to approximately HK$18,876,000 as compared to the net profit of approximately HK$6,226,000 for the same period in 2004. Loss per share was approximately HK$0.37 (six months ended 30 September 2004: earnings per share of approximately HK$0.18).

The net loss for the period under review was mainly attributable to the impairment loss recognised in respect of goodwill of approximately HK$12,445,000 as well as increase in cost of sales and services, operating expenses and finance costs. The cost of sales and services rose by approximately 34.4% to approximately HK$24,874,000 (six months ended 30 September 2004: approximately HK$18,504,000), primarily due to the growth in sales, increase in depreciation costs on fixed assets and upsurge in production costs such as staff wages and prices of dyeing materials, coal, oil, electricity and water.

The Group's total operating expenses also went up by approximately 19.9% to approximately HK$7,309,000 (six months ended 30 September 2004: approximately HK$6,097,000), predominately due to the increase in administrative expenses of approximately HK$728,000 and corporate finance expenses of approximately HK$2,003,000 in respect of the rights issue of the Company in September 2005.

Finance costs leaped 8 times to approximately HK$1,253,000 as compared to approximately HK$138,000 for the corresponding period in 2004, principally by reason of the increase in bank loans and rise in interest rate during the period under review.

Business Review

During the six months ended 30 September 2005, the Group was principally engaged in the businesses of bleaching, dyeing and knitting.

The bleaching and dyeing business continued to be the principal business of the Group and contributed to approximately 99.4% of the Group's total turnover for the period under review, an approximately 4.4% increase over the same period last year of approximately 95.0%. Turnover of this segment increased by approximately 27.8% to approximately HK$26,707,000 (six months ended 30 September 2004: approximately HK$20,892,000). However, this segment suffered a loss of approximately HK$487,000 (six months ended 30 September 2004: profit of approximately HK$1,176,000), largely due to rising fuel prices, higher material costs as well as increased salaries and wages during the period under review. The Group's bleaching and dyeing factory located in Dongguan, the People's Republic of China (the "PRC") currently has a daily production capacity of about 30,000 pounds.

Turnover in the knitting business only accounted for approximately 0.6% (six months ended 30 September 2004: approximately 5.0%) of the Group's total turnover for the six months ended 30 September 2005. Taking into account the portion of inter-segment, the turnover derived from this segment rose drastically by approximately 111.9% to approximately HK$2,308,000 from approximately HK$1,089,000 for the same period in 2004, mainly due to the steady growth after the commencement of production in May 2004 as anticipated. The segment loss decreased from approximately HK$2,169,000 to approximately HK$1,091,000. The knitting mill in Heyuan, the PRC has a daily production capacity of about 20,000 pounds.

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

Prospects

The Group with its bleaching and dyeing factory as well as knitting mill located in the Pearl River Delta Region continues to be affected by the adverse impact of shortage of skilled labour, which will not only result in increased salaries and wages, but also high labour turnover and reduced production efficiency. The rising energy costs are likely to reduce our profit margins to a further extent.

The Group will endeavour to improve its cost and inventory control measures in order to mitigate the impact of any price increases in raw materials. Measures are being devised to attract and retain workers and to combat rising production costs.

The delay in the transfer of land of approximately 632 mu in Huzhou City, Zhejiang Province, the PRC (the "Property") to the Group has led to the postponement in completion of setting up of the garment manufacturing, bleaching and dyeing and knitting capabilities (the "Development") and the construction of a waste water treatment plant on the Property (the "Construction") (the acquisition of the Property, the Development and the Construction are together, the "Huzhou Project"). The certificate of land use right in respect of land of approximately 184 mu comprised in the Property was issued to a subsidiary of the Company on 17 October 2005. It is expected that land of approximately 193 mu and the remaining land comprised in the Property will be transferred to the Group by 31 December 2005 and 30 June 2006 respectively. Construction work for phase 1 of the Huzhou Project commenced in November 2005. It is expected that completion of phase 1 of the Huzhou Project, which involves, inter alia, the Construction, building of factories for garment manufacturing, bleaching and dyeing and knitting manufacturing processes, employee quarters and storages, will take place around mid-2007.

The directors believe that the Huzhou Project will not only consolidate and significantly increase the Group's manufacturing capabilities by developing vertically integrated operations ranging from knitting, bleaching and dyeing, and garment manufacturing, which in turn provides further economy of scale, but will also help minimise cost, maximise efficiency and increase the Group's competitivity so as to pave the way for future business growth in the challenging but expanding textile industry.

Liquidity and Financial Resources

During the six months ended 30 September 2005, the Group financed its operations mainly by bank borrowings and internally generated resources. In September 2005, the Company raised net proceeds of approximately HK$140,300,000 from the Rights Issue (as defined in "Capital Structure" below), of which approximately HK$69,900,000 has been used for the repayment of all outstanding bank borrowings and the balance of approximately HK$70,400,000 will be used as general working capital. Shareholders' fund of the Group as at 30 September 2005 was approximately HK$189,308,000 (31 March 2005: approximately HK$64,021,000). As the Group had no bank borrowings as at 30 September 2005 (31 March 2005: approximately HK$46,406,000), no gearing ratio of the Group is presented at 30 September 2005. As at 31 March 2005, the Group's gearing ratio, which was calculated based on the total borrowings to the shareholders' fund, was approximately 0.725.

The Group continued to sustain a liquidity position. As at 30 September 2005, the Group had net current assets of approximately HK$132,909,000 (31 March 2005: approximately HK$34,659,000) and cash and cash equivalents of approximately HK$116,466,000 (31 March 2005: approximately HK$33,352,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and Renminbi. As at 30 September 2005, the Group's current ratio was approximately 11.3 (31 March 2005: approximately 1.9), which was calculated on the basis of current assets of approximately HK$145,782,000 (31 March 2005: approximately HK$74,884,000) to current liabilities of approximately HK$12,873,000 (31 March 2005: approximately HK$40,225,000). The current ratio improved significantly during the period under review, primarily as a result of the Rights Issue (as defined in "Capital Structure" below) in September 2005 and the refund of the consideration of HK$11,120,222 received by the Group in June 2005 in connection with the acquisition of Po Cheong International Enterprises Limited, which not only increased the bank balances and cash but also reduced 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

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

Capital Structure

A special resolution approving the reduction of the par value of the authorised, issued and unissued share capital of the Company from HK$0.10 per share to HK$0.001 per share (the "Reduced Share") (the "Capital Reduction"), the credit of the amount of the cancelled paid-up capital in the sum of HK$35,343,677.16 arising from the Capital Reduction to a capital reserve account of the Company and the consolidation of every 10 issued and unissued Reduced Shares into 1 share of HK$0.01 each (the "Share Consolidation") was passed at the special general meeting of the Company held on 6 September 2005, resulting in an authorised share capital of HK$6,500,000 divided into 650,000,000 shares of HK$0.01 each and an issued share capital of HK$357,006.84 consisting of 35,700,684 shares of HK$0.01 each with effect from 9 September 2005. Details of the said capital reorganisation are set out in the Company's circular dated 15 August 2005.

On 27 September 2005, the Company allotted 357,006,840 rights shares of HK$0.01 each at a subscription price of HK$0.40 per rights share to the shareholders of the Company on the basis of 10 rights shares for every share held (the "Rights Issue"). Details of the Rights Issue are set out in the Company's prospectus dated 9 September 2005.

The Group had no debt securities or other capital instruments as at 30 September 2005 and up to the date of this report.

Material Acquisitions and Disposals

The Group had no material acquisitions or disposals of subsidiaries or associates during the six months ended 30 September 2005.

Charges on Group Assets

The Group did not have any charges on assets as at 30 September 2005.

Capital Expenditure and Capital Commitments

During the six months ended 30 September 2005, the Group spent approximately HK$381,000 on acquisition of property, plant and equipment (six months ended 30 September 2004: approximately HK$26,022,000, of which approximately HK$14,529,000 was related to acquisition of subsidiaries).

As at 30 September 2005, the Group had capital commitments in respect of capital expenditure contracted but not provided for and capital expenditure authorised but not contracted for of approximately HK$25,561,000 (31 March 2005: approximately HK$49,522,000) and of approximately HK$169,693,000 (31 March 2005: approximately HK$171,382,000) respectively.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 September 2005 (31 March 2005: Nil).

Significant Investment

Apart from the Huzhou Project (as defined in "Prospects" above), the Group did not have any significant investment plans or any significant investment held as at 30 September 2005.

Post Balance Sheet Events

On 3 November 2005, the Company terminated the ongoing connected transaction agreement dated 15 June 2004 with Mr. Louie Tsz Chung (the "Agreement"). Under the Agreement, the Group agreed to sell fabrics and provide bleaching and dyeing services to companies controlled by Mr. Louie (the "Customer"). Mr. Louie is the nephew of Ms. Lui Yuk Chu, a director of the Company and has been deemed to be a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). As at the date of this report, the Customer does not owe the Group any outstanding sum. Details of the termination of the Agreement are set out in the announcement of the Company dated 3 November 2005.

On 25 November 2005, Easyknit (Mauritius) Limited (the "Subsidiary"), a wholly-owned subsidiary of the Company, and the People's Government of Zhili Town, Wuxing District, Huzhou City, Zhejiang Province, the PRC entered into a supplemental agreement (the "Supplemental Agreement") in respect of certain material changes to the Huzhou Project. Under the Supplemental Agreement, the capital commitment of the Subsidiary in respect of the Huzhou Project has been increased to approximately RMB519,000,000 (the "Capital Commitment"). The Capital Commitment constitutes a very substantial acquisition of the Company, where the approval by the shareholders of the Company at a special general meeting of the Company is required pursuant to the Listing Rules. A total of approximately HK$25,660,000 has been invested in the Huzhou Project to date, including the consideration for the acquisition of the Property, the deposit for the Construction and other expenses. In respect of the remaining Capital Commitment, the Group intends to finance through internal resources, bank borrowing or other forms of financing available to the Group. Details of the Supplemental Agreement are set out in the announcement of the Company dated 30 November 2005.

Employment and Remuneration Policy

As at 30 September 2005, 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$3,233,000 for the period under review (six months ended 30 September 2004: approximately HK$2,214,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has adopted the Mandatory Provident Fund for the Hong Kong employees and has made contributions to the stated-sponsored pension scheme operated by the PRC government for the PRC employees. The Group has a share option scheme to motivate valued employees.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2005, 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:

Name of director	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Mr. Koon Wing Yee *(Note)*	Interest of spouse	141,085,252	35.93
Ms. Lui Yuk Chu *(Note)*	Beneficiary of a trust	141,085,252	35.93

Note: The 141,085,252 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 International Holdings Limited ("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 141,085,252 shares by virtue of the SFO.

Save as disclosed above, as at 30 September 2005, 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 2005 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

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 remained 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 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 a former continuous contract employee of the Group under the 2001 Share Option Scheme, and their movements during the period under review were as follows:

	Number of share options *(Note a)*				
Date of grant of share options	**As at 1 April 2005**	**Lapsed during the period**	**As at 30 September 2005**	**Exercise price per share option** *HK$* *(Note a)*	**Exercise period of share options**
31 August 2001	5,625,000	(5,625,000)	—	1.792	31 August 2001 to 30 August 2011 *(Note b)*

Notes:

(a) The number and exercise price of the share options have not been adjusted to reflect the ten-to-one share consolidation effective 9 September 2005.

(b) The vesting period was the period of six months after the date of grant. Half of the share options were exercisable from the date of grant and the remaining half became exercisable after 6 months from the date of grant.

No share options were granted, exercised or cancelled during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, 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:

Name of substantial shareholder	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Landmark Profits Limited *(Note)*	Beneficial owner	141,085,252	35.93
Easyknit *(Note)*	Interest of controlled corporation	141,085,252	35.93
Magical Profits Limited *(Note)*	Interest of controlled corporation	141,085,252	35.93
Accumulate More Profits Limited *(Note)*	Interest of controlled corporation	141,085,252	35.93
Trustcorp Limited *(Note)*	Trustee	141,085,252	35.93
Au Yeung Man Yin	Beneficial owner	29,762,413	7.58

Note: The 141,085,252 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 2005, 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 AND 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 2005.

AUDIT COMMITTEE

The Company established an Audit Committee in May 1999 with written terms of reference. The Audit Committee currently comprises three independent non-executive directors, namely Mr. Kan Ka Hon, Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming. The Audit Committee has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters, including review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2005.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee in May 2005 with written terms of reference. The Remuneration Committee currently comprises two executive directors, namely Mr. Koon Wing Yee and Mr. Tsang Yiu Kai and three independent non-executive directors, namely Mr. Kan Ka Hon, Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming.

EXECUTIVE COMMITTEE

The Company established an Executive Committee in September 2000 with written terms of reference. The Executive Committee currently comprises three executive directors, namely Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu.

CORPORATE GOVERNANCE

During the six months ended 30 September 2005, the Company complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules except for the code provision C.2 on internal controls (which will be implemented for accounting periods commencing on or after 1 July 2005) and the following deviations:

Code provision A.2.1

Mr. Koon Wing Yee was appointed as the President and Chief Executive Officer of the Company on 25 April 2003. He has been re-designated from President to Chairman with effect from 5 May 2005. The board considers that the combination of the roles of Chairman and Chief Executive Officer will not impair the balance of power and authority between the board and the management of the Company as the board will meet regularly to consider major matters affecting the operations of the Group. The board is of the view that this structure provides the Group with strong and consistent leadership, which can facilitate the formulation and implementation of its strategies and decisions and enable it to grasp business opportunities and react to changes efficiently. As such, it is beneficial to the business prospects of the Group.

Code provision A.4.1

All the non-executive directors of the Company are not appointed for a specific term, but they are subject to retirement by rotation no later than the third annual general meeting after he was last elected or re-elected pursuant to the Bye-Laws of the Company.

Code provision A.4.2

At the annual general meeting of the Company held on 18 August 2005, shareholders approved the amendments to the Company's Bye-Laws to the effect that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director (save and except for the Managing Director and Chairman) shall be subject to retirement by rotation no later than the third annual general meeting after he was last elected or re-elected. According to the Special Act of the Company (the"Act"), no director holding the office of Chairman or Managing Director shall be subject to retirement by rotation as provided in the Bye-Laws of the Company. As the Company is bound by the provisions of the Act, the Bye-Laws of the Company cannot be amended to fully reflect the requirements of the Code.

Code provision A.5.4

Written guidelines in respect of dealings in the securities of the Company by relevant employees were established by the Company on 5 May 2005. Such written guidelines will be issued to the relevant employees of the Group when occasion warrants.

Code provisions B.1.1 and B.1.3

On 5 May 2005, the Remuneration Committee comprising a majority of independent non-executive directors was established with written terms of reference on no less exacting terms than those set out in Code provision B.1.3.

Code provision C.3.3

The terms of reference of the Audit Committee were revised on 5 May 2005 to comply with the Code provision C.3.3.

Code provisions B.1.4 and C.3.4

The Company does not maintain a website for the time being. Actions are being taken to establish a website for the Company, whereat the written terms of reference of the Audit Committee and the Remuneration Committee will be made available. These terms of reference are also available upon request.

CORPORATE GOVERNANCE *(Cont'd)*

Code provision D.1.2

The respective functions of the board and management of the Company have been formalised and set out in writing which was approved by the board on 1 December 2005. Such arrangements will be reviewed periodically.

Code provision E.1.2

Mr. Kan Ka Hon, the chairman of the Audit Committee, was unable to attend the annual general meeting of the Company held on 18 August 2005 due to business reasons. The other members of the Audit Committee including Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming were present to answer questions at the meeting.

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 for securities transactions by the directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company, their compliance with the required standard set out in the Model Code throughout the six months ended 30 September 2005.

By Order of the Board of
Asia Allliance Holdings Limited
Koon Wing Yee
Chairman and Chief Executive Officer

Hong Kong, 1 December 2005

As at the date of this report, the board of the Company comprises Mr. Koon Wing Yee, Mr. Tsang Yiu Kai, Mr. Tse Wing Chiu Ricky and Ms. Lui Yuk Chu as executive directors and Mr. Kan Ka Hon, Mr. Kwong Jimmy Cheung Tim and Mr. Lau Sin Ming as independent non-executive directors.