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Asia Alliance Holdings Limited

(Incorporated in Bermuda with limited liability)

PROPOSED REDUCTION OF ISSUED SHARE CAPITAL AND SUBDIVISION OF UNISSUED SHARE CAPITAL

INCREASE IN AUTHORISED SHARE CAPITAL

PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE RIGHTS SHARES FOR EVERY SHARE HELD

GENERAL MANDATE TO ISSUE NEW SHARES AND REPURCHASE SHARES

RESUMPTION OF TRADING

Joint Financial Advisers

ALTUS CAPITAL LIMITED

Underwriters of the Rights Issue



結好融資有限公司
GET NICE CAPITAL LIMITED



Kingston Securities Limited



結好投資有限公司
GET NICE INVESTMENT LTD.



Cheer Union Securities Limited

CAPITAL REDUCTION AND SUBDIVISION

The Company proposes that there be a reduction of the issued share capital of the Company from HK\$0.40 each per Existing Share to HK\$0.10 per Share by cancelling HK\$0.30 paid up on each issued Existing Share and by adjusting the nominal value from HK\$0.40 each to HK\$0.10 each, and that each of the unissued Existing Shares be subdivided into four Shares of HK\$0.10 each.

Upon completion of the Capital Reduction, the paid up capital and nominal value of each of the issued Existing Shares will be reduced by HK\$0.30 to HK\$0.10 and the credit arising from such reduction will be credited to a capital reserve account of the Company.

INCREASE IN AUTHORISED SHARE CAPITAL

To allow for future equity expansion of the Company, the Company proposes to increase its authorised share capital from HK\$300,000,000 to HK\$750,000,000 by the creation of an additional 4,500,000,000 Shares upon completion of the Capital Reduction and the Subdivision.

PROPOSED RIGHTS ISSUE

Upon completion of the Capital Reduction and the Subdivision, the Company proposes to raise approximately HK\$74.4 million before expenses (assuming no exercise of Share Options on or before the Record Date) or approximately HK\$75.6 million before expenses (assuming all the Share Options are exercised on or before the Record Date) by way of the Rights Issue of not less than 297,505,700 Rights Shares and not more than 302,475,950 Rights Shares at a price of HK\$0.25 per Rights Share.

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

The Company has outstanding Share Options in issue as at the date of this announcement. Upon full conversion of the rights attaching to the outstanding Share Options, 994,050 Existing Shares or Shares, as the case may be, are to be issued.

The estimated net proceeds of the Rights Issue will be between HK\$73.2 million and HK\$74.3 million. The Company plans to use the proceeds as follows: (a) approximately HK\$22 million for the full repayment of the Easyknit Loan; and (b) the balance of approximately HK\$51 million will be used for general working capital. If there arise opportunities for possible new businesses or investments, including the expansion of the garment trading businesses as announced in the announcement of the Company dated 21 October, 2003, the aforesaid balance proceeds may be used for such purposes. The Company shall make announcements on any change in the use of proceeds of the Rights Issue as and when appropriate.

The Rights Issue is conditional, inter alia, upon the fulfillment of the conditions set out below under the section headed “Conditions of the Rights Issue”. In particular, the Rights Issue is conditional upon the approval of Independent Shareholders at the SGM. The Rights Issue is also subject to the Underwriters not terminating the Underwriting Agreement. Accordingly, the Rights Issue may or may not proceed.

Easyknit, through Landmark Profits, owns approximately 35.9 per cent. of the issued share capital of the Company. Landmark Profits has irrevocably undertaken to the Company and the Underwriters that the Existing Shares beneficially owned by it will not be disposed of or transferred and will remain registered in its name (or names of its nominees) from the date of such undertaking to the Record Date and that it will take up its entitlement under the Rights Issue in full. Pursuant to the Underwriting Agreement, the Rights Shares (other than the Rights Shares to be issued to and accepted by Landmark Profits) have been fully underwritten by the Underwriters.

In accordance with the Listing Rules, Landmark Profits and its associates (as defined in the Listing Rules) will abstain from voting on the resolution(s) to approve the Rights Issue at the SGM. An independent board committee of the Company comprising the independent non-executive Directors will be appointed to make recommendations to the Independent Shareholders in respect of voting on the resolution(s) to approve the Rights Issue. Barits Securities (Hong Kong) Limited has been appointed to advise the independent board committee of the Company on the terms and conditions of the Rights Issue.

WARNING OF THE RISKS OF DEALINGS IN EXISTING SHARES AND RIGHTS SHARES

It should be noted that the Underwriting Agreement contains provisions granting the Underwriters the right to terminate their obligations on the occurrence of certain events including force majeure. Please refer to the section headed "Termination of the Underwriting Agreement" for further details.

Any Shareholders or other persons dealing in Existing Shares or 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 Underwriters' right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Monday, 23 February, 2004 to Tuesday, 2 March, 2004 will bear the risk that the Rights Issue may not become unconditional or may not proceed. If in any doubt, investors are recommended to consult their professional advisers. Shareholders and potential investors should exercise caution in dealing in the securities of the Company.

To qualify for the Rights Issue, a Qualifying Shareholder's name must appear on the register of members of the Company on the Record Date, which is currently expected to be Thursday, 19 February, 2004. In order to be registered as members on the Record Date, any transfers of Existing Shares (together with the relevant share certificates) must be lodged for registration by 4:00 p.m. on Friday, 13 February, 2004 (the share register will be closed from Monday, 16 February, 2004 to Thursday, 19 February, 2004, both dates inclusive).

GENERAL MANDATE TO ISSUE NEW SHARES AND REPURCHASE SHARES

It is proposed that a new general mandate be granted to the Directors to issue Shares up to 20 per cent. of the issued share capital of the Company in issue upon completion of the Capital Reduction, the Subdivision and the Rights Issue. It is further proposed that the Directors be given a general mandate to repurchase issued and fully paid Shares.

RESUMPTION IN TRADING

At the request of the Company, trading in the Existing Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Monday, 5 January, 2004 pending the release of this announcement. Application will be made to the Stock Exchange for the resumption of trading in the Existing Shares from 9:30 a.m. on Tuesday, 13 January, 2004.

CAPITAL REDUCTION AND SUBDIVISION

Background

The Company proposes:

- (a) that there be a reduction of the issued share capital of the Company from HK\$0.40 each per Existing Share to HK\$0.10 per Share by cancelling HK\$0.30 paid up on each issued Existing Share and by adjusting the nominal value from HK\$0.40 each to HK\$0.10 each; and

- (b) that each of the unissued shares of HK\$0.40 each in the authorised share capital of the Company be subdivided into four Shares of HK\$0.10 each.

Accordingly, based on the number of Existing Shares in issue as at the date of this announcement, the issued share capital of the Company of HK\$23,800,456 consisting of 59,501,140 Existing Shares will be reduced by HK\$17,850,342 to HK\$5,950,114 consisting of 59,501,140 Shares. The Shares will rank pari passu in all respects with each other.

On the basis of 59,501,140 Existing Shares in issue, the credit amount of HK\$17,850,342 arising from the above capital reduction will be credited to a capital reserve account of the Company.

Financial effects of the Capital Reduction and the Subdivision

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

Reasons for the Capital Reduction and the Subdivision

The Board believes that the Capital Reduction and the Subdivision are beneficial to the Company and the Shareholders as a whole. The credit in the capital reserve account arising as a result of the Capital Reduction may be applied in the future for distribution to the Shareholders. The Board currently has no intention to make any distributions to the Shareholders.

Conditions of the Capital Reduction and the Subdivision

The Capital Reduction and the Subdivision are conditional upon the following:

- (a) the passing by the Shareholders of the necessary resolutions at the SGM to approve the Capital Reduction and the Subdivision;
- (b) the publication of a notice in an appointed newspaper in Bermuda on a date not more than 30 days and not less than 15 days before the date as from which the Capital Reduction is to take effect, in accordance to section 46 of the Companies Act 1981 of Bermuda (as amended); and
- (c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares.

Expected effective date of the Capital Reduction and the Subdivision

Subject to the above conditions being fulfilled, the Capital Reduction and the Subdivision are expected to become effective on 19 February, 2004.

INCREASE IN AUTHORISED SHARE CAPITAL

As at the date of this announcement, the authorised share capital of the Company is HK\$300,000,000 divided into 750,000,000 Existing Shares. Upon the Capital Reduction and the Subdivision becoming effective, the authorised share capital of the Company will remain at HK\$300,000,000 and will comprise 3,000,000,000 Shares.

To allow for future equity expansion of the Company, the Company proposes to increase its authorised share capital from HK\$300,000,000 to HK\$750,000,000 by the creation of an additional 4,500,000,000 Shares upon completion of the Capital Reduction and the Subdivision.

PROPOSED RIGHTS ISSUE

The Rights Issue is proposed to take place after the Capital Reduction and the Subdivision have become effective.

Issue statistics

Basis of the Rights Issue	: Five (5) Rights Shares for every Share held on the Record Date
Number of Existing Shares in issue	: 59,501,140 Existing Shares as at the date of this announcement or up to 60,495,190 Existing Shares upon full conversion of the outstanding Share Options (which are convertible into 994,050 Existing Shares or Shares, as the case may be)
Number of Rights Shares	: not less than 297,505,700 Rights Shares and not more than 302,475,950 Rights Shares, assuming full conversion of the outstanding Share Options
Subscription price per Rights Share	: HK\$0.25 per Rights Share with nominal value of HK\$0.10 each Rights Share

The nil-paid Rights Shares (being not less than 297,505,700 nil paid Rights Shares) proposed to be provisionally allotted represent (a) 500.0 per cent. of the Company's issued share capital upon completion of the Capital Reduction and the Subdivision; and (b) 83.3 per cent. of the Company's issued share capital upon completion of the Capital Reduction and the Subdivision and as enlarged by the issue of the Rights Shares assuming that no Share Options have been exercised before the Record Date.

Qualifying Shareholders

The Company will send the Prospectus Documents to Qualifying Shareholders only.

To qualify for the Rights Issue, a Shareholder must:

1. be registered as a member of the Company on the Record Date; and
2. have an address in Hong Kong on the register of members of the Company on the Record Date.

In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfers of Existing Shares (together with the relevant share certificates) with the Company's branch registrar in Hong Kong, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Friday, 13 February, 2004.

Holders of outstanding Share Options who wish to participate in the Rights Issue should exercise their Share Options in accordance with their respective terms before 4:00 p.m. on Friday, 13 February, 2004 so as to enable them to be registered as a Shareholder on or before the Record Date.

Closure of register of members

The register of members of the Company will be closed from Monday, 16 February, 2004, to Thursday, 19 February, 2004, both dates inclusive. No transfers of Existing Shares will be registered during this period.

Subscription price

The subscription price for the Rights Shares is HK\$0.25 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for Rights Shares. The subscription price represents:

- (a) a discount of about 86.1 per cent. to the closing price of HK\$1.80 per Existing Share quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of about 50.8 per cent. to the theoretical ex-rights price of HK\$0.508 per Existing Share calculated based on the closing price per Existing Share on the Last Trading Day; and
- (c) a discount of about 83.1 per cent. to the average closing price of approximately HK\$1.483 per Existing Share for the last 10 trading days up to and including the Last Trading Day.

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

Basis of provisional allotment

The basis of the provisional allotment shall be five Rights Shares for every Share, being not less than 297,505,700 Rights Shares and not more than 302,475,950 Rights Shares at a price of HK\$0.25 per Rights Share. Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for.

Status of the Rights Shares

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

Rights of Overseas Shareholders

The Company will send the Circular to Overseas Shareholders and Overseas Shareholders are entitled to vote on all the relevant resolutions in relation to the Capital Reduction, the Subdivision, the increase in authorised share capital of the Company, the general mandate to issue new Shares and repurchase Shares and the Rights Issue.

The Prospectus Documents will not be registered under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. Accordingly, no provisional allotment of Rights Shares will be made to Overseas Shareholders. The Company will send the Prospectus to Overseas Shareholders for their information only and will not send PALs or EAFs to Overseas Shareholders.

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Overseas 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, 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 Overseas Shareholders. The Company will retain individual amounts of HK\$100 or less. Any unsold entitlement of Overseas Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be made available for excess application on EAFs by Qualifying Shareholders.

Application for excess Rights Shares

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

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

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of and permission to deal in (a) the Shares in issue after the Capital Reduction and the Subdivision becoming effective; and (b) the Rights Shares, in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue.

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

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 Reduction and the Subdivision by Shareholders at the SGM and the Capital Reduction and the Subdivision becoming effective thereafter;
2. the approval of the Rights Issue by Independent Shareholders at the SGM (Landmark Profits and its associates will abstain from voting on the resolution to be proposed at the SGM to approve the Rights Issue);
3. the Listing Committee of the Stock Exchange agreeing to grant the listing 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 date of posting of the Prospectus Documents and not having withdrawn or revoked such listings and permission on or before 4:00 p.m. on the second Business Day after the Acceptance Date;
4. the delivery to the Stock Exchange and filing and registration of all documents relating to the Rights Issue required by law to be filed, with the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda respectively;
5. the obtaining of the permission of the Bermuda Monetary Authority for the allotment and issue of the Rights Shares, if necessary;
6. the compliance by the Company with all its obligations under the Underwriting Agreement and the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated in accordance with its terms; and
7. the performance in full by Landmark Profits of its undertaking to take up and accept the number of Rights Shares prior to 4:00 p.m. on the Acceptance Date.

In the event that the conditions of the Rights Issue are not fulfilled on or before the respective dates determined in the Underwriting Agreement (or such later date as the Company and the Underwriters may agree), none of the Underwriters or the Company shall have any rights or be subject to any obligations arising from 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.

Underwriting arrangements

Underwriting agreement dated 2 January, 2004

The Underwriters have agreed to fully underwrite up to 195,593,180 Rights Shares, other than Rights Shares which Landmark Profits has undertaken to subscribe (being Rights Shares, assuming full conversion of outstanding Share Options up to and including the Record Date, less the 106,882,770 Rights Shares to be issued to and accepted by Landmark Profits). The Underwriters 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 each Underwriter an underwriting commission of 1.0 per cent. of the aggregate subscription price of the Rights Shares underwritten by them, out of which the Underwriters may pay sub-underwriting fees. The Directors believe that the underwriting commission accords with market rates.

Undertaking from Landmark Profits

As at the date of this announcement, Easyknit, through Landmark Profits, is interested in 21,376,554 Existing Shares, representing approximately 35.9% of the total issued share capital of the Company. Landmark Profits has irrevocably undertaken to the Company and the Underwriters that the Existing Shares beneficially owned by it will not be disposed of or transferred and will remain registered in its name (or names of its nominees) from the date of the undertaking, being 2 January, 2004, to the close of business on the Record Date and that it will take up its entitlement in full, representing 106,882,770 Rights Shares. Landmark Profits will not apply for any excess Rights Shares.

Termination of the Underwriting Agreement

Get Nice, on behalf of the Underwriters, may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by Get Nice (on behalf of the Underwriters) to the Company at any time prior to 4:00 p.m. on the second Business Day following the Acceptance Date if:

1. (a) there occurs 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 Get Nice (on behalf of the Underwriters), 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 Day following the Acceptance Date:
 - (a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
 - (b) an 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 each 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 Circular or the Prospectus Documents when published, contains 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 Circular or the Prospectus Documents), in such manner (and as appropriate with such contents), as each 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 Underwriters 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 Underwriters such fees as may then be agreed by the relevant parties. If the Underwriters exercise such right, the Rights Issue will not proceed.

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

The Existing Shares will be dealt in on an ex-rights basis from Thursday, 12 February, 2004. Dealings in the Rights Shares in the nil-paid form will take place from Monday, 23 February, 2004 to Tuesday, 2 March, 2004 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriters, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Existing Shares or Shares and Rights Shares in their nil-paid form during the period from Monday, 23 February, 2004 to Tuesday, 2 March, 2004 who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in Existing Shares or 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 Underwriters' right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Monday, 23 February, 2004 to Tuesday, 2 March, 2004 will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Expected timetable

The expected timetable for the Capital Reduction, Subdivision and Rights Issue is set out below:

2004

Last day of dealings in Existing Shares on a cum-rights basis	Wednesday, 11 February
First day of dealings in Existing Shares on an ex-rights basis	Thursday, 12 February
Latest time for lodging transfers of Existing Shares in order to qualify for Rights Issue	4:00 p.m., Friday, 13 February
Register of members closes	Monday, 16 February to Thursday, 19 February (both dates inclusive)
Latest time for return of proxy form of SGM (not less than 48 hours)	9:00 a.m., Tuesday, 17 February
Expected date of SGM	9:00 a.m., Thursday, 19 February

Record Date	Thursday, 19 February
Prospectus Documents to be posted	Thursday, 19 February
Effective date of the Capital Reduction and Subdivision	4:00 p.m., Thursday, 19 February
Commencement of dealings in Shares	9:30 a.m., Friday, 20 February
Free exchange of existing share certificates for new share certificates commences	Friday, 20 February
Register of members to be re-opened	Friday, 20 February
First day of dealings in nil-paid Rights Shares	Monday, 23 February
Latest time for splitting of nil-paid Rights Shares	4:00 p.m. on Thursday, 26 February
Last day of dealings in nil-paid Rights Shares	Tuesday, 2 March
Latest time for payment for and acceptance of Rights Shares	4:00 p.m. on Friday, 5 March
Rights Issue expected to become unconditional	after 4:00 p.m. on Tuesday, 9 March
Announcement of results of acceptance and excess application of the Rights Issue	Thursday, 11 March
Despatch of refund cheques for wholly and partially unsuccessful excess applications	Thursday, 11 March
Despatch of certificates for fully-paid Rights Shares	Thursday, 11 March
First day of dealings in the fully-paid Rights Shares	Monday, 15 March
Free exchange of existing share certificates for new share certificates ends	Friday, 19 March

Dates or deadlines specified in this announcement are indicative only and may be exercised or varied by agreement between the Company and the Underwriters. Any consequential changes to the expected timetable will be published or notified to Shareholders appropriately.

Shareholding in the Company

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

	Immediately before completion of the Rights Issue		After completion of 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	21,376,554	35.9	128,259,324	35.9	128,259,324	35.9
Underwriters	—	—	—	—	190,622,930	53.4
Public	38,124,586	64.1	228,747,516	64.1	38,124,586	10.7
Total	59,501,140	100.0	357,006,840	100.0	357,006,840	100.0

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

	Immediately before completion of the Rights Issue		After completion of 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	21,376,554	35.3	128,259,324	35.3	128,259,324	35.3
Underwriters	—	—	—	—	195,593,180	53.9
Public	39,118,636	64.7	234,711,816	64.7	39,118,636	10.8
Total	60,495,190	100.0	362,971,140	100.0	362,971,140	100.0

The Underwriters have confirmed that they will sub-underwrite substantially all their underwriting obligations under the Rights Issue to sub-underwriters such that the Underwriters in aggregate will not own more than 2% of the issued share capital of the Company after completion of the Rights Issue.

In the event that the Underwriters are required to take up the Rights Shares pursuant to their underwriting obligations, the Underwriters shall procure independent places 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.

Reasons for the Rights Issue and use of proceeds

The Group is engaged in the wireless communication business, provision of communication solutions consultancy services, internet operations and trading of garments.

The existing wireless communication business of the Group continues to suffer substantial losses and the outlook remains uncertain. The Directors intend to continue the wireless communication business on a prudent basis while conducting reviews and assessments on streamlining the operations of this business. In view of such uncertainty, the Directors believe that it is in the interest of the Group to explore new investments and business opportunities to diversify and expand its source of income. Although the Company has not identified any specific investment project or business save for garment trading businesses as announced in the announcement of the Company dated 21 October, 2003, 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 Directors believe the timing of the Rights Issue is appropriate as it allows the Group to capitalise on the strengths of the stock market in general and in particular, the prices of the Existing Shares recently, to raise capital. The Directors are of the view that such opportunity may not frequently arise.

The estimated expenses of the Rights Issue are approximately HK\$1.2 million, which will be borne by the Company. The estimated net proceeds of the Rights Issue will be between HK\$73.2 million and HK\$74.3 million. The Company plans to use (a) approximately HK\$22 million for the full repayment of the Easyknit Loan; and (b) the balance of approximately HK\$51 million will be used for general working capital. If there arise opportunities for possible new businesses or investments, including the expansion of the aforesaid garment trading businesses, the balance proceeds may be used for such purposes. The Company shall make announcements on any change in use of proceeds of the Rights Issue as and when appropriate.

As at 30 June, 2003, the Group had a net deficit position of about HK\$15.3 million. The liabilities of the Group were about HK\$45.6 million comprising, inter alia, (a) the Easyknit Loan of approximately HK\$30.5 million, of which HK\$9 million has since been repaid; (b) trade and other payables of about HK\$9.5 million; (c) a loan of HK\$4 million from an outside party which is not a connected person (as defined in the Listing Rules); and (d) an amount due to other associates of about HK\$1.8 million. Save for the full repayment of the Easyknit Loan, the net proceeds of the Rights Issue will not be used for the repayment of any other loans of the Group. The Directors note that the full repayment of the Easyknit Loan would enable the Group to save more than HK\$1.1 million of interest expenses per year.

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

PREVIOUS FUND RAISING EXERCISES OF THE COMPANY

The following summarises the fund raising exercises of the Company in the past 12 months from the date of this announcement:

Date of announcement	Fund raising exercise	Net proceeds (HK\$ million)	Balance (Note) (HK\$ million)	Usage
August 2003	1-for-2 Rights issue	13.3	10.3	- General working capital
October 2003	Placing of new Existing Shares	6.9	1.8	- HK\$5.0 million for partial repayment of the Easyknit Loan - HK\$1.9 million for general working capital
November 2003	Placing of new Existing Shares	8.4	3.9	- HK\$4.0 million for partial repayment of the Easyknit Loan - HK\$4.4 million for general working capital

Note: The balance being net proceeds yet to be deployed as at the date of this announcement.

The Directors are of the view that the Group has sufficient funds to meet its current working capital requirements after the Rights Issue and has no immediate intention to issue further new Shares to raise funds. The Group may however raise further funds in future if there is such requirement, especially if opportunities for new businesses or investments arise.

GENERAL MANDATE TO ISSUE NEW SHARES AND REPURCHASE SHARES

It is proposed that a new general mandate be granted to the Directors to issue Shares up to 20 per cent. of the issued share capital of the Company in issue upon completion of the Capital Reduction, the Subdivision and the Rights Issue. It is further proposed that the Directors be given a general mandate to repurchase issued and fully paid Shares.

RESUMPTION IN TRADING

At the request of the Company, trading in the Existing Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Monday, 5 January, 2004 pending the release of this announcement. Application will be made to the Stock Exchange for the resumption of trading in the Existing Shares from 9:30 a.m. on Tuesday, 13 January, 2004.

GENERAL

Altus Capital Limited and Get Nice Capital Limited have been appointed as the joint financial advisers to the Company in relation to, inter alia, the Capital Reduction and the Subdivision and the Rights Issue. Altus Capital Limited and Get Nice Capital Limited are independent of and not connected with the Directors, chief executive or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates (which has the meaning ascribed thereto under the Listing Rules)

The Circular containing, inter alia, further information on (a) the Capital Reduction and the Subdivision; (b) the increase in authorised share capital of the Company; (c) the general mandate to issue new Shares and repurchase Shares; and (d) the Rights Issue, together with a notice of the SGM containing necessary resolution(s) to approve the above will be despatched to the Shareholders as soon as practicable. The Circular will also contain the letter of advice from Barits Securities (Hong Kong) Limited, the independent financial adviser to the independent board committee of the Company in respect of the Rights Issue and the recommendation of the independent board committee of the Company to the Independent Shareholders in respect of the Rights Issue.

Subject to the Capital Reduction, the Subdivision and the Rights Issue being approved at the SGM, Prospectus Documents containing further information on the Rights Issue will be despatched to Shareholders as soon as practicable. Shareholders and potential investors should exercise caution in dealing in the Existing Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Acceptance Date”	5 March, 2004 (or such other date as the Underwriters may agree in writing with the Company as the date for acceptance of, and payment of, Rights Shares)
“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\$0.40 each per Existing Share to HK\$0.10 per Share by cancelling HK\$0.30 paid up on each issued Existing Share and by adjusting the nominal value from HK\$0.40 each to HK\$0.10 each
“Cheer Union”	Cheer Union Securities Limited, a deemed licensed corporation within the meaning of the SFO, which is not a connected person (as defined in the Listing Rules) of the Company and one of the Underwriters
“Circular”	the circular containing further information on the Capital Reduction, the Subdivision, the increase in authorised share capital of the Company, the general mandate to issue new Shares and repurchase Shares and the Rights Issue, together with the notice of SGM to approve the relevant resolutions

“Company”	Asia Alliance Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the Existing Shares of which are listed on the Stock Exchange
“Director(s)”	director(s) of the Company
“EAF(s)”	the excess application form(s) to be issued in connection with the Rights Issue
“Easyknit”	Easyknit International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange and the Singapore Exchange Securities Trading Limited and the controlling shareholder of the Company, currently holding approximately 35.9% of the Company’s issued share capital
“Easyknit Loan”	an interest-bearing loan of about HK\$30.3 million extended by Easyknit to the Group in February 2003 which has been partially repaid and in respect of which the outstanding balance was HK\$21.3 million as at the date of this announcement
“Existing Share(s)”	share(s) of HK\$0.40 each in the share capital of the Company before the Capital Reduction and the Subdivision becoming effective
“Get Nice”	Get Nice Investment Limited, a deemed licensed corporation within the meaning of the SFO, which is not a connected person (as defined in the Listing Rules) of the Company and one of the Underwriters
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	Shareholders other than Landmark Profits and its associates
“Kingston”	Kingston Securities Limited, a deemed licensed corporation within the meaning of the SFO, which is not a connected person (as defined in the Listing Rules) of the Company and one of the Underwriters

“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”	2 January, 2004, being the last trading day before the suspension of the trading of the Existing Shares, pending the release of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Overseas Shareholder(s)”	Shareholder(s) whose names appear on the register of members of the Company on the Record Date and whose addresses as shown on such register are outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) to be issued in connection with the Rights Issue
“Prospectus”	a prospectus to be issued containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF
“Qualifying Shareholder(s)”	Shareholder(s), other than the Overseas Shareholders, whose names appear on the register of members of the Company at the close of business on the Record Date and whose addresses, as shown on the register of members of the Company, are in Hong Kong
“Record Date”	19 February, 2004 being the date by reference to which entitlements to the Rights Issue are expected to be determined
“Rights Issue”	the issue by way of rights of five Rights Shares for every one Share in issue on the Record Date at a price of HK\$0.25 per Rights Share
“Rights Share(s)”	new Share(s) to be issued and allotted under the Rights Issue, being not less than 297,505,700 Shares and not more than 302,475,950 Shares
“Settlement Date”	the date being the second Business Day following the Acceptance Date
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“SGM”	the special general meeting of the Company expected to be held on Thursday, 19 February, 2004 at which resolutions will be proposed to consider and, if thought fit, approve the Capital Reduction, the Subdivision, the increase in authorised share capital of the Company, the general mandate to issue new Shares and repurchase Shares and the Rights Issue
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company in existence upon the Capital Reduction and the Subdivision becoming effective
“Shareholder(s)”	holder(s) of Existing Share(s) or, where the context may require, Share(s)
“Share Option(s)”	the outstanding share option(s) granted by the Company pursuant to the share option schemes of the Company adopted on 21 August, 1991 and 22 May, 2001 respectively
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subdivision”	a subdivision of each unissued Existing Share into four Shares
“Underwriters”	Get Nice, Cheer Union and Kingston, all of whom are independent of, and not connected with the Directors, chief executive or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates (which has the meaning ascribed thereto under the Listing Rules)
“Underwriting Agreement”	the underwriting agreement dated 2 January, 2004 entered into between the Company and the Underwriters in relation to the underwriting and certain other arrangements in respect of the Rights Issue
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%” or “per cent.”	percentage or per centum

By order of the Board
Koon Wing Yee
President and Chief Executive Officer

Hong Kong, 12 January, 2004

Please also refer to the published version of this announcement in The Standard.