Asia Alliance Holdings Limited

亞洲聯盟集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 616

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

The board of directors (the "Board") of Asia Alliance Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2004, together with comparative figures for the corresponding period in 2003.

		Six months ended 30 September	
	NOTES	**2004**	2003
		HK$'000	*HK$'000*
		(Unaudited)	(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	6	**9,042**	—
Finance costs	7	**(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	9	**HK$0.02**	HK$(0.59)

Notes:

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 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. GAIN ON DISPOSAL OF SUBSIDIARIES

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. 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.

7. FINANCE COSTS

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

8. TAXATION

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

9. 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.

10. 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.

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.

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.

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.

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 announcement.

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.

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 for Securities Transactions by Directors of Listed Issuers (the "Mode 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.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE

A detailed announcement of interim results containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules (in force immediately prior to 31 March 2004) will be published on the Stock Exchange's website in due course.

As at the date of this announcement, the Board comprises Mr. Koon Wing Yee, Mr. Tsang Yiu Kai 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.

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

Hong Kong, 29 November 2004

* *For identification only*

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