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Easyknit International Holdings Limited
永義國際集團有限公司*
(Incorporated in Bermuda with limited liability)

Asia Alliance Holdings Limited
亞洲聯盟集團有限公司*
(Incorporated in Bermuda with limited liability)

PROPOSED ACQUISITION BY ASIA ALLIANCE HOLDINGS LIMITED OF THE ENTIRE ISSUED SHARE CAPITAL OF PO CHEONG INTERNATIONAL ENTERPRISES LIMITED FROM EASYKNIT INTERNATIONAL HOLDINGS LIMITED

MAJOR AND CONNECTED TRANSACTION FOR ASIA ALLIANCE HOLDINGS LIMITED

USE OF PROCEEDS OF RIGHTS ISSUE

RESUMPTION OF TRADING

On 5 March 2004, Best Ability, a wholly-owned subsidiary of Asia Alliance, conditionally agreed to purchase all the issued shares of Po Cheong from Easyknit International Trading Company, a wholly-owned subsidiary of Easyknit. Po Cheong, together with its subsidiary, is principally engaged in the business of garment bleaching and dyeing.

The Consideration, which amounts to HK$65 million, will be satisfied in cash.

Easyknit, through its wholly-owned subsidiary Landmark Profits, currently holds approximately 35.9% of the issued shares of Asia Alliance. Under the Listing Rules, the Acquisition constitutes a major and connected transaction for Asia Alliance and requires the approval of Asia Alliance Independent Shareholders. Easyknit is issuing this announcement voluntarily to provide information relating to the Acquisition to the Easyknit Shareholders and the public.

An independent board committee of Asia Alliance will be established to advise the Asia Alliance Independent Shareholders in relation to the Acquisition. Asia Alliance will despatch a circular containing, inter alia, further details of the Acquisition, the recommendations from its independent board committee, the advice of the independent financial adviser to its independent board committee and a notice to convene the Asia Alliance SGM. Barits Securities (Hong Kong) Limited has been appointed as the independent financial adviser to the independent board committee of Asia Alliance.

At the requests of Easyknit and Asia Alliance, trading in the Easyknit Shares and Asia Alliance Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Tuesday, 25 February 2004 pending the release of this announcement. Applications have been made by Easyknit and by Asia Alliance to the Stock Exchange for the resumption of trading in the Easyknit Shares and Asia Alliance Shares with effect from 9:30 a.m. on Monday, 8 March 2004.

THE SALE AND PURCHASE AGREEMENT

Date

5 March 2004

Parties

Purchaser:	Best Ability, a wholly-owned subsidiary of Asia Alliance
Vendor:	Easyknit International Trading Company, a wholly-owned subsidiary of Easyknit, which is the controlling shareholder of Asia Alliance

Subject of the Sale and Purchase Agreement

The Po Cheong Sale Shares, representing the entire issued share capital of Po Cheong.

Easyknit warrants that the Po Cheong Sale Shares are free from any mortgage, claim, charge, lien, encumbrance, pledge or other security.

Consideration and payment terms

The Consideration is HK$65,000,000, which will be satisfied in cash, of which HK$50,000,000 will be payable at Completion and the balance HK$15,000,000 will be payable after finalisation of the Adjustment (as defined below).

Under an adjustment mechanism in the Sale and Purchase Agreement ("Adjustment"), the Vendor shall compensate the Purchaser an amount equivalent to the shortfall between HK$65,000,000 and **seven times** of the **audited consolidated net profit of Po Cheong Group for the financial year ending 31 March 2005 (which is prospective)** . In the event that Po Cheong Group is loss making in the financial year ending 31 March 2005, the whole sum of HK$50,000,000 shall be refunded by the Vendor to the Purchaser and the balance of the HK$15,000,000 will not be payable.

However, if seven times of the audited consolidated net profit of Po Cheong Group for the financial year ending 31 March 2005 (which is prospective) is in excess of HK$65,000,000, the Purchaser will not be required to pay any excess amount to the Vendor.

The audited consolidated net profit of Po Cheong Group for the financial year ending 31 March 2005 will be available no later than 90 days after 31 March 2005. Concurrent to the release of the aforesaid results, Asia Alliance will make an announcement on whether the Adjustment will be applicable. The amount to be compensated by the Vendor to the Purchaser under the Adjustment, if any, shall be paid within 10 business days after the release of the results and the announcement on the Adjustment.

Both the Easyknit Directors and the Asia Alliance Directors consider that the terms of the Acquisition to be fair and reasonable to each of Easyknit and Asia Alliance.

The Consideration will be financed as to HK$50 million out of the net proceeds from the Rights Issue and as to HK$15 million from internal financial resources of Asia Alliance. The Acquisition represents a new business opportunity for Asia Alliance of the type referred to under "Reasons for the Rights Issue and use of proceeds" in the circular of Asia Alliance dated 10 February 2004 in connection with, among other things, the Rights Issue.

The Consideration was arrived at after arm's length negotiations between Easyknit and Asia Alliance. In determining the Consideration, the Easyknit Directors and the Asia Alliance Directors have considered the following factors:

(a) the monthly production output of Po Cheong Group has substantially increased where average output in January and February 2004 has almost doubled compared to the average output in the first half of 2003. This is due mainly to investments in new machinery as well as the enhancement in production and marketing efforts further described in (b) below;

(b) the new team of production and sales managers and production workers brought in in mid 2003 has significantly enhanced production processes, quality and marketing efforts. Consequently, Po Cheong Group has surpassed the operating break-even level and has since been generating positive cash flow;

(c) the mechanism under the Adjustment which ensure the Consideration, on a price-earnings ratio basis, will not be more than seven times of the earnings of Po Cheong Group in the financial year ending 31 March 2005 (which is prospective);

(d) the positive outlook of the industry as further discussed in the section headed "Information on Po Cheong"; and

(e) the adjusted net asset value of Po Cheong Group is approximately HK$17.3 million as at 31 March 2003 after taking into account the Loan Waiver (as defined below).

The Acquisition is an important transaction for the Asia Alliance Group and is expected to help enhance its operations. The Consideration represents approximately 75% of the pro forma adjusted consolidated net tangible asset value of the Asia Alliance Group upon completion of the Rights Issue, which the Acquisition is conditional upon.

The payment for the Consideration by Asia Alliance to Easyknit will be in two instalments, subject to the Adjustment and with the Adjustment in place, Asia Alliance will effectively acquire Po Cheong Group at a price-to-earnings ratio of seven times or less, which the Asia Alliance Directors believe is attractive. The Po Cheong Group is expected to provide positive cash flow to Asia Alliance Group.

Having carefully considered the factors above and the benefits of the Acquisition as discussed in the section headed "Reasons for and Benefits of Acquisition to Asia Alliance Group", the executive Asia Alliance Directors believe that the Acquisition is in the interest

of Asia Alliance. The independent non-executive Asia Alliance Directors will form an opinion and will accordingly advise the Asia Alliance Independent Shareholders with regard to voting on the relevant resolution after receiving advice from the independent financial adviser.

Conditions

The Completion is subject to, among other things, the following:

(a) approval of the Acquisition by the Asia Alliance Independent Shareholders; and

(b) the Asia Alliance Shares to be issued in the Rights Issue being fully paid up. The last payment date in the Rights Issue is expected to be on 22 March 2004 and it is expected to become unconditional on 24 March 2004.

Completion

Completion is to take place on the third business day after all the conditions precedent of the Sale and Purchase Agreement have either been fulfilled or waived, as the case may be. It is expected that the Completion will take place before 31 May 2004. If any of the conditions precedent to the Completion has not been fulfilled (or waived by the relevant parties) by 31 May 2004 (or such other date as the parties to the Sale and Purchase Agreement may agree), the Sale and Purchase Agreement shall lapse.

If the shares to be issued in the Rights Issue are not fully paid up and the relevant condition is waived by the Purchaser, the Consideration will be left outstanding as an interest-free debt payable to the Vendor on demand.

INFORMATION ON PO CHEONG

Po Cheong, together with 東莞永耀漂染有限公司 (Dongguan Wing Yiu Bleaching and Dyeing Factory Limited), its wholly-owned foreign enterprise established in the PRC, is principally engaged in the business of garment bleaching and dyeing. Po Cheong Group commenced business in August 2001. Its factory, which employs about 190 employees, is located in Dongguan, the PRC and it currently has production capacity of about 10 million pounds of dyed fabrics per year.

The business of Po Cheong Group does not compete with the existing business activities of Easyknit Group (other than Po Cheong Group). Easyknit Group (other than Po Cheong Group) sources cotton-based knitted garments for women, children and infants from garment manufacturers in the PRC and exports to its customers, mainly in the United States of America and Europe. It does not have any manufacturing activities. Po Cheong Group is not expected to have any transactions with members of the Easyknit Group (other than Po Cheong Group) after the Completion as Po Cheong Group sells mainly to garment manufacturers based in the PRC who are independent third parties.

Based on its audited financial statements, Po Cheong Group recorded turnover and net loss of about HK$29.8 million and HK$0.4 million respectively for the year ended 31 March 2003 and turnover and net loss of about HK$7.8 million and HK$1.4 million respectively for

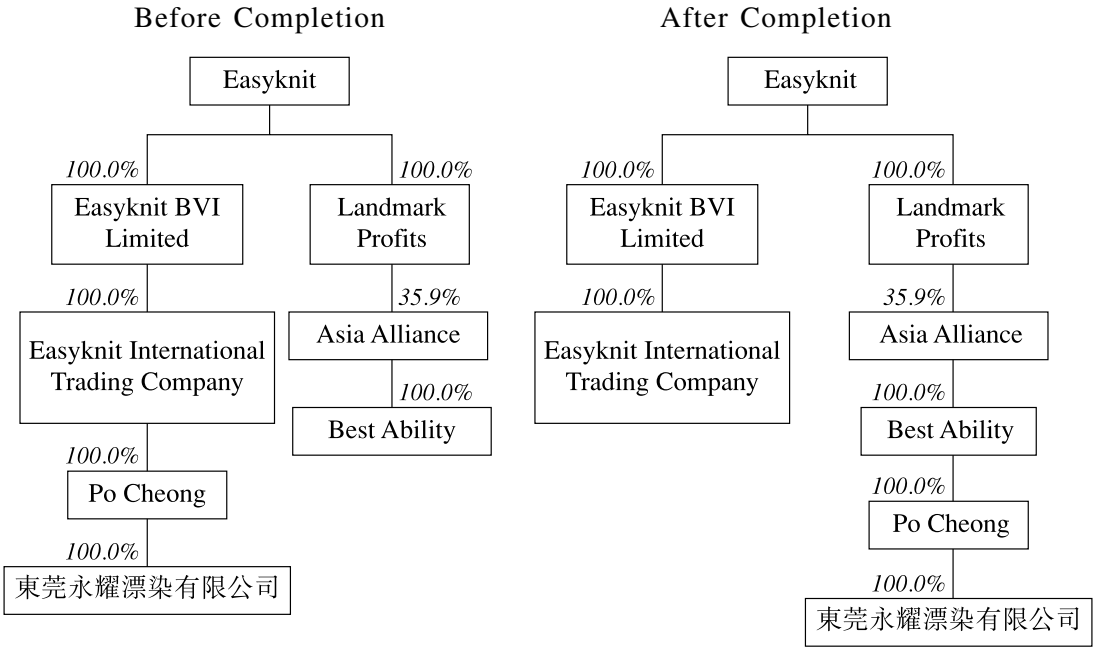
the year ended 31 March 2002. For the six months ended 30 September 2003, the unaudited turnover and net loss of Po Cheong Group amounted to about HK$25.6 million and HK$0.9 million. Based on its audited accounts, Po Cheong Group has net liability position of about HK$1.9 million as at 31 March 2003. Under the Sale and Purchase Agreement, Easyknit has agreed to waive its rights in respect of a loan it extended to Po Cheong Group which outstanding amount was about HK$19.2 million ("Loan Waiver"). Taking into consideration the Loan Waiver, the adjusted net asset value of Po Cheong Group as at 31 March 2003 will be approximately HK$17.3 million.

The garment manufacturing industry in the PRC has experienced strong growth in the past decade. According to the Asian Development Bank, the PRC's garment production represented approximately 17% of the world's total garment production in 2003 and it is expected to increase to 45% by 2005. The China National Textile Industry Council (the "Council") has reported that textile and garment exports grew over 27.7% in 2003 to approximately US$80.5 billion and generated approximately US$4.5 billion of net profit as compared to a net profit of approximately US$0.9 billion in 1999. The Council has set out long-term plans to increase fabric exports and enhance processing capacity of domestic producers such that textiles and garments export will reach US$100 billion by 2010. Based on the above, the Asia Alliance Directors believe there are good prospects for the garment bleaching and dyeing business, which is a supporting industry to the garment manufacturing industry.

Since its commencement of business in August 2001, the management of Po Cheong Group has conducted various measures to train its workers and to fine-tune and improve the production process of the garment bleaching production and dyeing factory. In particular, a new team of production and sales managers and production workers was brought in in mid 2003 to replace employees whose performances were unsatisfactory and the new team has significantly enhanced the efficiency of the production process and therefore the quality of its products. In the past year, Po Cheong Group has also invested about HK$5 million in new machinery, thereby increasing production capacity, enabling Po Cheong Group to secure more orders from its customers. The improved efficiency, quality and increase in production capacity augmented with the Po Cheong Group's marketing efforts, resulting in substantial increase in orders. This is evidenced by the substantial increase in turnover of Po Cheong Group, where turnover increased by about 185% from approximately HK$9.0 million in the six months ended 30 September 2002 to about HK$25.6 million in the six months ended 30 September 2003.

Following such efforts, the Asia Alliance Directors were informed by the Easyknit Directors that the operations of Po Cheong Group have passed the operating break-even level and are generating positive operating cash flow. Based on the above and having considered the prospects of the overall garment industry, the Asia Alliance Directors are of the view that despite having incurred losses in the year ended 31 March 2003 and during the six months ended 30 September 2003, the business of Po Cheong Group is expected to experience further growth in the future, in line with the expected increase in turnover, improved efficiency and intensive marketing efforts.

SHAREHOLDING STRUCTURE BEFORE AND AFTER COMPLETION



REASONS FOR AND BENEFITS OF ACQUISITION TO ASIA ALLIANCE GROUP

The Asia Alliance 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 Asia Alliance Group continues to suffer substantial losses and the outlook remains uncertain. The Asia Alliance Directors intend to continue the wireless communication business on a prudent basis while streamlining the operations. In view of such uncertainty, the Asia Alliance Directors believe that it is in the interest of the Asia Alliance Group to explore new investments and business opportunities and they have had preliminary negotiations with various parties. Having considered the financial position of Asia Alliance Group and having reviewed the status of the negotiations, the Asia Alliance Directors have come to a conclusion that this is an opportune time to acquire the garment bleaching and dyeing business of Po Cheong Group as it is a stable business which the management of Asia Alliance is familiar with which would provide steady cash flow to the Asia Alliance Group. The Acquisition will enhance the revenue base of the Asia Alliance Group and diversify its source of income.

USE OF PROCEEDS OF THE RIGHTS ISSUE

It was stated in the circular of Asia Alliance dated 10 February 2004 ("February Circular") in relation to, among other things, the Rights Issue, that the estimated net proceeds from the Rights Issue are expected to be between HK$73.2 million and HK$74.4 million. Out of such proceeds (i) approximately HK$22 million will be used to repay an interest-bearing loan of about HK$30.3 million extended to the Asia Alliance Group by Easyknit in February 2003, the outstanding balance of which is approximately HK$21.3 million; and (ii) the remaining balance of approximately HK$51.0 million for general working capital. It was

previously stated that if there arise opportunities for possible new businesses or investments, the balance of the proceeds may be used for such purposes and the prospectus in respect of the Rights Issue stated that the proceeds may be used to acquire assets from Easyknit. It is the intention of the Asia Alliance Directors that proceeds from the Rights Issue be applied for partial payment in respect of the Acquisition.

Since late 2003, Asia Alliance has concurrently had preliminary discussions with various parties on potential investment opportunities. Some of these projects have not been pursued as they were deemed unsuitable by the Asia Alliance Directors while some negotiations are still ongoing but have not been finalised or reached the stage where public disclosure of their details would be appropriate.

Subsequent to the issue of the February Circular, it was noted that the garment bleaching and dyeing operations of Po Cheong Group have stabilised and have clearly surpassed the operating break-even level on a consistent basis. Having considered the financial position of Asia Alliance Group, including the estimated net proceeds from the Rights Issue and having reviewed the status of the above negotiations with other parties, Asia Alliance Directors came to the conclusion that this is an opportune time to acquire a stable business, which the management of Asia Alliance is familiar with, and which can provide steady cash flow to the Asia Alliance Group.

BUSINESS OF EASYKNIT AND USE OF SALE PROCEEDS

Easyknit is an investment holding company and the Easyknit Group is principally engaged in the sourcing and export of cotton-based knitted garments for women, children and infants, garment bleaching and dyeing, property investments and provision of wireless communication services. Easyknit's garment bleaching and dyeing business is conducted only through the Po Cheong Group and once Po Cheong is sold, Easyknit will no longer be in that business (except through its interest in Asia Alliance).

The Easyknit Group will receive proceeds of about HK$65.0 million from the sale of Po Cheong. Out of such proceeds, the Easyknit Directors intend to apply approximately HK$23.0 million for repayment of Easyknit Group's bank borrowings and the balance for general working capital purposes. The Acquisition is not expected to have any material impact on the profit and loss account of Easyknit Group after the Completion as Asia Alliance will be treated as a subsidiary of Easyknit under the GAAP.

The Easyknit Directors are of the view that the Consideration is a fair and reasonable price for the Po Cheong Sale Shares and the proceeds therefrom can help reduce the Group's bank borrowings and strengthen its financial position for the development of Easyknit's other business segments.

IMPLICATIONS UNDER THE LISTING RULES

Under the Listing Rules, the Acquisition constitutes a major transaction (but not a very substantial acquisition, as the assets to be purchased by Asia Alliance from Easyknit are all listed assets) for Asia Alliance. As Easyknit, through Landmark Profits, is interested in approximately 35.9% of the existing issued share capital of Asia Alliance as at the date of

this announcement, the Acquisition also constitutes a connected transaction for Asia Alliance and requires the approval of the Asia Alliance Independent Shareholders at the Asia Alliance SGM. An independent board committee of Asia Alliance will be formed to advise the Asia Alliance Independent Shareholders in respect of the Acquisition. Barits Securities (Hong Kong) Limited has been appointed as the independent financial adviser to the independent board committee of Asia Alliance in this regard. Landmark Profits and its associates will abstain from voting in respect of the resolution to be proposed at the Asia Alliance SGM to approve the Acquisition.

Easyknit is issuing this announcement voluntarily to provide information relating to the Acquisition to the Easyknit Shareholders and the public.

GENERAL

Asia Alliance will despatch a circular containing, inter alia, details of the Acquisition, the recommendations from its independent board committee, the advice of the independent financial adviser to its independent board committee and a notice to convene the Asia Alliance SGM.

Easyknit Shareholders, Asia Alliance Shareholders and potential investors should note that the Acquisition, which is subject to a number of conditions precedent, may or may not be completed. Easyknit Shareholders, Asia Alliance Shareholders and potential investors are reminded to exercise caution when dealing in the securities of Easyknit and Asia Alliance.

SUSPENSION AND RESUMPTION OF TRADING

At the requests of Easyknit and Asia Alliance, trading in the Easyknit Shares and Asia Alliance Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Tuesday, 25 February 2004 pending the release of this announcement. Applications have been made by Easyknit and by Asia Alliance to the Stock Exchange for the resumption of trading in the Easyknit Shares and Asia Alliance Shares with effect from 9:30 a.m. on Monday, 8 March 2004.

DEFINITIONS

In this announcement, the following terms have the meanings set out as follows:

"Acquisition"	the acquisition by Best Ability, a wholly-owned subsidiary of Asia Alliance and the sale by Easyknit International Trading Company, a wholly-owned subsidiary of Easyknit, of the Po Cheong Sale Shares pursuant to the Sale and Purchase Agreement
"associates"	the meaning ascribed thereto in the Listing Rules
"Asia Alliance"	Asia Alliance 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

"Asia Alliance Board"	the board of Asia Alliance Directors
"Asia Alliance Directors"	the directors of Asia Alliance
"Asia Alliance Group"	Asia Alliance and its subsidiaries
"Asia Alliance SGM"	the special general meeting of Asia Alliance to be held to seek the Asia Alliance Independent Shareholders' approval of the Acquisition
"Asia Alliance Shares"	share(s) of HK$0.10 each in the share capital of Asia Alliance
"Asia Alliance Shareholders"	holders of Asia Alliance Shares
"Asia Alliance Independent Shareholder(s)"	Asia Alliance Shareholders other than Landmark Profits and its associates
"Best Ability" or the "Purchaser"	Best Ability Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Asia Alliance, also being the purchaser in the Sale and Purchase Agreement
"Completion"	completion of the Sale and Purchase Agreement
"Consideration"	the consideration for the Po Cheong Sale Shares
"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 on the Singapore Exchange Securities Trading Limited and the controlling shareholder of Asia Alliance, currently holding approximately 35.93% of the issued share capital of Asia Alliance
"Easyknit Directors"	the directors of Easyknit
"Easyknit Group"	Easyknit and its subsidiaries
"Easyknit International Trading Company" or the "Vendor"	Easyknit International Trading Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Easyknit, also being the vendor in the Sale and Purchase Agreement
"Easyknit Shares"	share(s) of HK$0.10 each in the share capital of Easyknit
"Easyknit Shareholders"	holders of Easyknit Shares

"GAAP"	the General Accepted Accounting Practice
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Landmark Profits"	Landmark Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Easyknit
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Po Cheong"	Po Cheong International Enterprises Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Easyknit
"Po Cheong Group"	Po Cheong and its subsidiary
"Po Cheong Sale Shares"	the entire issued share capital of Po Cheong
"PRC"	The People's Republic of China
"Rights Issue"	the proposed rights issue of Asia Alliance, details of which were set out in the circular of Asia Alliance dated 10 February 2004
"Sale and Purchase Agreement"	the sale and purchase agreement dated 5 March 2004 between Best Ability and Easyknit International Trading Company in relation to the Acquisition
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%" or "per cent."	percentage or per centum

By Order of the Board
Easyknit Holdings International Limited
Koon Wing Yee
President and Chief Executive Officer

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

Hong Kong, 5 March 2004

* *for identification purposes only*

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