The past year may not have been the best of times for Hong Kong and most parts of the world, but for Asia Aluminum Holdings Group, its solid set of results in the first half of this fiscal year has demonstrated the Group's underlying strengths supported by our scale, technological innovations, production capabilities, management and continued commitment to advance quality and service standards.

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors ("Board") of Asia Aluminum Holdings Limited (the "Company") are pleased to present the interim report and unaudited condensed accounts of the Company and its subsidiaries (collectively the "Group") for the six months ended 31 December 2002 (the "period"). The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 31 December 2002, all of which are unaudited and condensed, and the audited consolidated balance sheet at 30 June 2002 of the Group, along with relevant explanatory notes, are set out on pages 13 to 34 of this report.

This unaudited interim report has been reviewed by the Company's audit committee.

Factories in Nanhai District, Guangdong Province

The Operating Review

The rapid development of the aluminum market has set strong momentum and the Group is able to deliver encouraging results for the period through concerted effort with clear focus on identified market segments and the leverage on highly competitive cost base in the PRC. The increasing demand in aluminum products for our markets has created emerging business opportunities for the Group to sustain its growth. The continuing introduction and application of newly innovated products in diversified industries and the increase in production capabilities have reinforced the Group's position to maintain its leadership as the largest aluminum extruder in Asia.

(a) Operating results for the period

With the full contribution by the two operating subsidiaries acquired in late 2001, the Group's turnover increased by 17% to HK$1,107 million over the last period. The Group maintained a stable gross profit margin through persistent cost control and enhancement of product mix. The overall margin during the period was 27% and amounted to HK$295 million.

The operating profit for continuing operations increased by 56% to HK$292 million during the period and the net profit attributable to shareholders increased by 84% to HK$178 million which included an additional profit of HK$52 million derived from the disposal by the Company of a 26.2% interest in its major subsidiary, Asia Aluminum Group Limited ("AAG") in June 2001. Factoring out this, the net profit attributed to core business for the period was HK$126 million, and represented an increase of 43% from last period.

(b) Dynamics of the business

AAG and its subsidiaries (the "AAG Group") are engaged in the manufacturing and sales of aluminum extrusion and stainless steel products. During the period, the AAG Group continued to be the major profit contributor to the Group. It continued to consolidate its leading position in the aluminum business and efforts were made to further expand production capacity, sales network and market share.

Turnover from the manufacture and sales of aluminum products has recorded a remarkable increase in the period as a result of the robust growing domestic demand in the PRC and the diversification of product portfolio on high-end products with complex application. The turnover during the period amounted to HK$1,047 million and represented an increase of 24% from the last corresponding period. The margin has been kept relatively stable with an improving trend.

Recent Projects of the Group

The Group adopts a cost plus approach to price its products to the effect that the price is quoted according to the London Metal Exchange ingot spot or forward price plus processing fee. Such pricing policy protects the Group from the risk exposure associated with the fluctuations in aluminum ingot prices.

The stainless steel market in the PRC is highly fragmented and is dominated by a few market players. The operating environment for the manufacture and sales of stainless steel was very competitive. The Group has slowed down its stainless steel operation due to the unattractive returns. The sales of stainless steel products declined 43% to HK$47 million over the period.

The revenue derived from the provision of design and testing services for aluminum products was steady and amounted to HK$13 million. The Group's testing chamber and facilities have been accredited and qualified to provide the testing services for both PRC and HK customers in the construction sector, which will further strengthen the Group's position as a one-stop total solution provider.

In order to be more focus on the core business, the Group has scaled down the e-commerce operation of i-Metal during the period to maintain the service of providing non-ferrous metal trading market information.

Growth of production capacity

The Group's current annual total production capacity is 140,000 metric tons, which represents a 17% increment from the last balance sheet date. This has been achieved by means of full integration of the two newly acquired operating subsidiaries and the upgrading in production facilities. The Group will continuously reinvest the funds generated from operations to maintain an organic growth rate at least 10% per annum.

Business sales

The PRC continues to be the Group's largest and the most promising market. Benefiting from the PRC's continuous GDP growth, orders from infrastructure and landmark property development projects are in the pipeline. The Group has secured aluminum extrusion and panel supply contracts for Beijing Grand Opera House, Hangzhou Opera House, Guangzhou Huadu New Airport, People's Great Hall refurbishment, Shanghai Walton Plaza and Shanghai Xintiandi. Supply Contracts with key reefer container manufacturers in the PRC have also been awarded recently.

In Hong Kong, the Group has obtained supply contracts for The Science Park, the redevelopment project in Mongkok "Bird Street", Enterprise Square III at Kowloon Bay, Kowloon Station

Phase II, Thomson Road Development and a number of supply contracts are currently under negotiation, eg Mega Tower, AIG Centre, The Disneyland Park.

The supply of aluminum extrusion products and panels to Macau Casino Project is under discussion.

Sales to international markets and the PRC domestic market were HK$250 million and HK$857 million respectively. It is the Group's strategy to achieve a well-balanced geographical spread and product portfolio to minimize risk exposure. Despite the strong growth in the PRC market, the Group will increase its penetration of so far untapped international markets and is aiming at a 50/50 sales target in a medium term. With regard to the product mix, the Group will further increase the proportion of consumer household and paint-coated products to enhance its profit margins.

The Group will however, pursue the targets flexibly to focus on markets and products offering the most attractive returns and thus to maximize the shareholder's value.

(c) Employees and remuneration policies

As at 31 December 2002, the Group employed over 4,400 full time management, administrative and production staff in Hong Kong and the PRC. The remuneration policies of the Group are reviewed on an annual basis and the remuneration package includes medical insurance, pension funds (Mandatory Provident Fund Scheme for the Group's employees in Hong Kong) and bonuses.

We are confident that in the second half, our drive for growth and revenue generating strength will continue to enable us to generate satisfactory returns for our shareholders.

(d) Prospect and future plans

The outlook for the PRC market is still very promising. The PRC's accession to the WTO has improved business confidence and attracts significant foreign direct investments to enhance its growth. The 2008 Beijing Olympic Games, the 2010 Shanghai World Expo, the China Go-West Policy and the Housing Reform have boosted demand for the infrastructure, transportation facilities and consumer household products which will benefit the Group as a whole. To cope with this, the Group will pursue growth in both vertical and horizontal dimensions by means of acquisitions and organic growth. Currently, the Group has abundant orders on hands and has outsourced some of its orders to a few selected extrusion factories and is trying to identify acquisition targets in due course.

The Group is expecting sales growth in the North American market. Indalex Aluminum Solution Group, our strategic partner, has agreed the Group to handle the direct sales orders from North American customers. Given the cost competitiveness of our products, the Group believes that the market shall deliver good performance in the ensuing years.

The Group has been working on the development of a supply chain system for a better control on the inventories and logistic costs since last year. The phase one of the system has been implemented and the process is ongoing. Negotiations with different smelters and suppliers will be finalized in the next few months and this will achieve cost-savings in respect of the material procurement and production cost in the fiscal year 2003 onwards.

The Group has five factories locating in different parts of Nanhai District in Guangdong Province, the PRC, and is now cautiously considering the centralization to move them into one single production complex. The Group also believes that the move can further enhance the cost control and operating efficiency.

The Management believes that growth is accompanied with innovation. During the period, the Group has produced and marketed new products like "brite-dip" products and downstream finished goods such as DIY garden fence kits, doors and bathroom enclosures for direct distribution to retailers. These products have enhanced the Group's profitability.

It has been the Group's corporate policy to maximize the return to its shareholders. In the medium term, the Group will focus on sales in the premium sectors with higher margin in construction, transportation and consumer market to realize our superior production quality and ability. In a long run, the Group will look for a healthy bilateral growth in the production capacity and the global market penetration.

The Financial Review

(a) Attributable Return to Shareholders and Dividend Policy

Basic earnings per share ("EPS") for the period were HK7.43 cents, compared to HK4.32 cents in the last period. In order to maintain a growth and avoid possible dilution in the EPS as a result of issue of new shares arising from exercise of share options, the Board has decided not to issue any new share options in the next 12-month period.

The Group adopts a consistent dividend payment policy. The annual payout ratio has been more than 40% since 2001. The Board has declared the payment of an interim dividend of HK1.5 cents per share and a special dividend of HK1.0 cent per share to the shareholders of the Company whose names appear on the Register of Members of the Company on 7 April 2003. The dividend warrants will be dispatched on or before 14 April 2003.

(b) Capital Structure and Treasury Policy

The Group has maintained a strong and stable financial position. As at 31 December 2002, the Group had total assets of approximately HK$3,973 million, comprising non-current assets of approximately HK$886 million and current assets of approximately HK$3,087 million, which were financed by current liabilities, non-current liabilities, minority interest and shareholders' funds of approximately HK$1,198 million, HK$325 million, HK$524 million and HK$1,926 million respectively.

The Group generally finances its operations with internal resources as well as banking and credit facilities granted by banks and financial institutions in Hong Kong and the PRC. The majority of the banking and credit facilities are trade finance facilities and are denominated in US dollars. Interest rates are fixed by reference to the London Interbank Offered Rate.

The outstanding balance for the convertible bonds ("CBs") was reduced to HK$10 million as at 31 December 2002 from HK$41 million as at 30 June 2002 after the conversion made by The SCM Growth Fund II L.P. during the period. The conversion resulted in an increase in share capital and share premium of HK$6 million and HK$25 million respectively. As at the date of this report, all the outstanding CBs have been converted into ordinary shares resulting in a further increase in share capital and share premium of HK$2 million and HK$8 million respectively.

The three-year syndicated loans will be falling due in January 2004, and the Group is currently reviewing the repayment of the whole sum.

As at 31 December 2002, the Group's cash and bank balances and total borrowings were approximately HK$1,639 million and HK$880 million respectively. The Group's consolidated net cash as at 31 December 2002, being cash and bank deposits less bank borrowings, amounted to HK$759 million as compared to HK$543 million as at 30 June 2002. Most of the bank deposits are denominated in Renminbi.

As at 31 December 2002, the Group has no contingent liabilities of bills discounted with recourse.

The objective of the Group's overall treasury and funding policy is to manage exposures to fluctuation in foreign currency exchange rates and interest rates on specific transactions. It is our policy not to engage in speculative activities. The Group will closely monitor overall exchange and interest rate exposures and will use appropriate financial instruments to hedge any exposure.

(c) Liquidity and Financial Resources

The Group's liquidity position remains strong with available undrawn bank facilities together with bank deposits of HK$574 million and HK$1,639 million respectively as at 31 December 2002. The ample financial resources available to the Group will provide adequate funding for the Group's operational requirements and also put us in a favourable position for further expansion, including potential acquisitions.

As at 31 December 2002, the Group had aggregate banking and credit facilities in respect of overdrafts, short term loans, trade financing and finance leases of approximately HK$1,169 million and were secured by certain of the Group's tangible fixed assets with net book value totaling HK$6 million and bank deposits of approximately HK$113 million. In addition, the Company has provided corporate guarantee for a total amount of HK$703 million. The Group had utilized a total of approximately HK$559 million of the aforesaid banking and credit facilities as at the same date.

The debt to equity ratio (debt/shareholders' funds) of the Group as at 31 December 2002 was 46%, being the same level of last year. The current ratio was 2.6 as at 31 December 2002. Of total borrowings as at 31 December 2002, 63% is repayable within one year and 37% is repayable within two to five years.

As at the date of this report, in accordance with the payment terms of the disposal of the Group's business of environmental protection products ("Disposal"), the last instalment of HK$155 million has been duly received by the Group. As such, the total consideration of HK$455 million for the Disposal has been fully settled.

The Group services its debts primarily through strong recurrent cash flow generated from its stable base of operation. The Board is confident that the Group has adequate financial resources to sustain its working capital requirement and future expansion and meet its foreseeable debt repayment requirements.

The Group will continue to adopt its conservative and prudent policy in financial and treasury management.

Directors' Interest in Securities

At 31 December 2002, the interests of the directors in the securities of the Company and its associates as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as notified to the Company were as follows:

Name of directors	Nature of interests	Number of shares held	Percentage of the issued share capital	Number of warrants held *(Note 2)*
Mr. Kwong Wui Chun	Personal	193,593,488	7.89%	17,839,348
	Corporate *(Note 1)*	826,020,000	33.67%	82,602,000
Mr. Hung Pann Yi	Personal	28,200,000	1.15%	2,820,000
Mr. Zhong Jianqiu	Personal	1,668,000	0.07%	166,800

The interests of the directors in the share options of the Company are separately disclosed in the section "Share Option Scheme" below.

Notes: (1) These securities are held by Viewlink Assets Limited ("Viewlink"), a company incorporated in the British Virgin Islands. Mr. Kwong Wui Chun ("Mr. Kwong") is deemed to be interested in these securities under the SDI Ordinance as he is the sole beneficial owner of Viewlink.

(2) The warrants conferred rights to the holder to subscribe in cash for ordinary shares in the Company at a subscription price of HK$0.77 per share, subject to adjustments, during the period from 10 April 2002 to 9 April 2004 (both dates inclusive).

In addition to the above, certain directors have non-beneficial personal interests in certain subsidiaries incorporated in Hong Kong held for the benefit of the Company solely for the purposes of complying with the minimum shareholder requirement under the Hong Kong Companies Ordinance.

Save as disclosed above, none of the directors or their respective associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Share Option Scheme

Pursuant to ordinary resolutions passed by the shareholders at the annual general meeting of the Company held on 7 December 2001, the share option scheme adopted by the Company on 19 February 1998 (the "Old Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted. Upon termination of the Old Scheme, no further share options can be granted thereunder, but for the outstanding options granted prior to the termination, they are continued to be valid and exercisable in accordance with the provisions of the Old Scheme.

Summary of the movement in the share options granted under the Old Scheme and the New Scheme during the period is as follows:

(i) The Old Scheme

	Number of options				
Type of grantees	**At 1 July 2002**	**Granted during the period**	**Exercised during the period**	**Lapsed or cancelled during the period**	**At 31 December 2002**
Executive directors					
Zhong Jianqiu	17,200,000	–	–	–	17,200,000
Continuous contract employees	29,600,000	–	4,000,000 (ii)	–	25,600,000
	46,800,000 (i)	–	4,000,000	–	42,800,000

(ii) The New Scheme

	Number of options				
Type of grantees	**At 1 July 2002**	**Granted during the period**	**Exercised during the period**	**Lapsed or cancelled during the period**	**At 31 December 2002**
Executive directors					
Kwong Wui Chun	8,900,000 (iii)	–	–	–	8,900,000
Hung Pann Yi	22,600,000	–	–	–	22,600,000
Zhong Jianqiu	5,400,000	–	–	–	5,400,000
Non-Executive director					
Gan Ming Hui	8,900,000 (vii)	–	–	–	8,900,000
Continuous contract employees	151,800,000	–	16,900,000 (v)	–	134,900,000
	197,600,000 (iv)	–	16,900,000	–	180,700,000

Notes:

(i) These share options were granted on 26 February 2001 and are exercisable during the period from 26 February 2001 to 25 February 2004 at an exercise price of HK$0.4312 per share.

(ii) The weighted average closing price of the shares of the Company immediately before the dates on which these share options were exercised during the period was HK$0.65.

(iii) These share options were granted to Ms. Li Chuk Kuan, the spouse of Mr. Kwong Wui Chun.

(iv) These share options were granted on 25 January 2002 and are exercisable during the period from 25 January 2002 to 24 January 2005 at an exercise price of HK$0.56 per share.

(v) The weighted average closing price of the shares of the Company immediately before the dates on which these share options were exercised during the period was HK$0.6655.

(vi) The above options granted are not recognized in the accounts until they are exercised. Rule 17.08 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of options granted to participants as referred to in (i) to (iv) of Rule 17.07 of the Listing Rules during the financial year. In the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. No estimate value of such options has been charged to the profit and loss account as at the date of the grant.

(vii) These share options lapsed subsequent to the period end consequent upon the resignation of Mr. Gan Ming Hui as director of the Company with effect from 12 February 2003.

Substantial Shareholders

Save as disclosed in the section headed "Directors' Interest in Securities" above for interest of Mr. Kwong and his associate, Viewlink, in securities of the Company as at 31 December 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that as at 31 December 2002, the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Closure of Register of Members

The Register of Members of the Company will be closed from 3 April 2003 (Thursday) to 7 April 2003 (Monday), both dates inclusive. During such period, no transfer of shares will be effected.

Shareholders are reminded that in order to be qualified for the interim dividend and special dividend, all completed transfer forms accompanied by the relevant certificates must be lodged with the branch registrar of the Company in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 2 April 2003 (Wednesday).

Purchase, Redemption or Sale of the Company's Listed Securities

During the six months ended 31 December 2002, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

Code of Best Practice

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 December 2002, in compliance with the Code of Best Practice ("Code of Best Practice") as set out in Appendix 14 of the Listing Rules except that the independent non-executive directors of the Company are not appointed for specific term but are subject to retirement by rotation at the annual general meeting. In the opinion of the directors, this meets with the same objective of the Code of Best Practice.

Audit Committee

To comply with the Code of Best Practice, the Company has an audit committee (the "Committee"), the Committee comprises two members, namely, Messrs. Ma Tsz Chun and Yau Wing Keung, Frankie, both of them are independent non-executive directors of the Company.

The Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 31 December 2002. At the request of the Committee, the Group's external auditors have carried out a limited scope financial review of the unaudited interim report. Such limited scope review was not an audit conducted in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants and was less than that specified in the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants.