THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Asia Aluminum Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser, transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the Company and will contain detailed information about the Company and management, as well as financial statements. The Company does not intend to register any of the Notes in the United States.

ASIA ALUMINUM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 930)

FINANCIAL ASSISTANCE, VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

Financial adviser to the Company

Morgan Stanley

Independent financial adviser to the Independent Board Committee

COMMERZBANK

Commerzbank AG

A letter from the Board is set out on pages 4 to 14 of this circular and a letter from the Independent Board Committee is set out on page 15 of this circular. A letter from Commerzbank AG, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 16 to 28 of this circular.

A notice convening the Special General Meeting to be held at the principal place of business of the Company in Hong Kong at 12th Floor, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong on Monday, 24 January 2005 at 11:00 a.m is set out on page N – 1 of this circular. Whether or not you are able to attend the Special General Meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Hong Kong branch share registrar of Asia Aluminum Holdings Limited, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the appointed time for holding the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting and any adjourned meeting (as the case may be) should you so wish.

7 January 2005

CONTENT

In this circular, the following expressions have the following meanings unless the context otherwise requires:

"AAC"	Asia Aluminum (China) Company Limited, a wholly foreign-owned enterprise incorporated in the PRC and wholly-owned by CSD
"AAG"	Asia Aluminum Group Limited, a company established in the British Virgin Islands, which is 69.05% owned by the Company
"Announcement"	the announcement dated 16 December 2004 issued by the Company regarding the Notes Issue and the Financial Assistance
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company"	Asia Aluminum Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
"connected person"	has the meaning ascribed to it under the Listing Rules
"CSD"	China Steel Development Company Limited, a company incorporated in Samoa on 9 May 2003, which is 60% indirectly owned by the Company
"Directors"	the directors of the Company
"Financial Assistance"	the shareholder's loan of up to US$300 million (approximately HK$2,340 million) from the net proceeds of the Notes Issue by the Company to CSD
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HSBC"	The Hongkong and Shanghai Banking Corporation Limited, the co-manager in respect of the Notes Issue
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Indenture"	the Indenture dated 23 December 2004 among the Company, the Subsidiary Guarantors and Citibank, N.A., as trustee, pursuant to which the Company issued the Notes
"Independent Board Committee"	the committee of Directors, consisting of the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Financial Assistance

"Independent Financial Adviser" or "Commerzbank AG"	Commerzbank AG, a bank incorporated in Germany, acting through its Hong Kong Branch, which is an authorised institute registered with the Hong Kong Monetary Authority licensed to carry out types 1, 4, and 6 regulated activities (as set out in Schedule 5 of the SFO)
"Independent Shareholders"	in respect of the Financial Assistance, the shareholders of the Company other than Mr. Kwong and his associates
"Joint Venture Agreement"	the agreement dated 11 July 2003 entered into between Sino Advance, CSD, Record Break, Mr. Kwong and Think Success in relation to the formation of CSD
"Loan Agreement"	the loan agreement dated 23 December 2004 entered into between the Company and CSD in relation to the Financial Assistance
"Latest Practicable Date"	4 January 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Kwong"	Mr. Kwong Wui Chun, a Director and the controlling shareholder of the Company who, together with his associates, is interested in approximately 36.05% interests in the Company as at the Latest Practicable Date
"Morgan Stanley"	Morgan Stanley & Co. International Limited, the sole bookrunner and lead-manager in respect of the offer and sale of the Notes
"Notes"	the 8% senior notes due 2011 in the principal amount of US$450 million (approximately HK$3,510 million) issued by the Company on 23 December 2004 pursuant to the Indenture
"Notes Issue"	the issue of the Notes by the Company
"Offer Price"	100% of the principal amount of the Notes, the price at which the Notes have been sold by Morgan Stanley and HSBC
"PRC"	the People's Republic of China
"Purchase Agreement"	the agreement dated 16 December 2004 entered into by, among others, the Company, Morgan Stanley and HSBC in relation to the Notes Issue, pursuant to which Morgan Stanley and HSBC were the initial purchasers of the Notes

"Record Break"	Record Break Investments Limited, a company incorporated in the British Virgin Islands and 10% shareholder of CSD
"Rolled Products Project"	the purchase, upgrade and installation of aluminum rolled products equipment for the new aluminum rolled products manufacturing facilities to be undertaken by AAC in Zhaoqing, Guangdong Province, and the construction of those facilities
"Securities Act"	the United States Securities Act of 1933, as amended
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGX-ST"	Singapore Exchange Securities Trading Limited
"Shareholders"	holders of the Shares
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Sino Advance"	Sino Advance Investments Limited, a wholly-owned subsidiary of the Company
"Special General Meeting"	the special general meeting of the Company to be convened and held on 24 January 2005 at 11:00 a.m. to approve the Financial Assistance
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary Guarantors"	the subsidiaries of the Group consisting of Topmost Precision Limited, Sino Advance, Asia Cybertech Limited, Asia Advanced Metal Products Company Limited, CSD and Asia Aluminum Management Limited at the original issue date of the Notes which have provided guarantees of the obligations of the Company under the Notes
"Think Success"	Think Success Industries Limited, a company incorporated in the British Virgin Islands and 10% shareholder of CSD
"Trustee"	Citibank, N.A., the trustee under the Indenture and the escrow agent for the Notes Issue proceeds
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent

For illustration purposes, amounts in US$ in this circular have been translated into HK$ at US$1 = HK$7.80.

ASIA ALUMINUM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 930)

Executive Directors:
Kwong Wui Chun *(Chairman)*
Chan Yiu Tsuan, Benby *(Deputy Chairman)*
Zhong Jianqiu

Independent non-executive Directors:
Ma Tsz Chun
Yau Wing Keung, Frankie
Chou Shun, Alan

Principal place of business in Hong Kong:
12th Floor, Railway Plaza
39 Chatham Road South
Tsimshatsui
Kowloon
Hong Kong

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

7 January 2005

To the Shareholders

Dear Sir or Madam,

FINANCIAL ASSISTANCE, VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

The Board announced that on 16 December 2004, the Company, together with certain subsidiaries of the Company, including the Subsidiary Guarantors, entered into the Purchase Agreement with Morgan Stanley and HSBC in connection with the Notes Issue. On 23 December 2004, the Company and the Subsidiary Guarantors entered into the Indenture, pursuant to which the Company issued the Notes which were sold to Morgan Stanley and HSBC under the Purchase Agreement.

The purpose of this circular is:

(i) to provide the Shareholders with details of the Financial Assistance;

(ii) to set out the opinion of the Independent Financial Adviser in respect of the terms of the Financial Assistance;

(iii) to set out the recommendation of the Independent Board Committee in respect of the terms of the Financial Assistance; and

(iv) to give notice of the Special General Meeting to consider and, if thought fit, to approve the Financial Assistance.

Your attention is hereby drawn to page N – 1 of this circular where you will find the notice of the Special General Meeting to be held on 24 January 2005.

THE NOTES ISSUE

As announced by the Company on 16 December 2004, the Company, together with certain subsidiaries of the Company, including the Subsidiary Guarantors, entered into the Purchase Agreement with Morgan Stanley and HSBC in connection with the issue of the Notes in the aggregate principal amount of US$450 million (approximately HK$3,510 million).

Pursuant to the Indenture, the Company issued the Notes and the Subsidiary Guarantors provided the guarantees in respect of the Notes. Pursuant to the Purchase Agreement, Morgan Stanley and HSBC have purchased the Notes at the Offer Price. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of Morgan Stanley and HSBC is an independent third party and is not a connected person of the Company and is independent of and not connected with the Directors, chief executive, substantial shareholders (as defined under the Listing Rules) of the Company, its subsidiaries or any of their respective associates.

Under the terms of the Purchase Agreement, the Notes were to be offered and sold by Morgan Stanley and HSBC only (i) in the United States, (a) to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, and (b) to a limited number of institutional accredited investors in transactions exempt from the registration requirements of the Securities Act and (ii) outside the United States, in compliance with Regulation S under the Securities Act. None of the Notes were to be offered to the public in Hong Kong and none of the Notes were to be placed to any connected persons of the Company.

Principal terms of the Notes

The Notes are due on 23 December 2011 with bullet repayment, unless earlier redeemed pursuant to their terms. The Notes bear interest at the rate of 8% per annum, payable semi-annually in arrears on June 23 and December 23 of each year, commencing 23 June 2005. The obligations of the Company under the Notes are guaranteed by the Subsidiary Guarantors, including CSD, and are secured by (i) pledges of the Company's rights under the Loan Agreement; (ii) certain intercompany loans, namely (a) the intercompany loan of up to US$100 million (approximately HK$780 million) from the Company to Asia Aluminum Manufacturing Company Limited, a wholly-owned subsidiary of AAG, and (b) the intercompany loan of up to US$100 million (approximately HK$780 million) from the Company to AAG; and (iii) pledges of the shares of certain Subsidiary Guarantors.

The Notes rank senior in right of repayment to any existing and future obligations of the Company expressly subordinated in the right of payment to the Notes. For all other unsecured and unsubordinated indebtedness of the Company, the Notes rank *pari passu*.

The events of default under the Notes include: (a) default in the payment of principal; (b) default in the payment of interest when the same becomes due and payable, and such default continues for a period of 30 days; (c) default in the performance or breach of certain covenants under the Notes; (d) default by the Company or certain of its subsidiaries in the repayment of indebtedness having an outstanding amount in excess of US$5 million (approximately HK$39 million) other than the Notes; (e) any final judgment or order for the payment of money in excess of US$5 million (approximately HK$39 million) shall be rendered against the Company or certain of its subsidiaries; (f) involuntary bankruptcy, insolvency proceedings against the Company or certain of its subsidiaries; (g) default by the Subsidiary Guarantors in the performance of their obligations under the security provided under the Notes; and (h) certain other customary events of default. If an event of default (other than an event of default specified in (f)) occurs and is continuing, the trustee for the Noteholders may, upon request of at least 25% in aggregate principal amount of Notes, then outstanding, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes immediately due and payable and may foreclose on the security. In such an event, a change of control in the subsidiary, the shares in which are the subject to the security may occur.

The terms of the Notes provide for certain limitations on ability of the Company and its "Restricted Subsidiaries" (as defined in the Indenture and described below) to take certain actions, including limitations on: (i) the ability to incur further indebtedness; (ii) the ability to pay certain "restricted payments" (which includes dividends) as defined in the Indenture. Under the covenant limiting further indebtedness, no Restricted Subsidiary may incur additional indebtedness and the Company may only incur additional indebtedness if, after giving effect to such additional indebtedness, its "fixed charge coverage ratio" (as defined in the Indenture) would be not less than 3.5 to 1.0. This covenant is subject to a number of exceptions which allow the Company and the Restricted Subsidiaries to incur certain indebtedness, including: (i) indebtedness with a maturity of one year or less which is used for working capital purposes; (ii) letters of credit, bank drafts or similar instruments issued in the ordinary course of business in connection with trading activities; (iii) intercompany indebtedness between the Company and its Restricted Subsidiaries, which must, if the Company or any Subsidiary Guarantor is the obligor, be subordinated to payments under the Notes; (iv) refinancing certain indebtedness; and (v) indemnities arising out of agreements providing for indemnification, adjustment of purchase price or similar obligations, or from guarantees or letter of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary.

Under the covenant limiting restricted payments (including dividends), the Company and its Restricted Subsidiaries may not make a restricted payment if: (i) a default has occurred and is continuing, or would occur as a result of the payment; (ii) the Company could not incur at least an additional US$1.00 of indebtedness under the limitation on indebtedness covenant; or (iii) such payment, together with all other restricted payments since the original issue date shall exceed the sum of (1) 50% of the aggregate amount of "consolidated net income" (as defined in the Indenture) (or if a loss, 100% of such loss), accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter immediately following the original issue date and ending on the last day of the Company's most recently ended fiscal quarter for which consolidated financial statements are available at the time of such payment; plus (2) 100% of the proceeds of certain sales of common equity or capital stock by the Company; plus (3) certain reductions in certain "investments" (as defined in the Indenture) made by the Company and Restricted Subsidiaries after the original issue date, including reductions resulting from payments of interest, dividends or repayments of loans or advances to the Company or Restricted Subsidiary; plus (4) US$5 million.

The Indenture defines "Restricted Subsidiaries" to mean all of the subsidiaries of the Company, although the Company has the ability to designate certain subsidiaries as "Unrestricted Subsidiaries" in certain circumstances. The Company has no present intention to designate any subsidiary as an Unrestricted Subsidiary.

Reason for the Notes Issue

The Group is the largest manufacturer of aluminum extrusion products in the PRC and one of the largest aluminum extruders in Asia as measured by capacity, with an annual extrusion capacity of approximately 150,000 metric tons and output of approximately 123,041 metric tons for the fiscal year ended 30 June 2004. It designs, manufactures and sells customized aluminum extrusion products and processes aluminum panels. To complement its principal extrusion business, it also produces a small volume of stainless steel products and provides design and testing services for aluminum products.

In October 2003, the Group commenced construction of a large-scale expansion project in Zhaoqing, Guangdong Province, designed to produce high-quality aluminum rolled products and to increase the Group's aluminum extrusion capacity.

The Rolled Products Project entails the construction of a new purpose-built plant for the production of rolled aluminum products. With a designed annual production capacity of 400,000 metric tons, it is part of the expansion project of the Group.

The Group currently operates five factories, primarily producing aluminum extrusion products in Nanhai, Guangdong Province. As part of the Group's expansion plan, the Group intends to consolidate its aluminum extrusion operations at the Zhaoqing facility, and with the addition of new extrusion facilities, the Group's estimated production capacity for extrusion products will increase to 300,000 metric tons by the end of 2006.

The Rolled Products Project is currently being implemented. Site work has begun with preparation of the ground and delivery of a small amount of plant equipment. Upon completion, the Group will have approximately 495,000 square meters of floor space devoted to the processing of aluminum rolled products. The Group has already entered into contracts for the purchase of certain equipment, parts and services in relation to the Rolled Products Project. Upon completion of the Rolled Products Project by the end of 2006, it is estimated that the annual capacity of the Group to produce aluminum rolled products will be approximately 400,000 metric tons. The cost of establishing the Rolled Products Project is currently estimated at approximately US$471 million (approximately HK$3,673.8 million), which is approximately US$67 million (approximately HK$522.6 million) more than the estimate made by the Company in August 2003. The Company could not have obtained a more accurate amount at that time until it started to obtain quotations for plant equipment from suppliers.

The Directors believe that the demand for aluminum extrusion products and rolled products in the PRC will continue to grow given China's continued economic development, ongoing infrastructure investment and demand for industrial and consumer applications and that the Group is well positioned to benefit from such growth. With a small number of mills in Asia-Pacific capable of producing high-grade aluminum rolled products, the Directors also expect that the Group's significant cost advantage will allow the Group to successfully export rolled products to other markets within the region.

The Company has issued the Notes in order to repay an existing syndicated loan of the Company in the amount of approximately US$76 million (approximately HK$592.8 million) and to satisfy the funding requirements in the amount of approximately US$300 million (approximately HK$2,340 million) for the Group's expansion in aluminum rolled products by undertaking the Rolled Products Project. Remaining amounts will be used for general corporate purposes. Details on the use of proceeds from the Notes Issue are set out in the paragraph headed "Use of proceeds from the Notes Issue" below.

In connection with the Notes Issue, the Company has provided certain institutional investors with recent information regarding the Group, including an overview of the business of the Group, certain risk factors relating to the Group, and management discussions and analysis of financial conditions and audited results of operations of the Group for the three years ended 30 June 2004. Such information is set out in the separate document as enclosed. Such information can also be viewed at the Company's website www.asiaalum.com/recentinfo.

The Company has issued the Notes in order to take advantage of the favourable pricing conditions in the international debt market and for long-term fixed rate bonds in an increasing interest rate environment and against the tightening of PRC domestic financing as a result of the austerity measures implemented in the PRC. The Notes Issue is intended to improve and enhance the matching of the Group's expansion plan with its cashflow requirements and debt maturity profile. Moreover, the corporate governance and transparency of the Company will be improved as a result of the Notes Issue, and compliance with the stringent requirements in the offer of the Notes to qualified institutional buyers and institutional accredited investors in the United States, as these investors are generally sophisticated institutional investors which demand higher transparency and better corporate governance from the Company. In this connection, the Company will benefit as a result of the Notes Issue.

Use of proceeds from the Notes Issue

The net proceeds arising from the Notes Issue were approximately US$437.5 million (approximately HK$3,412.5 million) and have been deposited into the escrow account described further below. The Company intends to apply the net proceeds to fund the Group's operations as follows:

(1) approximately US$76 million (approximately HK$592.8 million) to fully repay the principal, interest and other outstanding amounts under an existing syndicated loan previously disclosed in the Company's announcement dated 9 July 2003. Pursuant to the facility agreement dated 9 July 2003, the syndicated loan bears interest at LIBOR plus 0.9% per annum and is due in 2006. The Company has the right to prepay all or any part of the outstanding balance of the syndicated loan on any interest payment date. The syndicated loan was obtained to repay a term loan of US$40 million (approximately HK$312 million). The term loan of US$40 million (approximately HK$312 million) was applied as to approximately 50% for the purchase of extrusion plant and machinery and as to approximately 50% for general working capital of the Company;

(2) approximately US$300 million (approximately HK$2,340 million) for the Rolled Products Project;

(3) approximately US$50 million (approximately HK$390 million) to be held in the escrow account described below;

The Company may withdraw the US$50 million (approximately HK$390 million) from the escrow account if the Company is required to purchase the interest of the minority shareholder in a subsidiary of the Company upon the exercise of the minority shareholder of a put option as previously disclosed in the Company's announcement dated 2 May 2001. Under the shareholders' agreement for that subsidiary, the Company may be required to purchase the minority shareholder's interest in that subsidiary in the event that: (i) the parties fail to agree on certain matters or decisions relating to that subsidiary; (ii) Mr. Kwong no longer holds/owns at least 35% of the Company; (iii) the Company no longer holds/owns at least 60% of that subsidiary; or (iv) the Company commits a material breach, and fails to remedy such material breach, of the shareholders' agreement.

The US$50 million (approximately HK$390 million) will be held in the escrow account until the earlier of (a) the date on which commercial production begins at the Rolled Products Project and the Company's "fixed charge coverage" ratio (as defined in the Indenture) is not less than 5 to 1; and (b) the date on which the minority shareholder in the subsidiary of the Company ceases to have and will not have the right to exercise the put option, which is the date the minority shareholder exercises the put option or it no longer holds shares in the subsidiary. If (a) and (b) are met, the Company may use the US$50 million (approximately HK$390 million), or the remaining balance thereof, for general corporate purposes; and

(4) the remainder of approximately US$11.5 million (approximately HK$89.7 million) for general corporate purposes including working capital.

The net proceeds of the Notes Issue have been deposited in an interest-bearing escrow account held with the Trustee, from which the Company will be entitled to withdraw funds after the satisfaction of the following release conditions: (a) the obtaining of Independent Shareholders' approval for the Financial Assistance; and (b) all security required to be provided under the Notes as stated in the paragraph headed "Principal terms of the Notes" has been provided in accordance with the terms of the Notes. After the satisfaction of these "release conditions", the Company may withdraw funds from the escrow account in the following stages for the purposes stated above:

(a) US$76 million (approximately HK$592.8 million) may be withdrawn immediately after the satisfaction of the above release conditions to repay the syndicated loan of the Company;

(b) up to US$11.5 million (approximately HK$89.7 million) may be withdrawn immediately after the satisfaction of the above release conditions and may be used for general corporate purposes;

(c) not more than an additional US$100 million (approximately HK$780 million) may be withdrawn prior to 30 June 2005 for the Rolled Products Project;

(d) not more than an additional US$100 million (approximately HK$780 million) may be withdrawn prior to 31 December 2005 for the Rolled Products Project; and

(e) the remaining funds may be withdrawn after 30 June 2006 for the Rolled Products Project subject to the maintenance of a minimum balance of US$50 million (approximately HK$590 million) in the escrow account as referred in (3), as described above.

Notwithstanding the above and subject to the Company maintaining a minimum balance of US$50 million in the escrow account as set out in sub-paragraph (3) under "Use of proceeds from the Notes Issue" above, the Company may withdraw an amount of additional funds from the escrow account at any time after the above-mentioned release conditions are satisfied, provided further that no payment default in respect of the Notes exists and is continuing, if such funds are required for the Rolled Products Project within the next month.

Pending receipt of the Independent Shareholders' approval, the net proceeds of the Notes have been deposited in the escrow account held with the Trustee and the Company may not withdraw or invest the net proceeds except in direct obligations of the United States of America or any agency thereof or obligation fully and unconditionally guaranteed by the United States of America, or any agency thereof, in each case, maturing within one year.

Redemption

In the event that the Independent Shareholders' approval of the Financial Assistance is not obtained prior to 31 March 2005, the Company will be obligated to redeem the Notes at a price of 103% of their principal amount. The Notes may also be redeemed in the following circumstances:

(a) the Company has the option to redeem the Notes in whole but not in part at a redemption price equal to 100% of the principal amount of the Notes plus the "applicable premium" as of, and accrued unpaid interest (if any) to, the redemption date. The applicable premium for a Note is defined in the Indenture to be the greater of (i) 1.00% of the principal amount of such Note; and (ii) the excess of (A) the present value as of the redemption date of 100% of the principal amount of the Note plus all remaining interest payments on such

Note (using a discount rate calculated by reference to obligations of the United States government, plus 100 basis points), over (B) the principal amount of such Note on the redemption date;

(b) the Company has the option to redeem up to 35% of the Notes before December 2007 using proceeds from the issue of the Company's ordinary shares;

(c) the Company may redeem the Notes if the Company or any Subsidiary Guarantor would be obligated to pay additional amounts of tax as a result of certain changes in specified tax laws; and

(d) the Company will be obligated to repurchase all Notes outstanding at a purchase price of 101% of their principal amount upon the occurrence of a change of control event which is accompanied by a ratings decline with respect to the Notes. Change of control events include: (i) the merger, amalgamation or consolidation of the Company with another entity or the sale of all or substantially all the assets of the Company; (ii) Mr. Kwong no longer beneficial owns more than 30% interest in the Company; (iii) any "person" or "group" (as defined in the US Securities and Exchange Act of 1934) becomes beneficial owner of the total voting rights of the Company; and (iv) the liquidation or dissolution of the Company.

Listing and rating

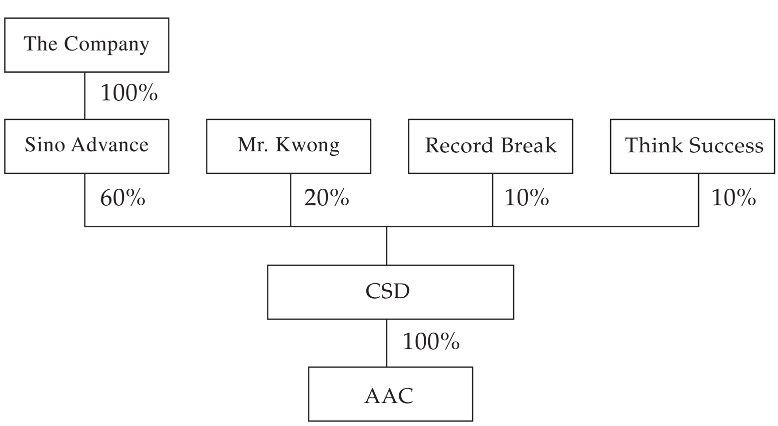
The Notes were listed and quoted on the SGX-ST as at 24 December 2004. Admission of the Official List of the SGX-ST should not to be taken as an indication of the merits of the Company or the Notes. No listing of the Notes has been sought in Hong Kong or any other securities exchanges.

The Notes have been rated BB by Standard & Poor's Rating Services and Ba3 by Moody's Investors Service on 8 December 2004.

FINANCIAL ASSISTANCE

As announced by the Company on 11 July 2003, Sino Advance, Mr. Kwong, Record Break and Think Success entered into the Joint Venture Agreement to form CSD for the purpose of establishing AAC. On 4 September 2003, AAC was established as a wholly foreign-owned enterprise in the PRC for the production of aluminum rolled products, plates and panels.

As at the Latest Practicable Date, the shareholding structure of CSD and AAC was as follows:



Provision of the Financial Assistance

The Company intends to apply approximately US$300 million (approximately HK$2,340 million) of the proceeds from the Notes Issue as an interest-bearing shareholder's loan to CSD to be on-lent to AAC to fund the Rolled Products Project and for that purpose entered into the Loan Agreement with CSD on 23 December 2004. Save for the shareholders' loans already committed by the other shareholders of CSD as announced in the circular of the Company dated 1 August 2003, the other shareholders will not provide financial assistance on a pro-rata basis.

The Financial Assistance will be provided on the following restrictive terms and conditions as set out in the Loan Agreement: (1) the Financial Assistance will be repayable on demand and will bear interest at a rate of 9.00% per annum; (2) any advances in addition to the aggregate of US$300 million (approximately HK$2,340 million) in advances to be made by the Company to CSD will also be treated as advances under, and be subject to the terms of, the Loan Agreement; (3) CSD may be required to repay from time to time principal amounts of the Financial Assistance in amounts equal to the aggregate principal amount of any Notes which the Company is required to repurchase, redeem or repay under the terms of the Notes; (4) all payments of interest, principal and other amounts owing by CSD to the Company under the Loan Agreement are subordinated to the obligations of CSD (actual, contingent or otherwise) under the guarantee provided by CSD with respect to the Notes; (5) the other shareholders in CSD will undertake not to sell and transfer or otherwise dispose of their shares in CSD for a certain period (2 years for Mr. Kwong and 1 year for each of Think Success and Record Break) after completion of the Rolled Products Project; (6) CSD will not distribute dividends to its shareholders until and unless the Financial Assistance has been repaid in full; and (7) each of the other shareholders in CSD will pledge its/his shares in CSD in favour of the Company. In addition, under the Indenture and the Notes, the Company covenants not to permit CSD to make payments of interest, principal or other amounts on any shareholders' loans provided by the other CSD shareholders until all interest and principal outstanding under the Loan Agreement is repaid in full.

Prior to 16 December 2004, the composition of the board of directors of CSD was five directors, Sino Advance has the right to appoint two directors and each of Mr. Kwong, Think Success and Record Break has the right to appoint one director. Given such board composition and that certain management issues (such as those relating to the change of board members, application of funds, raise new funds by means of equity capital or change of business strategy) require unanimous approval of all the directors of CSD, CSD was not considered a subsidiary of the Company and was treated as a jointly-controlled entity of the Company. Pursuant to a resolution passed by all the shareholders of CSD on 6 December 2004 and filed with the Registrar of Companies of Samoa on 16 December 2004, the composition of the board of directors of CSD has been changed to 7 directors, with the Company having the right to appoint four directors and each of Mr. Kwong, Think Success and Record Break has the right to appoint one director. The provision in the articles of association of CSD relating to management issues that require unanimous approval of all the directors have also been changed to a simple majority. Given such changes and that the Company has control of the board of directors of CSD, CSD's accounts will be consolidated into the Company's financial statements. The shareholding structure of CSD and the profit and loss sharing ratio will remain the same notwithstanding the Financial Assistance.

CSD will be entitled to drawdown from the shareholder's loan in the following stages:

(a) not more than US$100 million (approximately HK$780 million) may be withdrawn prior to 30 June 2005;

(b) not more than an additional US$100 million (approximately HK$780 million) may be withdrawn prior to 31 December 2005; and

(c) the balance may be withdrawn after 30 June 2006.

Notwithstanding the above and subject to the Company maintaining a minimum balance of US$50 million (approximately HK$390 million) in the escrow account as set out in sub-paragraph (3) under "Use of proceeds from the Notes Issue" above, the Company may withdraw an amount of additional funds from the escrow account at any time after the release conditions for the escrow account are satisfied, provided further that no payment default with respect to the Notes exists and is continuing, if such funds are required for the Rolled Products Project within the next month. Such amounts will be treated as amounts outstanding under the Loan Agreement.

Listing Rules implication

It was stated in the Company's circular dated 1 August 2003 that its commitment to the Rolled Products Project was estimated to be approximately US$104.8 million (approximately HK$817.44 million) and constituted a discloseable transaction of the Company. Its additional commitment by way of the Financial Assistance will be in the amount of approximately US$300 million (approximately HK$2,340 million). The aggregate amount of the commitment made by the Company in the Rolled Products Project will be approximately US$404.8 million (approximately HK$3,157.44 million).

As Mr. Kwong is a Director and is interested in approximately 36.05% of the existing issued share capital of the Company as at the Latest Practicable Date, the provision of Financial Assistance by the Company to CSD under the Loan Agreement will, when aggregated with its previous commitment referred to in the Company's circular dated 1 August 2003, constitute a very substantial acquisition and connected transaction for the Company under Rule 14.08 and Rule 14A.63 of the Listing Rules and will therefore be subject to the reporting, announcement and Independent Shareholders' approval by poll requirements under Rule 14A.17 of the Listing Rules.

Reason for the Financial Assistance

The Financial Assistance is to satisfy the funding requirements of AAC in the Rolled Products Project.

The Directors consider the terms of the Loan Agreement and the Financial Assistance are sufficiently restrictive in that (1) the Financial Assistance will be repayable on demand and will bear interest; (2) the other shareholders in CSD will undertake not to sell and transfer or otherwise dispose of their shares in CSD for a certain period; (3) CSD will not distribute dividends to its shareholders or make payments of principal or interest on shareholders' loans made by shareholders of CSD (other than the Company) until and unless the Financial Assistance has been repaid in full; and (4) each of the other shareholders in CSD will pledge its/his shares in CSD in favour of the Company. By committing to these restrictions and share pledges, the other CSD shareholders will suspend the exercise of some of their essential rights as shareholders and creditors of CSD in favour of the Company. The Directors (including the independent non-executive Directors) therefore consider that the terms of the Financial Assistance have been made on normal commercial terms and are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, although the other shareholders of CSD will not provide financial assistance to CSD on a pro-rata basis.

Financial effects

The net profit attributable to the Shareholders based on the audited consolidated profit and loss account of the Company for the year ended 30 June 2004 was approximately HK$222,523,000. With the Notes Issue and the Financial Assistance, the pro forma net profit attributable to Shareholders as at 30 June 2004 would be approximately HK$140,973,000. The earnings per Share would decrease from approximately HK$0.07 to approximately HK$0.04, representing a decrease of approximately 43%.

The net asset value of the Company as at 30 June 2004 based on the audited consolidated balance sheet of the Company for the year ended 30 June 2004 was approximately HK$2,829,461,000. With the Notes Issue and the Financial Assistance, the pro forma net asset value of the Company as at 30 June 2004 would remain unchanged.

The current assets and current liabilities of the Company as at 30 June 2004 based on the audited consolidated balance sheet of the Company for the year ended 30 June 2004 were approximately HK$4,189,547,000 and approximately HK$1,587,232,000 respectively. The majority of the net proceeds of the Notes would be treated as a non-current asset and the Notes would be treated as a long-term liability of the Company. Thus, following the Notes Issue and the Financial Assistance, the pro forma current assets and current liabilities of the Company as at 30 June 2004 would be approximately HK$4,519,743,000 and approximately HK$1,681,085,000 respectively. The current ratio of the Company will slightly improve from approximately 2.64 times to approximately 2.69 times, representing an increase of approximately 2%.

GENERAL

The Company is principally engaged in the design, manufacture and sale of customised aluminum extrusion products and the processing of aluminum panels. In addition, to complement its principal extrusion business, it also produces a small volume of stainless steel products and provides design and testing services for aluminum products.

The Independent Board Committee comprising the independent non-executive Directors has been appointed to consider the Financial Assistance. Commerzbank AG has been appointed the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Financial Assistance.

SPECIAL GENERAL MEETING

The notice convening the Special General Meeting to be held at the principal place of business of the Company in Hong Kong at 12th Floor, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong on Monday, 24 January 2005 at 11:00 a.m at which an ordinary resolution will be proposed to approve the Financial Assistance is set out on page N – 1 of this circular.

A form of proxy for use at the Special General Meeting is enclosed. Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the office of the Company's Hong Kong branch share registrars, Hong Kong Registrars Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting and any adjourned meeting (as the case may be) should you so wish.

Pursuant to bye-law 73 of the bye-laws of the Company, a poll may be demanded by the Chairman or by:

(a) at least three Shareholders present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and entitled to vote at the meeting; or

(b) any Shareholder or Shareholders present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(c) a Shareholder or Shareholders present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

As the Financial Assistance constitutes, when aggregated with the discloseable transaction referred to in the Company's circular dated 1 August 2003, a very substantial acquisition and connected transaction under the Listing Rules, the vote of the Independent Shareholders taken at the Special General Meeting will be taken by poll pursuant to the Listing Rules and Mr. Kwong and his associates shall abstain from voting.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 15 of this circular which contains its recommendation to the Independent Shareholders on the Financial Assistance. Your attention is also drawn to the letter of advice received from the Independent Financial Adviser which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Financial Assistance and the principal factors and reasons considered by it in concluding its advice. The letter from the Independent Financial Adviser is set out on pages 16 to 28 of this circular.

Your attention is also drawn to the additional information set out in the appendices of this circular.

Yours faithfully,
By Order of the Board
Asia Aluminum Holdings Limited
Chan Yiu Tsuan, Benby
Deputy Chairman and Chief Executive Officer

ASIA ALUMINUM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 930)

Executive Directors:
Kwong Wui Chun *(Chairman)*
Chan Yiu Tsuan, Benby *(Deputy Chairman)*
Zhong Jianqiu

Independent non-executive Directors:
Ma Tsz Chun
Yau Wing Keung, Frankie
Chou Shun, Alan

Principal place of business in Hong Kong:
12th Floor, Railway Plaza
39 Chatham Road South
Tsimshatsui
Kowloon
Hong Kong

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

7 January 2005

To the Independent Shareholders

Dear Sir or Madam,

FINANCIAL ASSISTANCE, VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

We refer to the circular of the Company to the Shareholders dated 7 January 2005 (the "Circular"), in which this letter forms a part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings given to them in the section headed "Definitions" of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Financial Assistance are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser as set out on pages 16 to 28 of the Circular and the letter from the Board set out on pages 4 to 14 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of the Independent Financial Advisers as stated in its letter of advice, we consider that the terms of the Financial Assistance are fair and reasonable so far as the Independent Shareholders are concerned and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Financial Assistance to be proposed at the Special General Meeting.

Yours faithfully,
For and on behalf of
The Independent Board Committee of
Asia Aluminum Holdings Limited

Ma Tsz Chun
Independent non-executive Director

Yau Wing Keung, Frankie
Independent non-executive Director

Chou Shun, Alan
Independent non-executive Director

德 國 商 業 銀 行
COMMERZBANK
(Public Limited Company Incorporated in the Federal Republic of Germany)
HONG KONG BRANCH
G.P.O. BOX 11378
HONG KONG
21/F, The Hong Kong Club Building
3A Chater Road, Central
telephone 28429666
telex 66 400 cbk hk hx
fax 28681414
swift COBAHK HX XXX

7 January 2005

To the Independent Board Committee and Independent Shareholders

Dear Sirs,

FINANCIAL ASSISTANCE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Financial Assistance, details of which are set out in the circular dated 7 January 2005 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

On 16 December 2004, the Board announced that the Company, together with the Subsidiary Guarantors, entered into the Purchase Agreement with Morgan Stanley and HSBC in connection with the Notes Issue. On 23 December 2004, the Company and the Subsidiary Guarantors entered into the Indenture, pursuant to which the Company issued the Notes which were sold to Morgan Stanley and HSBC under the Purchase Agreement. As set out in the letter from the Board, (the "**Letter from the Board**"), the Company intends to apply approximately US$300 million of the proceeds from the Notes Issue as a shareholder's loan to CSD which will be on-lent to AAC for the Rolled Products Project.

As Mr. Kwong is a Director and is interested in approximately 36.05% of the existing issued share capital of the Company as at the Latest Practicable Date, the provision of Financial Assistance by the Company to CSD will constitute a connected transaction for the Company under Rule 14A.63 of the Listing Rules and, therefore, will be subject to the reporting, announcement and Independent Shareholders' approval by poll requirements under Rule 14A.17 of the Listing Rules.

Our role as the independent financial adviser to the Independent Board Committee is to give our opinion as to whether the Financial Assistance is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company. We have assumed that all information, opinion and representations contained or referred to in the Circular are true, complete and accurate in all material respects and we have relied on the same. We have also relied on the representations of the Company and that having made all reasonable enquiries and careful decisions, and to the best of its knowledge and belief, there is no other material fact or representation, the omission of which would make any statement contained in the Circular, including this letter, misleading. We have also assumed that all information and statements and representations made or referred to in the Circular, which have been provided to us by the Company, and for which they are wholly responsible, are true, complete and accurate in all material respects at the time they were made and continue to be so at the date of despatch of the Circular.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Financial Assistance to provide us with a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Company, nor have we conducted any independent in-depth investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Financial Assistance and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

1. Background

1.1 Business of the Group

The Group is the largest manufacturer of aluminum extrusion products in the PRC and one of the largest aluminum extruders in Asia as measured by capacity, with an annual extrusion capacity of approximately 150,000 metric tons and output of approximately 123,041 metric tons for the fiscal year ended 30 June, 2004. It designs, manufactures and sells customised aluminum extrusion products and processes aluminum panels. To complement its principal extrusion business, it also produces a small volume of stainless steel products and provides design and testing services for aluminum products.

In October 2003, the Group commenced construction of a large-scale expansion project in Zhaoqing, Guangdong Province, designed to produce high-quality aluminum rolled products and to increase the Group's aluminum extrusion capacity.

The Rolled Products Project is the construction of a new purpose plant for the production of aluminum rolled products with a designed annual production capacity of 400,000 metric tons and is part of the Group's expansion project in the Asia Aluminum Industrial City.

The Group currently operates five factories, primarily producing aluminum extrusion products in Nanhai, Guangdong Province. The total annual production capacity of these facilities amounted to approximately 150,000 metric tons. As part of the Group's expansion plan, the Group intends to consolidate its aluminum extrusion operations at the Zhaoqing facility and with the addition of new extrusion facilities, the Group's estimated annual production capacities for extrusion products will reach over 300,000 metric tons.

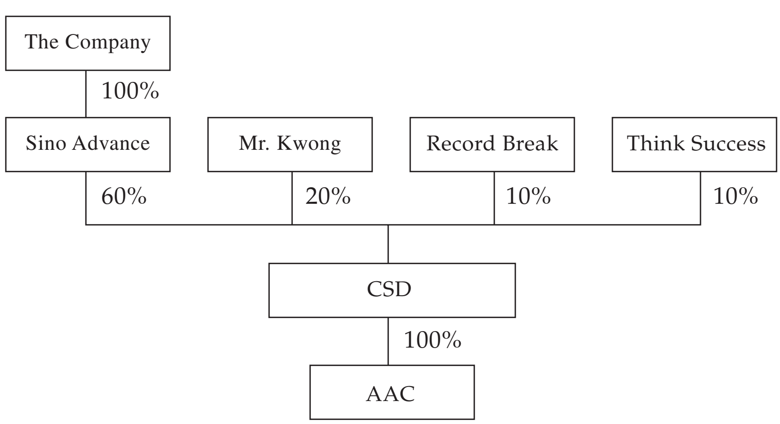
1.2 Background of CSD and AAC

On 11 July 2003, the Company announced that Sino Advance (a wholly-owned subsidiary of the Company), Mr. Kwong, Record Break and Think Success (the "**CSD Shareholders**") entered into the Joint Venture Agreement pursuant to which the parties agreed to form CSD for the purpose of establishing AAC. On 4 September 2003, AAC was established as a wholly foreign owned enterprise in the PRC held by

CSD for the production of aluminum rolled products, plates and panels. Pursuant to the circular dated 1 August 2003 in connection with the proposed establishment of a new manufacturing facility in which the Rolled Products Project forms part (the "**2003 Circular**"), we note that the CSD Shareholders have to contribute approximately HK$1.35 billion shareholders' loans (the "**CSD Shareholders Loan**") to CSD in proportion to their respective shareholdings in CSD. The estimated cost of investment for AAC in the Rolled Products Project was approximately HK$3.15 billion, of which the CSD Shareholders Loan was contributed in the form of registered capital to AAC. The remaining amount was to be funded for AAC by loans from banks and financial institutions in the PRC. As at the Latest Practicable Date, CSD Shareholders have, in aggregate, contributed approximately HK$908 million (the "**Contributed CSD Shareholders Loan**"), with the balance of an approximately HK$442 million CSD Shareholders Loan to be contributed.We note that except Sino Advance, all other CSD Shareholders have substantially contributed their pro-rata portion of CSD Shareholders Loan in the Rolled Products Project.

CSD Shareholders	**Shareholding in CSD**	**Maximum amount of CSD Shareholders Loans to be provided under the Joint Venture Agreement**	**Contributed CSD Shareholders Loans as at the Latest Practicable Date**	**% of Contributed CSD Shareholders Loans**	**Balance of CSD Shareholders Loan to be contributed**
		HK$	*HK$*	*%*	*HK$*
Sino Advance	60%	810,000,000	444,881,000	54.92	365,119,000
Mr. Kwong	20%	270,000,000	230,794,000	85.48	39,206,000
Record Break	10%	135,000,000	117,128,000	86.76	17,872,000
Think Success	10%	135,000,000	115,397,000	85.48	19,603,000
		1,350,000,000	908,200,000		441,800,000

As at the Latest Practicable Date, the shareholding structure of CSD and AAC was as follows:



1.3 Reasons for the Notes Issue

The Company has issued the Notes in order to repay an existing syndicated loan of the Company in the amount of approximately US$76 million (equivalent to approximately HK$592.8 million) and to satisfy the funding requirements in the amount of approximately US$300 million (equivalent to approximately HK$2,340 million) for the Group's expansion in aluminum rolled products by undertaking the Rolled Products Project. Remaining funds will be used for general corporate purposes. The Directors believe that the demand for aluminum rolled products in the PRC will continue to grow given PRC's continued economic development, ongoing infrastructure investment and demand for industrial and consumer applications and that the Group is well positioned to benefit from such growth. With only a small number of mills in Asia-Pacific capable of producing high-grade aluminum rolled products, the Directors are of the view that the participation in the Rolled Products Project will enable the Group to have the first-mover advantage vis-a-vis domestic suppliers, in the high-quality aluminum rolled products to satisfy domestic demand of the PRC market and benefit from significant cost advantage and will further allow the Group to, eventually export high-quality aluminum rolled products to other markets within the region.

As set out in the Letter from the Board, the Company has issued the Notes in order to take advantage of the favourable pricing conditions in the international debt market and for long-term fixed rate bonds in an increasing interest rate environment and against the tightening of PRC domestic financing resulting from austerity measures implemented in the PRC. The Notes Issue is intended to improve and enhance the matching of the Group's expansion plan with its cashflow requirements and debt maturity profile. Moreover, the corporate governance and transparency of the Company will be improved as a result of the Notes Issue, and compliance with the stringent requirements in the offer of the Notes to qualified institutional buyers and institutional accredited investors in the United States.

In assessing the reasons for the issue of the Notes, in particular, the US$300 million (equivalent to approximately HK$2,340 million) for the Rolled Products Project, we have reviewed the overall aluminum industry and have discussed with the Directors as to the expansion plan of the Company.

(a) The global aluminum industry

According to research conducted by Brook & Hunt & Associates Ltd. ("**B&H**") in 2004, we note that the PRC, Russia, Canada, the United States and Australia are the major aluminum producing countries in the world, and together accounted for approximately 58.3% of the world's primary aluminum production in 2003. With a compound annual growth rate of approximately 20.5%, the PRC has registered the fastest growth in primary aluminum production in the world for the past five years. From 1999 to 2003, PRC's consumption of aluminum grew at a compound annual growth rate of approximately 14.3%, as compared with the world's average compound annual growth rate (excluding the PRC) of approximately 2.4% for the same period.

As noted in the B&H research conducted in 2004, the global aluminum products industry is characterised by economies of scale, significant capital investments required to achieve and maintain technological requirements and demanding customer qualification standards. Therefore, large producers have a competitive advantage relative to small producers given their economies of scale and the significant capital investments in equipment and technology needed to meet customer requirements.

The rapid economic growth in the PRC in recent years has been accompanied by significant growth in overall aluminum consumption. According to B&H research conducted in 2004, from 1999 to 2003, the PRC accounted for over 50% of the increase in the world's consumption of aluminum. This growth in consumption is driven by the urbanisation of the population in the PRC, in particular in the growth of the building and construction, transportation and power sectors in the PRC.

(b) The PRC aluminum rolled products industry

As set out in the Letter from the Board, the proceeds used in the Rolled Products Project is specifically used for the purchase, upgrade and installation of aluminum rolled products equipment.

According to research conducted by CRU International Limited in 2004, PRC's consumption of aluminum rolled products has grown at a compound annual growth rate of 14.7% from 1999 to 2003. PRC's rolled products consumption has been driven primarily by growth in the building and construction, infrastructure, manufacturing, power sector and printing sector. We have discussed with the Directors and note that major end-user markets for aluminum rolled products include construction and industrial, beverage and food cans, foil products, transportation and consumer durables. The PRC is a net importer of aluminum rolled products, in particular, substantially all of the aluminum rolled products that it needs for high-end applications. As explained by the Directors, the most profitable end-user markets for aluminum rolled products include beverage and food cans, lithographic sheet for printing and precision construction and industrial sheets. In developed markets, the service and efficiency demands of large customers have encouraged consolidation among suppliers of aluminum rolled products.

(c) The Opportunity

As set out in the Letter from the Board, the Directors estimated that upon completion of the Rolled Products Project in 2006, the annual capacity to produce aluminum rolled products will be gradually taken up to approximately 400,000 metric tons. The goal of the Company is to rank among the leading aluminum rolled products manufacturers in the world. Given (i)substantially all of the high-quality/high-end rolled products (such as food cans) demand in the PRC is satisfied by imports due to the lack of high-quality rolled products plant in the PRC; (ii) the strong consumption of aluminum rolled products in the PRC driven primarily by growth in the building and construction, infrastructure, manufacturing, power sectors and printing sectors; and (iii) the successful bid to host the 2008 Beijing Olympic Games and the 2010 Shanghai World Exposition, the Directors believe that the Rolled Products Project provides an opportunity for the Company to extend its product range and become a leading producer of high quality aluminum rolled products in the PRC and Asia, and together with the extrusion expansion, when completed, to become one of the top leading producer of extrusion and aluminum rolled products in the world.

Having considered the above as a whole and given that (i) the Rolled Products Project is in line with the business strategy of the Company; (ii) the Company is able to leverage on increasing economies of scale to maintain its leading position in the PRC for aluminum extrusion products and further develop into high-quality aluminum rolled products to meet increased demand; and (iii) the Notes Issue provides certainty for the Company to

match the Group's expansion plan with its cashflow requirements and debt maturity profile, we concur with the Directors that the development of the Rolled Products Project is in the interests of the Company and its Shareholders as a whole.

2. The Financial Assistance

2.1 Background of the Financial Assistance

As set out in the Letter from the Board, the Financial Assistance is to satisfy the funding requirements of AAC in the Rolled Products Project. The Company intends to apply approximately US$300 million (equivalent to approximately HK$2,340 million) of the proceeds from the Notes Issue as an interest-bearing shareholder's loan to CSD which will be on-lent to AAC to fund the Rolled Products Project by entering into the Loan Agreement with CSD.

The Rolled Products Project is currently at an early implementation phase work stage and is expected to be completed by the end of 2006. The cost for the establishment of the Rolled Products Project is currently estimated at approximately US$471 million (equivalent to approximately HK$3,673.8 million), which is approximately US$67 million (equivalent to approximately HK$522.6 million) more than the estimate made by the Company in August 2003. We have discussed with the Directors and noted that the Contributed CSD Shareholders Loan has been expended in the Rolled Products Project as at the Latest Practicable Date.

2.2 Terms of the Financial Assistance

We note that the CSD Shareholders will not contribute the shareholder loans on a pro-rata basis. We have reviewed the Loan Agreement and note that the Financial Assistance will be provided on the following terms and conditions as set out therein:

(a) the Financial Assistance will be repayable on demand and will bear interest at a rate which is equivalent to the cost of funds to the Company under the Notes, plus 1%;

(b) CSD may be required to repay from time to time principal amounts of the Financial Assistance in amounts equal to the aggregate principal amount of any Notes which the Company is required to repurchase, redeem or repay under the terms of the Notes;

(c) the other shareholders in CSD will undertake not to sell and transfer or otherwise dispose of their shares in CSD for a certain period (two years for Mr. Kwong and one year for each of Think Success and Record Break) after the completion of the Rolled Products Project;

(d) CSD will not distribute dividends to its shareholders until and unless the Financial Assistance has been repaid in full; and

(e) each of the CSD Shareholders (except Sino Advance) will pledge its/his shares in CSD in favour of the Company.

In addition, we note that CSD may drawdown the Financial Assistance in the following stages:

- not more than US$100 million (equivalent to approximately HK$780 million) may be withdrawn prior to 30 June 2005;

- no more than an additional US$100 million (equivalent to approximately HK$780 million) may be withdrawn prior to 31 December 2005; and

- the balance may be withdrawn after 30 June 2006.

However, notwithstanding the above and subject to the Company maintaining a minimum balance of US$50 million (equivalent to approximately HK$390 million) as set out in the Letter from the Board, the Company may withdraw an amount of additional funds from the escrow account at any time provided that no payment default in respect of the Notes exists and is continuing, if such funds are required for the Rolled Products Project within the next month.

2.3 Reasons for the Financial Assistance

As set out in the 2003 Circular, we note that the estimated investment cost for the Rolled Products Project was approximately HK$3.15 billion. We note that the Contributed CSD Shareholders Loan has already been injected into the Rolled Products Project for the purchase of machinery and equipment. The remaining amount was to be funded by loans from banks and financial institutions in the PRC.

We have discussed with the Directors and noted that the original funding intention of the Rolled Products Project was to be conducted by AAC by way of project financing by PRC financial institutions. The Directors have been in discussion with banks and financial institutions in the PRC since the launching of the Rolled Products Project in the second half of 2003. In view of the austerity measures announced by the PRC Government, the China Banking Regulatory Commission announced a probe into bank loans in fast-growing sectors like steel, cement and aluminum in early 2004. As a result, the bank loan syndication process has been slowed down.

In view of (i) the increasing interest rate trend for RMB-denominated loans; (ii) the uncertainty inherent in the existing syndicated loan, under which the terms of commitments from various banks and interest rates were subject to negotiation; (iii) the longer timeframe required to access the syndicated loan; and (iv) the immediate financing needs for the Rolled Products Project, the Directors considered other available alternative financing options.

We have discussed the availability of raising funds through the international debt capital markets with the Directors as an alternative fund-raising option to be used in connection with the Rolled Products Project. Given the various considerations described herein, the Directors decided to raise the required funding in the international debt capital markets.

Given the amount of the funding required for the Rolled Products Project, the issuance of convertible bonds or conducting a Share placement would have had a material dilution effect on the Shareholders, which in the Director's opinion, would not have been beneficial to the Shareholders. Considering the timing requirements for the funds and the favourable pricing conditions in the international debt capital markets, the Directors concluded that the Notes would likely to provide: (i) the requisite cashflow requirement to the Rolled Products Project within a relatively short period of time; (ii) certainties regarding maturity and repayment method; (iii) a seven-year bullet repayment term, which term is unavailable for syndicated loans originated in the PRC; (iv) the availability of different financial products offered in the international capital markets, including currency swaps and interest rate hedging that might result in lower funding risks for the Company; and (v) enhancement of the Company's profile as a result of the subscription of the Notes by institutional investors in the United States, Europe and Asia.

We have conducted research and have selected the following bonds (the "**Comparable Credits**") issued during the past two years for comparison of the interest rate of the Notes on the basis that these bonds: (i) bear similar ratings as the Notes; (ii) have a similar tenor as the Notes; and (iii) are companies with substantial operations in the PRC.

Borrower	Date of bond issue	Tenor	Standard and Poor's rating	Moody's rating	Interest rate of the bond
Sino Forest Corporation	17 Aug 2004	7 years	BB-	Ba2	9.125%
Panva Gas Holdings	23 Sept 2004	7 years	BB+	Ba1	8.250%
The Company	**16 Dec 2004**	**7 years**	**BB**	**Ba3**	**8.000%**

Source: Bloomberg

Based on the above comparison, we note that the Notes bear interest at a lower rate than the Comparable Credits.

After discussion with the Directors and taking into consideration: (i) the stability of interest payments on the Notes; (ii) the Directors' consideration of alternative financing options; (iii) the projected funding requirements of the Group; (iv) the seven-year bullet repayment feature of the Notes provides the Company with greater certainty and better matching of cashflows with interest and principal payments, which feature is unavailable for syndicated loans originated in the PRC; and (v) the relatively shorter period of time required to complete the Notes Issue, we are of the view that the Notes Issue and the Financial Assistance are in the interests of the Company and its Shareholders as a whole.

2.4 Basis for the Financial Assistance

In view of the austerity measures implemented in the PRC and the lack of operational history for CSD, we are of the view that it would be difficult for CSD to issue securities through the international equity or debt capital markets, or to arrange project financing on its own. As such, we are of the view that the Company is a more appropriate borrowing entity for the funds required to develop the Rolled Products Project.

In assessing whether the Financial Assistance is fair and reasonable and is in the interests of the Independent Shareholders, we have considered the terms of the Loan Agreement. As set out in the Letter from the Board, as the other shareholders in CSD will not provide a shareholder loan on a pro-rata basis, the Loan Agreement contains certain restrictive terms to be imposed on other non-contributing CSD Shareholders to protect the Company's interest in connection with the Financial Assistance. Upon revision of the Indenture and the Loan Agreement, we note that:

(a) the restrictive clauses, including the share pledge, non-payment of dividends and repayment of the CSD Shareholders Loan, are given but for the Financial Assistance;

(b) the Company's interest payments under the Notes will be fully covered by CSD as CSD will pay interest to the Company at 1% over its cost of funds under the Notes (i.e. 9.00% per annum);

(c) the Company is in effect taking 100% equity interest in CSD and hence the Rolled Products Project as a result of the share pledge by other CSD Shareholders (except Sino Advance) in CSD in favour of the Company, which will, in effect, give the Company all rights and benefits in CSD in the event of non-payment by CSD. We note that CSD is directly holding AAC, which in turn holds the Rolled Products Project;

(d) CSD is not allowed to distribute any dividend to the CSD Shareholders until and unless the Financial Assistance has been fully repaid, which, when combined with the Company's right to call for any repayment on demand, has, in effect, taken 100% economic interest over the interests of CSD Shareholders during the tenure of the Financial Assistance;

(e) by agreeing to the restriction as to the transfer or otherwise disposal of their interest in CSD for a maximum two year period after the completion of the Rolled Products Project, the CSD Shareholders (except Sino Advance) are, in effect, bearing the same credit risks and standing in the same position with the Company, with no preferential treatment as a result of the Financial Assistance;

(f) save and except as to the satisfaction of certain conditions as to the release of funds as and when required by CSD, the Financial Assistance is limited to specified amounts and will be drawndown in stages over a one and a half year period ending 30 June 2006, which will ensure the control of the release of funds by the Company;

(g) notwithstanding CSD was a newly established entity in July 2003, the Company, in effect, controls CSD by virtue of it's 60% equity interest in the CSD. We note that the Company is primarily a holding company which, in effect, operates through its operating subsidiaries. We understand that the Company has the right to appoint four directors among the seven board seats in CSD. In addition, CSD and its subsidiaries will be consolidated into the accounts of the Group in the next financial year end; and

(h) save and except for the CSD Shareholders Loan and the Financial Assistance, CSD has no indebtedness. In order to secure the priority of the Financial Assistance, we note that no repayment will be made in respect of the CSD Shareholders Loan prior to the full repayment of the Financial Assistance.

Based upon the above and given that: (i) the proceeds for the Financial Assistance is part of the new proceeds arising from the Notes Issue, which are used for the Group's expansion project in high-quality aluminum rolled products; (ii) the Independent Shareholders' approved Mr. Kwong's share subscription in CSD pursuant to the 2003 Circular, in which the Rolled Products Project forms part; and (iii) the restrictive terms contained in the Loan Agreement, notwithstanding the non-pro rata contribution of shareholders' loan by the CSD Shareholders in connection with the Rolled Products Project, we consider that sufficient measures have been in place to justify the Financial Assistance, and as a result, we are of the view that the terms of the Financial Assistance is fair and reasonable and is in the interests of the Independent Shareholders.

3. Financial Impact of the Notes Issue and the Financial Assistance

We have assessed the financial impact of the Notes Issue and the Financial Assistance based on the audited consolidated financial statements of the Company for the year ended 30 June 2004 and taking into account that the full drawdown of the Financial Assistance will be by June 2006.

3.1 Earnings

Based on the audited consolidated profit and loss statement of the Company for the year ended 30 June 2004, net profit attributable to Shareholders was approximately HK$222,523,000. Following the Notes Issue and the Financial Assistance, the net profit attributable to Shareholders would be approximately HK$140,973,000. Based on 3,175,232,401 Shares in issue as at the Latest Practicable Date, the earnings per Share will change from approximately HK$0.07 to approximately HK$0.04, representing a decrease of approximately 43%.

3.2 Net asset value

The net asset value of the Company based on the audited consolidated balance sheet as at 30 June 2004 was approximately HK$2,829,461,000. Following the Notes Issue and the Financial Assistance, the net asset value will remain unchanged. Based on 3,175,232,401 Shares in issue as at the Latest Practicable Date, the net asset value per Share of HK$0.89 will remain unchanged.

3.3 Working capital

Based on the audited consolidated balance sheet as at 30 June 2004, the current assets and current liabilities of the Company as at 30 June 2004 were approximately HK$4,189,547,000 and approximately HK$1,587,232,000 respectively. Following the Notes Issue and the Financial Assistance, the current assets and current liabilities of the Company would be approximately HK$4,519,743,000 and approximately HK$1,681,085,000 respectively. The current ratio of the Company following the Notes Issue and the Financial Assistance will improve from approximately 2.64 times to approximately 2.69 times, representing an increase of approximately 2%.

3.4 Gearing

Based on the audited consolidated balance sheet of the Company as at 30 June 2004, the cash, bank balances and deposits, total debt, and shareholders equity of the Company as at 30 June 2004 were approximately HK$2,952,818,000 approximately HK$1,479,532,000 and approximately HK$2,829,461,000 respectively. As at 30 June 2004, the Company was in a net cash position of approximately HK$1,473,286,000 with the net cash/equity ratio of approximately 52% and the total debt/equity ratio was approximately 52%.

Following the Notes Issue and the Financial Assistance, the cash, bank balances and deposits, total debt and shareholders equity of the Company would be approximately HK$5,920,336,000, approximately HK$4,405,807,000 and approximately HK$2,829,461,000 respectively. Following the Notes Issue and the Financial Assistance, the Company would still be in a net cash position of approximately HK$1,514,529,000 with the net cash/equity ratio of approximately 54% and the total debt/equity ratio would be approximately 156%.

We have selected and reviewed the gearing ratios of following listed companies (the "**Comparable Companies**") for our comparison analysis on the basis that (i) their principal business is the manufacture and sale of aluminum products; and (ii) their principal operations are in the PRC. Since the scope of business and the operating environment of the Comparable Companies are similar to the Company, we are of the view that their financial positions are comparable to the Company. The gearing ratios of the Comparable Companies as at the Latest Practicable Date are set out in the following table.

Comparable Companies	Bloomberg Code	Country	Net debt/ equity	Total debt/ equity
Ocean Grand Holdings	1220 HK	Hong Kong	18.2%	60.8%
Shandong Aluminum	600205 CH	PRC	18.5%	32.8%
Aluminum Corporation of China	2600 HK	Hong Kong	40.5%	55.8%
Yunnan Aluminum	000807 CH	PRC	66.1%	91.3%
Lanzhou Aluminum	600296 CH	PRC	70.2%	77.1%
Jiaozuo Wanfang Aluminum	000612 CH	PRC	112.7%	145.6%
Shanxi Guanlu	000831 CH	PRC	158.0%	198.9%
Henan Zhongfu Industry	600595 CH	PRC	159.7%	174.9%
Ningbo Fubang Jingye	600768 CH	PRC	162.5%	179.1%
Sanmenxia Tianyuan Aluminum	8253 HK	Hong Kong	267.5%	281.5%
Xinjiang Joinworld	600888 CH	PRC	287.6%	303.3%
Average			**123.8%**	**145.6%**
The Company (before the Notes Issue and the Financial Assistance)			**(52%)***	**52%**
The Company (after the Notes Issue and the Financial Assistance)			**(54%)***	**156%**

* *net cash/equity*

Source: Bloomberg

Based on the above, the net debt/equity ratios of the Comparable Companies range from approximately 18.2% to approximately 287.6% with an average of approximately 123.8%, the total debt/equity ratios of the Comparable Companies range from approximately 32.8% to approximately 303.3% with an average of approximately 145.6%. Following the Notes Issue and the Financial Assistance, the Company would still maintain a net cash position of approximately HK$1,514,529,000 with the net cash/equity ratio of approximately 54%, which is better than all Comparable Companies. The total debt/equity ratio of the Company, following the Notes Issue and the Financial Assistance, is within the range of (and is higher than the average of) the Comparable Companies.

Although we note that the total debt/equity ratio of the Company following the Notes Issue and the Financial Assistance is higher than the average of the Comparable Companies, we are of the view that it is reasonable and justified for the following reasons:

(a) To finance the expansion plan

The Company is embarking on an expansion plan in the scale of doubling the production capacity of aluminum extrusion products and will add production capacity of approximately 400,000 metric tons of aluminum rolled products upon the completion of the Rolled Products Project;

(b) Cost of debt is cheaper than cost of equity

The requisite funding to finance the Rolled Products Project is either by way of debt or equity. According to the capital asset pricing model, the cost of equity of a company is calculated as follows:

cost of equity = risk free rate + beta x equity risk premium

As at the Latest Practicable Date as extracted from Bloomberg, given that (i) the risk free rate of 10-year Hong Kong Government bond is approximately 3.74% (ii) the beta of Company is approximately 1.11; and (iii) the equity risk premium for the Hong Kong stock market is approximately 8.01%, the cost of equity, according to the capital asset pricing model, of the Company is approximately 12.6%. Given that the cost of debt in the Notes Issue is 8%, which is approximately 36.5% cheaper than the cost of equity of approximately 12.6%, it is reasonable for the Company to choose the debt financing capital structure, instead of equity financing, to maximise the return on equity for the Shareholders;

(c) Better matching of cashflows by the interest rate swap

As part of the Notes Issue, the Company has entered into an interest rate swap transaction (the "**Interest Rate Swap Transaction**") in which the effective interest payable in the first two and a half years is 5% per annum and up to a maximum of 10.28% per annum in the following four and a half years. This arrangement will allow the Company to have a lower interest payment during the construction phase of the Rolled Products Project until the end of 2006 and to service the increased interest expense in the later years of the Notes with income generated by the aluminum extrusion and aluminum rolled products manufacturing operations.

Having considered the above as a whole, notwithstanding the earnings per Share will decrease and the total debt/equity ratio will increase following the Notes Issue and the Financial Assistance, given that (i) the financing of

the expansion in the Rolled Products Project is in line with the business strategy of the Company; (ii) the debt financing structure provides the Company with an optimal capital structure in maximising the return on equity for the Shareholders; (iii) the Notes Issue with the Interest Rate Swap Transaction has already minimized the interest payments in the early years during the construction period of the Rolled Products Project; (iv) the Company is still in a net cash position with the current ratio improves significantly following the Notes Issue and the Financial Assistance; and (v) the total debt/equity ratio is within the range of the Comparable Companies, we are of the view that the overall impact of the Notes Issue and the Financial Assistance to the Company is reasonable and justified.

SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following key factors:

(a) the Board's view on the prospect of the Rolled Products Project, which will enlarge the product range of the Company and will enable the Company to become one of the largest domestic manufacturers in the high-growth market for aluminum rolled products in the Asia-Pacific region;

(b) the overall economic impact in the PRC as a result of the austerity measures against the funding needs of the Rolled Products Project;

(c) the Board's representation that the terms of the Financial Assistance are fair and reasonable to the Independent Shareholders;

(d) the terms of the Loan Agreement, which, in effect, have granted 100% of the economic benefits of CSD to the Company; and

(e) redemption of the Notes at 103% of their principal amount in the event that the Independent Shareholders' approval cannot be obtained prior to 31 March 2005.

OVERALL RECOMMENDATION

Having considered the principal factors referred to above, we are of the view that the terms of the Financial Assistance are fair and reasonable and in the interests of the Independent Shareholders. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the Special General Meeting to approve the Financial Assistance.

Yours faithfully,
For and on behalf of
Commerzbank AG Hong Kong Branch

Johnson Fu	**Helen Ho**
Regional Head of Corporate Finance	*Head of Corporate Finance – M&A Advisory*

1. SUMMARY OF FINANCIAL STATEMENTS OF THE GROUP

The following is a summary of the audited financial results of the Group for each of the three years ended 30 June 2002, 2003 and 2004 as extracted from the audited accounts of the Group for the relevant years and the unaudited financial results of the Group for the three months ended 30 September 2004.

In respect of the references to page numbers are the page numbers of the annual report of the Company for the year ended 30 June 2004.

Financial Summary

Consolidated Profit and Loss Account

	Unaudited Three months ended 30 September 2004 HK$'000	Audited Year ended 30 June 2004 HK$'000	2003 HK$'000	2002 HK$'000
Turnover	863,221	2,938,482	2,358,026	1,965,696
Cost of sales and services provided	(634,574)	(2,240,164)	(1,821,766)	(1,515,446)
Gross profit	228,647	698,318	536,260	450,250
Other revenue and gains	17,989	64,075	58,580	31,338
Gain on disposal of discontinued operations	–	–	–	8,740
Gain on partial disposal of interests in subsidiaries	–	–	52,400	19,961
Selling and distribution costs	(25,326)	(76,755)	(55,819)	(38,333)
Administrative expenses	(28,566)	(132,721)	(130,360)	(113,852)
Expenditure on acquisition of certain business database	–	–	–	(73,558)
Provision for bad and doubtful debts	(1,883)	(24,040)	(14,350)	(31,110)
Profit from operating activities	190,861	528,877	446,711	253,436
Finance costs	(14,250)	(59,144)	(40,734)	(42,372)
Share of losses of jointly-controlled entities	(2,730)	(6,768)	–	–
Profit before tax	173,881	462,965	405,977	211,064
Tax	(48,041)	(143,224)	(86,309)	(72,755)
Profit before minority interests	125,840	319,741	319,668	138,309
Minority interests	(36,291)	(97,218)	(79,149)	(6,900)
Net profit attributable to shareholders	89,549	222,523	240,519	131,409
Dividends	–	96,246	111,737	59,766
Earnings per share				
– Basic	2.82 cents	7.78 cents	9.83 cents	5.78 cents
– Diluted	2.80 cents	7.52 cents	9.47 cents	5.31 cents

Consolidated Balance Sheet

	Unaudited At 30 September 2004 HK$'000	Audited At 30 June 2004 HK$'000	2003 HK$'000	2002 HK$'000
Non-current assets				
Fixed assets	997,078	950,457	904,534	831,207
Interests in jointly-controlled entities	428,401	410,136	–	–
Deposits paid	66,688	68,047	116,338	–
Deferred tax assets	1,666	1,666	–	–
	1,493,833	1,430,306	1,020,872	831,207
Current assets				
Trade receivables	561,641	545,509	451,565	504,846
Inventories	331,138	343,054	289,326	262,880
Prepayments, deposits and other receivables	223,814	251,433	300,699	517,569
Due from related companies	24,814	28,823	21,832	11,751
Due from minority equity/shareholders	67,910	67,910	67,910	178,381
Deposits with a non-bank financial institution	187,837	203,588	229,637	224,055
Cash and bank balances	2,685,830	2,595,900	1,641,387	1,026,480
Pledged bank deposits	31,073	153,330	115,664	78,000
	4,114,057	4,189,547	3,118,020	2,803,962
Current liabilities				
Trade payables	259,608	263,555	232,744	200,049
Accrued liabilities and other payables	279,270	258,855	180,392	165,180
Due to minority equity/shareholders	48,940	50,071	79,329	147,855
Trust receipt loans, secured	402,579	417,495	518,781	396,341
Interest-bearing bank and other loans	336,911	477,213	467,395	11,610
Finance lease payables	473	473	11,311	15,075
Tax payable	111,239	109,048	86,085	88,974
Dividends payable	10,522	10,522	8,338	5,070
	1,449,542	1,587,232	1,584,375	1,030,154
Net current assets	2,664,515	2,602,315	1,533,645	1,773,808
Total assets less current liabilities	4,158,348	4,032,621	2,554,517	2,605,015

Consolidated Balance Sheet (Continued)

	Unaudited At 30 September 2004 HK$'000	2004 HK$'000	Audited At 30 June 2003 HK$'000	2002 HK$'000
Non-current liabilities				
Interest-bearing bank and other loans	583,725	583,725	–	312,000
Finance lease payables	508	626	375	9,344
Convertible bonds	–	–	–	40,950
	584,233	584,351	375	362,294
Minority interests	655,105	618,809	553,985	499,756
	2,919,010	2,829,461	2,000,157	1,742,965
Capital and Reserves				
Issued capital	317,523	317,523	256,768	237,173
Share premium account	1,606,563	1,606,563	973,051	876,448
Reserves	937,770	848,221	722,460	593,678
Proposed final dividend	57,154	57,154	47,878	35,666
	2,919,010	2,829,461	2,000,157	1,742,965

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Profit and Loss Account
Year ended 30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
TURNOVER	6	2,938,482	2,358,026
Cost of sales and services provided		(2,240,164)	(1,821,766)
Gross profit		698,318	536,260
Other revenue and gains	6	64,075	58,580
Gain on partial disposal of interests in subsidiaries	6	–	52,400
Selling and distribution costs		(76,755)	(55,819)
Administrative expenses		(132,721)	(130,360)
Provision for bad and doubtful debts		(24,040)	(14,350)
PROFIT FROM OPERATING ACTIVITIES	7	528,877	446,711
Finance costs	9	(59,144)	(40,734)
Share of losses of jointly-controlled entities		(6,768)	–
PROFIT BEFORE TAX		462,965	405,977
Tax	10	(143,224)	(86,309)
PROFIT BEFORE MINORITY INTERESTS		319,741	319,668
Minority interests		(97,218)	(79,149)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	11	222,523	240,519
DIVIDENDS	12	96,246	111,737
		HK cents	HK cents
EARNINGS PER SHARE	13		
– Basic		7.78	9.83
– Diluted		7.52	9.47

Consolidated Balance Sheet
30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Fixed assets	14	950,457	904,534
Interests in jointly-controlled entities	17	410,136	–
Deposits paid	18	68,047	116,338
Deferred tax assets	10	1,666	–
		1,430,306	1,020,872
CURRENT ASSETS			
Trade receivables	19	545,509	451,565
Inventories	20	343,054	289,326
Prepayments, deposits and other receivables		251,433	300,699
Due from related companies	21	28,823	21,832
Due from minority equity/shareholders	22	67,910	67,910
Deposits with a non-bank financial institution		203,588	229,637
Cash and bank balances	23	2,595,900	1,641,387
Pledged bank deposits	23, 28	153,330	115,664
		4,189,547	3,118,020
CURRENT LIABILITIES			
Trade payables	24	263,555	232,744
Accrued liabilities and other payables		258,855	180,392
Due to minority equity/shareholders	25	50,071	79,329
Trust receipt loans, secured		417,495	518,781
Interest-bearing bank and other loans	26, 28	477,213	467,395
Finance lease payables	27	473	11,311
Tax payable		109,048	86,085
Dividends payable		10,522	8,338
		1,587,232	1,584,375
NET CURRENT ASSETS		2,602,315	1,533,645
TOTAL ASSETS LESS CURRENT LIABILITIES		4,032,621	2,554,517
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	26, 28	583,725	–
Finance lease payables	27	626	375
		584,351	375
MINORITY INTERESTS		618,809	553,985
		2,829,461	2,000,157

Consolidated Balance Sheet (Continued)
30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
CAPITAL AND RESERVES			
Issued capital	*29*	317,523	256,768
Share premium account	*31*	1,606,563	973,051
Reserves	*32(a)*	848,221	722,460
Proposed final dividend	*12*	57,154	47,878
		2,829,461	2,000,157

Kwong Wui Chun
Director

Chan Yiu Tsuan, Benby
Director

Consolidated Statement of Changes in Equity
Year ended 30 June 2004

			Reserves								
	Issued capital	Share premium account	Contributed surplus	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Statutory public welfare fund	Retained profits	Sub-total	Proposed dividends	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2002	237,173	876,448	4,151	51,419	87,796	(3,600)	9,476	444,436	593,678	35,666	1,742,965
Final 2002 dividend declared	–	–	–	–	–	–	–	–	–	(35,666)	(35,666)
Exercise of warrants	5,005	33,536	–	–	–	–	–	–	–	–	38,541
Exercise of share options	6,840	29,867	–	–	–	–	–	–	–	–	36,707
Conversion of convertible bonds	7,750	33,200	–	–	–	–	–	–	–	–	40,950
Net profit for the year	–	–	–	–	–	–	–	240,519	240,519	–	240,519
Underaccrual of final dividend for 2002	–	–	–	–	–	–	–	(1,073)	(1,073)	–	(1,073)
Interim and special 2003 dividends	–	–	–	–	–	–	–	(62,786)	(62,786)	–	(62,786)
Proposed final 2003 dividend	–	–	–	–	–	–	–	(47,878)	(47,878)	47,878	–
Transfer to statutory surplus reserve	–	–	–	–	28,800	–	–	(28,800)	–	–	–
At 30 June 2003 and 1 July 2003	256,768	973,051	4,151	51,419	116,596	(3,600)	9,476	544,418	722,460	47,878	2,000,157
Final 2003 dividend declared	–	–	–	–	–	–	–	–	–	(47,878)	(47,878)
Exercise of share options	9,660	40,005	–	–	–	–	–	–	–	–	49,665
Exercise of warrants	17,895	119,900	–	–	–	–	–	–	–	–	137,795
Placement of shares	33,200	473,607	–	–	–	–	–	–	–	–	506,807
Net profit for the year	–	–	–	–	–	–	–	222,523	222,523	–	222,523
Underaccrual of final dividend for 2003	–	–	–	–	–	–	–	(990)	(990)	–	(990)
Interim 2004 dividend	–	–	–	–	–	–	–	(38,102)	(38,102)	–	(38,102)
Proposed final 2004 dividend	–	–	–	–	–	–	–	(57,154)	(57,154)	57,154	–
Exchange realignment	–	–	–	–	–	(516)	–	–	(516)	–	(516)
Transfer to statutory surplus reserve	–	–	–	–	45,499	–	–	(45,499)	–	–	–
At 30 June 2004	317,523	1,606,563	4,151	51,419	162,095	(4,116)	9,476	625,196	848,221	57,154	2,829,461
Reserves retained by:											
Company and subsidiaries	317,523	1,606,563	4,151	51,419	162,095	(4,116)	9,476	631,964	854,989	57,154	2,836,229
Jointly-controlled entities	–	–	–	–	–	–	–	(6,768)	(6,768)	–	(6,768)
At 30 June 2004	317,523	1,606,563	4,151	51,419	162,095	(4,116)	9,476	625,196	848,221	57,154	2,829,461

As at 30 June 2003, all reserves were retained by the Company and its subsidiaries.

Consolidated Cash Flow Statement
Year ended 30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
Profit from operating activities		528,877	446,711
Adjustments for:			
Interest income	6	(21,393)	(19,959)
Depreciation of fixed assets	7	97,484	90,192
Provision for bad and doubtful debts, net	7	24,040	14,350
Loss on disposal/write-off of fixed assets, net	7	14,092	11,401
Gain on partial disposal of interests in subsidiaries	6	–	(52,400)
Operating profit before working capital changes		643,100	490,295
Decrease/(increase) in trade receivables		(118,552)	40,168
Increase in inventories		(53,728)	(26,446)
Decrease/(increase) in prepayments, deposits and other receivables		49,834	(39,367)
Increase in amounts due from related companies		(6,991)	(10,081)
Increase in trade payables		30,811	32,695
Increase/(decrease) in trust receipt loans		(101,286)	122,440
Decrease in amount due to minority shareholders, net	33(ii)	(29,258)	(70,244)
Decrease in accrued liabilities and other payables		78,463	15,212
Cash generated from operations		492,393	554,672
Interest paid		(51,781)	(39,342)
Interest element on finance lease rental payments		(327)	(1,392)
Arrangement fee on bank and other loans		(7,036)	–
Hong Kong profits tax paid		–	(392)
Mainland China corporate income tax paid		(121,927)	(88,806)
Net cash inflow from operating activities		311,322	424,740
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(157,032)	(171,039)
Proceeds from sales of fixed assets		527	1,119
Deposits paid	33(iv)	(68,047)	(116,338)
Proceeds from partial disposal of interests in subsidiaries		–	52,400
Proceeds from disposal of subsidiaries		–	255,000
Interest received		21,393	19,959
Capital injection to jointly-controlled entities		(4,668)	–
Advances to jointly-controlled entities	33(iv)	(295,898)	–
Increase in pledged bank deposits		(37,666)	(37,664)
Increase in non-pledged time deposits with original maturity of more than three months when acquired		(32,154)	(562,391)
Net cash outflow from investing activities		(573,545)	(558,954)

Consolidated Cash Flow Statement (Continued)
Year ended 30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of options to subscribe for new ordinary shares in the Company	29(a)	49,665	36,707
Exercise of warrants to subscribe for new ordinary shares in the Company	29(b)	137,795	38,541
Placement of new shares	29(c)	517,920	–
Share issue expenses		(11,113)	–
Capital contribution by minority interests		–	107,403
New bank loans		1,140,975	152,166
New other loans		3,767	2,825
Repayment of bank loans		(547,969)	(11,112)
Repayment of other loans		(3,230)	(94)
Capital element of finance lease rental payments		(11,581)	(17,733)
Dividends paid		(84,786)	(96,257)
Dividends paid by a subsidiary to minority shareholders		(32,394)	(20,134)
Net cash inflow from financing activities		1,159,049	192,312
NET INCREASE IN CASH AND CASH EQUIVALENTS		896,826	58,098
Cash and cash equivalents at beginning of year		1,308,633	1,250,535
Effect of foreign exchange rate changes		(516)	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,204,943	1,308,633
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		1,901,835	941,099
Deposits with a non-bank financial institution		203,588	229,637
Non-pledged time deposits with original maturity of less than three months when acquired		99,520	137,897
		2,204,943	1,308,633

BALANCE SHEET
30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Fixed assets	14	12	15
Deposits paid	18	3,450	116,338
Investments in subsidiaries	16	664,881	664,881
		668,343	781,234
CURRENT ASSETS			
Due from subsidiaries	16	2,167,594	1,152,948
Prepayments, deposits and other receivables		50	1,119
Cash and bank balances	23	25,916	9,140
		2,193,560	1,163,207
CURRENT LIABILITIES			
Accrued liabilities and other payables		6,127	5,003
Due to subsidiaries	16	19,025	35,520
Interest-bearing bank and other loans	26, 28	–	312,000
Dividends payable		10,522	8,338
		35,674	360,861
NET CURRENT ASSETS		2,157,886	802,346
TOTAL ASSETS LESS CURRENT LIABILITIES		2,826,229	1,583,580
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	26, 28	583,725	–
		2,242,504	1,583,580
CAPITAL AND RESERVES			
Issued capital	29	317,523	256,768
Share premium account	31	1,606,563	973,051
Reserves	32(b)	261,264	305,883
Proposed final dividend	12	57,154	47,878
		2,242,504	1,583,580

Kwong Wui Chun
Director

Chan Yiu Tsuan, Benby
Director

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 20 January 1998 and is principally engaged in investment holding. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principal activity of the Company is investment holding. During the year, the Group was principally involved in the manufacture and sale of aluminium and stainless steel products and the provision of design and testing services for aluminium products.

These were no significant changes in the nature of the Group's principal activities during the year.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition

Deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future.

The adoption of SSAP 12 had no significant impact for the financial statements for the year ended 30 June 2003 on the amounts recorded for income taxes.

Disclosures

The related note disclosures of deferred tax assets and liabilities are now more extensive than previously required. These disclosures are presented in note 10 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes are included in the accounting policy for deferred tax in notes 3 and 10 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) service income from the rendering of design, testing and e-business services, on an accrual basis when the services are rendered;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(d) dividend income, when the shareholders' right to receive payment has been established; and

(e) net gains or losses on forward contracts, in respect of all open contracts existing at the balance sheet date by translating the contract amounts at the prices ruling at the balance sheet date, and on all closed positions on the trade date basis.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies (Continued)

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

SSAP 30 "Business combinations" was adopted as at 1 July 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 July 2001 is accounted for in accordance with the SSAP 30 goodwill accounting policy above and the amount remained is disclosed in note 15 to the financial statements.

On the disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal and is reflected in the consolidated profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	– 5% or over lease terms, whichever is shorter
Plant and machinery	– 6.25%
Moulds	– 12.5% to 20%
Furniture and fixtures	– 10%
Office equipment	– 16.67%
Motor vehicles	– 16.67%

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fixed assets and depreciation (Continued)

Construction in progress represents the costs incurred in connection with the construction of fixed assets less any impairment losses and is not depreciated. Cost comprises direct costs incurred during the period of construction, installation and testing. Construction in progress is re-classified to the appropriate category of fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's Bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government, the assets of which are held separately from those of the Group. These PRC subsidiaries are required to contribute certain percentage of their respective payroll costs to the central pension scheme, which are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

All research costs or expenditure on intangible items that did not meet the asset recognition criteria in SSAP 29 "Intangible assets" are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are available for use.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

4. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

The Group had the following transactions with related parties during the year in addition to those disclosed elsewhere in the financial statements:

	Notes	**2004** *HK$'000*	**2003** *HK$'000*
Rental expense paid to a related company	*(i)*	2,350	3,346
Termination fee in respect of rental paid to a related company	*(i)*	100	–
Rental expense paid to a director	*(ii)*	297	54
Sale of finished goods to a minority shareholder of a subsidiary: Indalex Aluminum Solutions Group ("IASG")	*(iii)*	102,617	65,247
Sale of finished goods to a company of which a director of a non wholly-owned subsidiary is also a director	*(iv)*	14,241	–
Deposit received from a jointly-controlled entity	*(v)*	25,424	–
Purchase of fixed assets from IASG	*(iii)*	778	–
Consultancy fee paid to a former director of the Company	*(vi)*	1,228	–
Cash maintained with bank accounts in the PRC under the name of associates of two directors held on behalf of the Group		8,378	–

In addition to the foregoing, management fees in the amount of HK$16,330,000 (2003: HK$16,330,000) were paid during the year by Asia Aluminum Group Limited ("AAG") and certain of its subsidiaries, which are non-wholly-owned by the Company, to Asia Aluminum Management Limited, a wholly-owned subsidiary of the Company. These management fees were paid on a cost-recovery basis and were eliminated on consolidation.

4. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (Continued)

Notes:

(i) The rentals were paid in respect of the Group's leased office premises and staff quarters situated in Hong Kong to Harbour Talent Limited, a company in which Mr. Kwong Wui Chun ("Mr. Kwong"), a director and substantial shareholder of the Company, has a beneficial interest. The directors of the Company have confirmed that the monthly rentals were calculated by reference to the then prevailing open market rental values. On 1 July 2003, the rental agreements in respect of the Group's staff quarters were early terminated and, accordingly, a compensation of HK$100,000 was paid.

(ii) The rentals were paid in respect of the Group's leased staff quarters situated in Hong Kong to Dr. Chan Yiu Tsuan, Benby, a director of the Company. The directors of the Company have confirmed that the monthly rental was calculated by reference to the then prevailing open market rental value.

(iii) IASG comprises companies associated with Indalex UK Limited ("Indalex"), a company which became the minority shareholder of a subsidiary of the Company upon the acquisition of a 26.2% equity interest in this subsidiary on 8 June 2001. The directors of the Company consider that these transactions were made according to prices and other terms similar to those offered to unrelated parties of the Group.

(iv) The directors of the Company consider that the sale of finished goods to a company, of which director of a non wholly-owned subsidiary is also a director were made according to prices and other terms similar to those offered to unrelated customers of the Group.

(v) The deposit was received in respect of sale of finished goods to be made. The directors of the Company consider that the sales to be made is according to prices and other terms similar to those offered to unrelated customers of the Group.

(vi) Pursuant to a service agreement between the Group and a former director of the Company on 8 August 2003, the consultancy fee was charged at a monthly rate of HK$107,000. The directors of the Company consider that the monthly consultancy fee was based on normal commercial terms.

Each of Guangdong Nanhua Aluminium Factory Co., Ltd ("Guangdong Nanhua") and Foshan Nanhai Hongjia Aluminium Materials and Stainless Steel Co., Ltd ("Hongjia Aluminium") has granted the Group the right to use the underlying parcels of land and buildings on a rent-free basis. Based on the legal advice, the directors of the Company consider that the above arrangement is valid and legally binding under the prevailing PRC applicable law and regulations.

The above related party transactions also constitute connected transactions under the Listing Rules on the Stock Exchange. In the opinion of the directors, the Company has complied with all the necessary disclosure requirements under the Listing Rules.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

– the aluminium extrusion products segment engages in the manufacture and sale of aluminium extrusion products;

– the stainless steel products segment comprises the manufacture and sale of stainless steel products;

– the aluminium panels segment refers to the manufacture and sale of aluminium panels;

– the design and testing services segment represents the Group's provision of design and testing services for aluminium products; and

– the others segment comprises the Group's business of web-sites operation and related e-business of trading of non-ferrous metal products on the Internet.

5. SEGMENT INFORMATION (Continued)

In determining the Group's geographical segments, revenues and profit from operating activities are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	2004					
Group	**Aluminum extrusion products** *HK$'000*	**Stainless steel products** *HK$'000*	**Aluminum panels** *HK$'000*	**Design and testing services** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Segment revenue						
Sales to external customers	2,493,619	353,057	74,867	16,939	–	2,938,482
Other revenue	5,690	–	–	–	–	5,690
Total	2,499,309	353,057	74,867	16,939	–	2,944,172
Segment results	437,589	11,618	30,923	14,059	(2,063)	492,126
Interest and unallocated gains						58,385
Unallocated expenses						(21,634)
Profit from operating activities						528,877
Finance costs						(59,144)
Share of losses of jointly-controlled entities						(6,768)
Profit before tax						462,965
Tax						(143,224)
Profit before minority interests						319,741
Minority interests						(97,218)
Net profit attributable to shareholders						222,523

5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group	Aluminum extrusion products HK$'000	Stainless steel products HK$'000	Aluminum panels HK$'000	Design and testing services HK$'000	Others HK$'000	Total HK$'000
	2003					
Segment revenue						
Sales to external customers	1,828,000	361,562	153,069	15,395	–	2,358,026
Other revenue	3,992	–	–	–	–	3,992
Total	1,831,992	361,562	153,069	15,395	–	2,362,018
Segment results	245,819	23,733	79,544	12,778	(4,609)	357,265
Interest and unallocated gains						106,988
Unallocated expenses						(17,542)
Profit from operating activities						446,711
Finance costs						(40,734)
Profit before tax						405,977
Tax						(86,309)
Profit before minority interests						319,668
Minority interests						(79,149)
Net profit attributable to shareholders						240,519

5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group	Aluminum extrusion products HK$'000	Stainless steel products HK$'000	Aluminum panels HK$'000	Design and testing services HK$'000	Others HK$'000	Total HK$'000
	2004					
Segment assets	2,026,111	68,751	99,197	20,317	–	2,214,376
Unallocated assets						3,405,477
Total assets						5,619,853
Segment liabilities	968,850	251	13,974	56	–	983,131
Unallocated liabilities						1,188,452
Total liabilities						2,171,583
Other segment information:						
Depreciation	87,242	5,023	3,338	–	1,881	97,484
Provision for bad and doubtful debts, net	22,176	–	1,864	–	–	24,040
Loss on disposal/ write-off of fixed assets, net	14,086	–	6	–	–	14,092
Capital expenditure	155,857	1,456	713	–	–	158,026

5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group	Aluminum extrusion products HK$'000	Stainless steel products HK$'000	Aluminum panels HK$'000	Design and testing services HK$'000	Others HK$'000	Total HK$'000
			2003			
Segment assets	1,734,675	80,607	124,091	25,416	–	1,964,789
Unallocated assets						2,174,103
Total assets						4,138,892
Segment liabilities	987,188	759	17,899	72	–	1,005,918
Unallocated liabilities						578,832
Total liabilities						1,584,750
Other segment information:						
Depreciation	74,404	7,181	6,726	–	1,881	90,192
Provision for bad and doubtful debts	11,886	–	1,000	–	1,464	14,350
Loss on disposal/write-off of fixed assets	11,384	–	17	–	–	11,401
Capital expenditure	149,084	20,442	6,513	–	–	176,039

5. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

	2004					
Group	Hong Kong	Mainland China	North America	Asia Pacific, excluding Mainland China and Hong Kong	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue						
Sales to external customers	142,281	2,362,764	306,651	119,595	7,191	2,938,482

	2003					
Group	Hong Kong	Mainland China	North America	Asia Pacific, excluding Mainland China and Hong Kong	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue						
Sales to external customers	249,078	1,860,621	133,017	104,755	10,555	2,358,026

5. SEGMENT INFORMATION (Continued)

(b) Geographical segments (Continued)

Group	2004					
	Hong Kong	Mainland China	North America	Asia Pacific, excluding Mainland China and Hong Kong	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information						
Segment assets	349,029	5,075,844	120,774	4,629	69,577	5,619,853
Capital expenditure	1,543	156,483	–	–	–	158,026

Group	2003					
	Hong Kong	Mainland China	North America	Asia Pacific, excluding Mainland China and Hong Kong	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information						
Segment assets	110,902	3,722,061	205,397	8,956	91,576	4,138,892
Capital expenditure	389	175,650	–	–	–	176,039

6. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the aggregate of net invoiced amounts, after allowances for returns and trade discounts, from the sale of goods, the provision of design and testing services for aluminum products and other business.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Turnover:		
Manufacture and sale of aluminum extrusion products	2,493,619	1,828,000
Manufacture and sale of stainless steel products	353,057	361,562
Manufacture and sale of aluminum panels	74,867	153,069
Provision of design and testing services for aluminum products	16,939	15,395
	2,938,482	2,358,026
Other revenue and gains:		
Interest income	21,393	19,959
Gains, net, on trading of forward contracts:		
Realised gains	38,849	30,145
Unrealised gains/(losses)	(3,266)	1,788
Sales of scrap materials	3,809	2,786
Sundry income	3,290	3,902
	64,075	58,580
Gain on partial disposal of interests in subsidiaries	–	52,400
	3,002,557	2,469,006

7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting) the following:

	2004	2003
	HK$'000	*HK$'000*
Cost of inventories sold*	2,237,284	1,819,149
Cost of services provided	2,880	2,617
Depreciation*	97,484	90,192
Staff costs (excluding directors' emoluments, *note 8*):		
Salaries and wages	94,264	95,621
Pension scheme contributions	362	383
	94,626	96,004
Auditors' remuneration	2,500	1,680
Provision for bad and doubtful debts	24,608	13,113
Provision/(write-back of provision) for other bad and doubtful debts	(568)	1,237
Minimum lease payments under operating lease on land and buildings	13,350	10,082
Loss on disposal/write-off of fixed assets, net*	14,092	11,401
Exchange losses/(gains), net	(917)	457

* *Out of the total depreciation charge of HK$97,484,000 (2003: HK$90,192,000), an amount of HK$72,494,000 (2003: HK$72,880,000) has been included in the cost of inventories sold. The cost of inventories sold also included the loss on disposal/write-off of fixed assets.*

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration disclosed pursuant to the Listing Rules and section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Fees:		
Executive directors	–	–
Independent non-executive directors	480	470
Other emoluments paid and payable to executive directors:		
Basic salaries, allowances and benefits in kind	5,411	6,061
Pension scheme contributions	26	33
	5,917	6,564

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of directors whose remuneration fell within the bands set out below is as follows:

	Group	
	2004	**2003**
	Number of directors	**Number of directors**
Nil – HK$1,000,000	4	4
HK$1,000,001 – HK$1,500,000	–	1
HK$1,500,001 – HK$2,000,000	–	1
HK$2,000,001 – HK$2,500,000	1	–
HK$2,500,001 – HK$3,000,000	1	1
	6	7

Five highest paid individuals

The five highest paid individuals for the current year included two (2003: three) directors, details of whose remuneration are set out above. The remuneration of the remaining three (2003: two) non-director, highest paid individuals was analysed as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Basic salaries, allowances and benefits in kind	2,872	1,599
Pension scheme contributions	36	16
	2,908	1,615

The number of non-director, highest paid individuals whose remuneration fell within the bands set out below is as follows:

	Group	
	2004	**2003**
	Number of employees	**Number of employees**
Nil – HK$1,000,000	2	2
HK$1,000,001 – HK$1,500,000	1	–
	3	2

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2003: Nil). During the year, no emoluments were paid by the Group to the directors or the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

9. FINANCE COSTS

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	51,781	39,195
Interest on finance leases	327	1,392
Interest on convertible bonds	–	147
	52,108	40,734
Arrangement fee on bank and other loans	7,036	–
	59,144	40,734

10. TAX

	2004	**2003**
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	–	–
Overprovision in prior years	–	(19)
Current – Mainland China		
Charge for the year	144,890	86,328
Deferred tax	(1,666)	–
Total tax charge for the year	143,224	86,309

No Hong Kong profits tax has been provided as there were no estimated assessable profits arising from the Group's operations in Hong Kong during the year (2003: Nil). The statutory tax rate for Hong Kong profits tax is 17.5% (2003: 17.5%). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The statutory tax rate for the Mainland China corporate income tax is 33% (2003: 33%). Under the relevant laws and regulations in the Mainland China, certain subsidiaries (the "PRC Subsidiaries") of the Company operating in the Mainland China are exempted from income tax for two years from their respective first profit-making year and are eligible for a 50% reduction in income tax for the following three years. During the year, provisions for income tax for these subsidiaries have been made at the applicable reduced rate for the PRC Subsidiaries.

10. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates is as follows:

	Group 2004	Group 2003
	HK$'000	*HK$'000*
Profit before tax	462,965	405,977
Tax at the Mainland China's statutory rate of 33%	152,778	133,972
Lower tax rate for Hong Kong and specific provinces in Mainland China	(28,437)	(55,099)
Adjustments in respect of current tax of previous periods	–	(19)
Income not subject to tax	(1,209)	(9,784)
Expenses not deductible for tax	15,619	13,890
Tax losses utilised from previous periods	(1,054)	(423)
Increase in unutilised tax losses carried forward	5,527	3,772
Tax charge at the effective rate	143,224	86,309

The movements of the principal components of the Group's net deferred tax assets are as follows:

	Accelerated depreciation allowances	Provision for bad and doubtful debts	Unrealised losses of forward contracts	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2002 and 2003	–	–	–	–
Deferred tax credited/(charged) to the profit and loss account during the year	(240)	1,379	527	1,666
At 30 June 2004	(240)	1,379	527	1,666

The Group has unrecognised deferred tax assets from tax losses arising in Hong Kong of HK$58,298,000 (2003: HK$53,825,000) that are available indefinitely for offsetting against future taxable profits of companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

SSAP 12 (revised) was adopted during the year as further explained in note 2 to the financial statements. There were no material effects on the Group's deferred tax assets or liabilities as at 30 June 2003. Accordingly, no prior year adjustment is included in the financial statements.

11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 30 June 2004 dealt with in the financial statements of the Company was HK$51,627,000 (2003: HK$75,121,000).

12. DIVIDENDS

	2004	2003
	HK$'000	*HK$'000*
Paid:		
Interim: HK1.2 (2003: HK1.5) cents per ordinary share	38,102	37,672
Special: Nil (2003: HK1.0) cent per ordinary share	–	25,114
Underaccrual of final dividend for prior year due to exercise of warrants and share options before dividend record date	990	1,073
Proposed:		
Final: HK1.8 (2003: HK1.8) cents per ordinary share	57,154	47,878
	96,246	111,737

The proposed final dividend for the year ended 30 June 2004 are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$222,523,000 (2003: HK$240,519,000) and the weighted average number of 2,861,574,074 (2003: 2,446,290,127) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK$222,523,000 (2003: HK$241,191,000) and on 2,957,178,847 (2003: 2,547,615,290) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

13. EARNINGS PER SHARE (Continued)

A reconciliation of the earnings and the weighted average number of shares used in calculating the basic and diluted earnings per share is as follows:

	2004 *HK$'000*	**2003** *HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share (net profit for the year) calculation	222,523	240,519
Effect of dilutive convertible bonds	–	672
Earnings for the purpose of diluted earnings per share calculation	222,523	241,191

	2004	**2003**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	2,861,574,074	2,446,290,127
Weighted average number of ordinary shares:		
Assuming issued at no consideration on deemed exercise of all share options outstanding during the year	57,409,881	47,055,780
Assuming issued at no consideration on deemed exercise of all warrants outstanding during the year	38,194,892	–
Assuming issued at no consideration on deemed exercise of all convertible bonds outstanding during the year *(note)*	–	54,269,383
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	2,957,178,847	2,547,615,290

Note: For the year ended 30 June 2003, the convertible bonds were exercisable at a conversion price which varies with the share price of the Company prior to the exercise of the conversion rights. In the above calculation of diluted earnings per share, it was assumed that the convertible bonds would be converted at the most advantageous share price prevailing during that year.

14. FIXED ASSETS

Group

	Buildings in the PRC *HK$'000*	Construction in progress *HK$'000*	Plant, machinery and moulds *HK$'000*	Furniture and fixtures *HK$'000*	Office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:							
At 1 July 2003	172,249	27,522	1,035,681	39,635	29,535	39,245	1,343,867
Additions	4,645	39,526	105,970	213	2,627	5,045	158,026
Disposals	–	–	(547)	(52)	(2)	(1,414)	(2,015)
Write-off	–	–	(21,061)	–	–	–	(21,061)
Transfer from construction in progress	12,314	(58,680)	46,053	42	262	9	–
At 30 June 2004	189,208	8,368	1,166,096	39,838	32,422	42,885	1,478,817
Accumulated depreciation:							
At 1 July 2003	55,133	–	322,134	10,205	22,079	29,782	439,333
Provided during the year	9,971	–	78,494	2,187	3,966	2,866	97,484
Write-back on disposals	–	–	(76)	(45)	(1)	(1,202)	(1,324)
Write-off	–	–	(7,133)	–	–	–	(7,133)
At 30 June 2004	65,104	–	393,419	12,347	26,044	31,446	528,360
Net book value:							
At 30 June 2004	124,104	8,368	772,677	27,491	6,378	11,439	950,457
At 30 June 2003	117,116	27,522	713,547	29,430	7,456	9,463	904,534

14. FIXED ASSETS (Continued)

Company

	Office equipment
	HK$'000
Cost:	
At beginning of year and at 30 June 2004	23
Accumulated depreciation:	
At 1 July 2003	8
Provided during the year	3
At 30 June 2004	11
Net book value:	
At 30 June 2004	12
At 30 June 2003	15

The buildings are erected on land situated in the PRC under operating leases which expire between the years 2011 and 2016.

At 30 June 2004, certain fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK$5,329,000 (2003: HK$5,765,000) and HK$8,336,000 (2003: HK$8,892,000) respectively, were pledged as security for certain banking facilities granted to the Group as set out in notes 26 and 28 to the financial statements.

The net book value of assets held under finance leases included in the total amount of fixed assets at 30 June 2004 amounted to HK$1,448,000 (2003: HK$42,594,000).

15. GOODWILL

The amount of goodwill remaining in consolidated reserves as at 30 June 2004, arising from the acquisition of subsidiaries prior to 1 July 2001, is as follows:

	Group
	HK$'000
Cost:	
At beginning of year and at 30 June 2004	119,878
Accumulated impairment:	
At beginning of year and at 30 June 2004	–
Net amount:	
At 30 June 2003 and 2004	119,878

16. INVESTMENTS IN SUBSIDIARIES

	Company 2004	Company 2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	664,881	664,881

The balances with subsidiaries are unsecured, interest-free and repayable on demand.

Details of principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/paid-up capital	Percentage of equity attributable to the Company 2004	Percentage of equity attributable to the Company 2003	Principal activities
Directly held					
Asia Aluminum Group Limited	British Virgin Islands	US$23,609	69.05 *(note a)*	69.05	Investment holding
Asia Aluminum Management Limited	Hong Kong	HK$10,000	100	100	Provision of management services to Group companies
Indirectly held					
Asia Aluminum Manufacturing Company Limited	Hong Kong	HK$2	69.05	69.05	Investment holding and trading of aluminum and stainless steel products
Long Hing Profits Limited	British Virgin Islands/ Hong Kong	US$1	69.05	69.05	Investment holding and trading of aluminum panels and high grade aluminum extrusion products
Majestic Holdings Limited	Hong Kong	HK$60,000,000	69.05	69.05	Investment holding and trading of aluminum products

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/paid-up capital	Percentage of equity attributable to the Company 2004	2003	Principal activities
Guangdong Asia Aluminium Factory Co., Ltd. (formerly known as Nanhai Asia Aluminium Factory Co., Ltd.)	Mainland China	US$34,790,000	69.05 *(note b)*	69.05	Manufacture and trading of aluminum products
Foshan Nanhai Panasia Metal Spraying Co., Ltd. (formerly known as Nanhai Panasia Metal Spraying Co., Ltd.)	Mainland China	US$2,900,000	69.05 *(note b)*	69.05	Subcontracting of aluminum panels and high grade aluminum extrusion products processing
Foshan Nanhai Xinya Aluminium & Stainless Steel Co., Ltd. (formerly known as Nanhai Xinya Aluminium & Stainless Steel Co., Ltd.)	Mainland China	US$13,390,000	69.05 *(note b)*	69.05	Subcontracting of aluminum and stainless steel products processing
Pavillion Services Limited	British Virgin Islands/ Hong Kong	US$200	69.05	69.05	Trading of aluminum and stainless steel products
Huge Spot Holdings Limited	British Virgin Islands/ Mainland China	US$1	69.05	69.05	Investment holding
Kar Yip Holdings Limited	British Virgin Islands/ Mainland China	US$1	69.05	69.05	Investment holding
Foshan Nanhai Hongjia Aluminum Company Limited (formerly known as Nanhai Hongjia Aluminum Company Limited) ("Foshan Hongjia")	Mainland China	US$13,300,000	41.43 *(note c)*	41.43	Manufacture and trading of aluminum products

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/paid-up capital	Percentage of equity attributable to the Company 2004	2003	Principal activities
Foshan Nanhua Aluminum Company Limited (formerly known as Nanhua Aluminum Company Limited ("Foshan Nanhua")	Mainland China	US$17,000,000	41.43 *(note c)*	41.43	Manufacture and trading of aluminum products
Sino Advance Investments Limited ("Sino Advance")	British Virgin Islands	US$1	100	–	Investment holding
Asia Advanced Metal Product Co., Ltd.*	Hong Kong/ Mainland China	HK$10,000	55	–	Design and manufacture of metal products
Zhaoqing Asia Aluminum Factory Co., Ltd.*	Mainland China	US$15,000,000	69.05 *(note b)*	–	Manufacture and trading of aluminum products
Zhaoqing Asia Innovative Metalworks & Products Co., Ltd*	Mainland China	US$5,000,000	55 *(note b)*	–	Design and manufacture of metal products

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* *Incorporated during the year*

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Notes:

(a) In accordance with contractual arrangement underlying the disposal of a 26.2% of equity interest in AAG, the disposal consideration entitled to by the Company will be adjusted based on the involved subsidiaries' attainment of certain financial thresholds in the years of operations from 2001 to 2003. The AAG Group has attained the financial thresholds for the financial year ended 30 June 2002 and an additional consideration of HK$52,400,000 has been paid by Indalex to the Company accordingly.

An option (the "Call Option") was granted by the Company to Indalex UK Limited ("Indalex"), a minority shareholder of AAG, pursuant to which the minority shareholder has (i) the right in perpetuity to acquire from the Company its entire equity interest in AAG upon the failure of the Company to stop and/or remedy any material breach of the shareholders' agreement entered into between the parties; and (ii) the right to acquire from the Company its entire equity interest in AAG upon the occurrence of certain triggering events during a period of three years commencing from 8 June 2001. These triggering events include, inter alia, the Company ceasing to hold a 60% effective equity interest in AAG and Mr. Kwong Wui Chun ("Mr. Kwong") ceasing to hold a 35% effective equity interest in the Company.

In addition to the foregoing, the Company has also granted a put option ("Put Option I") to Indalex, under which the Company is obliged at the request of Indalex to purchase its entire equity interest in AAG under certain circumstances.

Neither the Call option nor the Put Option I were exercised during the year ended 30 June 2004.

On 21 August 2002, the Company entered into a deed of termination (the "Deeds of Termination") with each of the two existing shareholders of AAG ("Third Parties") pursuant to which the Third Parties agreed to terminate a put option granted by the Company on 14 March 2002 to each of the Third Parties (together the "Put Options II") with immediate effect at no cost. Upon the execution of the Deeds of Termination, the obligations of the Company under the Option Agreements shall cease. As the Put Options II cannot be exercised within three years of the date of the Option Agreements, none of the Put Options II has been exercised. Further details of the above transactions were set out in the Company's announcements dated 21 August 2002.

(b) These companies are registered as wholly foreign owned enterprises under the PRC law.

(c) These companies were established in the PRC with independent third parties in the prior year, in each of which a 60% equity interest was held by a subsidiary of the Group. As the Group is able to exercise unilateral control over the operational and financial policies of these joint venture companies, they have been accounted for as subsidiaries in accordance with the Group's accounting policies. The purpose of the establishment of these subsidiaries is to execute the investment in assets of each of Guangdong Nanhua and Hongjia Aluminium and the Group has contracted for capital contributions in cash of approximately RMB150,000,000 (approximately HK$141,804,000) into these subsidiaries.

In addition, the Group acquired certain business database of Guangdong Nanhua and Hongjia Aluminium at an aggregate consideration of HK$73,558,000. As at the balance sheet date, the unsettled consideration in respect of HK$14,548,000 (2003: HK$14,548,000) was classified as part of "due to minority equity/shareholders" under current liabilities.

Pursuant to the contractual arrangements, each of the owners of Guangdong Nanhua and the owners of Hongjia Aluminium warranted and guaranteed the financial performance of the respective joint ventures (the "Guaranteed Financial Performance"). Based on the preliminary evaluation on the operating results of Foshan Nanhua and Foshan Hongjia, the directors of the Company determine that the Guaranteed Financial Performance have been met and, accordingly, they consider that there is no potential financial effect to the Group.

17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2004 HK$'000	2003 HK$'000
Share of net liabilities, unlisted	(2,100)	–
Loans to jointly-controlled entities	430,348	–
Due from jointly-controlled entities	7,312	–
Due to jointly-controlled entities	(25,424)	–
	410,136	–

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company 2004	2003	Principal activities
China Steel Development Company Limited ("CSD")	Corporate	Samoa/ Mainland China	US$1,000,000	60	100	Investment holding
Asia Aluminum (China) Limited ("AA China")	Corporate	Mainland China	US$30,000,000	60	–	Manufacture of aluminum flat-rolled products

Pursuant to a subscription agreement dated 11 July 2003 (the "Subscription Agreement") entered into among CSD, Sino Advance, Mr. Kwong, Record Break Investments Limited (the "First Subscriber") and Think Success Industries Limited (the "Second Subscriber"), Sino Advance, Mr. Kwong, the First Subscriber and the Second Subscriber have conditionally agreed to subscribe for a total of 999,999 new shares in CSD of US$1 each in cash. Upon the completion of the Subscription Agreement, the equity interest in CSD attributable to the Group is 60%. The total consideration payable under the Subscription Agreement is US$999,999 (equivalent to HK$7,799,992). At date of the Subscription Agreement, both CSD and Sino Advance are wholly-owned subsidiaries of the Company. The First Subscriber and the Second Subscriber are independent investment vehicles wholly-owned by one of the Group's suppliers engaged in the trading of non-ferrous metals and the Group's distributors for the aluminium products of the Group, respectively. Upon completion of the subscription of shares in CSD, the Company has no power to cast the majority of votes at meetings of board of directors of CSD and therefore it is not regarded as a subsidiary of the Company.

Immediately after the execution of the Subscription Agreement, CSD establish AA China, a wholly foreign owned enterprise, in Zhaoqing, Guangdong Province, Mainland China for a period of 50 years commencing from the date of issuance of its business licence of 4 September 2003. The sole purpose of the establishment of AA China is for operating a new manufacturing facility for production of high grade aluminium sheet products with a maximum capacity of 400,000 tonnes per annum.

17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

All the above interests in jointly-controlled entities are indirectly held by the Company.

A summary of the results for the period ended 30 June 2004 and the assets and liabilities and commitments at that date of the jointly-controlled entities is set out below:

	For the period from 4 September 2003 (date of incorporation) to 30 June 2004 *HK$'000*
OPERATING RESULTS	
Turnover	–
Net loss for the period	(11,280)

	At 30 June 2004 *HK$'000*
ASSETS AND LIABILITIES	
Non-current assets	734,807
Current assets	256,533
Current liabilities	(101,165)
Non-current liabilities	(893,675)
COMMITMENTS	462,387

18. DEPOSITS PAID

Current year's balance mainly represented deposits paid for the purchase of aluminum extrusion presses and its associated handling systems. Last year's balance represented deposits paid in respect of acquisition of an aluminium rolling mill and its associated auxiliary equipment in connection with the Group's investments in jointly-controlled entities, further details of which are set out in note 17 to the financial statements. These amounts were capitalised in the cost of the Group's investments in the jointly-controlled entities during the current year.

19. TRADE RECEIVABLES

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Within 3 months	487,940	295,362
4 to 6 months	55,475	77,888
7 to 12 months	29,970	66,081
More than 1 year	62,099	78,312
	635,484	517,643
Provision for bad and doubtful debts	(89,975)	(66,078)
	545,509	451,565

It is the general policy of the Group to allow a credit period of 20 days to three months. In addition, for certain customers with long established relationships and good repayment history, a longer credit period may be granted.

Included in trade receivables are trade receivables of HK$6,862,000 (2003: Nil) due from a company, of which a director of a non wholly-owned subsidiary is also a director, which are repayable on similar credit terms to those offered to the major customers of the Group.

20. INVENTORIES

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Raw materials	137,565	126,527
Work in progress	98,265	67,737
Finished goods	107,224	95,062
	343,054	289,326

As at the balance sheet date, there were no inventories carried at net realisable value (2003: Nil).

21. DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Group

	At 30 June 2004	Maximum amount outstanding during the year	At 1 July 2003
	HK$'000	*HK$'000*	*HK$'000*
IASG *(note)*	28,823	32,406	21,832

Note: The basis of the related party relationship with IASG is set out in note 4 to the financial statements.

The amounts due from related companies, which are trade in nature, are unsecured, interest-free and have no fixed terms of repayment.

22. DUE FROM MINORITY EQUITY/SHAREHOLDERS

The amounts due from minority equity/shareholders of subsidiaries of approximately HK$67,910,000 (2003: HK$67,910,000) represents the accounts receivable arising from the sale of raw materials to the minority equityholders.

23. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Group		Company	
	2004	2003	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	1,901,835	941,099	25,916	9,140
Time deposits with banks	847,395	815,952	–	–
	2,749,230	1,757,051	25,916	9,140
Less: Pledged time deposits *(note 28)*	(153,330)	(115,664)	–	–
	2,595,900	1,641,387	25,916	9,140

At 30 June 2004, the cash and bank balances and time deposits with banks of the Group denominated in Renminbi ("RMB") amounted to approximately HK$2,321,147,000 (2003: HK$1,595,602,000). RMB is not freely convertible into foreign currencies. Subject to Mainland China Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

24. TRADE PAYABLES

An aged analysis of the Group's trade payables at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 3 months	235,357	204,501
4 to 6 months	11,126	6,551
7 to 12 months	12,753	16,598
More than 1 year	4,319	5,094
	263,555	232,744

25. DUE TO MINORITY EQUITY/SHAREHOLDERS

A portion of the amounts due to the minority equity/shareholders of approximately HK$39,063,000 (2003: HK$72,692,000) represents the amounts due to minority shareholders for the transfer of business database and purchases of fixed assets on behalf of the two non-wholly-owned subsidiaries. The remaining balance of approximately HK$11,008,000 (2003: HK$6,637,000) represents dividend payables to minority shareholders and cash advance from minority equityholder.

26. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2004	2003	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans repayable:				
Within one year or on demand	473,446	464,165	–	312,000
In the second year	–	–	–	–
In the third to fifth years, inclusive	583,725	–	583,725	–
	1,057,171	464,165	583,725	312,000
Other loans, wholly repayable within one year or on demand	3,767	3,230	–	–
	1,060,938	467,395	583,725	312,000
Portion classified as current liabilities	(477,213)	(467,395)	–	(312,000)
Non-current portion	583,725	–	583,725	–
Secured	477,213	155,395	–	–
Unsecured	583,725	312,000	583,725	312,000
	1,060,938	467,395	583,725	312,000

The details of assets pledged as security for these borrowings are set out in note 28 to the financial statements.

27. FINANCE LEASE PAYABLES

The Group leases certain plant and machinery and motor vehicles for its business use. These leases are classified as finance leases and have remaining lease terms ranging from one to four years. The total future minimum lease payments under finance leases and their present values at the balance sheet date were as follows:

	Group			
	Minimum lease payments 2004 HK$'000	Present value of minimum lease payments 2004 HK$'000	Minimum lease payments 2003 HK$'000	Present value of minimum lease payments 2003 HK$'000
Amounts payable:				
Within one year	531	501	11,593	11,330
In the second year	445	385	258	221
In the third to fifth years, inclusive	251	213	172	135
Total minimum finance lease payments	1,227	1,099	12,023	11,686
Future finance charges	(128)		(337)	
Total net finance lease payables	1,099		11,686	
Portion classified as current liabilities	(473)		(11,311)	
Non-current portion	626		375	

28. BORROWING FACILITIES

The Group's borrowings at 30 June 2004 were secured by fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK$5,329,000 (2003: HK$5,765,000) and HK$8,336,000 (2003: HK$8,892,000), respectively, and by bank deposits of HK$153,330,000 (2003: HK$115,664,000).

The Company has guaranteed certain of the Group's bank loans up to HK$743,589,000 (2003: HK$608,594,000). In addition, certain of the Group's bank loans are secured by corporate guarantees granted by three non-wholly-owned subsidiaries and joint and several personal guarantees by certain directors of two non-wholly-owned subsidiaries and one of their respective spouses.

29. SHARE CAPITAL

Shares

	Group and Company 2004 HK$'000	2003 HK$'000
Authorised:		
6,000,000,000 ordinary shares of HK$0.10 each	600,000	600,000
Issued and fully paid:		
3,175,232,401 (2003: 2,567,677,831) ordinary shares of HK$0.10 each	317,523	256,768

A summary of the movements in the Company's issued share capital is as follows:

	Notes	Number of ordinary shares of HK$0.10 each	Amount HK$'000
At 1 July 2002		2,371,726,484	237,173
Exercise of share options		68,400,000	6,840
Exercise of warrants		50,052,800	5,005
Conversion of convertible bonds		77,498,547	7,750
At 30 June 2003 and 1 July 2003		2,567,677,831	256,768
Exercise of share options	*(a)*	96,600,000	9,660
Exercise of warrants	*(b)*	178,954,570	17,895
Placing of new shares	*(c)*	332,000,000	33,200
At 30 June 2004		3,175,232,401	317,523

Notes:

(a) A total of 34,400,000 and 62,200,000 ordinary shares of HK$0.10 each were issued upon exercise of share options granted to certain directors and employees at an exercise price of HK$0.4312 and HK$0.5600 per share, respectively, for a total cash consideration before related issue expenses of approximately HK$49,665,000.

(b) A total of 178,954,570 ordinary shares of HK$0.10 each in the Company were issued at a subscription price of HK$0.77 per share pursuant to the exercise of the Company's warrants for a total cash consideration before related issue expenses of approximately HK$137,795,000.

(c) On 29 January 2004, the Company completed a placement, underwriting and subscription agreement with Viewlink Assets Limited ("Viewlink"), a substantial shareholder of the Company, under which a placement of 332,000,000 shares of then existing shares in the Company held by Viewlink were made to independent third parties at a price of HK$1.56 per share. At the same time, a subscription of 332,000,000 new shares of HK$0.1 each in the Company was made by Viewlink at the same share price for a total cash consideration, before issue expenses, of HK$517.9 million.

29. SHARE CAPITAL (Continued)

Warrants

A bonus issue of 230,495,088 warrants to subscribe for ordinary shares in the Company was made by the Company in April 2002. Each warrant entitled the holder thereof to subscribe in cash for ordinary shares of HK$0.10 each in the Company at a subscription price of HK$0.77 each (subject to adjustments) and is exercisable at any time during the period from 10 April 2002 to 9 April 2004 (both dates inclusive).

Prior to the current financial year, 50,059,200 warrants were exercised for the subscription of 50,059,200 ordinary shares of HK$0.10 each in the Company. From 1 July 2003 to 9 April 2004, 178,954,570 warrants were exercised for the subscription of 178,954,570 ordinary shares of HK$0.10 each in the Company. The excess of the cash consideration received over the nominal value of the issued shares, in the amount of approximately HK$119,900,000, was credited to the share premium account (note 31).

As at 9 April 2004, the Company had 1,481,318 warrants outstanding and accordingly these warrants were lapsed consequently on the expiry of the exercise period on 9 April 2004.

30. SHARE OPTION SCHEMES

Pursuant to the share option scheme adopted by the Company on 19 February 1998 (the "Previous Scheme"), the Company has granted certain options to directors and employees of the Group including the executive directors of the Company to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein. In order to comply with the new requirements of Chapter 17 of the Listing Rules on the Stock Exchange on granting options under share option schemes which took effect from 1 September 2001, the Previous Scheme was terminated and a new share option scheme (the "Existing Scheme") was adopted pursuant to an ordinary resolution passed by the shareholders at the annual general meeting of the Company held on 7 December 2001. Accordingly, no further options can be granted under the Previous Scheme as from 7 December 2001. However, for the outstanding options granted under the Previous Scheme, the existing rights of the grantees are not affected.

Pursuant to the Previous Scheme, the subscription price should be the higher of the nominal value of the shares of the Company or 80% of the average of the closing prices per share of the Company quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the share option. The maximum number of shares in respect of which options may be granted under the Previous Scheme may not exceed 10% of the issued share capital of the Company from time to time.

Pursuant to the Existing Scheme, the Company may grant options to eligible participants to subscribe for shares in the Company subject to the terms and conditions stipulated therein. A summary of the Existing Scheme is as follows:

Purpose	To enable the Company to grant options to Eligible Participants (as defined below) as incentive and reward for their contribution to the Group.
Eligible Participants	Employees, executives or officers of the Company or any of its subsidiaries (including their respective executive and non-executive directors) and suppliers, consultants and advisers who will or have provided services to the Group.

30. SHARE OPTION SCHEMES (Continued)

Total number of shares available for issue under the Existing Scheme	The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Existing Scheme must not exceed 10% of the shares of the Company in issue as at the date of relevant shareholders' approval.
Total number of shares available for issue for options granted under the Existing Scheme	At 30 June 2004, the number of shares issuable under share options granted under the Existing Scheme was 70,500,000, which represented approximately 2.2% of the issued share capital of the Company as at that date.
Maximum entitlement of each Eligible Participant	The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the number of shares of the Company in issue at the date of grant.
Period under which the shares must be taken up under an option	The period during which the options may be exercised will be determined by the board of directors of the Company at its absolute discretion, save that no option can be exercised more than 10 years after it has been granted and accepted.
Minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option must be held before it can be exercised.
Basis of determining the exercise price	The exercise price must be at least the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of the grant, which must be a business day; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.
The remaining life of the Existing Scheme	The Existing Scheme remains in force until 6 December 2011 unless otherwise terminated in accordance with the terms stipulated therein.
Period within which payments/calls/loans must be made/repaid	30 days from the date of the offer of the options.
Amount payable on acceptance of the option	HK$1.0

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

30. SHARE OPTION SCHEMES (Continued)

A summary of the movements in share options granted under the share option schemes of the Company and the share options attaching to the convertible bonds issued by the Company is as follows:

(I) Share option schemes

The Previous Scheme

Type of grantees	Number of options: At beginning of year		Exercised during the year		At end of year
Executive director					
Mr. Zhong Jianqiu	17,200,000		(17,200,000)	(ii)	–
Other employees	17,200,000		(17,200,000)	(iii)	–
	34,400,000	(i)	(34,400,000)		–

The Existing Scheme

Type of grantees	Number of options: At beginning of year		Exercised during the year		At end of year
Executive directors					
Mr. Kwong Wui Chun	8,900,000	(iv)	(4,000,000)	(vi)	4,900,000
Mr. Zhong Jianqiu	5,400,000		(5,400,000)	(vii)	–
Other employees	118,400,000		(52,800,000)	(viii)	65,600,000
	132,700,000	(v)	(62,200,000)		70,500,000

Notes:

(i) These share options were granted on 26 February 2001. The share options were exercisable during the period from 26 February 2001 to 25 February 2004 at an exercise price of HK$0.8624 per share. The number of share options and their exercise price were subsequently adjusted to 34,400,000 share options and HK$0.4312 (subject to further adjustments) respectively in consequence of the one-for-one bonus issue of shares in the Company in May 2001.

(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 year was HK$1.56.

(iii) The weighted average closing price of the shares of the Company immediately before the dates on which these share options were exercised during the year was HK$1.47.

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

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

(vi) The weighted average closing price of the shares of the Company immediately before the dates on which these share options were exercised during the year was HK$1.335.

(vii) The weighted average closing price of the shares of the Company immediately before the dates on which these share options were exercised during the year was HK$1.56.

(viii) The weighted average closing price of the shares of the Company immediately before the dates on which these share options were exercised during the year was HK$1.41.

30. SHARE OPTION SCHEMES (Continued)

(II) Share options attaching to convertible bonds

On 2 September 2000, options to acquire an aggregate of 12,500,000 new ordinary shares of HK$0.10 each in the Company were granted to the holders of the Company's convertible bonds. The options were exercisable during the period from 2 September 2000 up to and including 1 September 2003 at an exercise price of HK$2.84 per share. The number of options and their exercise price were subsequently adjusted to 25,000,000 options and HK$1.42, respectively, in consequence of the one-for-one bonus issue of new shares in the Company in May 2001. None of these options were exercised during the year and all these options lapsed upon expiry of the exercise period on 1 September 2003.

A summary of the movements in share options of the Company is as follows:

	Number of share options exercisable at the subscription price of		
	HK$0.4312 per share *(note (i))* *'000*	**HK$0.56 per share** *(note (ii))* *'000*	**HK$1.42 per share** *(note (iii))* *'000*
At beginning of year	34,400	132,700	25,000
Lapse of share options	–	–	(25,000)
Exercise of share options	(34,400)	(62,200)	–
At balance sheet date	–	70,500	–

During the year, the following movements in the share options under the Schemes of the Company and share option attaching to the convertible bonds issued by the Company were recorded:

(i) During the year, 34,400,000 share options were exercised at a subscription price of HK$0.4312 per share and resulted in the issue of 34,400,000 new ordinary shares in the Company. The excess of the cash consideration received over the nominal value of the issued shares of approximately HK$11,393,000 was credited to the share premium account (note 31).

(ii) During the year, 62,200,000 share options were exercised at the subscription price of HK$0.56 per share and resulted in the issuance of 62,200,000 new ordinary shares in the Company. The excess of the cash consideration received over the nominal value of the issued shares of HK$28,612,000 was credited to the share premium account (note 31).

(iii) On 2 September 2000, options to acquire an aggregate of 12,500,000 new ordinary shares of HK$0.10 each in the Company were granted to the holders of the Company's convertible bonds. The options were exercisable during the period from 2 September 2000 up to and including 1 September 2003 at an exercise price of HK$2.84 per share. The maximum number of shares in the Company which would be issued upon the exercise of these share options and their exercise price were subsequently adjusted to 25,000,000 ordinary shares and HK$1.42 respectively, in consequence of the one-for-one bonus issue of new shares in the Company in the preceding year. None of these options was exercised during the year.

Subsequent to the balance sheet date, on 6 July 2004, a total of 60,000,000 share options were granted to a director of the Company, the spouse of a director of the Company, a consultant and certain employees of the Group in respect of their services provided to the Group. These share options are exercisable during the period from 6 July 2004 to 5 July 2007 at an exercise price of HK$0.81 per share. The market price of the Company's shares at the date of grant was HK$0.81.

31. SHARE PREMIUM ACCOUNT

	Group and Company 2004	2003
	HK$'000	*HK$'000*
At beginning of year	973,051	876,448
Arising on exercise of share options	40,005	29,867
Arising on exercise of warrants	119,900	33,536
Arising on placement of shares	473,607	–
Arising on conversion of convertible bonds	–	33,200
	1,606,563	973,051

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The statutory surplus reserve and statutory public welfare fund represent appropriation of profits retained by the PRC subsidiaries of the Company. In accordance with the PRC regulations and the respective articles of association of the PRC subsidiaries, these companies are required to appropriate an amount equal to a minimum of 10% of their profit after tax each year to statutory surplus reserve. In addition, a portion of the profit after tax as determined at the discretion of the directors of each of the PRC subsidiaries, is transferred to the statutory public welfare fund.

Subject to certain restrictions set out in the PRC Company Law and the respective articles of association of the PRC subsidiaries, the statutory surplus reserve may be distributed to shareholders in the form of a share bonus issue and/or cash dividends.

The contributed surplus of the Group arose as a result of the Group reorganisation on 19 February 1998 and represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

(b) Company

	Contributed surplus	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2002	330,903	11,596	342,499
Net profit for the year	–	75,121	75,121
Dividends *(note 12)*	–	(111,737)	(111,737)
At 30 June 2003 and 1 July 2003	330,903	(25,020)	305,883
Net profit for the year	–	51,627	51,627
Dividends *(note 12)*	–	(96,246)	(96,246)
At 30 June 2004	330,903	(69,639)	261,264

32. RESERVES (Continued)

The proposed final dividend account within the capital and reserves section of the balance sheet represents an appropriation from retained profits and therefore forms part of the total of such reserve until the dividends are declared and paid. In addition, any excess of the appropriation over the retained profits reserve will be replenished by dividends declared to the Company by its subsidiaries when they are approved subsequent to the balance sheet date. The directors of the Company anticipate that the approval of such dividends from subsidiaries will be confirmed in due course.

The contributed surplus of the Company arose as a result of the same Group reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor.

In accordance with the Companies Act 1981 of Bermuda, the Company's contributed surplus is available for cash distribution and/or distribution in specie in certain circumstances.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, the following major non-cash transactions took place:

(i) The Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the finance leases of HK$994,000 (2003: HK$5,000,000).

(ii) Certain dividends declared by a subsidiary to minority shareholders of HK$6,222,000 (2003: HK$4,786,000) were recorded as part of "due to minority equity/shareholders" under current liabilities.

(iii) During the year ended 30 June 2003, the conversion rights vested in certain convertible bonds have been exercised whereby the principal portion of these bonds in the aggregate amount of US$5,250,000 (approximately HK$40,950,000) was converted into ordinary shares of HK$0.10 each in the Company at conversion prices ranging from HK$0.5146 to HK$0.6324 per share.

(iv) Deposits paid of HK$116,338,000 in respect of acquisition of an aluminum rolling mill and its associated auxiliary equipment in connection with the Group's investments in jointly-controlled entities were capitalised as the loan to the Group's investments in the jointly-controlled entities during the current year. Further details of which are set out in note 18 to the financial statements.

34. CONTINGENT LIABILITIES

	Group		Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bills discounted with recourse	19,312	13,149	–	–
Guarantees granted to and utilised by certain non-wholly owned subsidiaries in respect of:				
Banking facilities	–	–	751,152	608,594
Finance lease payables	–	–	–	12,177
Purchase of aluminium ingots	–	–	114,708	116,128
Guarantee granted to and utilised by a minority equity holder in respect of banking facilities	10,829	10,829	–	–
	30,141	23,978	865,860	736,899

Following the disposal of 26.2% equity interest in AAG to Indalex in the prior years, the Company, Indalex and AAG entered into a deed of tax indemnity on 8 June 2001 pursuant to which the Company has undertaken to indemnify Indalex in respect of any tax (as defined in the deed of tax indemnity) arising from any income, profits or gains earned, accrued or received by AAG and its subsidiaries (the "AAG Group") to the extent that any tax liability was not paid or provided for at the appropriate time as a result of the use by any of the AAG Group of any tax policies or accounting practices that did not comply with any applicable law or published practice in force, save in certain circumstances including where provision has been made for such tax in the audited financial statements of the AAG Group.

Save as aforesaid, the Group and the Company had no other material contingent liabilities.

35. OPERATING LEASE ARRANGEMENTS

The Group leases its manufacturing premises in the PRC under operating lease arrangements. Leases for properties are negotiated for terms which expire between the years 2011 and 2016.

At 30 June 2004, the Group had total future minimum lease payments under operating leases falling due as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Within one year	8,237	10,912
In the second to fifth years, inclusive	30,895	29,974
After five years	63,583	69,704
	102,715	110,590

The Company had no significant operating lease arrangements at the balance sheet date.

36. COMMITMENTS

In addition to the operating lease arrangements detailed in note 35 above, the Group and the Company had the following commitments at the balance sheet date.

(a) At 30 June 2004, the Group and the Company had capital commitments not provided for in the financial statements as follows:

	Group		Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted for *(note)*	694,577	283,375	5,550	–

Note: At the balance sheet date, the Group was committed to make a capital injection to a subsidiary in the PRC of approximately HK$31,200,000 (2003: HK$98,697,000). In addition, the Group and the Company had contracted capital commitments in respect of the acquisition of fixed assets of HK$283,725,000 (2003: HK$17,343,000) and HK$5,550,000 (2003: Nil), respectively. In prior year, the Group had a contracted capital commitment of HK$167,335,000 relating to the acquisition of an aluminum rolling mill and its associated auxiliary equipment in connection with the Group's investments in CSD, further details of which are set out in note 17 to the financial statements. Pursuant to a novation deed entered into amongst the Company, CSD and the vendor of 18 August 2003, the contract relating to the acquisition of the aluminum rolling mil and its associated auxiliary equipment was assigned to CSD. In addition, each of the Group and the other three subscribers has agreed to provide shareholders' loans to CSD in proportion to their respective interest in CSD. The maximum amount of the Group's proportion attributable to the shareholders' loans is HK$810,000,000. As at 30 June 2004, the Group's outstanding committed loan amount was HK$379,652,000 (2003: Nil).

(b) Pursuant to an agreement and a supplementary agreement entered into between the Company and the local bureau of High-Tech Development Zone of Zhaoqing City, Guangdong Province, the PRC during the year, the Company has agreed to acquire 50 years' land use rights to 10,300 市畝 ("mu") (approximately 6,870,100 square meters) of land located in the High-Tech Development Zone at an aggregate consideration of approximately HK$271,600,000. In return, the local bureau has agreed to refund the whole consideration of HK$271,600,000 to the Company as compensation for the construction cost of basic infrastructure facilities associated with the land incurred by the Group. Pursuant to an assignment agreement entered into amongst the Company, AA China and the local bureau during the year, the acquisition of land use right for 3,500 mu was assigned to AA China. Accordingly, the Company and the Group had contracted capital commitment in respect of the acquisition of the land use rights for the remaining 6,800 mu of HK$179,309,000.

(c) At the balance sheet date, the Group had a commitment in respect of forward contracts for the purchase and sale of raw materials of aluminium ingots in the amount of HK$79,955,000 (2003: HK$147,506,000).

(d) At 30 June 2004, the Group entered into an agreement with a major supplier of the Group, pursuant to which the Group agreed to purchase 6,000 tonnes of aluminum ingots per month for the period from July to December 2004 base on the official London Metal Exchange cash settlement price of high grade aluminum.

36. COMMITMENTS (Continued)

(e) In the prior year, the Company granted Put Option I to Indalex, under which the Company is obliged at the option of Indalex to purchase its entire equity interest in AAG upon the occurrence of certain triggering events which include, inter alia, the Company ceasing to hold 60% effective equity interest in AAG and Mr. Kwong ceasing to hold 35% effective equity interest in the Company. The Put Option I has no expiry date and subsists in perpetuity from 8 June 2001. The consideration payable by Indalex for the AAG shares upon the exercise of the Put Option I ranges from HK$524.0 million (adjustable for certain deferred consideration payable not exceeding HK$100.0 million) to the open market value of these AAG shares at the time of exercise of the Put Option I, or, depending on the circumstances giving rise to the triggering events and its occurrence timing, the 110% of these amounts. Further details of the Put Option I are set out in the Company's circular dated 18 May 2001 to its shareholders.

37. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 6 July 2004, 60,000,000 share options were granted to a director of the Company, the spouse of a director of the Company, a consultant and certain employees of the Group, as further detailed in note 30 to the financial statements.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 October 2004.

3. UNAUDITED CONSOLIDATED INTERIM RESULTS

The following is the unaudited condensed consolidated financial statements of the Group for the three months ended 30 September 2004, together with its comparative figures for the previous periods and the accompanying notes to the unaudited financial statements of the Group for the three months ended 30 September 2004 as extracted from the unaudited consolidated interim report of the Company for the three months ended 30 September 2004.

Condensed Consolidated Profit and Loss account

		Three months ended 30 September	
		2004	**2003**
		(Unaudited)	**(Unaudited)**
	Notes	*HK$'000*	*HK$'000*
Turnover	2	863,221	701,389
Cost of sales and services provided		(634,574)	(581,394)
Gross profit		228,647	119,995
Other revenue and gains		17,989	3,555
Selling and distribution costs		(25,326)	(17,796)
Administrative expenses		(28,566)	(33,857)
Provision for bad and doubtful debts		(1,883)	–
Profit from operating activities	3	190,861	71,897
Finance costs	4	(14,250)	(18,744)
Share of losses of jointly-controlled entities		(2,730)	(1,705)
Profit before tax		173,881	51,448
Tax	5	(48,041)	(22,999)
Profit before minority interests		125,840	28,449
Minority interests		(36,291)	(10,420)
Net profit attributable to shareholders		89,549	18,029
Dividends		–	–
Earnings per share	6		
– Basic		HK 2.82 cents	HK 0.70 cent
– Diluted		HK 2.80 cents	HK 0.66 cent

Condensed Consolidated Balance Sheet

	Notes	At 30 September 2004 (Unaudited) HK$'000	At 30 June 2004 (Audited) HK$'000
Non-current assets			
Fixed assets		997,078	950,457
Interest in jointly-controlled entities	7	428,401	410,136
Deposits paid		66,688	68,047
Deferred tax assets		1,666	1,666
		1,493,833	1,430,306
Current assets			
Trade receivables	8	561,641	545,509
Inventories		331,138	343,054
Prepayments, deposits and other receivables		223,814	251,433
Due from related companies		24,814	28,823
Due from minority equity/shareholders		67,910	67,910
Deposits with a non-bank financial institution		187,837	203,588
Cash and bank balances		2,685,830	2,595,900
Pledged bank deposits		31,073	153,330
		4,114,057	4,189,547
Current liabilities			
Trade payables	9	259,608	263,555
Accrued liabilities and other payables		279,270	258,855
Due to minority equity/shareholders		48,940	50,071
Trust receipt loans, secured		402,579	417,495
Interest-bearing bank and other loans, secured		336,911	477,213
Finance lease payables		473	473
Tax payable		111,239	109,048
Dividends payable		10,522	10,522
		1,449,542	1,587,232
Net current assets		2,664,515	2,602,315
Total assets less current liabilities		4,158,348	4,032,621

Condensed Consolidated Balance Sheet (Continued)

	Notes	At 30 September 2004 (Unaudited) HK$'000	At 30 June 2004 (Audited) HK$'000
Non-current liabilities			
Interest-bearing bank and other loans		583,725	583,725
Finance lease payables		508	626
		584,233	584,351
Minority interests		655,105	618,809
		2,919,010	2,829,461
CAPITAL AND RESERVES			
Issued capital	*10*	317,523	317,523
Share premium account	*11*	1,606,563	1,606,563
Reserves		937,770	848,221
Proposed final dividend		57,154	57,154
		2,919,010	2,829,461

Condensed Consolidated Cash Flow Statement

	Three months ended 30 September 2004 (Unaudited) *HK$'000*
Net cash inflow from operating activities	189,075
Net cash inflow from investing activities	22,342
Net cash outflow from financing activities	(140,415)
Net decrease in cash and cash equivalents	71,002
Cash and cash equivalents at beginning of period	2,204,943
Cash and cash equivalents at end of period	2,275,945
Analysis of balances of cash and cash equivalents	
Cash and bank balances	2,009,151
Deposits with a non-bank financial institution	187,837
Non-pledged time deposits with original maturity of less than three months when acquired	78,957
	2,275,945

Notes to the Unaudited Interim Financial Statements

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong, except that (i) no comparative figures for the condensed consolidated cash flow statement; and (ii) no condensed consolidated statements of changes in equity, have been presented. No such financial information have been prepared as the directors are of the opinion that it would involve undue expenses and delay out of proportion to the value to the management of the Group.

The accounting policies adopted and methods of computation used in the preparation of these financial statements are consistent with those used in the Group's annual financial statements for the year ended 30 June 2004.

2. SEGMENT INFORMATION

(a) Business segments

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

	Three months ended 30 September 2004 (Unaudited)					
	Aluminum extrusion products	Stainless steel products	Aluminum panels	Design and testing services	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	808,860	31,333	21,058	–	1,970	863,221
Other revenue	6,052	–	–	–	–	6,052
Total	814,912	31,333	21,058	–	1,970	869,273
Segment results	172,349	1,307	8,618	–	(16)	182,258
Interest and unallocated gains						11,937
Unallocated expenses						(3,334)
Profit from operating activities						190,861
Finance costs						(14,250)
Share of losses of jointly-controlled entities						(2,730)
Profit before tax						173,881
Tax						(48,041)
Profit before minority interests						125,840
Minority interests						(36,291)
Net profit from ordinary activities attributable to shareholders						89,549

2. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Three months ended 30 September 2003 (Unaudited)					
	Aluminum extrusion products	Stainless steel products	Aluminum panels	Design and testing services	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	546,803	121,151	33,435	–	–	701,389
Other revenue	865	–	–	–	–	865
Total	547,668	121,151	33,435	–	–	702,254
Segment results	55,012	6,136	16,388	–	(551)	76,985
Interest and unallocated gains						2,690
Unallocated expenses						(7,778)
Profit from operating activities						71,897
Finance costs						(18,744)
Share of losses of jointly-controlled entities						(1,705)
Profit before tax						51,448
Tax						(22,999)
Profit before minority interests						28,449
Minority interests						(10,420)
Net profit from ordinary activities attributable to shareholders						18,029

2. **SEGMENT INFORMATION** (Continued)

(b) Geographical segments

In determining the Group's geographical segments, revenues from operating activities are attributed to the segments based on the location of the customers.

	Three months ended 30 September 2004 (Unaudited)					
	Hong Kong	Mainland China	North America	Asia Pacific, excluding the Mainland China and Hong Kong	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	29,397	695,485	96,662	39,402	2,275	863,221

	Three months ended 30 September 2003 (Unaudited)					
	Hong Kong	Mainland China	North America	Asia Pacific, excluding the Mainland China and Hong Kong	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	41,403	576,567	61,040	20,872	1,507	701,389

3. **PROFIT FROM OPERATING ACTIVITIES**

	Three months ended 30 September	
	2004 (Unaudited)	**2003 (Unaudited)**
	HK$'000	*HK$'000*
Profit from operating activities is arrived at after charging the following:		
Depreciation	34,951	17,622

4. **FINANCE COSTS**

	Three months ended 30 September	
	2004 (Unaudited)	**2003 (Unaudited)**
	HK$'000	*HK$'000*
Interest on:		
Bank and other loans wholly repayable within five years	14,236	10,999
Finance leases	14	709
	14,250	11,708
Arrangement fees on bank and other loans	–	7,036
	14,250	18,744

5. TAX

	Three months ended 30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current period provision outside Hong Kong	48,041	22,999
Deferred tax	–	–
	48,041	22,999

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits from its operations in Hong Kong during the three months ended 30 September 2003 and 2004. The statutory tax rate for Hong Kong profits tax is 17.5% (2003: 17.5%). Taxes on profits assessable elsewhere have been calculated at the appropriate rates of taxation in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The statutory tax rate for Mainland China corporate income tax is 33% (2003: 33%). Under the relevant tax laws and regulations in Mainland China, certain subsidiaries (the "PRC Subsidiaries") of the Company operating in Mainland China are exempt from income tax for two years from their respective first profit-making year and are eligible for a 50% reduction in income tax for the following three years. During the three months ended 30 September 2003 and 2004, provisions for income tax have been made at the applicable reduced rate for the PRC Subsidiaries.

A reconciliation of the tax charge applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and jointly-controlled entities are domiciled to the tax charge at the effective tax rates is as follows:

	Three months ended 30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit before tax	173,881	51,448
Tax at Mainland China's statutory rate of 33%	57,381	16,978
Lower tax rate for Hong Kong and specific provinces in Mainland China	(12,036)	(1,752)
Income not subject to tax	(1,086)	(663)
Expenses not deductible for tax	1,688	6,446
Increase in unutilised tax losses carried forward	2,094	1,990
Tax charge at the effective rate	48,041	22,999

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following dates:

	Three months ended 30 September 2004 (Unaudited) *HK$'000*	Three months ended 30 September 2003 (Unaudited) *HK$'000*
Earnings:		
Earnings for the purpose of basic and diluted earnings per share calculation, (net profit for the period)	89,549	18,029
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	3,175,232,401	2,593,704,109
Effect of dilutive share options	21,759,259	71,758,222
Effect of dilutive warrants	–	56,674,377
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	3,196,991,660	2,722,136,708

7. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	At 30 September 2004 (Unaudited) *HK$'000*	At 30 June 2004 (Audited) *HK$'000*
Share of net liabilities, unlisted	(4,830)	(2,100)
Due from jointly-controlled entities	458,655	437,660
Due to jointly-controlled entities	(25,424)	(25,424)
	428,401	410,136

The balances with unlisted jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

7. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
				2004	2003	
China Steel Development Company Limited ("CSD")	Corporate	Samoa/ Mainland China	US$1,000,000	60	60	Investment holding
Asia Aluminum (China) Limited ("AA China")	Corporate	Mainland China	US$30,000,000	60	60	Manufacture of aluminum panels/ plates

Pursuant to a subscription agreement dated 11 July 2003 (the "Subscription Agreement") entered into among CSD, Sino Advance, Mr. Kwong, Record Break Investments Limited (the "First Subscriber") and Think Success Industries Limited (the "Second Subscriber"), Sino Advance, Mr. Kwong, the First Subscriber and the Second Subscriber have conditionally agreed to subscribe for a total of 999,999 new shares in CSD of US$1 each in cash. Upon the completion of the Subscription Agreement, the equity interest in CSD attributable to the Group is 60%. The total consideration payable under the Subscription Agreement is US$999,999 (equivalent to HK$7,799,992). At date of the Subscription Agreement, both CSD and Sino Advance are wholly-owned subsidiaries of the Company. The First Subscriber and the Second Subscriber are independent investment vehicles wholly-owned by one of the Group's suppliers engaged in the trading of non-ferrous metals and the Group's distributors for the aluminium products of the Group, respectively. Upon completion of the subscription of shares in CSD, the Company has no power to cast the majority of votes at meetings of board of directors of CSD and therefore it is not regarded as a subsidiary of the Company.

Immediately after the execution of the Subscription Agreement, CSD established AA China, a wholly foreign-owned enterprise, in Zhaoqing, Guangdong Province, Mainland China for a period of 50 years commencing from the date of issuance of its business licence of 4 September 2003. The sole purpose of the establishment of AA China is for operating a new manufacturing facility for production of high grade aluminium sheet products with a maximum capacity of 400,000 tonnes per annum.

All the above interests in jointly-controlled entities are indirectly held by the Company.

8. TRADE RECEIVABLES

An aged analysis of the Group's trade receivables at the balance sheet date, based on invoice date, is as follows:

	At 30 September 2004 (Unaudited) *HK$'000*	At 30 June 2004 (Audited) *HK$'000*
Within 3 months	484,213	487,940
4 to 6 months	84,148	55,475
7 to 12 months	19,865	29,970
More than 1 year	65,273	62,099
	653,499	635,484
Provision for bad and doubtful debts	(91,858)	(89,975)
	561,641	545,509

It is the general policy of the Group to allow a credit period of 20 days to three months. In addition, for certain customers with long established relationships and good repayment history, a longer credit period may be granted.

9. TRADE PAYABLES

An aged analysis of the Group's trade payables at the balance sheet date, based on invoice date, is as follows:

	At 30 September 2004 (Unaudited) *HK$'000*	At 30 June 2004 (Audited) *HK$'000*
Within 3 months	229,867	235,357
4 to 6 months	14,902	11,126
7 to 12 months	9,241	12,753
More than 1 year	5,598	4,319
	259,608	263,555

10. SHARE CAPITAL

	At 30 September 2004 (Unaudited) *HK$'000*	At 30 June 2004 (Audited) *HK$'000*
Authorised:		
6,000,000,000 ordinary shares of HK$0.10 each	600,000	600,000
Issued and fully paid:		
3,175,232,401 ordinary shares of HK$0.10 each as at 30 June and 30 September 2004	317,523	317,523

11. SHARE PREMIUM ACCOUNT

	At 30 September 2004 (Unaudited) *HK$'000*	At 30 June 2004 (Unaudited) *HK$'000*
At beginning of year/period	1,606,563	973,051
Arising on exercise of share options	–	40,005
Arising on conversion of convertible bonds	–	119,900
Arising on exercise of warrants	–	473,607
At end of year/period	1,606,563	1,606,563

12. CONTINGENT LIABILITIES

At 30 June 2004 and 30 September 2004, the Group had contingent liabilities of HK$19,312,000 and HK$18,550,000 (US$2,378,000), respectively, representing the bills discounted with recourse. In addition, the Group had granted a guarantee to and utilised by a minority equity holder in respect of banking facilities of HK$10,829,000 as at 30 June and 30 September 2004.

13. COMMITMENTS

(a) At 30 June and 30 September 2004, the Group had commitments in respect of future minimum rentals under operating leases as follows:

	At 30 September 2004 (Unaudited) *HK$'000*	At 30 June 2004 (Audited) *HK$'000*
Within one year	10,618	8,237
In the second to fifth years, inclusive	37,352	30,895
After five years	61,726	63,583
	109,696	102,715

13. COMMITMENTS (Continued)

(b) At 30 June and 30 September 2004, the Group had capital commitments not provided for in the financial statements as follows:

	At 30 September 2004 (Unaudited) *HK$'000*	At 30 June 2004 (Audited) *HK$'000*
Contracted for *(Note)*	787,195	694,577

Note: At 30 June and 30 September 2004, the Group was committed to make a capital injection to a subsidiary in Mainland China of approximately HK$31,200,000. In addition, the Group had contracted capital commitments in respect of the acquisition of fixed assets of HK$283,725,000 and HK$304,982,000 at 30 June and 30 September 2004, respectively. The Company also had contracted capital commitments in respect of the acquisition of fixed assets of HK$5,550,000 and HK$5,550,000 at 30 June and 30 September 2004, respectively. In prior year, the Group had a contracted capital commitment of HK$167,335,000 relating to the acquisition of an aluminium rolling mill and its associated auxiliary equipment in connection with the Group's investments in CSD, further details of which are set out in note 7 to the financial statements. Pursuant to a novation deed entered into amongst the Company, CSD and the vendor of 18 August 2003, the contract relating to the acquisition of the aluminium rolling mill and its associated auxiliary equipment was assigned to CSD. In addition, each of the Group and the other three subscribers has agreed to provide shareholders' loans to CSD in proportion to their respective interest in CSD. The maximum amount of the Group's proportion attributable to the shareholders' loans is HK$810,000,000. As at 30 June and 30 September 2004, the Group's outstanding committed loan amount were HK$379,652,000 and HK$367,601,000, respectively.

(c) At 30 June and 30 September 2004, the Group had a commitment in respect of forward contracts for the delivery of raw materials of aluminium ingots in the amount of HK$79,955,000 and HK$113,706,000, respectively.

(d) At 30 June and 30 September 2004, the Group had entered into an agreement with a major supplier of the Group, pursuant to which the Group agreed to purchase 6,000 tonnes of aluminium ingots per month for the period from July to December 2004 based on the official London Metal Exchange cash settlement price of high grade aluminium.

(e) In the prior year, the Company granted a Put Option to Indalex UK Limited ("Indalex"), under which the Company is obliged at the option of Indalex to purchase its entire equity interest in AAG upon the occurrence of certain triggering events which include, inter alia, the Company ceasing to hold 60% effective equity interest in AAG and Mr. Kwong ceasing to hold 35% effective equity interest in the Company. The Put Option has no expiry date and subsists in perpetuity from 8 June 2001. The consideration payable by Indalex for the AAG shares upon the exercise of the Put Option ranges from HK$524.0 million (adjustable for certain deferred consideration payable not exceeding HK$100.0 million) to the open market value of these AAG shares at the time of exercise of the Put Option, or, depending on the circumstances giving rise to the triggering events and its occurrence timing, the 110% of these amounts. Further details of the Put Option are set out in the Company's circular dated 18 May 2001 to its shareholders.

14. BORROWING FACILITIES

The Group's borrowings were secured by:

(a) certain buildings in Mainland China, with a total net book value of HK$5,329,000 and HK$5,220,000, respectively, as at 30 June and 30 September 2004;

(b) certain plant and machineries, with a total net book value of HK$8,336,000 and HK$8,197,000, respectively, as at 30 June and 30 September 2004; and

(c) bank deposits of HK$153,330,000 and HK$31,073,000, respectively, as at 30 June and 30 September 2004.

15. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the period:

		Three months ended 30 September	
		2004	**2003**
		(Unaudited)	**(Unaudited)**
	Note	*HK$'000*	*HK$'000*
Rental expenses paid to a related company	*(i)*	588	588
Termination fee in respect of rental paid to a related company	*(i)*	–	100
Rental expenses paid to a director	*(ii)*	–	81
Sale of finished goods to a minority shareholder of a subsidiary, Indalex Aluminum Solution Group ("IASG")	*(iii)*	38,244	22,289
Sale of finished goods to a company of which a director of a non wholly-owned subsidiary is also a director	(iv)	3,111	4,041
Consultancy fee paid to a former director of the Company	*(v)*	320	160
Cash maintained with bank accounts in the PRC under the name of associates of two directors held on behalf of the Group		3,815	–
Transfer of construction in progress from a jointly-controlled entity		16,761	–

Notes:

(i) The rentals were paid in respect of the Group's leased office premises situated in Hong Kong to Harbour Talent Limited, a company in which Mr. Kwong Wui Chun ("Mr. Kwong"), a director and substantial shareholder of the Company, has a beneficial interest. The directors of the Company have confirmed that the monthly rentals were calculated by reference to the then prevailing open market rental values. On 1 July 2003, the rental agreements in respect of the Group's staff quarters were early terminated and, accordingly, a compensation of HK$100,000 was paid.

(ii) The rentals were paid in respect of the Group's leased staff quarters situated in Hong Kong to Dr. Chan Yiu Tsuan, Benby, a director of the Company. The directors of the Company have confirmed that the monthly rental was calculated by reference to the then prevailing open market rental value.

(iii) IASG comprises companies associated with Indalex, a company which became the minority shareholder of a subsidiary of the Company upon the acquisition of a 26.2% equity interest in this subsidiary on 8 June 2001. The directors of the Company consider that these transactions were made according to prices and other terms similar to those offered to unrelated parties of the Group.

(iv) The directors of the Company consider that the sale of finished goods to a company, of which a director of a non wholly-owned subsidiary is also a director, were made according to prices and other terms similar to those offered to unrelated customers of the Group.

(v) Pursuant to a service agreement entered into between the Group and a former director of the Company on 8 August 2003, the consultancy fee was charged at a monthly rate of HK$107,000. The directors of the Company consider that the monthly consultancy fee was based on normal business terms.

16. POST BALANCE SHEET EVENTS

Subsequent to 30 September 2004, the following significant events occurred:

(i) On 2 November 2004, the Group had entered into a shareholders' agreement with Cometal Phoenix China Dies s.r.l. in relation to the cooperative establishment of Phoenix Asia Dies Company Limited ("Phoenix"). Phoenix shall be the sole shareholder of Phoenix Guangdong Dies Manufacturing Company Limited, a wholly foreign-owned enterprise to be established in the PRC for the manufacture of dies and tooling for aluminum extrusion products. Pursuant to the shareholders' agreement, the Group will subscribe for 40% of the issued share capital of Phoenix and provide a shareholder's loan of US$2,400,000 (equivalent to approximately HK$18,720,000). The loan can be satisfied by the provision of cash or tangible assets.

(ii) On 25 November 2004, CSD had entered into contracts with SMS Demag Aktiengesellchaft, SMS Demag Inc. and TMGE Automation Systems LLC ("TMGE") (collectively the "Sellers") whereby CSD agreed to purchase and the Sellers agreed to supply certain equipment, parts, engineering, application software, technical services and other materials to CSD to facilitate the construction and establishment of for aluminium hot rolling mill facilities for the manufacturing of "premium" aluminium sheets by AA China.

The total consideration payable by CSD under the above contract is approximately HK$457,317,000 of which (i) amounts of US$14,471,000 and 565,583,000 Japanese yens (equivalent to approximately HK$154,210,000 in aggregate) are to be paid to TMGE, (ii) an amount of Euros 22,869,000 (equivalent to approximately HK$230,955,000) is to be paid to SMS Demag Aktiengesellchaft and (iii) amounts of US$6,324,000 and Euros 2,276,000 (equivalent to approximately HK$72,152,000 in aggregate) are to be paid to SMS Demag Inc..

The transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, further details of which had been disclosed in the Company's announcement of 29 November 2004.

The following is the text of a report, prepared for the sole purpose of inclusion in this Circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

7 January 2005

The Board of Directors
Asia Aluminum Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding China Steel Development Company Limited ("CSD") and its wholly-owned subsidiary, Asia Aluminum (China) Company Limited ("AAC"), collectively the "CSD Group", prepared on the basis as set out in section I below, for inclusion in the circular issued by Asia Aluminum Holdings Limited ("AAH" or the "Company") dated 7 January 2005 (the "Circular"). The definitions used in the Circular apply to this report unless otherwise stated.

CSD was incorporated in Samoa with limited liability under the International Companies Act 1987 on 9 May 2003. Upon incorporation of CSD, one share of CSD was allotted and issued to Sino Advance Investments Limited ("Sino Advance"), a wholly-owned subsidiary of the Company, at par. Pursuant to a subscription agreement dated 11 July 2003 (the "Subscription Agreement") entered into among CSD, Sino Advance, Mr. Kwong Wui Chun ("Mr. Kwong"), Record Break Investments Limited (the "First Subscriber") and Think Success Industries Limited (the "Second Subscriber"), Sino Advance, Mr. Kwong, the First Subscriber and the Second Subscriber have conditionally agreed to subscribe for a total of 999,999 new shares in CSD of US$1 each for a cash consideration of US$999,999 (equivalent to HK$7,799,992). At the date of the Subscription Agreement, both CSD and Sino Advance were wholly-owned subsidiaries of the Company. Upon completion of the Subscription Agreement in September 2003, the equity interest in CSD attributable to the Company was 60%. Upon completion of the subscription of shares in CSD, the Company ceased to be able to cast the majority of votes at meetings of board of directors of CSD and therefore it was not regarded as a subsidiary of the Company thereafter.

The authorised share capital of CSD amounted to US$1,000,000 was divided into 1,000,000 shares of US$1 each, and 1,000,000 shares were allotted and issued as fully paid. During the period from 9 May 2003 (date of its incorporation) to 30 June 2003, the year ended 30 June 2004 and the three months ended 30 September 2004 (the "Relevant Periods"), CSD was principally engaged in investment holding. The sole purpose of the establishment of the CSD Group is for operating a new manufacturing facility for production of high grade aluminum sheet products with a maximum capacity of 400,000 tonnes per annum in Zhaoqing, Guangdong Province, the People's Republic of China ("PRC"). Up to the date of this report, the CSD Group was still in its set up/development stage and had not commenced production.

With the exception of AAC, whose financial statements for tax filing purposes are based on a 31 December year end date, the CSD Group has adopted 30 June as its financial year end date for statutory reporting purposes.

We have acted as the auditors of the CSD Group during the Relevant Periods. The financial statements of AAC for the period from 4 September 2003 (date of incorporation of AAC) to 31 December 2003 prepared under generally accepted accounting principles in the PRC were audited by Guangdong Xinhua Certified Public Accountants Co., Ltd., certified public accountants in the PRC. As at the date of this report, no audited financial statements have been prepared for CSD for the Relevant Periods as it was not subject to statutory audit requirements in its jurisdiction of incorporation.

For the purpose of this report, we have examined the management accounts of CSD and AAC for the Relevant Periods, which were prepared in accordance with accounting principles generally accepted in Hong Kong, in accordance with the Statements of Auditing Standards ("SASs") and Auditing Guidelines issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the reporting accountant" issued by the HKICPA.

For the purpose of this report we have performed a review of the comparative financial information which includes the consolidated results and consolidated cash flows of the CSD Group for the three months ended 30 September 2003, together with the notes thereon, (the "30 September 2003 Financial Information") for which the directors of CSD are responsible, in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than an audit, and accordingly, we do not express an audit opinion on 30 September 2003 Financial Information.

The summaries of the consolidated profit and loss account, the consolidated statements of changes in equity and the consolidated cash flow statements of the CSD Group for the Relevant Periods and of the consolidated balance sheets of the CSD Group and of the balance sheets of CSD as at 30 June 2003, 30 June 2004 and 30 September 2004 (the "Summaries") as set out in this report have been prepared, and are presented on the basis as set out in section I below.

The Summaries are the responsibility of the directors of CSD who approve their issuance. The directors of the Company are responsible for the content of the Circular relating to the CSD Group in which this report is included. It is our responsibility to compile the Summaries together with the notes thereto, to form an independent opinion on such information and to report our opinion to you.

Fundamental uncertainty relating to going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in section I to this report concerning the basis of the presentation of the Summaries prepared by the directors of CSD. As explained in section I to this report, the CSD Group's financial statements have been prepared on a going concern basis, the validity of which is dependent on continuing support of the existing shareholders and the financial support to be provided by the Company after completion of the Notes Issue. The Summaries do not include any adjustments that may be necessary should the Notes Issue not be completed and hence the financial support from the Company not be forthcoming, and should CSD's existing shareholders fail to provide the continuing support, the CSD Group may not be able to continue in business as a going concern. Should the CSD Group be unable to continue as a going concern, adjustments would have to be made to restate the values of the CSD Group's assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify its non-current assets and liabilities as current assets and liabilities, respectively. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the consolidated results and cash flows of the CSD Group for the Relevant Periods, and of the state of affairs of the CSD Group and of CSD as at 30 June 2003, 30 June 2004 and 30 September 2004.

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the 30 September 2003 Financial Information.

I. BASIS OF PRESENTATION

The Summaries have been prepared base on the amounts included in the management accounts of CSD and AAC throughout the Relevant Periods. All material transactions and balances between CSD and AAC have been eliminated on consolidation. The definitions used in the Circular apply to this report unless otherwise stated.

The Summaries have been prepared on a going concern basis notwithstanding that the CSD Group has deficiency in assets as the directors of CSD expect the existing shareholders to provide continuing support to the CSD Group, and the Company will provide financial support to the CSD Group after completion of the Notes Issue. Should the Notes Issue not be completed and hence the financial support from the Company not be forthcoming, and should CSD's existing shareholders fail to provide continuing support, the CSD Group may not be able to continue in business as a going concern and adjustments would have to be made to restate the values of the CSD Group's assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify its non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the Summaries.

At the date of this report, CSD had direct interests in the following subsidiary, which is a private company incorporated outside Hong Kong and has substantially similar characteristics to a private company incorporated in Hong Kong, the particulars of which are set out below:

Company	Place and date of registration and operations	Paid-up capital	Percentage of equity directly attributable to CSD 30 June 2003	30 June and 30 September 2004	Principal activity
Asia Aluminum (China) Company Limited ("AAC")	Mainland China 4 September 2003	US$30,000,000	–	100	Manufacture of aluminum flat-rolled products

AAC is a wholly foreign owned enterprise established by CSD with a term of 50 years commencing on the date of its business licence of 4 September 2003. Up to the date of this report, AAC was still in its set up/development stage and had not yet commenced production.

II. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial information as set out in this report has been prepared in accordance with accounting principles generally accepted in Hong Kong. The financial information has been prepared under the historical cost convention.

The consolidated financial statements include the management accounts of CSD and its subsidiary as at the balance sheet dates. All material transactions and balances between the companies in the CSD Group have been eliminated on consolidation.

(b) Subsidiaries

A subsidiary is a company whose financial and operating policies CSD controls, directly or indirectly, so as to obtain benefits from its activities.

The results of the subsidiary are included in CSD's profit and loss account to the extent of dividends received and receivable. CSD's interests in its subsidiary are stated at cost less any impairment losses.

(c) Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Office equipment	-16.67%
Motor vehicles	-16.67%

Construction in progress represents the costs incurred in connection with the construction of fixed assets less any impairment losses and is not depreciated. Cost comprises direct costs incurred during the period of construction, installation and testing. Construction in progress is re-classified to the appropriate category of fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sale proceeds and the carrying amount of the relevant asset.

(d) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(e) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the CSD Group and when the revenue can be measured reliably. Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(f) Employee benefits

All employees of the CSD Group are employed by CSD's subsidiary, which operates in Mainland China, and are required to participate in a central pension scheme operated by the local municipal government, the assets of which are held separately from those of the CSD Group. The subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme, which are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

(g) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the profit and loss account by way of a reduced depreciation charge.

(h) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(i) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(j) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

(k) Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the PRC subsidiary are translated into Hong Kong dollars using the net investment method. The profit and loss account of the PRC subsidiary are translated into Hong Kong dollars at the weighted average exchange rates for the period, and its balance sheet is translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of the PRC subsidiary are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the PRC subsidiary which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the period.

(l) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the CSD Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

III. CONSOLIDATED PROFIT AND LOSS ACCOUNT

The following is a summary of the consolidated profit and loss account of the CSD Group for the Relevant Periods, which is presented on the basis set out in section I above:

	Notes	Period from 9 May 2003 (date of incorporation) to 30 June 2003	Year ended 30 June 2004	Three months ended 30 September 2003	Three months ended 30 September 2004
		HK$'000 (audited)	*HK$'000* (audited)	*HK$'000* (unaudited)	*HK$'000* (audited)
TURNOVER	*(a)*	–	–	–	–
Other revenue	*(a)*	–	665	5	249
Administrative expenses		–	(11,945)	(2,847)	(4,959)
LOSS BEFORE TAX	*(b)*	–	(11,280)	(2,842)	(4,710)
Tax	*(d)*	–	–	–	–
NET LOSS FOR THE YEAR/PERIOD	*(e)*	–	(11,280)	(2,842)	(4,710)
DIVIDEND	*(f)*	–	–	–	–

Notes:

(a) Turnover and other revenue

No turnover is generated during the Relevant Periods as the CSD Group has not commenced production since its incorporation.

An analysis of the CSD Group's revenue is as follows:

	Period from 9 May 2003 (date of incorporation) to 30 June 2003	Year ended 30 June 2004	Three months ended 30 September 2003	Three months ended 30 September 2004
	HK$'000 (audited)	*HK$'000* (audited)	*HK$'000* (unaudited)	*HK$'000* (audited)
Exchange gains, net	–	307	–	202
Interest income	–	358	5	47
Total other revenue	–	665	5	249

(b) Loss before tax

The CSD Group's loss before tax is arrived at after charging:

	Period from 9 May 2003 (date of incorporation) to 30 June 2003	Year ended 30 June 2004	Three months ended 30 September 2003	Three months ended 30 September 2004
	HK$'000 (audited)	*HK$'000* (audited)	*HK$'000* (unaudited)	*HK$'000* (audited)
Depreciation	–	109	–	145
Auditors' remuneration	–	91	–	20
Staff costs (excluding directors' remuneration – *note(c)*):				
Wages and salaries	–	4,045	80	1,814
Pension scheme contributions	–	–	–	–

(c) Directors' remuneration and five highest paid employees

During the Relevant Periods, none of the directors received any fees or emoluments in respect of their services rendered during the Relevant Periods.

Details of the emoluments of the remaining five non-director, highest paid employees during the Relevant Periods are set out below:

	Period from 9 May 2003 (date of incorporation) to 30 June 2003 *HK$'000* (audited)	Year ended 30 June 2004 *HK$'000* (audited)	Three months ended 30 September 2003 *HK$'000* (unaudited)	2004 *HK$'000* (audited)
Salaries, allowance and benefits in kind	–	1,501	–	411
Pension scheme contributions	–	–	–	–
	–	1,501	–	411

The remuneration of each of the non-director, highest paid employees for the Relevant Periods fell within the Nil to HK$1,000,000 band.

During the Relevant Periods, no remuneration was paid by the CSD Group to the directors or any of the five non-director highest paid individuals as an inducement to join the CSD Group or as compensation for loss of office. No director of CSD waived or agreed to waive any remuneration during the Relevant Periods.

(d) Tax

No Hong Kong profits tax or PRC corporate income tax has been provided as the CSD Group did not generate any assessable profits during the Relevant Periods. The statutory tax rate for Hong Kong profits tax is 17.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods. The standard PRC corporate income tax rate applicable to the CSD Group is 24%.

A reconciliation of the tax credit applicable to loss before tax using the statutory rate in the PRC to the tax position at the effective tax rates are as follows:

	Period from 9 May 2003 (date of incorporation) to 30 June 2003 *HK$'000* (audited)	Year ended 30 June 2004 *HK$'000* (audited)	Three months ended 30 September 2003 *HK$'000* (unaudited)	2004 *HK$'000* (audited)
Loss before tax	–	11,280	2,842	4,710
Tax credit at the PRC statutory tax rate of 24%	–	2,707	682	1,130
Income not subject to tax	–	80	–	11
Expenses not deductible for tax	–	(2,787)	(682)	(1,141)
	–	–	–	–

There were no deferred tax items noted during each of the Relevant Periods and at the end of each of the Relevant Periods.

(e) Net loss for the year/period

	Period from 9 May 2003 (date of incorporation) to 30 June 2003 *HK$'000* (audited)	Year ended 30 June 2004 *HK$'000* (audited)	Three months ended 30 September 2003 *HK$'000* (unaudited)	2004 *HK$'000* (audited)
Net loss for the year/period dealt with in the financial statements of CSD	–	4,346	2,842	2,644

(f) Dividend

No dividend has been paid or declared by CSD or AAC to its shareholders/equity holder during the Relevant Periods.

(g) Loss per share

No loss per share information has been presented as its inclusion, for the purpose of this report, is not considered meaningful.

IV. BALANCE SHEETS

The following is a summary of the consolidated balance sheets of the CSD Group and the balance sheets of CSD as at 30 June 2003 and 2004 and 30 September 2004 which is presented on the basis set out in section I above:

Consolidated balance sheets of the CSD Group

		30 June		30 September
		2003	**2004**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
		(audited)	(audited)	(audited)
NON-CURRENT ASSETS				
Fixed assets	*(a)*	–	13,119	17,547
Prepayments and deposits	*(b)*	–	721,688	750,675
		–	734,807	768,222
CURRENT ASSETS				
Prepayments, deposits and other receivables	*(b)*	–	92,678	2,207
Due from companies in the AAH Group	*(c)*	–	25,424	25,541
Cash and bank balances		–	138,431	118,165
		–	256,533	145,913
CURRENT LIABILITIES				
Due to companies in the AAH Group	*(c)*	–	7,312	16,413
Accrued liabilities and other payables		–	93,853	206
		–	101,165	16,619
NET CURRENT ASSETS		–	155,368	129,294
TOTAL ASSETS LESS CURRENT LIABILITIES		–	890,175	897,516
NON-CURRENT LIABILITIES				
Loan from shareholders	*(d)*	–	893,675	905,726
		–	(3,500)	(8,210)
DEFICIENCY IN ASSETS				
Issued capital	*(e)*	–	7,780	7,780
Accumulated losses		–	(11,280)	(15,990)
		–	(3,500)	(8,210)

Balance sheets of CSD

		30 June		30 September
		2003	**2004**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
		(audited)	(audited)	(audited)
NON-CURRENT ASSETS				
Fixed assets	*(a)*	–	13	288
Prepayments and deposits	*(b)*	–	704,896	750,675
Interests in a subsidiary	*(f)*	–	155,120	155,120
		–	860,029	906,083
CURRENT ASSETS				
Prepayments, deposits and other receivables	*(b)*	–	–	36
Due from companies in the AAH Group	*(c)*	–	–	30
Cash and bank balances		–	37,169	513
		–	37,169	579
CURRENT LIABILITIES				
Due to companies in the AAH Group	*(c)*	–	–	1
Accrued liabilities and other payables		–	89	145
		–	89	146
NET CURRENT ASSETS		–	37,080	433
TOTAL ASSETS LESS CURRENT LIABILITIES		–	897,109	906,516
NON-CURRENT LIABILITIES				
Loan from shareholders	*(d)*	–	893,675	905,726
		–	3,434	790
CAPITAL AND RESERVE				
Issued capital	*(e)*	–	7,780	7,780
Accumulated losses		–	(4,346)	(6,990)
		–	3,434	790

Notes:

(a) Fixed assets

The CSD Group

	Office equipment *HK$'000* (audited)	**Motor vehicles** *HK$'000* (audited)	**Construction in progress** *HK$'000* (audited)	**Total** *HK$'000* (audited)
Cost:				
At 9 May 2003, 30 June 2003 and 1 July 2003	–	–	–	–
Additions	1,018	1,483	10,727	13,228
At 30 June 2004 and 1 July 2004	1,018	1,483	10,727	13,228
Additions	973	15	3,585	4,573
At 30 September 2004	1,991	1,498	14,312	17,801
Accumulated depreciation:				
At 9 May 2003, 30 June 2003 and 1 July 2003	–	–	–	–
Provided during the year	76	33	–	109
At 30 June 2004 and 1 July 2004	76	33	–	109
Provided during the period	64	81	–	145
At 30 September 2004	140	114	–	254
Net book value:				
At 30 June 2003	–	–	–	–
At 30 June 2004	942	1,450	10,727	13,119
At 30 September 2004	1,851	1,384	14,312	17,547

CSD

	Office equipment *HK$'000* (audited)	**Motor vehicles** *HK$'000* (audited)	**Total** *HK$'000* (audited)
Cost:			
At 9 May 2003, 30 June 2003 and 1 July 2003	–	–	–
Additions	13	–	13
At 30 June 2004 and 1 July 2004	13	–	13
Additions	–	280	280
At 30 September 2004	13	280	293
Accumulated depreciation:			
At 9 May 2003, 30 June 2003 and 1 July 2003	–	–	–
Provided during the year	–	–	–
At 30 June 2004 and 1 July 2004	–	–	–
Provided during the period	1	4	5
At 30 September 2004	1	4	5
Net book value:			
At 30 June 2003	–	–	–
At 30 June 2004	13	–	13
At 30 September 2004	12	276	288

Pursuant to an agreement and a supplementary agreement entered into between AAH and the local bureau of High-Tech Development Zone of Zhaoqing City, Guangdong Province during the year ended 30 June 2004, AAH has agreed to acquire 50 years' land use right of 10,300 mu ("市畝") (approximately 6,867,000 square meters) of the land located in Zhaoqing High-Tech Development Zone at an aggregate consideration of HK$271,600,000. In return, the local bureau has agreed to refund the whole consideration of HK$271,600,000 to the AAH Group as compensation for the construction cost of basic infrastructure facilities associated with the land incurred by the AAH Group. Pursuant to an assignment agreement entered into amongst AAH, AAC and the local bureau on 13 November 2003, the acquisition of land use right of 3,500 mu were assigned to AAC. On 12 April 2004, AAC acquired the land use right of 3,500 mu and the land use right certificates were obtained on 29 June 2004. In September 2004, AAC had paid the consideration for the acquisition of 3,500 mu of the land use right of HK$95 million, including the deposits paid in the year ended 30 June 2004 (see note (b) below), and subsequent to the payment made to the local bureau, the local bureau refunded the whole amount of HK$95 million to AAC in September 2004.

(b) Prepayments, deposits and other receivables

The CSD Group

	Notes	30 June 2003 HK$'000 (audited)	30 June 2004 HK$'000 (audited)	30 September 2004 HK$'000 (audited)
Non-current portion	*(i)*	–	721,688	750,675
Current portion	*(ii)*	–	92,678	2,207
		–	814,366	752,882

CSD

	Note	30 June 2003 HK$'000 (audited)	30 June 2004 HK$'000 (audited)	30 September 2004 HK$'000 (audited)
Non-current portion	*(i)*	–	704,896	750,675
Current portion		–	–	36
		–	704,896	750,711

Notes:

(i) The non-current portion of the balance mainly represented deposits paid in respect of acquisition of machineries of HK$750,675,000 as at 30 September 2004 (30 June 2004: HK$704,896,000; 30 June 2003: Nil).

(ii) The current portion of the balance mainly represented deposits to the local governmental land bureau in respect of acquisition of land use rights in Mainland China of HK$92,335,000 as at 30 June 2004. The deposits were refunded in September 2004 as part of compensation for construction costs incurred by the CSD Group.

(c) Balances with companies in the AAH Group

The balances with the companies in the AAH Group are unsecured, interest-free and have no fixed terms of repayment.

(d) Loans from shareholders

The loans from shareholders are unsecured, interest-free and are not repayable within one year from the respective balance sheet dates. Each of the shareholders has agreed to provide shareholders' loans of a total amount of HK$1,350,000,000 to CSD in proportion to their respective interest in CSD. The maximum amount of the committed shareholders' loans attributable to the AAH Group is HK$810,000,000. As at 30 September 2004, the AAH Group's outstanding committed loan amount was HK$379,652,000 (30 June 2004: HK$379,652,000; 30 June 2003: Nil).

(e) Share capital

	30 June 2003 HK$'000 (audited)	30 June 2004 HK$'000 (audited)	30 September 2004 HK$'000 (audited)
Authorised:			
1,000,000 shares of US$1 each	7,780	7,780	7,780
Issued and fully paid:			
1,000,000 shares (30 June 2003: 1 share) of US$1 each	–	7,780	7,780

(f) Interests in a subsidiary

	30 June 2003 HK$'000 (audited)	30 June 2004 HK$'000 (audited)	30 September 2004 HK$'000 (audited)
Unlisted equity in AAC, at cost	–	232,650	232,650
Due to AAC	–	(77,530)	(77,530)
	–	155,120	155,120

The amount due to AAC, the subsidiary of CSD, is unsecured, interest-free and is not repayable in the next 12 months.

(g) Commitments

The CSD Group

	30 June 2003 HK$'000 (audited)	30 June 2004 HK$'000 (audited)	30 September 2004 HK$'000 (audited)
Contracted, but not provided for	–	462,387	1,086,116

CSD

As at 30 September 2004, CSD had capital commitments of US$145,000,000 (equivalent approximately HK$1,131,000,000) in respect of its investment in AAC (30 June 2004: HK$1,131,000,000; 30 June 2003: Nil).

(h) Related party transactions

In addition to those disclosed elsewhere in this report, the CSD Group had the following transactions with related parties during the Relevant Periods:

	30 June 2003 HK$'000 (audited)	30 June 2004 HK$'000 (audited)	30 September 2004 HK$'000 (audited)
Deposit paid to the AAH Group *(Note)*	–	25,424	25,424
Deposits paid in respect of construction in progress on behalf of the AAH Group	–	–	16,761

Note: The deposit was paid in respect of sale of aluminum products to be made by companies in the AAH Group to the CSD Group, which will be applied for construction of the manufacturing facilities of the CSD Group. The directors of CSD consider the sale to be made by the AAH Group to be in accordance with prices and other terms similar to those offered to unrelated customers of the AAH Group.

V. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The following is a summary of the consolidated statements of changes in equity of the CSD Group for the Relevant Periods, prepared on the basis as set out in section I above:

	Issued capital HK$'000 (audited)	Accumulated losses HK$'000 (audited)	Total HK$'000 (audited)
Upon incorporation on 9 May 2003	–	–	–
Net loss for the period	–	–	–
At 30 June 2003 and 1 July 2003	–	–	–
Issue of shares	7,780	–	7,780
Net loss for the year	–	(11,280)	(11,280)
At 30 June 2004 and 1 July 2004	7,780	(11,280)	(3,500)
Net loss for the period	–	(4,710)	(4,710)
At 30 September 2004	7,780	(15,990)	(8,210)

VI. CONSOLIDATED CASH FLOW STATEMENTS

The following is a summary of the consolidated cash flow statements of the CSD Group for the Relevant Periods which is presented on the basis set in section I above:

	Period from 9 May 2003 (date of incorporation) to 30 June 2003	Year ended 30 June 2004	Three months ended 30 September 2003	Three months ended 30 September 2004
	HK$'000 (audited)	HK$'000 (audited)	HK$'000 (unaudited)	HK$'000 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax	–	(11,280)	(2,842)	(4,710)
Adjustments for:				
Interest income	–	(358)	(5)	(47)
Depreciation	–	109	–	145
Operating loss before working capital changes	–	(11,529)	(2,847)	(4,612)
Increase in prepayments, deposits and other receivables	–	(343)	(27)	(4,665)
Increase in accrued liabilities and other payables	–	136	79	1,489
Increase in amounts due from companies in the AAH Group	–	(25,424)	–	(117)
Increase in amounts due to companies in the AAH Group	–	7,312	–	9,101
Cash generated from/(used in) operations and net cash inflow/(outflow) from operating activities	–	(29,848)	(2,795)	1,196
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of fixed assets	–	(13,228)	–	(4,573)
Deposits paid	–	(603,968)	(255,180)	(28,987)
Interest received	–	358	5	47
Net cash outflow from investing activities	–	(616,838)	(255,175)	(33,513)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of new shares	–	7,780	7,780	–
Increase in loans from shareholders	–	777,337	254,454	12,051
Net cash inflow from financing activities	–	785,117	262,234	12,051
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	–	138,431	4,264	(20,266)

	Period from 9 May 2003 (date of incorporation) to 30 June 2003	Year ended 30 June 2004	Three months ended 30 September 2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)	(audited)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	–	138,431	4,264	(20,266)
Cash and cash equivalents at beginning of year/period	–	–	–	138,431
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	–	138,431	4,264	118,165
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	–	138,431	4,264	118,165

Major non-cash transaction:

The deposits paid by the AAH Group of HK$116,338,000 during the period ended 30 June 2003 in respect of acquisition of an aluminum rolling mill and its associated auxiliary equipment on behalf of the CSD Group were capitalised as part of the loans from the AAH Group to the CSD Group during the year ended 30 June 2004.

VII. SEGMENT INFORMATION

Contributions to operating results and assets and liabilities by business segments and by geographical market have not been presented as most of the CSD Group's costs and expenses and assets and liabilities were unallocated and related to Mainland China. The directors also consider that such information is not meaningful or representative for the purpose of this report as the CSD Group is still in its set up/development stage.

VIII. SUBSEQUENT EVENTS

In addition to the matters set out in other sections, the following events took place subsequent to 30 September 2004:

(a) On 25 November 2004, CSD entered into contracts with SMS Demag Aktiengesellchaft, SMS Demag Inc. and TMGE Automation Systems LLC ("TMGE") (collectively the "Sellers") whereby CSD agreed to purchase and the Sellers agreed to supply certain equipment, parts, engineering, application software, technical services and other materials to CSD to facilitate the construction and establishment of aluminium hot rolling mill facilities for the manufacture of "premium" aluminium sheets by AAC.

The total consideration payable by CSD under the above contract is approximately HK$457,317,000 of which (i) amounts of US$14,471,000 and 565,583,000 Japanese yen (equivalent to approximately HK$154,210,000 in aggregate) are to be paid to TMGE, (ii) an amount of Euros 22,869,000 (equivalent to approximately HK$230,955,000) is to be paid to SMS Demag Aktiengesellchaft, and (iii) amounts of US$6,324,000 and Euros 2,276,000 (equivalent to approximately HK$72,152,000 in aggregate) are to be paid to SMS Demag Inc..

The transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), further details of which had been disclosed in the Company's announcement of 29 November 2004.

(b) On 16 December 2004, the Company entered into an agreement (the "Purchase Agreement"), among others, with Morgan Stanley & Co. International Limited and the Hongkong and Shanghai Banking Corporation Limited, in relation to its issue of 8% fixed rate senior notes due 2011 in the principal amount of US$450 million (the "Notes"). The Company intends to apply US$300 million of the proceeds from the Notes Issue as a shareholder's loan to the CSD Group (the "Financial Assistance") in order to satisfy the funding requirements of the CSD Group for development of Asia Aluminum Industrial City. The other shareholders of CSD will not contribute shareholders' loans on a pro-rata basis.

For the purpose of classifying the category of notifiable transaction into which the above transaction falls, the Financial Assistance is required to be aggregated with the discloseable transaction referred to AAH's circular dated 1 August 2003 regarding AAH's proposed establishment of the CSD Group. As the Financial Assistance constituted a very substantial acquisition and connected transaction of the Company under the Listing Rules, an announcement was made by AAH on 16 December 2004.

After amendment of the articles of associations of CSD with effect on 16 December 2004, AAH will be empowered to exercise unilateral control over the CSD Group's major financial and operation policies and CSD will become a 60% owned subsidiary of AAH.

Save as aforesaid, no other significant events took place subsequent to 30 September 2004.

IX. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by CSD in respect of any period subsequent to 30 September 2004.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

1. Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group after the Completion and Notes Issue

The following table is an illustrative and unaudited pro forma consolidated statement of assets and liabilities of the Company and its subsidiaries and CSD and its subsidiary (the "Enlarged Group") as at 30 June 2004 which has been prepared for the purpose of illustration as if the completion of the change of CSD and its subsidiary (the "CSD Group") from jointly-controlled entities to subsidiaries of the Company (the "Completion") and the Notes Issue had taken place on 30 June 2004.

The unaudited pro forma consolidated statement of assets and liabilities is based on the audited consolidated balance sheet of the Group as at 30 June 2004, and the audited consolidated balance sheet of the CSD Group as at 30 June 2004 as extracted from the accountants' report on the CSD Group as set out in Appendix II to this Circular.

The unaudited pro forma consolidated statement of assets and liabilities is prepared to provide the unaudited pro forma financial information on the Enlarged Group to demonstrate the effect of the Completion and the Notes Issue. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any future date. No tax impact has been considered in the preparation of the pro forma consolidated statement of assets and liabilities.

	The Group as at 30 June 2004 (Audited) *HK$'000*	The CSD Group as at 30 June 2004 (Audited) *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma consolidation adjustments *HK$'000*	*Notes*	Pro forma consolidated Enlarged Group as at 30 June 2004 (Unaudited) *HK$'000*
Non-current assets							
Fixed assets	950,457	13,119	–				963,576
Interests in jointly-controlled entities	410,136	–	–		(410,136)	*4*	–
Prepayment and deposits	68,047	721,688	–				789,735
Deposits held in escrow account	–	–	2,730,000	*1, 2, 3*			2,730,000
Deferred expenditure	–	–	97,188	*1*			97,188
Deferred tax assets	1,666	–	–				1,666
	1,430,306	734,807	2,827,188		(410,136)		4,582,165
Current assets							
Trade receivables	545,509	–	–				545,509
Inventories	343,054	–	–				343,054
Prepayments, deposits and other receivables	251,433	92,678	–				344,111
Due from related companies	28,823	–	–				28,823
Due from companies in the Group	–	25,424	–		(25,424)	*4*	–
Due from minority equity/ shareholders	67,910	–	–				67,910
Deposits held in escrow account	–	–	99,087	*1, 2, 3*			99,087
Deposits with a non-bank financial institution	203,588	–	–				203,588
Cash and bank balances	2,595,900	138,431	–				2,734,331
Pledged bank deposits	153,330	–	–				153,330
	4,189,547	256,533	99,087		(25,424)		4,519,743

	The Group as at 30 June 2004 (Audited) HK$'000	The CSD Group as at 30 June 2004 (Audited) HK$'000	Pro forma adjustments HK$'000	Notes	Pro forma consolidation adjustments HK$'000	Notes	Pro forma consolidated Enlarged Group as at 30 June 2004 (Unaudited) HK$'000
Current liabilities							
Trade payables	263,555	–	–				263,555
Accrued liabilities and other payables	258,855	93,853	–				352,708
Due to minority equity/ shareholders	50,071	–	–				50,071
Trust receipt loans	417,495	–	–				417,495
Interest-bearing bank and other loans	477,213	–	–				477,213
Finance lease payables	473	–	–				473
Due to companies in the Group	–	7,312	–		(7,312)	4	–
Tax payable	109,048	–	–				109,048
Dividends payable	10,522	–	–				10,522
	1,587,232	101,165	–		(7,312)		1,681,085
Net current assets	2,602,315	155,368	99,087		(18,112)		2,838,658
Total assets less current liabilities	4,032,621	890,175	2,926,275		(428,248)		7,420,823
Non-current liabilities							
Interest-bearing bank and other loans	583,725	–	(583,725)	2			–
Finance lease payables	626	–	–				626
Loans from shareholders of CSD	–	893,675	–		(430,348)	4	463,327
Fixed rate senior notes	–	–	3,510,000	3			3,510,000
	584,351	893,675	2,926,275		(430,348)		3,973,953
Minority interests	618,809	–	–		(1,400)	4	617,409
	2,829,461	(3,500)	–		3,500		2,829,461
Shareholders' equity	2,829,461	(3,500)	–		3,500		2,829,461

Notes:

1. The adjustment reflects the capitalisation of the underwriting discount and other estimated expenses in connection with the Notes Issue (the "Issuance Expenses") of US$12.5 million (equivalent to HK$97.2 million).

2. The adjustment reflects the repayment of the syndicated loans of US$75 million (equivalent to HK$583.7 million) by the Group after the Notes Issue.

3. The adjustment reflects the Notes Issue of US$450 million (equivalent to HK$3,510 million). After the Notes Issue, the net proceeds arising from the Notes Issue will be deposited in an interest-bearing escrow account held with the Trustee from which the Company may withdraw funds under different stages, as mentioned in "Letter From The Board – use of proceeds from the Notes Issue". Among the deposits in the escrow account, HK$99.1 million is classified as a current asset while the remaining balance is treated as a non-current asset.

4. The pro forma consolidation adjustments reflect (i) elimination of the Group's 60% equity interests in the CSD Group; (ii) elimination of intercompany balances between the Group and the CSD Group; and (iii) the minority interests of 40% in the CSD Group after the Completion.

2. Unaudited Pro Forma Consolidated Profit and Loss Account of the Enlarged Group

The following table is an illustrative and unaudited pro forma consolidated profit and loss account of the Enlarged Group for the year ended 30 June 2004 which has been prepared for the purpose of illustration as if the Completion and the Notes Issue had taken place on 1 July 2003.

The unaudited pro forma consolidated profit and loss account is based on the audited consolidated profit and loss account of the Group for the year ended 30 June 2004, and the audited consolidated profit and loss account of the CSD Group for the year ended 30 June 2004 as extracted from the accountants' report on the CSD Group as set out in Appendix II to the circular issued by Asia Aluminum Holdings Limited dated 7 January 2005 (the "Circular").

The unaudited pro forma consolidated profit and loss account is prepared to provide the unaudited pro forma financial information on the Enlarged Group to demonstrate the effect of the Completion and the Notes Issue. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any future date. No tax impact has been considered in the preparation of the pro forma consolidated profit and loss account.

	The Group year ended 30 June 2004 (Audited) *HK$'000*	The CSD Group year ended 30 June 2004 (Audited) *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma consolidation adjustments *HK$'000*	*Notes*	Pro forma consolidated Enlarged Group for the year ended 30 June 2004 (Unaudited) *HK$'000*
Turnover	2,938,482	–	–				2,938,482
Cost of sales and services provided	(2,240,164)	–	–				(2,240,164)
Gross profit	698,318	–	–				698,318
Other revenue and gains	64,075	665	8,314	*1*			73,054
Selling and distribution costs	(76,755)	–	–				(76,755)
Administrative expenses	(132,721)	(11,945)	–				(144,666)
Provision for bad and doubtful debts	(24,040)	–	–				(24,040)
Profit/(loss) from operating activities	528,877	(11,280)	8,314				525,911
Finance costs	(59,144)	–	(89,864)	2			(149,008)
Share of results of jointly-controlled entities	(6,768)	–	–		6,768	3	–
Profit/(loss) before tax	462,965	(11,280)	(81,550)		6,768		376,903
Taxation	(143,224)	–	–				(143,224)
Profit/(loss) before minority interests	319,741	(11,280)	(81,550)		6,768		233,679
Minority interests	(97,218)	–	–		4,512	3	(92,706)
Net profit/(loss) attributable to shareholders	222,523	(11,280)	(81,550)		11,280		140,973

Notes:

1. The adjustment reflects interest income for the deposits held in escrow account. The interest income is calculated based on the interest rate of 1.7% per annum.

2. The adjustment reflects (i) interest expenses of US$12.1 million (equivalent to HK$94.2 million) on the Notes. Interest expenses of the Notes was assumed to be charged at an effective rate of 8.0525% per annum on the Notes of US$150 million (equivalent to HK$1,170 million). It is assumed that US$300 million of the total proceeds of the Notes Issue of US$450 million, is withdrawn from the escrow account in the first year of the Notes Issue for the CSD Group's capital expenditure purpose. The interest expense on the US$300 million will be capitalised as part of the capital expenditure; (ii) amortisation of the Issuance Expenses of US$1.8 million (equivalent to HK$13.9 million). The amortisation of the Issuance Expenses is based on the assumption that the Issuance Expenses of US$12.5 million (equivalent to HK$97.2 million) are amortised over the maturity period of the Notes for 7 years on a straight-line basis; and (iii) reversal of arrangement fee and interest expenses of the syndicated loans of US$0.9 million (equivalent to HK$7.0 million) and US$1.4 million (equivalent to HK$11.2 million), respectively, as if the Notes is issued and the syndicated loan is repaid as at 1 July 2003.

3. The pro forma consolidation adjustments reflect (i) the reversal of 60% share of results in the CSD Group by the Group upon the Completion; and (ii) the 40% share of the result of the CSD Group by the minority shareholders of CSD.

3. Unaudited Pro Forma Consolidated Cash Flow Statement of the Enlarged Group

The following table is an illustrative and unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 30 June 2004 which has been prepared for the purpose of illustration as if the Completion and the Notes Issue had taken place on 1 July 2003.

The unaudited pro forma consolidated cash flow statement is based on the audited consolidated cash flow statement of the Group for the year ended 30 June 2004 and the audited consolidated cash flow statement of the CSD Group for the year ended 30 June 2004 as extracted from the accountants' report on the CSD Group as set out in Appendix II to this Circular.

The unaudited pro forma consolidated cash flow statement is prepared to provide the unaudited pro forma financial information on the Enlarged Group to demonstrate the effect of the Completion and the Notes Issue. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any future date.

	The Group year ended 30 June 2004 (Audited) *HK$'000*	The CSD Group year ended 30 June 2004 (Audited) *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma consolidation adjustments *HK$'000*	*Notes*	Pro forma consolidated Enlarged Group for the year ended 30 June 2004 (Unaudited) *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit/(loss) from operating activities	528,877	(11,280)	8,314				525,911
Adjustments for:							
Interest income	(21,393)	(358)	(8,314)	*1*			(30,065)
Depreciation of fixed assets	97,484	109	–				97,593
Provision for bad and doubtful debts, net	24,040	–	–				24,040
Loss on disposal/write-off of fixed assets, net	14,092	–	–				14,092
Operating Profit/(loss) before working capital changes	643,100	(11,529)	–				631,571
Increase in trade receivables	(118,552)	–	–				(118,552)
Increase in inventories	(53,728)	–	–				(53,728)
Decrease/(increase) in prepayments, deposits and other receivables	49,834	(343)	–				49,491
Increase in amounts due from related companies	(6,991)	–	–				(6,991)
Increase/(decrease) in amounts due from companies in the Group	–	(25,424)			25,424	*6*	–
Increase in trade payables	30,811	–	–				30,811
Increase/(decrease) in amounts due to companies in the Group	–	7,312			(7,312)	*6*	–
Decrease in trust receipt loans	(101,286)	–	–				(101,286)
Decrease in amount due to minority shareholders, net	(29,258)	–	–				(29,258)
Increase in accrued liabilities and other payables	78,463	136	–				78,599
Cash generated from/(used in) operations	492,393	(29,848)	–		18,112		480,657
Interest paid	(51,781)	–	(157,266)	2			(209,047)
Interest element on finance lease rental payments	(327)	–	–				(327)
Arrangement fee on bank and other loans	(7,036)	–	–				(7,036)
Mainland China corporate income tax paid	(121,927)	–	–				(121,927)
Net cash inflow/(outflow) from operating activities	311,322	(29,848)	(157,266)		18,112		142,320

	The Group year ended 30 June 2004 (Audited)	The CSD Group year ended 30 June 2004 (Audited)	Pro forma adjustments	Notes	Pro forma consolidation adjustments	Notes	Pro forma consolidated Enlarged Group for the year ended 30 June 2004 (Unaudited)
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*		*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of fixed assets	(157,032)	(13,228)	–				(170,260)
Proceeds from sales of fixed assets	527	–	–				527
Payment for investment in Rolled Products Project	–	–	(2,340,000)	3			(2,340,000)
Deposits paid	(68,047)	(603,968)	–				(672,015)
Interest received	21,393	358	8,314	1			30,065
Capital injection to jointly-controlled entities	(4,668)	–	–		4,668	7	–
Advances to jointly-controlled entities	(295,898)	–	–		295,898	6	–
Increase in pledged bank deposits	(37,666)	–	–				(37,666)
Increase in non-pledged time deposits with original maturity of more than three months when acquired	(32,154)	–	–				(32,154)
Increase in deposits held in escrow account	–	–	(489,087)	3, 4, 5			(489,087)
Net cash inflow/(outflow) from investing activities	(573,545)	(616,838)	(2,820,773)		300,566		(3,710,590)
CASH FLOWS FROM FINANCING ACTIVITIES							
Exercise of options to subscribe for new ordinary shares in the Company	49,665	–					49,665
Exercise of warrants to subscribe for new ordinary shares in the Company	137,795	–					137,795
Placement of new shares	517,920	–					517,920
Share issue expenses	(11,113)	–					(11,113)
Capital contribution in the CSD Group	–	7,780			(4,668)	7	3,112
Advances from shareholders of the CSD Group	–	777,337	–		(314,010)	6	463,327
New bank loans	1,140,975	–					1,140,975
New other loans	3,767	–					3,767
Repayment of bank loans	(547,969)	–	(583,725)	4			(1,131,694)
Repayment of other loans	(3,230)	–					(3,230)
Capital element of finance lease rental payments	(11,581)	–					(11,581)
Dividends paid	(84,786)	–					(84,786)
Dividends paid by a subsidiary to minority shareholders	(32,394)	–					(32,394)
Net proceeds from Notes Issue	–	–	3,412,812	5			3,412,812
Net cash inflow/(outflow) from financing activities	1,159,049	785,117	2,829,087		(318,678)		4,454,575

	The Group for the year ended 30 June 2004 (Audited) HK$'000	The CSD Group for the year ended 30 June 2004 (Audited) HK$'000	Pro forma adjustments HK$'000	Notes	Pro forma consolidation adjustments HK$'000	Notes	Pro forma consolidated Enlarged Group for the year ended 30 June 2004 (Unaudited) HK$'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	896,826	138,431	(148,952)		–		886,305
Cash and cash equivalents at beginning of year	1,308,633	–	–				1,308,633
Effect of foreign exchange rate changes	(516)	–	–				(516)
CASH AND CASH EQUIVALENTS AT END OF YEAR	2,204,943	138,431	(148,952)		–		2,194,422
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS							
Cash and bank balances	1,901,835	138,431	(148,952)		–		1,891,314
Deposits with a non-bank financial institution	203,588	–	–		–		203,588
Non-pledged time deposits with original maturity of less than three months when acquired	99,520	–	–		–		99,520
	2,204,943	138,431	(148,952)		–		2,194,422

Notes:

1. The adjustment reflects interest income for deposits held in escrow account. The interest rate is assumed to be 1.7% per annum.

2. The adjustments reflect (i) interest expenses of US$22.5 million (equivalent to HK$175.5 million) of the Notes which is assumed to be charged at 5% per annum in accordance with interest rate swap entered with a financial institution; and (ii) reversal of arrangement fee and interest expenses of the syndicated loan of US$0.9 million (equivalent to HK$7.0 million) and US$1.4 million (equivalent to HK$11.2 million), respectively.

3. The adjustment reflects the payment for investment in Rolled Products Project of US$300 million (equivalent to HK$2,340 million).

4. The adjustment reflects the repayment of syndicated loan of US$75 million (equivalent to HK$583.7 million).

5. The adjustment reflects the proceeds from the Notes Issue of US$450 million (equivalent to HK$3,510 million) deducting the Issuance Expenses of US$12.5 million (equivalent to HK$97.2 million).

6. The pro forma consolidation adjustments reflect elimination of the effect of the fund transfer between the Group and the CSD Group.

7. The pro forma consolidation adjustment reflects elimination of the Group's capital injection in the CSD Group.

4. Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Enlarged Group before and after the Completion and the Notes Issue

Set out below is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group before the Completion and the Notes Issue based on its audited consolidated net assets as at 30 June 2004 as set out in Appendix II to this Circular and an unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group after the Completion and the Notes Issue based on its unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2004 as set out in this Appendix.

Consolidated net tangible assets of the Group as at 30 June 2004 before the Completion and the Notes Issue	Consolidated net tangible assets of the CSD Group as at 30 June 2004 before the Completion and the Notes Issue	Pro forma consolidation adjustments	Unaudited pro forma consolidated net tangible assets of the Enlarged Group as at 30 June 2004 after the Completion and the Notes Issue
(Audited)	*(Audited)*	*(Note 1)*	*(Unaudited)*
HK'000	*HK'000*	*HK$'000*	*HK$'000*
2,829,461	(3,500)	3,500	2,829,461

Pro forma consolidated net tangible assets of the Group as at 30 June 2004 attributable to each share of the Company before the Completion and the Notes Issue	Pro forma adjusted consolidated net tangible assets of the Enlarged Group as at 30 June 2004 attributable to each share of the Company after the Completion and the Notes Issue
(Unaudited)	*(Unaudited)*
(Note 2)	*(Note 2)*
HK$	*HK$*
0.89	0.89

Notes:

1. The pro forma consolidation adjustments reflect (i) elimination of the Group's 60% equity interests in the CSD Group after the Completion; and (ii) the minority interests of 40% in the CSD Group after the Completion.

2. The number of the Company's shares used for the calculation of this figure is 3,175,232,401, which is the existing shares in issue as at 30 June 2004.

B. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a report, prepared for the sole purpose of inclusion in this Circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永 會 計 師 事 務 所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

7 January 2005

The Board of Directors
Asia Aluminum Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of the Enlarged Group (the Group (as defined herein) together with the CSD Group (as defined herein)) set out on pages III – 1 to III – 8 in Appendix III to the circular dated 7 January 2005, which has been prepared by Asia Aluminum Holdings Limited (the "Company", and together with its subsidiaries are referred to as the "Group"), solely for illustrative purposes, to provide information about the proposed investments in China Steel Development Company Limited ("CSD") and the transactions as described in the accompanying introduction to the unaudited pro forma financial information of the Enlarged Group might have affected the historical financial information in respect of the Group.

The historical financial information is derived from the audited historical financial information of the Group and of CSD and Asia Aluminum (China) Company Limited (collectively the "CSD Group") appearing elsewhere herein. The basis of preparation of the pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma financial information of the Enlarged Group.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with Paragraph 13 of Appendix 1B and Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the pro forma financial information.

The pro forma financial information is for illustrative purposes only, based on the directors' judgements and assumptions, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or results of:

– the Enlarged Group had the transaction actually occurred as at the dates indicated therein; or

– the Enlarged Group at any future date or for any future periods.

Opinion

In our opinion:

(a) the accompanying unaudited pro forma financial information has been properly compiled on the basis stated therein;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

C. INDEBTEDNESS STATEMENT

As at 30 November 2004, the Enlarged Group had outstanding borrowings of approximately HK$1,776.0 million. The borrowings comprised secured bank loans of approximately HK$309.1 million; unsecured bank loans of approximately HK$583.7 million; unsecured trust receipt loans of approximately HK$418.5 million; secured finance lease payables of approximately HK$1.4 million and unsecured loans from minority shareholders of CSD of approximately HK$463.3 million respectively.

As at 30 November 2004, the banking facilities of the Enlarged Group were supported by the following:

(i) legal charges over certain fixed assets of the Enlarged Group, mainly land in the PRC with total cost of approximately HK$2.8 million, buildings in the PRC with a total net book value of approximately HK$5.1 million, plant and machinery with a total net book value of approximately HK$21.0 million and motor vehicles with a total net book value of approximately HK$1.8 million;

(ii) pledge of certain bank deposits of HK$22.1 million;

(iii) corporate guarantees executed by the Company;

(iv) corporate guarantees executed by certain non-wholly owned subsidiaries of the Company; and

(v) joint and several personal guarantees by certain directors of two non-wholly owned subsidiaries of the Company.

As at 30 November 2004, the Enlarged Group had bills discounted with recourse of about HK$34.9 million and guarantee granted to and utilised by a minority equity holder of a subsidiary in respect of banking facilities of about HK$10.8 million. Besides, the Enlarged Group had commitments in respect of forward foreign exchange contracts in the amount of approximately HK$205.5 million.

For the tax indemnity, following the disposal of 26.2% equity interest in a subsidiary, Asia Aluminium Group Limited ("AAG"), to Indalex UK Limited ("Indalex"), a minority shareholder of AAG, in the prior years, the Company, Indalex and AAG entered into a deed of tax indemnity on 8 June 2001 pursuant to which the Company has undertaken to indemnify Indalex in respect of any tax (as defined in the deed of tax indemnity) arising from any income, profits or gains earned, accrued or received by AAG and its subsidiaries (the "AAG Group") to the extent that any tax liability was not paid or provided for at the appropriate time as a result of the use by any of the AAG Group of any tax policies or accounting practices that did not comply with any applicable law or published practice in force, save in certain circumstances including where provision has been made for such tax in the 2004 audited financial statements of the AAG Group.

Save as aforesaid, the Enlarged Group had no other material contingent liabilities as at 30 November 2004.

Save as aforesaid or otherwise mentioned herein, and apart from intra-group liabilities, none of the companies in the Enlarged Group had at the close of business on 30 November 2004 any outstanding mortgages, charges, loan capital issued and outstanding or agreed to be issued, bank loans and overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

Save as the Notes Issue as detailed in other section of this Circular, we have confirmed that there have been no other material changes in the indebtedness, commitments and contingent liabilities of the companies comprising the Enlarged Group since 30 November 2004.

The obligation of the Company under the Notes will be guaranteed by certain subsidiaries of the Company, which consist of Topmost Precision Limited, Sino Advance Investments Limited, Asia Cybertech Limited, Asia Advanced Metal Products Company Limited, CSD and Asia Aluminum Management Limited (collectively the "Subsidiary Guarantors"). The Notes will be further secured by (i) pledges of the Company's rights under the shareholder's loan provided to and to be provided to CSD; (ii) certain other inter-company loans which are (a) the inter-company loan of up to US$100 million from the Company to Asia Aluminum Manufacturing Company Limited; and (b) the inter-company loan of up to US$100 million from the Company to Asia Aluminum Group Limited; and (iii) pledges of shares of certain of the Subsidiary Guarantors, namely Topmost Precision Limited, Sino Advance Investments Limited and Asia Cybertech Limited.

The Notes are senior in right of payment to any existing and future obligations of the Company expressly subordinated in the right of payment to the Notes. For all other unsecured and unsubordinated indebtedness of the Company, the Notes will rank pari passu in right.

Foreign currency amounts have, for the purpose of the indebtedness statement, been translated into Hong Kong dollars at the applicable rates of exchange prevailing at the close of business on 30 November 2004.

No events or transactions have occurred subsequent to 30 June 2004 which would have a material effect upon the audited consolidated financial statements of the Group at that date.

D. WORKING CAPITAL

The Directors are of the opinion that in the absence of unforeseen circumstances and after taking into account the present internal financial resources available to the Enlarged Group, the net proceeds from the Notes Issue of US$437.5 million (equivalent to HK$3,412.5 million) and after the repayment of the syndicated loan and its accrued interests of approximately US$76 million (equivalent to HK$592.8 million) and the available banking facilities of the Group, the Enlarged Group has sufficient working capital for its present requirements for at least 12 months from the date of this Circular.

E. MANAGEMENT DISCUSSION AND ANALYSIS – JULY-SEPTEMBER 2004

THE OPERATING REVIEW

(a) Overview

For the three months period ended 30 September 2004, the Enlarged Group posted sales of HK$863 million, an increase of 23% over the comparable quarter in 2003, mainly attributable to the growing demand of high value-added aluminum extrusion products for markets in the PRC and North America. Sales in the reporting period was generated solely by the Group since the CSD Group has not commenced production yet and therefore did not provide any sales contribution to the Enlarged Group. The CSD Group, founded in May 2003, was established to develop the Rolled Products Project.

Based on geographical segments, sales distribution for Hong Kong was 3% (2003: 6%), Mainland China at 81% (2003: 82%), North America at 11% (2003: 9%), Asia Pacific and others (excluding Mainland China and Hong Kong) at 5% (2003: 3%).

Based on business segments, sales distribution of aluminum extrusion products was 94% (2003: 78%), stainless steel products at 4% (2003: 17%) and aluminum panels at 2% (2003: 5%).

The Enlarged Group's overall gross profit margin during the period was 27% (2003 : 17%), with gross profit amounting to HK$229 million.

The operating profit of the Enlarged Group during the period rose by 170% to HK$186 million and net profit attributable to shareholders increased by more than 5 times to HK$90 million.

(b) Segment Operating Performance

Aluminum Extrusion and Panels

Sales during the period amounted to HK$809 million, representing an increase of 48% from the last corresponding period, mainly due to the growing domestic demand in the PRC and the strong exports to North America.

The gross profit margin of aluminum extrusion products edged up to 26% from 17%, largely due to enhanced product mix of higher value-added extrusion products and lower unit manufacturing overhead as a result of economy of scale output.

Stainless Steel

Sales of stainless steel products dropped by 74% to HK$31 million as the Group has shifted more resources to aluminum extrusion production in face of the continued difficult operating environment and rise of raw material costs for stainless steel business segment. With selected orders of higher margin, gross profit margin of this segment improved to 13% from 8%.

(c) Future Plans and Prospects

During 2005 and 2006, the Enlarged Group will continue to focus on the following major plans and activities:–

- Extrusion facilities expansion and relocation

  To capitalize on the strong growth in demand for aluminum extrusion products and to achieve further cost savings, the Group is expanding its annual extrusion capacity from 150,000 metric tons to 300,000 metric tons. The construction of the new extrusion facilities in the "Asia Aluminum Industrial City" in Zhaoqing, Guangdong Province, China is substantially on course as scheduled. Commercial production is expected to begin in mid-2005 and become fully operational by the end of 2005. Once the new extrusion facilities in Zhaoqing are running at sufficient capacity, we will start to relocate the plant facilities in Nanhai to the new industrial city in Zhaoqing in stages.

- Aluminum rolled products project

  A 400,000 tonnes aluminum rolled products project is being developed, under the CSD Group, in the Zhaoqing industrial city site adjacent to the new extrusion workshop. Key hot and cold rolling equipment has been purchased after a series of intensive negotiations and studies with major suppliers and contractors. The core construction work is due to start shortly and the project is targeted to be completed by the end of calendar year 2006.

When fully operational, our facilities in the Zhaoqing industrial city will be capable of producing the most advanced and competitive aluminum products in the country and the region, in terms of profile, functionality and outlook to address increasing complicated and sophisticated design criteria.

(d) Shareholders' Value

It is the primary mission of the Enlarged Group to create and enhance value for its shareholders. In line with the established corporate vision and business strategies, the Enlarged Group will do so by leveraging its leadership and wealth of expertise to seek further diversification into new premium applications for its aluminum extrusion solutions. To secure consistent and profitable growth, it is also the Enlarged Group's policy to constantly add new markets and clients to its portfolio.

THE FINANCIAL REVIEW

Capital Structure and Treasury Policy

As at 30 September 2004, the Enlarged Group had total assets of approximately HK$6,063 million, comprising non-current assets of approximately HK$1,829 million and current assets of approximately HK$4,234 million, which were financed by current/non-current liabilities, shareholders' loans, minority interest and shareholders' funds of approximately HK$2,033 million, HK$463 million, HK$651 million and HK$2,916 million respectively.

The business operation of the Enlarged Group, in particular the capital expenditure programmes relating to its new extrusion and rolled products projects, to date is funded by cash flow from operations, issuance of capital stock and bank loans from Hong Kong and the PRC. Going forward, the Enlarged Group expects to fund its capital expenditure through a combination of cash flow from operations, banks loans and long-term debt. A majority of the Enlarged Group's banking facilities are for trade finance and working capital purposes denominated in US dollars and Renminbi.

As at 30 September 2004, the Enlarged Group has cash and bank deposits of HK$3,023 million, against total borrowings of HK$1,324 million. Consolidated net cash position, being cash and bank deposits less bank borrowings, amounted to HK$1,699 million. A major portion of the bank deposits is denominated in Renminbi.

The Enlarged Group has contingent liabilities of about HK$29 million as at 30 September 2004, comprising approximately HK$18 million bills discounted with recourse and HK$11 million guarantees for certain banking facilities respectively.

The overall treasury and funding policy of the Enlarged Group is to manage exposures to fluctuation in foreign currency exchange rates and interest rates on specific transactions. The Enlarged Group will use appropriate financial instruments, including forward foreign exchange contracts, currency swaps and interest rate swaps, to manage its exposure to foreign currency and interest rate risks with an objective to minimize the impact of exchange rate and interest rate fluctuation on earnings, assets and liabilities. Derivative instruments are used solely for hedging purposes, and speculation is strictly prohibited.

Commodity Risks

The Enlarged Group generally applies a "cost plus" pricing policy to its sales to its customers for aluminum products. In essence, the selling price is quoted according to the aluminum spot or forward price of the London Metal Exchange or other referenced exchanges in the PRC on either the contract date or the delivery date, plus a processing fee for different products. While this approach assists the Enlarged Group in managing exposure to risks associated with aluminum price fluctuation, in some cases, the Enlarged Group's customers have not adequately managed such risks. In order to strengthen key customer relationships and further penetrate key market segments, in the first half of financial year 2004 we absorbed part of the increased costs in aluminum, thereby affecting our margins in the first half of financial year 2004.

Liquidity and Financial Resources

The Enlarged Group's liquidity position remains strong with available undrawn banking facilities together with unpledged bank deposits of HK$1,122 million and HK$3,012 million respectively as at 30 September 2004. The financial resources available will provide a source of funding for the Enlarged Group to meet its substantial capital commitment for the new extrusion and rolled products projects as well as its daily operational requirements. In order to meet its capital expenditure plans for the rolled products project, the Enlarged Group has supplemented this source of funds with the issuance of a long-term note.

As at 30 September 2004, the Enlarged Group had aggregate banking facilities of approximately HK$2,441 million and were secured by the Enlarged Group's tangible fixed assets with net book value totaling HK$13 million and bank deposits of about HK$31 million. In addition, the Company has provided corporate guarantees for a total amount of HK$1,708 million. As on the same day, the Enlarged Group had utilized a total of approximately HK$1,324 million of the aforesaid banking facilities and HK$634 million of the corporate guarantees.

Total debt to total capital (debt/shareholders' funds) of the Enlarged Group as at 30 September 2004 was 45%. The current ratio was 2.9 at 30 September 2004. Of the total borrowings as at 30 September 2004, about 56% of the total borrowings is repayable within one year.

The financial obligations of the Enlarged Group are primarily serviced through its recurrent cash flow from operation. The Directors believe that the Enlarged Group has adequate financial resources to sustain its working capital requirement and committed capital expenditures and meet its foreseeable debt repayment requirements.

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

F. MANAGEMENT DISCUSSION AND ANALYSIS 2004

THE OPERATING REVIEW

Turnover

Principally as a result of increased demand in the PRC and the US, the Group's turnover for the full year to 30 June 2004 advanced 25% to HK$2,938 million (2003: HK$2,358 million). Sales growth was mainly attributable to the Group's successful delivery of higher value-added aluminum extrusion products to meet sophisticated architectural designs of major infrastructure and construction projects in the PRC and the US.

While sales in the PRC were up by 27% year-on-year, overseas sales, in particular from the North American market, also grew impressively by 131%. Growth in sales to North America, which totaled HK$306 million in the reporting year, were driven both by increased sales to the Group's equity partner Indalex and the commencement of the Group's own direct sales in this market.

	Group turnover by geographical segments		Net change
	2004	**2003**	**In 2004**
Mainland China	80%	79%	+27%
Hong Kong	5%	11%	–43%
North America	11%	6%	+131%
Asia Pacific & others	4%	4%	+10%

Business segment turnover contributions from aluminum extrusion and panels, stainless steel and design and testing services were 87%, 12% and 1% respectively.

Operating results

As the prices of aluminum became less volatile in the second half, and with customers becoming better prepared and more adjusted to the cost increase mode after the unprecedented price hikes before the end of 2003, the Group was able to recover its margin.

Despite a lower gross profit margin of 18.8% for the first half, the Group was able to sustain a steady full-year gross margin of 23.8% (2003: 22.7%). The major contributing factors for the increase in margin in the second half are the higher processing fees, optimization of production procedures and tightened cost control initiatives. Gross and pre-tax profits advanced 30% and 14% respectively to HK$698 million (2003: HK$536 million) and HK$463 million (2003: HK$406 million). The higher gross profit reported was largely attributable to the increased turnover and a correspondingly smaller increase in manufacturing overhead. Net profit attributable to shareholders declined slightly by 7.5% to HK$223 million from the previous year's HK$241 million, which included an additional gain of HK$52 million derived from the disposal by the Group of a 26.2% interest in its major subsidiary, Asia Aluminum Group Limited ("AAG") in June 2001. Excluding this exceptional gain booked in 2003, the net profit attributable to shareholders in 2004 would have represented an 18% increase over 2003.

Business components

AAG and its subsidiaries (the "AAG Group") are principally engaged in the provision of aluminum extrusion solutions for the infrastructure, construction, transportation, and home improvement sectors. In the year under review, the AAG Group remained a major profit contributor to the Group. It continued to advance its leadership in aluminum extrusion through capacity expansion, active business development and technology enhancement. Development of new product sectors and markets was also actively ongoing to drive further growth and a more balanced portfolio.

(a) Aluminum extrusion and panel

The aluminum extrusion business line performed well in the year. Segment turnover rose 36% to HK$2,494 million (2003: HK$1,828 million) due to continued strong demand in the PRC. Segment results also posted a significant 78% increase to HK$438 million (2003: HK$246 million) as efforts to diversify into more complex and therefore higher value-added products began to pay off. The Group's landmark projects during the year included the uniquely designed Beijing Grand Opera House and the new Guangzhou Airport in China, the Langham Place and Disneyland in Hong Kong, as well as the Sands Casino in Macau.

(b) Stainless steel

Turnover from the stainless steel segment decreased slightly by 2% to HK$353 million (2003: HK$362 million) with segment results shrinking to HK$12 million (2003: HK$24 million) mainly due to intensified competition and rising raw material costs. The Group will continue to monitor market developments and will consider re-deploying more of its stainless steel facilities to its aluminum extrusion operations in view of continued declining margins in stainless steel processing.

(c) Design and testing services

The design and testing services business continued to deliver stable results, with a mild growth of 10% in turnover to approximately HK$17 million (2003: HK$15 million) and a 10% increase in segment results to approximately HK$14 million (2003: HK$13 million). The Group's command of design and accredited testing skill sets is a strong edge in its development of one-stop solutions to exceed customer requirements.

Growth of production capacity

In view of the proposed relocation of the existing facilities to the new production base in Zhaoqing, the Group implemented a modest capacity increase of 7% through the addition of 4 small extrusion production lines in the first half of 2004, increasing the Group's capacity to 150,000 metric tons, which continued to remain the largest capacity in Asia. Management maintained its optimistic outlook of market demand growth, in particular in new applications in the transportation sector.

	Production capacity (mt)	**Net increase in 2004**
Guangdong Asia Aluminium Factory Co., Ltd.	60,000	–
Foshan Nanhai Xinya Aluminium & Stainless Steel Co., Ltd.	35,000	40%
Foshan Nanhua Aluminum Co. Ltd.	30,000	–
Foshan Nanhai Hongjia Aluminum Co. Ltd.	25,000	–
Total	150,000	7%

Employees and remuneration policies

At June 30, 2004, the Group had a workforce of 4,400 full time management, administrative and production staff in Hong Kong and the PRC. In addition to providing a safe, healthy and fulfilling work environment for staff, the Group also offers competitive remuneration packages including medical insurance, pension funds (Mandatory Provident Fund Scheme) and other incentives which are reviewed regularly in an open and fair manner. The Group's human resources strategy is to build a winning team with shared visions and values.

Environmental excellence

From the environmental perspective, the aluminum industry is a leader in the conservation of natural resources. Aluminum is now the most commonly recycled post-consumer metal in the world. Recycling of aluminum saves energy and obviates some 95% of emissions associated with smelting new aluminum from ore. The role of recycling in the aluminum industry therefore is crucial to its long-term development.

To actively address environmental issues, the Group follows international best practices as regards pollution control. The Group plans to invest further in making the new industrial city in Zhaoqing even greener through new technology implementation, premises design and system improvements.

Community initiatives

We are a member of the communities in which we operate our businesses. We therefore focus our efforts in particular on nurturing young people and providing development opportunities, the long-term well being of the metals industry and the society as a whole.

Last year, the Company participated in a school-company partnership programme led by the Young Entrepreneurs Development Council for secondary school students in Hong Kong. As one of the participating companies, we were able to interact with many future leaders of Hong Kong through various workshops, visits and internship programmes, with an aim to foster an entrepreneurial spirit in young people. The Company's CEO also took active part in several university programmes during which he shared with the undergraduates his insights into lifelong study and career advancement.

In its role to help enhance industry standards and practices, the Company has always been an active member of leading metals associations in Hong Kong and China.

Plans and Activities for 2005 – 2006

During 2005 and 2006, the Group will focus on the following major plans and activities:–

- *New extrusion facilities*

  The construction of our new aluminum extrusion facilities in the "Asia Aluminum Industrial City" in Zhaoqing, Guangdong Province, China is substantially on course as scheduled. The buildings for the first extrusion workshop is expected to be completed before the end of 2004, followed by installation of the extrusion and surface finishes production lines that the Group has ordered from a number of the world's leading suppliers in Japan, Italy and the US, providing the Group with an aggregate initial extrusion capacity of about 200,000 metric tons. We aim to commence production of the new extrusion facilities in Zhaoqing by the middle of 2005 and become fully operational before the end of 2005.

- *Dies and mould workshop*

  A new dies and mould workshop will be built in the Zhaoqing industrial city as an integral part of the new extrusion facilities. The new workshop is scheduled to commence operation by the second half of 2005.

- *Flat rolled products ("FRP") project*

  A 400,000 metric-tons FRP project is being developed in the Zhaoqing industrial city site adjacent to the new extrusion workshop. Part of the rolling mill equipment has been purchased after a series of extensive negotiations and studies with major suppliers and contractors. While some of the key equipment components for the FRP project are still being sourced, contracts for a substantial amount of the equipment are being finalized, and core construction work is due to start shortly.

- *Nanhai facilities relocation*

  Once our new extrusion facilities in Zhaoqing are running at sufficient capacity, we will start to relocate some of the plant facilities in Nanhai to the new industrial city in Zhaoqing in stages. The first stage will probably be started towards the second half of 2006 and will last for 6-12 months. The primary principle of relocation is to ensure a smooth production and delivery to meet customers' requirements without any disruption.

When fully operational, our facilities in the Zhaoqing industrial city will be capable of producing the most advanced and competitive aluminum products in the country and the region, in terms of profile, functionality and outlook to address increasing complicated and sophisticated design criteria.

The Group will continue to vigorously develop new applications for its products. Management is of the view that the transportation sector in China, which include usage of aluminum in automobiles, reefer containers and trains, has the potential to surpass the construction sector as the top user of aluminum.

Shareholders' value

It is the primary mission of the Group to create and enhance value for its shareholders. In line with the established corporate vision and business strategies, the Group will do so by leveraging its leadership and wealth of expertise to seek further diversification into new premium applications for its aluminum extrusion solutions. To secure consistent and profitable growth, it is also the Group's policy to constantly add new markets and clients to its portfolio.

THE FINANCIAL REVIEW

Group Earnings and Dividend Policy

Basic earnings per share ("EPS") decreased 21% to HK7.78 cents (2003: HK9.83 cents) for the year mostly due to 332 million new shares issued in the share placement exercise completed in January 2004.

A consistent dividend policy has been adopted by the Group since 2001. In respect of fiscal 2004, the Board has recommended a final dividend of HK1.8 cents (2003: HK1.8 cents) per share which together with the interim dividend of HK1.2 cents per share, represents a payout ratio of 43% (2003: 46%). The final dividend is payable to the shareholders whose names appear on the Register of Members of the Company on 29 November 2004.

Capital Structure and Treasury Policy

As at 30 June 2004, the Group had total assets of approximately HK$5,620 million, comprising non-current assets of approximately HK$1,430 million and current assets of approximately HK$4,190 million, which were financed by current/non-current liabilities, minority interest and shareholders' funds of approximately HK$2,172 million, HK$619 million and HK$2,829 million respectively.

The business operation of the Group, in particular the capital expenditure programmes relating to its new extrusion and FRP projects, to date have been funded by cash flow from operations, issuance of capital stock and bank loans from Hong Kong and the PRC. Going forward, the Group expects to fund its capital expenditure through a combination of cash flow from operations, bank loans and long term debt. A majority of the Group's banking facilities are for trade finance and working capital purposes and are denominated in US dollars and Renminbi.

As at the year end, the Group had cash and bank deposits of HK$2,953 million, against total borrowings of HK$1,480 million. The Group's consolidated net cash position, being cash and bank deposits less bank borrowings, amounted to HK$1,473 million as compared to HK$989 million as at 30 June 2003. A major portion of the bank deposits were denominated in Renminbi.

The Group had contingent liabilities of about HK$30 million as at 30 June 2004, comprising approximately HK$19 million bills discounted with recourse and HK$11 million guarantees for certain banking facilities respectively.

The overall treasury and funding policy of the Group is to manage exposures to fluctuation in foreign currency exchange rates and interest rates on specific transactions. The Group will use appropriate financial instruments, including forward foreign exchange contracts, currency swaps and interest rate swaps, to manage its exposure to foreign currency and interest rate risks with an objective to minimize the impact of exchange rate and interest rate fluctuation on earnings, assets and liabilities. Derivative instruments are used solely for hedging purposes, and speculation is strictly prohibited.

Commodity Risks

The Group generally applies a "cost plus" pricing policy to its sales to its customers for aluminum products. In essence, the selling price is quoted according to the aluminum spot or forward price of the London Metal Exchange or other referenced exchanges in the PRC on either the contract date or the delivery date, plus a processing fee for different products. While this approach assists the Group in managing exposure to risks associated with aluminum price fluctuations, in some cases, the Group's customers have not adequately managed such risks. In order to strengthen key customer relationships and further penetrate key market segments, in the first half of financial year 2004 we absorbed part of the increased costs in aluminum, thereby affecting our margins in the first half of financial year 2004.

Liquidity and Financial Resources

The Group's liquidity position remains strong with available undrawn banking facilities together with unpledged bank deposits of HK$907 million and HK$2,799 million respectively as at 30 June 2004. The financial resources available will provide a source of funding for the Group to meet its substantial capital commitment for the new extrusion and FRP projects as well as its daily operational requirements. In order to meet its capital expenditure plans for the FRP project, the Group intends to supplement this source of funds with other funding, such as long term debt.

As at 30 June 2004, the Group had aggregate banking facilities granted of approximately HK$2,431 million and were secured by the Group's tangible fixed assets with net book value totaling HK$14 million and bank deposits of about HK$153 million. In addition, the Company has provided corporate guarantees for a total amount of HK$744 million. As at the same day, the Group had utilized a total of approximately HK$1,524 million of the aforesaid banking facilities.

Total debt to total capital (trust receipt loans and interest-bearing bank and other loans/shareholders' funds) of the Group as at 30 June 2004 was 52%, a slight increase from last year's 50%. The current ratio was 2.6 as at the balance sheet date. Of the total borrowings as at 30 June 2004, about 61% of the total borrowings is repayable within one year.

The financial obligations of the Group are primarily serviced through its recurrent cash flow from operations. The Directors believe that the Group has adequate financial resources to sustain its working capital requirement and committed capital expenditures and meet its foreseeable debt repayment requirements.

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

The CSD Group

For the year ended 30 June 2004, the aluminum rolled products project was still in its development phase. No operating revenue was reported during the period under review. Other revenue of HK$665,000, being interest income and exchange gain, was posted for the period. As the CSD Group gradually built up a team of engineers and administrative personnel to develop the project, administrative expenses of HK$12 million was recorded, resulting in a loss attributable to shareholders of HK$11 million.

At its development phase, the CSD Group's assets were primarily in the form of prepayment and deposits, and cash and bank balances. Prepayments and deposits amounted to HK$722 million represented the payments made for acquisition of certain cold rolling and hot rolling equipment and related upgrade and installation contracts. Majority of the funding was provided in the form of shareholders' loans, which amounted to HK$894 million as at 30 June 2004.

G. MANAGEMENT DISCUSSION AND ANALYSIS 2003

THE OPERATING REVIEW

Turnover

The Group had an outstanding year in 2002/03. The growth in the aluminum downstream industry was propelled by the robust demand from the global market. The PRC is currently the second largest country in the world in terms of aluminum consumption and continues to be the Group's largest and the most promising market. The success in our PRC franchise model has positioned the Group well to enjoy benefits from the unrivalled economic growth of the PRC. Turnover of the Group for the year increased 20% to HK$2,358 million.

	Group Turnover by Geographical Segments		Net change
	2003	2002	in 2003
PRC	79%	74%	+28%
Hong Kong	11%	14%	–9%
North America	6%	3%	+135%
Asia Pacific & others	4%	9%	–35%

Operating Results

The Group maintained a stable gross profit margin through persistent cost control and enhancement of product mix. The overall margin during the year was 22.7% and the gross profit amounted to HK$536 million. The profit before tax for the year increased by 92% to HK$406 million and the net profit attributable to shareholders increased by 83% to HK$241 million which included an additional gain 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.

Business Components

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

(a) Aluminum Extrusion and Panel

Turnover from manufacturing and sales of aluminum products has recorded a steady increase for the reporting year as a result of uninterrupted growth in domestic demand in the PRC and diversification of the Group's product portfolio into high-end products with complex applications. The turnover during the year amounted to HK$1,981 million, representing an increase of 10% from last year. The margin has been kept relatively stable with an improving outlook.

(b) Stainless Steel

The stainless steel market in the PRC is highly fragmented and is dominated by a few market participants. Though the PRC's continuous investment in infrastructure projects has increased consumption of stainless steel, over-supply in the global market heightened competition and impaired the operating environment for manufacturing and sales of stainless steel. The Group slowed down its stainless steel operation in the first half of the year due to unattractive returns. Sales and profit margin recovered through process integration and product diversification in the second half. Sales of stainless steel products increased 171% to HK$362 million over the previous year with the gross profit margin increased to 11%.

(c) Design and Testing Services

The revenue derived from the provision of design and testing services for aluminum products was steady and amounted to HK$15 million. The Group's testing chamber and facilities have been accredited and qualified to provide the testing services for both the PRC and HK customers in the construction sector. This will further strengthen the Group's position as a one-stop total solution provider.

Growth of Production Capacity

The Group's current annual total production capacity is 140,000 metric tons, representing a 17% growth from the last balance sheet date. This enables the Group to maintain its leadership as the largest aluminum extruder in Asia. Leveraging on the emerging business opportunities in the PRC and North American markets, the Group will cautiously evaluate and actively reinvest the funds generated from operations to enhance its growth.

	Production Capacity (mt)	**Net increase in 2003**
Nanhai Asia Aluminium Factory Co., Ltd.	60,000	9%
Nanhai Xinya Aluminium & Stainless Steel Co., Ltd.	25,000	–
Nanhai Nanhua Aluminum Co. Ltd.	30,000	50%
Nanhai Hongjia Aluminum Co. Ltd.	25,000	25%
Total	140,000	

The Group will pursue growth both vertically and horizontally through acquisitions and organic growth. Currently, the Group has abundant orders-on-hand and has outsourced some of its orders to a few selected extrusion factories, which are the potential acquisition targets for us.

Employees and Remuneration Policies

As of 30 June 2003, 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 packages include medical insurance, pension funds (Mandatory Provident Fund Scheme for the Group's employees in Hong Kong) and bonuses.

Prospect and Future Plans

(a) PRC Sales

The outlook for the PRC market continues to be very promising. The strong demand for aluminum products brought by the PRC's rapid urbanization and stable economic growth is further fuelled by the forthcoming 2008 Beijing Olympic Games, the 2010 Shanghai World Expo, the China Go-West Policy and the Housing Reform. The Group has secured aluminum extrusion and panel supply contracts for Beijing Grand Opera House, Hangzhou Opera House, Beijing Friendship Hospital, Tianjin People's Hospital, Shanghai German Centre, Shenzhen People's Square and Shanghai Xintiandi II. Supply contracts for various projects for the Beijing Olympics are in the final negotiation stage.

(b) International Sales

In Hong Kong, the Group has obtained supply contracts for AIG Tower, Tsing Yi Hotel, Tsuen Wan Police Headquarter, The Science Park, the Langham Place in Mongkok, Enterprise Square III in Kowloon Bay. The supply contract for The Disneyland Park will be concluded soon.

The contract to supply aluminum extrusion products and panels to Macau Casino Project is confirmed.

Outside Hong Kong and Macau, the Group has obtained supply contracts for Cedars-Sinai Medical Centre and State Office Building in the United States, QV1 in Australia and SK Telecom Building in South Korea.

The Group is expecting seamless sales growth in the North American market in 2004, through increasing outsourcing orders from Indalex and other direct marketing and active order soliciting. Given the cost competitiveness of our products, the Group believes that the North American market shall deliver good performance in the coming years. Despite possible competition, the Group and Indalex keep an open attitude and are now working together to reformulate their strategies so as to strengthen their joint market position in the industry.

Sales to international markets and the PRC domestic market were HK$497 million and HK$1,861 million respectively. It is the Group's strategy to maintain well-balanced geographical and product mix to minimize concentration risks. Despite the strong growth in the PRC market, the Group plans to increase its share in still untapped international markets and is aiming at deriving 50% of its sale from international markets and the remaining 50% from the PRC. 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.

(c) Asia Aluminum Industrial City

The Group has recently announced a major investment at the High-Tech Development Zone of Zhaoqing City, Guangdong Province, PRC. The investment is strongly supported by the Zhaoqing Municipal Government. This will comprise establishment of "Asia Aluminum Industrial City" and a pilot project in manufacturing and sales of premium aluminum sheets. The facilities will be set up to produce 400,000 metric tonnes of premium aluminum sheets per annum. The products are widely applied in aluminum can manufacturing, automobile, construction, printing and aerospace industries.

While the new aluminum sheet facilities will only occupy a quarter of the site area of the industrial city, the Group is cautiously planning to centralize and move its existing five factories in Foshan City to a single production complex within the same industrial city. The Group believes that the move can further enhance its cost control and operating efficiency.

Shareholders' Value

It has been the Group's corporate policy to maximize 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 recognize our superior production quality and ability. In the long run, the Group will look for a healthy bilateral growth in the production capacity and the global market penetration.

THE FINANCIAL REVIEW

Attributable Return to Shareholders and Dividend Policy

Basic earnings per share ("EPS") for the year were HK 9.83 cents, compared to HK 5.78 cents in the last year. 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, as revealed earlier during the interim period, the Board of Directors had decided not to issue any new share options in a 12-month period.

The Group adopts a consistent dividend payment policy. The payout ratio has been more than 40% since 2001. The Board has recommended payment of a final dividend of HK 1.8 cents per share to the shareholders of the Company whose names appear on the Register of Members of the Company on 9 December 2003. The dividend warrants will be dispatched on or before 29 December 2003.

Capital Structure and Treasury Policy

The Group has maintained a strong and stable financial position. As on 30 June 2003, the Group had total assets of approximately HK$4,139 million, comprising non-current assets of approximately HK$1,021 million and current assets of approximately HK$3,118 million, which were financed by current/non-current liabilities, minority interest and shareholders' funds of approximately HK$1,585 million, HK$554 million and HK$2,000 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.

In July 2003, the Group has arranged a new 3-year syndicated loan, which received overwhelming responses from the banking community. With participation from 13 financial institutions, the loan was increased to US$75 million from the original target of US$60 million. Of the total proceeds raised, an amount of US$40 million has been used to refinance the previous syndicated loan maturing in January 2004. The balance of US$35 million will be used as the Group's general working capital. The management believes that the lower financing cost will benefit the Group's future development plan.

As at 30 June 2003, the Group's cash and bank balances and total borrowings were approximately HK$1,987 million and HK$998 million respectively. The Group's consolidated net cash as at 30 June 2003, being cash and bank deposits less bank borrowings, amounted to HK$989 million as compared to HK$543 million as at 30 June, 2002. Most of the bank deposits are denominated in Renminbi.

As at 30 June 2003, the Group has contingent liabilities of bills discounted with recourse of approximately HK$13.1 million and guarantee for certain banking facilities of approximately HK$10.9 million respectively.

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.

Commodity Risks

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.

Liquidity and Financial Resources

The Group's liquidity position remains strong with available undrawn bank facilities together with bank deposits of HK$1,162 million and HK$1,987 million respectively as of 30 June 2003. 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 30 June 2003, the Group had aggregate banking and credit facilities in respect of overdrafts, short term loans, trade financing and finance leases of approximately HK$1,893 million and were secured by the Group's certain tangible fixed assets with net book value totaling HK$15 million and bank deposits of approximately HK$116 million. In addition, the Company has provided corporate guarantees for a total amount of HK$1,670 million. The Group had utilized a total of approximately HK$686 million of the aforesaid banking and credit facilities and HK$586 million of the corporate guarantees as on the same day.

The debt to equity ratio (debt/shareholders' funds) of the Group as at 30 June 2003 was 50%, slightly increased from last year. The current ratio was 2.0 at as 30 June 2003, and was increased to 2.5 after the refinancing arrangement of the above-mentioned new syndicated loan. Of total borrowings as of 30 June 2003, all are repayable within one year.

The Group services its debts primarily through strong recurrent cash flow generated from its stable base of operation. The Directors are 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 a conservative and prudent policy in financial and treasury management.

The CSD Group

The CSD Group was incorporated on 9 May 2003 as a joint venture company of the Group to own and develop the aluminum Rolled Products Project. During the period under review for the year ended 30 June 2003, the CSD Group was just incorporated and has not commenced operation.

H. MANAGEMENT DISCUSSION AND ANALYSIS 2002

THE OPERATING REVIEW

The year under review was a challenging one for the Group amidst a difficult operating environment and the recession in the worldwide economy. Management has continued to put every effort on focusing on and strengthening the business of its principal subsidiary, Asia Aluminum Group Limited ("AAG"), which is engaged in the manufacture and sales of aluminum and stainless steel products, by investing in new manufacturing facilities through organic growth and acquisitions. This ongoing strategy of the management has enabled the Group to secure its status as the largest aluminum extruder in Asia.

(a) OPERATING RESULTS FOR THE YEAR

The Group achieved satisfactory operating results for the year. The Group's turnover maintained at approximately HK$1,965.7 million, a slight decrease of 4.7% as compared to last year. As a result of the adoption of the new Hong Kong accounting standards that came into effect during the current financial year, the profits attributable to shareholders for the year included certain non-recurring expenditure of approximately HK$73.6 million which is the expenditure in the acquisition of certain business database. The net profit attributable to shareholders, therefore, decreased by HK$64.0 million to HK$131.4 million.

In order to concentrate our focus on the core aluminum extrusion business, the Company, in August 2001, disposed of its business in the production of environmental protection products, with a gain amounting to HK$8.7 million.

The Group maintained a stable gross profit margin in the past three years and improved its gross profit margin for the year to 22.9% through persistent cost control and enhancement of product mix. The Group adopts a cost plus approach to price its products, i.e. the product price is quoted according to London Mercantile Exchange ingot spot or forward price plus processing fees. As such, the Group is essentially not exposed to any risk of fluctuations in aluminum ingot prices.

During the year, the Group invested HK$208.8 million in capital expenditures and HK$46.8 million as capital injection into the newly set up joint ventures. Compared with last year, excluding the exceptional and non-recurring items including the gain on disposal of interests in subsidiaries and of discontinued operations, the write-off of fixed assets and expenditure in acquisition of certain business database, the adjusted consolidated operating profit before tax was HK$271.4 million, as compared to HK$173.7 million last year, representing an increase of 56.2%.

(b) DYNAMICS OF THE BUSINESS

Manufacture and Sale of Aluminum and Stainless Steel Products

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

Turnover from the manufacture and sale of aluminum products amounted to HK$1,806.8 million for the year, representing an increase of HK$46.3 million from the previous year. Given the competitive market environment, the Group pursued the value-added strategy of improving product quality and diversifying product portfolio especially on high-margin and high-end products with complex applications. This approach was proved effective in maintaining the Group's leading market position.

Sales revenue from the manufacture and sale of stainless steel products decreased by 52.2% to HK$133.2 million in 2002, mainly because of the intensive competition.

The Group also derived HK$22.5 million revenue from the provision of design and testing services for aluminum products. Though not a core business, it is an integral part of a total solution to, and an essential relationship building element with distributors and construction companies.

Expansion of Production Capacity

During the last quarter of 2001, in order to maximize economies of scale, the Group formed two joint venture entities in the PRC with a 60% equity interest in each of them, to operate and manage two aluminum extrusion manufacturing facilities in Nanhai. At present, the Group has altogether five extrusion facilities with current annual production capacity of 120,000 metric tons, the largest in Asia.

Business Sales

The PRC continues to be the Group's largest and most promising market. Buoyed by a revised GDP growth forecast of 7.8% in 2002, the country's infrastructure and property development activities will gain in momentum. National projections forecast that 40 new airports will be built during the next five years. Aluminum extrusion and panel supply contracts have already been secured for Guangzhou Huadu Airport, five massive residential projects in Shanghai, and Nantong Municipal Government Tower during the year under review and others like The Grand Opera House in Beijing are currently under negotiation.

In Hong Kong, the Group has obtained supply contracts for the Science and Technology Park, the redevelopment project in Mongkok Bird Street and Kowloon Station phase II project.

Examples of the current high-profile construction projects and customers included Nina Tower, Cyberport and IFC Tower Phase II in Hong Kong; as well as Shanghai World Trade International Centre, Jiangsu Mobile Telecom Tower and Shanghai CIMC Reefers Containers in the PRC.

It is the Group's strategy to achieve a well-balanced geographical spread and product portfolio to minimize risk exposure. The two 60/40, 50/50 targets are hypothetical benchmarks and it is more important for the Group to pursue the targets flexibly to focus on markets and products with the most attractive potential and to maximize business growth.

Having said that, good progress has been made in achieving the balance during the year under review. Sales to international market and domestic market were HK$738.2 million and HK$1,323.7 million respectively.

Equal share in the sale of construction/non-construction and paint-coated/anodized products is likely to be accomplished in the next fiscal year. A considerable share of the contracts to Japan and North America is for non-construction products which helps to enhance the Group's gross profit margin.

(c) EMPLOYEES AND REMUNERATION POLICIES

As at 30 June, 2002, the Group employed over 4,500 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), bonuses and share options. A new share option scheme was adopted by the Company in December 2001.

(d) PROSPECTS AND PLANS FOR THE FUTURE

The Group will pursue a multi-faceted growth strategy through a combination of vertical and horizontal expansion. The Group will continue to expand its production capacity through acquisitions and organic growth, so as to maximize the benefits derived from economies of scale and to strengthen the position of the Group as a leading player in the industry. Management believes that the two new PRC joint ventures can become major profit contributors for the Group in the near future. To capture the existing demands and maximize sales and profits, the Group has outsourced some of its orders to a few selected extrusion factories, meanwhile continuing the identification and review of acquisition targets to achieve our goal of being a global leader in the industry with a strong operating platform in the PRC.

The Group is also working on developing a system to provide a fully integrated supply chain with our suppliers in the PRC in the direct delivery of aluminum billets to our production facilities to shorten the lead time for inbound raw materials, reduce unnecessary production steps, and achieve more effective control over inventories and logistics costs. Negotiations with a number of smelters and suppliers are currently on-going with the aim of reorganising part of our procurement and production phases to achieve further cost-savings during fiscal year 2003.

The Directors believes that there is market potential for stainless steel products provided the products are cost competitive. In order to enhance the cost-competitiveness of the stainless steel products, the Group has recently installed cold coil steel production lines that will substantially reduce the production costs and increase the price competitiveness. The Directors believe that the sales of stainless steel products will be substantially improved in the coming year.

In order to provide value-added services and total solutions to our customers, the Group has strengthened its product design and development team to provide technical advice to customers, especially in media and advertising, electronics and automobile industries, in the design, development and application of our products in their specific industry. The team is now working on the development of new products such as "brite dip" products and downstream finished goods such as doors and bathroom enclosures for direct distribution to retailers. New production lines for these products are being installed and full cale operations will commence in the first quarter of 2003. The directors believe the team can facilitate the diversification of our product portfolio into new industries and strengthen the relationship with our customers. Management will also work closely with Indalex on the formulation of a marketing strategy to increase the global market share of both Indalex and the Group.

Looking ahead, the Group will focus on enhancing production capacity and quality, developing products of higher profit margins, and penetrating markets such as the European and Japanese markets.

THE FINANCIAL REVIEW

(a) ATTRIBUTABLE RETURN TO SHAREHOLDERS AND DIVIDEND POLICY

Basic earnings per share for the current year were HK5.78 cents, compared to HK9.02 cents last year.

The Group maintained its position of financial stability and solid cash holdings at the end of 2002. In light of this, the Group has continued its policy of consistent dividend payments to shareholders, with a payout ratio of 45.5% for 2002.

The Directors has recommended a final dividend of HK1.5 cents per share to the shareholders of the Company, together with the interim dividend of HK1.0 cent per share paid in April 2002, making a total dividend of HK2.5 cents per share for the year ended 30 June 2002.

In August 2001, the Group disposed all of its interests in Hamington International Limited ("Hamington") to a third party for a cash consideration of HK$455 million and so the Group has reversed the write off in previous year regarding the goodwill arising on acquisition of Hamington of HK$456.5 million in the capital reserve account.

(b) CAPITAL STRUCTURE AND TREASURY POLICY

The Group maintains a strong and stable financial position. As at 30 June 2002, the Group had total assets of approximately HK$3,635.2 million, comprising non-current assets of approximately HK$831.2 million and current assets of approximately HK$2,804.0 million, which were financed by current liabilities, noncurrent liabilities, minority interest and shareholders' funds of approximately HK$1,030.1 million, HK$362.3 million, HK$499.8 million and HK$1,743.0 million respectively.

The Group generally finances its operations with internal resources as well as banking and credit facilities granted by banks, financial institutions and leasing companies in Hong Kong and the PRC. Financing channels include convertible bonds, syndicated loans, term loans and trade facilities. The interest rates of most of these are fixed by reference to the London Interbank Offered Rate. The bank deposits and borrowings are mainly in Renminbi and United States dollars respectively.

As at the balance sheet date, the Group's cash and bank balances and total borrowings were approximately HK$1,328.5 million and HK$785.3 million respectively. The Group's consolidated net cash as at 30 June 2002, being cash and bank deposits less bank borrowings, amounted to HK$543.2 million as compared to HK$279.8 million as at 30 June 2001.

During the year, Credit Suisse First Boston (Hong Kong) Limited converted US$5.7 million of the 3% convertible bonds due September 2003 ("CBs") into ordinary shares of the Company, which resulted in an increase in the issued share capital and share premium of the Company by a total of HK$44.5 million. As of 30 June 2002, the outstanding balance of the CBs amounted to HK$41.0 million.

It is the Group's policy to lengthen its debt maturity profile by refinancing its matured short-term debts with medium to long-term committed facilities. In May 2002, the amount of the three-year syndicated loan drawn by the Group increased by US$5.0 million to US$40.0 million.

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.

As at 30 June 2002, the Group has contingent liabilities of bills discounted with recourse of HK$2.1 million.

(c) LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity position remains strong with available undrawn bank facilities together with bank deposits of HK$447.1 million and HK$1,328.5 million respectively as of 30 June 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 to take advantage of potential acquisitions.

As at 30 June 2002, the Group had aggregate banking and credit facilities in respect of overdrafts, short term loans, trade financing and finance leases of approximately HK$879.5 million which were secured by certain of the Group's tangible fixed assets with net book value totaling HK$45.5 million (including assets held under finance leases) and bank deposits of approximately HK$78.0 million. The Company has given corporate guarantees for a total amount of HK$801.8 million, of which a total amount of HK$426.8 million was given during the year, in favour of banks and financial institutions for the aforesaid banking and credit facilities granted to two non-wholly-owned subsidiaries of the Company, namely Asia Aluminum Manufacturing Company Limited and Nanhai Asia Aluminium Factory Limited. As of the same date, the Group had utilized a total of approximately HK$432.4 million of the aforesaid banking and credit facilities.

The Group's debt-to-equity ratio (debt/shareholders' funds) as at 30 June 2002 was 45.1%, lower than last year's level. The current ratio is 2.7 at as 30 June 2002. As of 30 June 2002, 53.9% of the total borrowings is repayable within one year and 46.1% is repayable within two to five years.

In the last quarter of 2001, two joint venture entities, of which 60% of their respective equity interests were held by the Group, were established in the PRC to acquire certain business and assets of two aluminum extrusion factories in Nanhai, PRC. At the balance sheet date, the Group was committed to make a capital contribution of HK$98.9 million to subsidiaries in the PRC.

As of the date of this report, in accordance with the payment terms of the disposal of the Group's business of environmental protection products (the "Disposal"), a total of HK$300.0 million has been received by the Group as partial settlement of the total consideration for the Disposal. Further details of the Disposal are set out in the Company's circular of 14 September 2001 to its shareholders.

The Group services its debts primarily through cash generated from operations. Taking into consideration the Group's present cash position, the future internally generated funds and available banking facilities, the Directors are 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.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Disclosure of interests by the Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive in the Shares, underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Directors	Nature of interest	*Note*	Number of issued ordinary Shares held	Number of underlying Shares held	Total	Approximate percentage of interest
Mr. Kwong Wui Chun	Personal		231,930,836	–	231,930,836	
	Corporate	*(1)*	908,622,000	–	908,622,000	
	Family	*(2)*	4,000,000	4,900,000	8,900,000	
					1,149,452,836	36.20%
Dr. Chan Yiu Tsuan, Benby	Personal	*(3)*	–	5,000,000	5,000,000	0.16%
Mr. Zhong Jianqiu	Personal		24,434,800	–	24,434,800	
	Family	*(4)*	–	5,000,000	5,000,000	
					29,434,800	0.93%

Notes:

(1) The interest disclosed represents the corporate interest in 908,622,000 Shares held by Viewlink Assets Limited, which is a company incorporated in the British Virgin Islands and wholly-owned by Mr. Kwong Wui Chun, by virtue of Section 344(3) of the SFO.

(2) The interest disclosed represents the family interest in 4,000,000 Shares and 4,900,000 underlying Shares in respect of the 4,900,000 share options granted by the Company to Ms. Li Chuk Kuan, spouse of Mr. Kwong Wui Chun by virtue of Section 344(1) of the SFO. 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.

(3) The interest disclosed represents 5,000,000 underlying shares in respect of 5,000,000 share options granted by the Company to Dr. Chan Yiu Tsuan, Benby. These share options were granted on 6 July 2004 and are exercisable during the period from 6 July 2004 to 5 July 2007 at an exercise price of HK$0.81 per Share.

(4) The interest disclosed represents the family interest in 5,000,000 underlying shares in respect of 5,000,000 share options granted by the Company to Ms. Kuang Shun Feng, spouse of Mr. Zhong Jianqiu, by virtue of Section 344(1) of SFO. These share options were granted on 6 July 2004 and are exercisable during the period from 6 July 2004 to 5 July 2007 at an exercise price of HK$0.81 per Share.

(5) All the interests disclosed above represent long position in the Shares.

(b) Particulars of Directors' Service Contracts

As at the Latest Practicable Date, no Director had a service contract with any member of the Group which is not determinable by the Company within one year without the payment other than statutory compensation.

(c) Save as disclosed above, as at the Latest Practicable Date:

(i) none of the Directors and chief executive hold any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO) notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange;

(ii) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries;

(iii) none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group; and

(d) Directors' interests in competing businesses

As at the Latest Practicable Date, none of the Directors is interested in a business which competes or are likely to compete, either directly or indirectly, with the businesses of the Group.

3. SUBSTANTIAL SHAREHOLDERS

(a) As at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO, the following persons and companies were interested in 5% or more in the Shares or underlying Shares which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	*Note*	Number of Shares and underlying Shares	Approximate percentage of total issued Shares
Viewlink Assets Limited	Beneficial owner	(1)	908,622,000 (Long position)	28.62%
Morgan Stanley Singapore	Interest of controlled corporations		290,248,000 (Long position)	9.14%
			1,644,000 (Short position)	0.05%
JP Morgan Chase & Co	Interest in a controlled corporation		217,917,191 (Long position)	6.86%
			217,917,191 (Lending pool)	6.86%
Mondrian Investment Partners Limited	Investment manager		194,612,000 (Long position)	6.13%

Note: (1) Such interest had been included as corporate interest of Mr. Kwong, as disclosed under the paragraph headed "Directors' Interests and Short Position" above.

Save as disclosed above, so far as was known to the Directors, there was no other person (other than the Directors or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, beneficially interested in 5% or more of the issued share capital of the Company.

(b) As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than the Director or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholder	Name of company	Approximate percentage of shares held
Mr. Yau Pak Sam	Asia Advanced Metal Products Company Limited	45%
Indalex UK Limited	Asia Aluminum Group Limited	25.01%
Dynasty Technology Limited	Asia Cybertech Group Limited	10%
Research Engineering Development Facade Consultants Limited	Asia – Red Testing Consultants Limited	45%
Record Break Investments Limited	China Steel Development Company Limited	10%
Think Success Industries Limited	China Steel Development Company Limited	10%
Foshan Nanhai Hongjia Aluminum and Stainless Steel Company Limited	Foshan Nanhai Hongjia Aluminum Company Limited	40%
Guangdong Nanhua Aluminum Factory Company Limited	Foshan Nanhua Aluminum Company Limited	40%

Save as disclosed above, the Directors are not aware of any person who was, as at the Latest Practicable Date, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group or in any options in respect of such capital.

4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2004, the date to which the latest published audited accounts of the Company were made up.

6. QUALIFICATIONS AND CONSENTS OF EXPERTS

Each of Commerzbank AG and Ernst & Young has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reports and references to its name in the form and context in which they appear.

The qualifications of the experts who have provided advice and/or opinion which are contained in this circular are set out as follows:

Name	Qualification
Commerzbank AG	A licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
Ernst & Young	Certified Public Accountants

Each of Commerzbank AG and Ernst & Young is not interested in any Shares or shares in any member of the Group nor does it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares or shares in any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by any member of the Group within the two years immediately preceding the Latest Practicable Date or may be material:

(i) the Joint Venture Agreement dated 11 July 2003 between Sino Advance, Mr. Kwong, Record Break and Think Success for the establishment of CSD;

(ii) the placing, underwriting and subscription agreement dated 15 January 2004 between the Company, Viewlink Assets Limited, Mr. Kwong and J.P. Morgan Securities (Asia Pacific) Limited in relation to the sale of 332,000,000 Shares by Viewlink Assets Limited and the subscription by Viewlink Assets Limited of 332,000,000 Shares in the Company;

(iii) the shareholders' agreement dated 2 November 2004 between Asia Aluminum Manufacturing Company Limited, a 69.05% owned subsidiary of the Company, and Cometal Phoenix Asia Dies s.r.l. for the establishment of Phoenix Asia Dies Company Limited, a company which is owned as to 40% by Asia Aluminum Manufacturing Company Limited;

(iv) the Purchase Agreement;

(v) the indenture dated 23 December 2004 between the Company, the Subsidiary Guarantors and the Trustee in relation to the Notes Issue;

(vi) the share charge and intercompany notes assignment deed dated 23 December 2004 between the Company, Asia Cybertech Limited, Topmost Precision Limited, Sino Advance and the Trustee for the provision of the securities under the Notes Issue; and

(vii) the escrow and disbursement agreement dated 23 December 2004 between the Company and the Trustee in relation to the creation of an escrow account with the Trustee for the proceeds of the Notes Issue.

8. MISCELLANEOUS

(a) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is at 12th Floor, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

(c) The Hong Kong branch share registrar of the Company is Hong Kong Registrars Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The qualified accountant of the Company is Mr. Lau Yu Ching, Gilbert, a fellow member of the Chartered Institute of Management Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

(e) The company secretary of the Company is Ms. Yee Kit Lin, Anita, an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

(f) The English text of this circular will prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the office of the Company at 12th Floor, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong from the date of this circular up to and including 24 January 2005:

(a) the memorandum of association and bye-laws of the Company;

(b) the "Letter of recommendation from the Independent Board Committee" as set out in this circular;

(c) the "Letter from the Independent Financial Adviser" as set out on in this circular;

(d) the annual reports of the Company for the two years ended 30 June 2004;

(e) the accountants' report on CSD as set out in Appendix II to this circular;

(f) the report from Ernst & Young on the unaudited proforma financial information of the Group as set out in Appendix III to this circular;

(g) the material contracts referred to in paragraph 8 of this Appendix;

(h) the Loan Agreement;

(i) a copy of the circular of the Company dated 20 December 2004 in relation to the purchase of certain equipment, parts, engineering application software, technical services and other materials in relation to the hot rolling mill for the Rolled Products Project; and

(j) the written consents from the experts referred to in paragraph 7 of this Appendix.

ASIA ALUMINUM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 930)

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of Asia Aluminum Holdings Limited (the "**Company**") will be held at the principal place of business of the Company in Hong Kong at 12th Floor, Railway Plaza, 39 Chatham Road South, Kowloon, Hong Kong on Monday, 24 January 2005 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the Loan Agreement and the Financial Assistance (in each case, as defined in the circular (the "Circular") of the Company dated 7 January 2005) on terms as set out in the Circular be and is hereby approved; and

(b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the Financial Assistance."

By Order of the Board
Asia Aluminum Holdings Limited
Yee Kit Lin, Anita
Company Secretary

Hong Kong, 7 January 2005

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business in Hong Kong:
12th Floor, Railway Plaza
39 Chatham Road South
Tsimshatsui
Kowloon
Hong Kong

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged at the office of the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).
5. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.
7. The votes to be taken at the meeting will be taken by a poll.