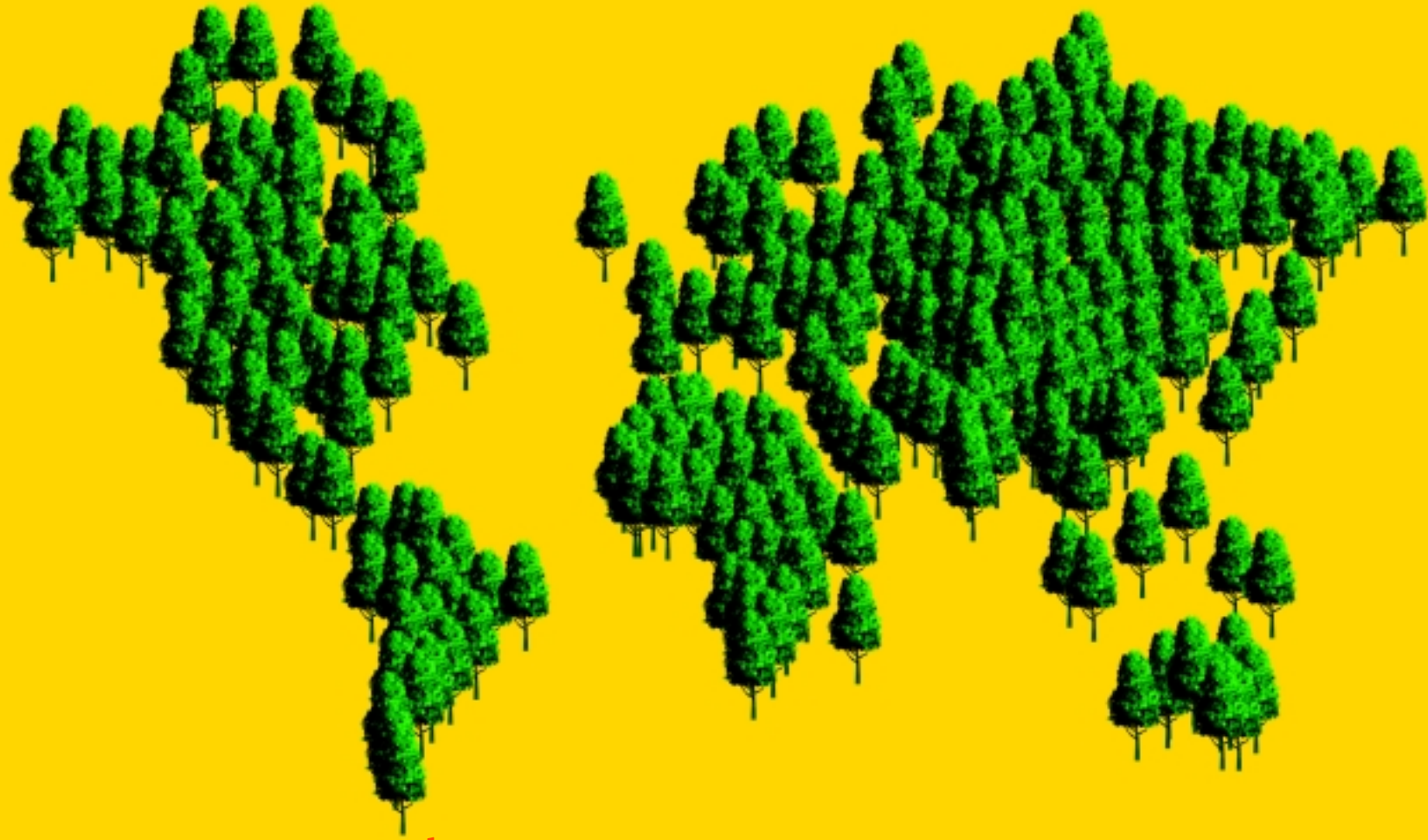


AsiaAluminum

Interim Report 2005



Pride in Our Past
Confidence in Our Future

ASIA ALUMINUM HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)



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EXECUTIVE DIRECTORS

Mr. KWONG Wui Chun (alias Kwong Wui)
(Chairman)

Dr. CHAN Yiu Tsuan, Benby
(Deputy Chairman and CEO)

Mr. ZHONG Jianqiu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. MA Tsz Chun

Mr. YAU Wing Keung, Frankie

Mr. CHOU Shun, Alan

REGISTERED OFFICE

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Hamilton HM 11
Bermuda

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PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Bank of East Asia, Limited
Citic Ka Wah Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
HSH Nordbank AG

QUALIFIED ACCOUNTANT

Mr. LAU Yu Ching, Gilbert

COMPANY SECRETARY

Ms. YEE Kit Lin, Anita

MEMBERS OF THE AUDIT COMMITTEE

Mr. MA Tsz Chun

Mr. YAU Wing Keung, Frankie

Mr. CHOU Shun, Alan

AUDITORS

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

SHAREHOLDER SERVICES

For enquires about share transfer and registration, please contact the Company's Registrars:-

Hong Kong Registrars Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2862 8628
Facsimile: (852) 2865 0990

Holders of the Company's securities should notify the Registrars promptly of any change of their address.

Condensed Consolidated Profit and Loss Account



FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

The board of directors (the "Board") of Asia Aluminum Holdings Limited (the "Company") are pleased to present the unaudited condensed consolidated profit and loss account of the Company and its subsidiaries (collectively the "Group") for the six months ended 31 December 2004, together with the comparative figures for the corresponding period in 2003, the unaudited condensed consolidated balance sheet as at 31 December 2004 of the Group, together with the audited comparative figures as at 30 June 2004, as follows:

These unaudited condensed consolidated financial statements have been reviewed by the Company's audit committee.

		Six months ended	
		31/12/04	31/12/03
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
TURNOVER	3	1,762,862	1,448,564
Cost of sales and services provided		(1,313,170)	(1,176,555)
Gross profit		449,692	272,009
Other revenue and gains		15,060	43,231
Selling and distribution costs		(46,005)	(39,542)
Administrative expenses		(68,742)	(62,178)
Provision for bad and doubtful debts		(1,886)	–
PROFIT FROM OPERATING ACTIVITIES	4	348,119	213,520
Finance costs	5	(34,726)	(33,334)
Share of losses of jointly-controlled entities		(6,439)	(4,141)
PROFIT BEFORE TAX		306,954	176,045
Tax	6	(85,877)	(55,427)
PROFIT BEFORE MINORITY INTERESTS		221,077	120,618
Minority interests		(68,824)	(37,148)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		152,253	83,470
DIVIDENDS	7	–	38,389
		HK cents	HK cents
EARNINGS PER SHARE	8		
Basic		4.80	3.16
Diluted		4.76	3.04



Condensed Consolidated Balance Sheet

AS AT 31 DECEMBER 2004

	Notes	31/12/04 (Unaudited) HK\$'000	30/06/04 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets	9	1,118,046	950,457
Interests in jointly-controlled entities	10	–	410,136
Interest in an associate company	11	6	–
Deposits paid	12	901,187	68,047
Deposits held in escrow account	13	2,721,250	–
Deferred expenditure	14	125,535	–
Deferred tax assets		1,666	1,666
		4,867,690	1,430,306
CURRENT ASSETS			
Trade receivables	15	553,490	545,509
Inventories		359,583	343,054
Prepayments, deposits and other receivables		235,306	251,433
Due from related companies		20,849	28,823
Due from minority equity/shareholders		67,910	67,910
Deposits held in escrow account	13	680,313	–
Deposits with a non-bank financial institution		200,988	203,588
Cash and bank balances		2,844,872	2,595,900
Pledged bank deposits	23	22,128	153,330
		4,985,439	4,189,547
CURRENT LIABILITIES			
Trade payables	16	237,990	263,555
Accrued liabilities and other payables		382,687	258,855
Due to minority equity/shareholders		58,434	50,071
Trust receipt loans		465,846	417,495
Interest-bearing bank and other loans		949,309	477,213
Finance lease payables		610	473
Tax payable		96,137	109,048
Dividends payable		32,463	10,522
		2,223,476	1,587,232
NET CURRENT ASSETS		2,761,963	2,602,315
TOTAL ASSETS LESS CURRENT LIABILITIES		7,629,653	4,032,621

Condensed Consolidated Balance Sheet (Cont'd)



AS AT 31 DECEMBER 2004

	Notes	31/12/04 (Unaudited) HK\$'000	30/06/04 (Audited) HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans		–	583,725
Finance lease payables		60,076	626
Loans from minority shareholders	17	463,320	–
Fixed rate senior notes	18	3,498,750	–
		4,022,146	584,351
MINORITY INTERESTS			
		682,271	618,809
		2,925,236	2,829,461
CAPITAL AND RESERVES			
Issued capital	19	317,523	317,523
Share premium account	20	1,606,563	1,606,563
Reserves		1,001,150	848,221
Proposed dividends	7	–	57,154
		2,925,236	2,829,461

	31/12/04 (Unaudited)	30/06/04 (Audited)
FINANCIAL HIGHLIGHTS		
Shareholders' equity	HK\$2,925 Million	HK\$2,829 Million
Net Cash	HK\$1,495 Million	HK\$1,474 Million
Net asset value per share	HK\$0.92	HK\$0.89
Issued shares	3,175 Million	3,175 Million



Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	Reserves										
	Share			Capital	Statutory			Retained	Sub-total	Proposed	Total
	Issued	premium	Contributed		surplus	Exchange	public				
	capital	account	surplus	reserve	reserve	fluctuation	welfare	profits	dividends		
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 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
Final 2004 dividend declared	-	-	-	-	-	-	-	-	-	(57,154)	(57,154)
Net profit for the period	-	-	-	-	-	-	-	152,253	152,253	-	152,253
Exchange realignment	-	-	-	-	-	676	-	-	676	-	676
Transfer to statutory surplus reserve	-	-	-	-	27,171	-	-	(27,171)	-	-	-
At 31 December 2004	317,523	1,606,563	4,151	51,419	189,266	(3,440)	9,476	750,278	1,001,150	-	2,925,236

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

At 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 warrants	5,461	36,588	-	-	-	-	-	-	-	-	42,049
Exercise of share options	9,260	38,165	-	-	-	-	-	-	-	-	47,425
Net profit for the period	-	-	-	-	-	-	-	83,470	83,470	-	83,470
Underaccrual of final 2003 dividend	-	-	-	-	-	-	-	(990)	(990)	-	(990)
Interim 2004 dividend	-	-	-	-	-	-	-	(37,399)	(37,399)	37,399	-
Transfer to statutory surplus reserve	-	-	-	-	17,552	-	-	(17,552)	-	-	-
At 31 December 2003	271,489	1,047,804	4,151	51,419	134,148	(3,600)	9,476	571,947	767,541	37,399	2,124,233

Condensed Consolidated

Cash Flow Statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	Six months ended	
	31/12/04	31/12/03
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit from operating activities	348,119	213,520
Adjustments for:		
Interest income	(12,560)	(10,885)
Amortisation of deferred expenditure	394	–
Depreciation of fixed assets	75,117	35,527
Provision for bad and doubtful debts	1,886	–
Loss on disposal/write-off of fixed assets, net	7,624	3,181
Operating profit before working capital changes	420,580	241,343
Increase in trade receivables	(9,867)	(35,062)
Decrease/(increase) in inventories	8,437	(6,772)
Decrease/(increase) in prepayments, deposits and other receivables	18,256	(12,912)
Decrease in amounts due from related companies	7,974	8,205
Increase/(decrease) in trade payables	(25,565)	20,785
Increase in trust receipt loans	48,351	59,396
Increase/(decrease) in amount due to minority equity/shareholders, net	8,363	(8,089)
Increase in accrued liabilities and other payables	121,060	55,134
Cash generated from operations	597,589	322,028
Interest paid	(34,698)	(26,023)
Interest element on finance lease rental payments	(29)	(275)
Arrangement fees on bank and other loans	–	(7,036)
Hong Kong profits tax paid	(73)	–
Overseas tax paid	(98,715)	(46,791)
Net cash inflow from operating activities	464,074	241,903
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(211,420)	(68,218)
Proceeds from sales of fixed assets	–	5,441
Deposits paid	(51,612)	–
Interest received	12,560	10,885
Capital injection to jointly-controlled entities	–	(4,661)
Advances to jointly-controlled entities	–	(304,956)
Change of jointly-controlled entities to subsidiaries	77,200	–
Increase in deposits held in escrow account	(3,401,563)	–
Decrease/(increase) in pledged bank deposits	131,202	(4,709)
Increase in non-pledged time deposits with original maturity of more than three months when acquired	(4,825)	(28,789)
Net cash outflow from investing activities	(3,448,458)	(395,007)



Condensed Consolidated Cash Flow Statement (Cont'd)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	Six months ended	
	31/12/04 (Unaudited) HK\$'000	31/12/03 (Unaudited) HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of warrants to subscribe for new ordinary shares in the Company	–	42,049
Exercise of share options to subscribe for new ordinary shares in the Company	–	47,425
Proceeds from fixed rate senior notes	3,498,750	–
Issuance expenses of fixed rate senior notes	(125,929)	–
New bank loans	179,520	1,035,703
Repayments of bank loans	(287,382)	(406,162)
Repayments of other loans	(3,767)	(2,825)
Capital element of finance lease rental payment	(236)	(8,742)
Dividends paid	(35,213)	(47,420)
Dividends paid by a subsidiary to minority shareholders	–	(32,393)
Net cash inflow from financing activities	3,225,743	627,635
NET INCREASE IN CASH AND CASH EQUIVALENTS	241,359	474,531
Cash and cash equivalents at beginning of period	2,204,943	1,308,633
Effect of foreign exchange rate changes	188	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,446,490	1,783,164
ANALYSIS OF BALANCES OF CASH & CASH EQUIVALENTS		
Cash and bank balances	2,245,502	1,466,400
Deposits with financial institutions	200,988	316,764
	2,446,490	1,783,164

Notes to the Condensed Financial Statements

1. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements (“Interim Financial Statements”) are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Interim Financial Statements should be read in conjunction with the 2003/2004 annual financial statements of the Group.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation adopted for preparing the Interim Financial Statements are consistent with those followed in the Group’s annual financial statements for the year ended 30 June 2004.

Further to the aforesaid, the Group has expanded its accounting policies for its interest in an associate company (note 11) and government grants as below:

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group’s share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group’s interests in associates 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 associates are included in the Company’s profit and loss account to the extent of dividends received and receivable. The Company’s interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Government grants

Government grants are recognized 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 recognized 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.

Notes to the Condensed Financial Statements (Cont'd)

3. 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.

Group	Six months ended 31 December 2004 (Unaudited)					Total HK\$'000
	Aluminum extrusion products HK\$'000	Stainless steel products HK\$'000	Aluminum panels HK\$'000	Design and testing services HK\$'000	Others HK\$'000	
Segment revenue						
Sales to external customers	1,658,015	61,651	40,249	521	2,426	1,762,862
Other revenue	2,444	-	-	-	-	2,444
Total	1,660,459	61,651	40,249	521	2,426	1,765,306
Segment results	328,010	2,230	15,305	432	(717)	345,260
Interest and unallocated gains						12,616
Unallocated expenses						(9,757)
Profit from operating activities						348,119
Finance costs						(34,726)
Share of losses of jointly-controlled entities						(6,439)
Profit before tax						306,954
Tax						(85,877)
Profit before minority interests						221,077
Minority interests						(68,824)
Net profit from ordinary activities attributable to shareholders						152,253

Notes to the Condensed Financial Statements (Cont'd)

3. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Group	Six months ended 31 December 2003 (Unaudited)					Total HK\$'000
	Aluminum extrusion products HK\$'000	Stainless steel products HK\$'000	Aluminum panels HK\$'000	Design and testing services HK\$'000	Others HK\$'000	
Segment revenue						
Sales to external customers	1,104,032	273,453	54,572	16,507	-	1,448,564
Other revenue	2,094	-	-	-	-	2,094
Total	1,106,126	273,453	54,572	16,507	-	1,450,658
Segment results	129,398	17,877	24,594	13,701	(1,034)	184,536
Interest and unallocated gains						41,137
Unallocated expenses						(12,153)
Profit from operating activities						213,520
Finance costs						(33,334)
Share of losses of jointly-controlled entities						(4,141)
Profit before tax						176,045
Tax						(55,427)
Profit before minority interests						120,618
Minority interests						(37,148)
Net profit from ordinary activities attributable to shareholders						83,470

Notes to the Condensed Financial Statements (Cont'd)

3. SEGMENT INFORMATION (Cont'd)

(b) Geographical segments

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.

Group	Six months ended 31 December 2004 (Unaudited)					
	Hong Kong HK\$'000	Mainland China HK\$'000	North America HK\$'000	Asia Pacific, excluding Mainland China and Hong Kong HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue						
Sales to external customers	53,559	1,457,315	166,819	79,995	5,174	1,762,862

Group	Six months ended 31 December 2003 (Unaudited)					
	Hong Kong HK\$'000	Mainland China HK\$'000	North America HK\$'000	Asia Pacific, excluding Mainland China and Hong Kong HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue						
Sales to external customers	81,307	1,199,383	117,645	47,009	3,220	1,448,564

4. PROFIT FROM OPERATING ACTIVITIES

	Six months ended	
	31/12/04 (Unaudited) HK\$'000	31/12/03 (Unaudited) HK\$'000
Profit from operating activities is arrived at after charging the following:		
Cost of inventories sold	1,313,081	1,173,749
Cost of services provided	89	2,806
Depreciation	75,117	35,527

Notes to the Condensed Financial Statements (Cont'd)

5. FINANCE COSTS

	Six months ended	
	31/12/04 (Unaudited) HK\$'000	31/12/03 (Unaudited) HK\$'000
Interest on:		
Bank and other loans wholly repayable within five years	29,343	26,023
Finance leases	29	275
Fixed rate senior notes	4,960	–
	34,332	26,298
Amortisation of deferred expenditure	394	–
Arrangement fees on bank and other loans	–	7,036
	34,726	33,334

6. TAX

	Six months ended	
	31/12/04 (Unaudited) HK\$'000	31/12/03 (Unaudited) HK\$'000
Current period:		
Provision in Mainland China	85,804	55,427
Under provision in previous years in Hong Kong	73	–
Deferred tax	–	–
	85,877	55,427

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising from its operations in Hong Kong during the six months period ended 31 December 2004 (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 appropriate rates of taxation in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Notes to the Condensed Financial Statements (Cont'd)

6. TAX (Cont'd)

The statutory 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 six months ended 31 December 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:

	Six months ended	
	31/12/04	31/12/03
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit before tax	306,954	176,045
Tax at Mainland China's statutory rate of 33%	101,295	58,095
Lower tax rate for Hong Kong and specific provinces in Mainland China	(25,689)	(13,517)
Under provision in previous years	73	-
Income not subject to tax	(721)	(967)
Expenses not deductible for tax	10,903	8,491
Tax losses utilized from previous years	(2,802)	(156)
Increase in unutilized tax losses carried forward	2,818	3,481
Tax charge at the effective rate	85,877	55,427

7. DIVIDENDS

The directors have resolved not to declare any interim dividend for the six months ended 31 December 2004 (2003: HK1.2 cents per share).

	Six months ended	
	31/12/04	31/12/03
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend: Nil (2003: HK1.2 cents per share)	-	37,399
Underaccrual of final dividend for prior year due to exercise of warrants and share options before dividend record date	-	990
	-	38,389

Notes to the Condensed Financial Statements (Cont'd)



8. EARNINGS PER SHARE

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

	Six months ended	
	31/12/04 (Unaudited) HK\$'000	31/12/03 (Unaudited) HK\$'000
Earnings		
Earnings (net profit for the period) for the purpose of basic and diluted earnings per share calculation	152,253	83,470
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	3,175,232,401	2,640,413,552
Effect of dilutive share options	25,642,857	49,800,000
Effect of dilutive convertible bonds	-	56,124,477
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,200,875,258	2,746,338,029

9. FIXED ASSETS

During the six months ended 31 December 2004, the additions to fixed assets were approximately HK\$228,122,000 (2003: HK\$69,212,000).

10. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

The interests in jointly-controlled entities prepared in accordance with accounting principles generally accepted in Hong Kong, are as follows:

	31/12/04 (Unaudited) HK\$'000	30/06/04 (Audited) HK\$'000
Share of net liabilities, unlisted	-	(2,100)
Due from jointly-controlled entities	-	437,660
Due to jointly-controlled entities	-	(25,424)
	-	410,136

Notes to the Condensed Financial Statements (Cont'd)

10. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Cont'd)

The balances with unlisted jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment as at 30 June 2004.

Particulars of the jointly-controlled entities as at 30 June 2004 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 flat rolled products

Prior to 16 December 2004, the composition of the board of directors of CSD was five directors, Sino Advance Investments Limited ("Sino Advance") has the right to appoint two directors and each of Mr. Kwong Wui Chun ("Mr. Kwong"), Record Break Investments Limited ("Record Break") and Think Success Industries Limited ("Think Success") 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 and its wholly-owned subsidiary AA (China) (the "CSD Group") were not considered subsidiaries of the Company and were treated as jointly-controlled entities 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, Record Break and Think Success 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, the accounts of the CSD Group is consolidated into the Company's financial statements and the balances with CSD and AA (China) are re-classified as intercompany balances between the Group and the CSD Group. The shareholding structure of CSD and the profit and loss sharing ratio will remain unchanged.

Notes to the Condensed Financial Statements (Cont'd)



11. INTEREST IN AN ASSOCIATE COMPANY

On 2 November 2004, the Group 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 will be the sole owner 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 of the Group. 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.

12. DEPOSITS PAID

The balance as at 31 December 2004 mainly represented deposits paid for the purchase of aluminum rolled products equipment and aluminum extrusion presses and its auxiliary handling systems. The balance as at 30 June 2004 only represented deposits paid for the purchase of aluminum extrusion presses and its auxiliary handling systems.

13. DEPOSITS HELD IN ESCROW ACCOUNT

On 23 December 2004, the Company issued an 8% fixed rate senior notes (the "Notes") due 2011 in the principal amount of US\$450 million. After the issue of the Notes (the "Notes Issue"), the net proceeds arising from the Notes Issue is deposited in an interest-bearing escrow account held with Citibank, N.A. (the "Trustee"), the escrow agent for the Notes Issue proceeds. As mentioned in the Company's circular dated 7 January 2005, the Company may withdraw funds from the escrow account under different stages. Among the deposits in the escrow account, US\$87.5 million is classified as a current asset while the remaining balance is treated as a non-current asset. Further details of the Notes Issue are set out in note 18 to the condensed financial statements.

14. DEFERRED EXPENDITURE

The balance represented the capitalization of the underwriting discount and other expenses in connection with the Notes Issue ("Issuance Expenses"). The Issuance Expenses are amortised over the maturity period of the Notes for 7 years on a straight-line basis.

Notes to the Condensed Financial Statements (Cont'd)

15. TRADE RECEIVABLES

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

	31/12/04 (Unaudited) HK\$'000	30/06/04 (Audited) HK\$'000
Within 3 months	499,169	487,940
4 to 6 months	65,196	55,475
7 to 12 months	21,343	29,970
More than 1 year	59,640	62,099
	645,348	635,484
Provision for bad and doubtful debts	(91,858)	(89,975)
	553,490	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.

16. TRADE PAYABLES

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

	31/12/04 (Unaudited) HK\$'000	30/06/04 (Audited) HK\$'000
Within 3 months	214,233	235,357
4 to 6 months	8,503	11,126
7 to 12 months	8,512	12,753
More than 1 year	6,742	4,319
	237,990	263,555

Notes to the Condensed Financial Statements (Cont'd)

17. LOANS FROM MINORITY SHAREHOLDERS

Pursuant to the Subscription Agreement, each of Sino Advance, Mr. Kwong, Record Break and Think Success had agreed to provide shareholders' loan of a total amount of HK\$1,350,000,000 to CSD in proportion to their respective interests in CSD. The loans are unsecured, interest-free and are not repayable within one year.

18. FIXED RATE SENIOR NOTES

Pursuant to an indenture dated 23 December 2004 entered into among the Company, together with certain subsidiaries of the Company, and the Citibank, N.A. as the trustee, the Company issued the Notes in the aggregate principal amount of US\$450 million. 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 principal terms of the Notes and further details of the use of proceeds of the Notes Issue are set out in the Company's announcement dated 16 December 2004 and the circular dated 7 January 2005 to its shareholders.

19. SHARE CAPITAL

	31/12/04 (Unaudited) HK\$'000	30/06/04 (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 (30/06/04: 3,175,232,401) ordinary shares of HK\$0.10 each	317,523	317,523

Subsequent to the end of the period and up to the date of this report, a total of 70,500,000 ordinary share of HK\$0.10 each were issued upon exercise of share options granted to employees at an exercise price of HK\$0.56 per share for a total cash consideration before related issue expenses of HK\$39,480,000.

Notes to the Condensed Financial Statements (Cont'd)

20. SHARE PREMIUM ACCOUNT

	31/12/04 (Unaudited) HK\$'000	30/06/04 (Audited) HK\$'000
At beginning of period	1,606,563	973,051
Arising on exercise of share options	–	40,005
Arising on exercise of warrants	–	119,900
Arising on placement of new shares	–	473,607
At end of period	1,606,563	1,606,563

21. CONTINGENT LIABILITIES

As at 31 December 2004, the Group has contingent liabilities related to the bills discounted with recourse of HK\$3,799,000 (30 June 2004: HK\$19,312,000). In addition, the Group had granted a guarantee to and utilized by a minority equity holder in respect of banking facilities of HK\$10,829,000 (30 June 2004: HK\$10,829,000).

22. COMMITMENTS

- (a) As at 31 December 2004, the Group had total future minimum lease payments under operating leases falling due as follows:

	31/12/04 (Unaudited) HK\$'000	30/06/04 (Audited) HK\$'000
Within one year	10,749	8,237
In the second to fifth years, inclusive	36,802	30,895
After five years	59,597	63,583
	107,148	102,715

Notes to the Condensed Financial Statements (Cont'd)



22. COMMITMENTS (Cont'd)

- (b) As at 31 December 2004, the Group had capital commitments not provided for in the Interim Financial Statements as follows:

	31/12/04 (Unaudited) HK\$'000	30/06/04 (Audited) HK\$'000
Contracted for (Note)	2,847,854	694,577

Note: The Group was committed to make capital injections to three subsidiaries in the PRC of approximately HK\$1,426,813,000 (30/06/04: HK\$31,200,000). In addition, the Group was committed to provide a shareholder's loan to an associate company of US\$2,400,000 at 31 December 2004 and to a jointly-controlled entity of HK\$379,652,000 at 30 June 2004. As at 31 December 2004, the Group also had contracted capital commitments in respect of the acquisition of fixed assets of approximately HK\$1,402,381,000 (30/06/04: HK\$283,725,000).

- (c) 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 ended 30 June 2004, 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 on 13 November 2003, the acquisition of the land use rights for 3,500 mu was assigned to AA (China). On 12 April 2004, AA (China) acquired the land use right of 3,500 mu and the land use right certificates were obtained on 29 June 2004. In September 2004, AA (China) had paid the consideration for the acquisition of 3,500 mu of the land use right of HK\$94,885,000, including the deposits paid in the year ended 30 June 2004, and subsequent to the payment made to the local bureau, the local bureau refunded the whole amount of HK\$94,885,000 to AA (China) in September 2004. Accordingly, the Company and the Group had outstanding contracted capital commitment in respect of the acquisition of the land use rights for the remaining 6,800 mu of HK\$176,715,000.

Notes to the Condensed Financial Statements (Cont'd)

22. COMMITMENTS (Cont'd)

- (d) As at 31 December 2004, the Group has a commitment in respect of forward contracts for the purchase and sale of raw materials of aluminum ingots in the amount of HK\$186,638,000 (30/06/04: HK\$79,955,000).
- (e) 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.
- (f) 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 Wui Chun 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 million (adjustable for certain deferred consideration payable not exceeding HK\$100 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.

23. BORROWING FACILITIES

Certain of the Group's borrowings at 31 December 2004 were secured by fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK\$7,844,000 (30/06/04: HK\$5,329,000) and HK\$20,843,000 (30/06/04: HK\$8,336,000), respectively, and by bank deposits of HK\$22,128,000 (30/06/04: HK\$153,330,000).

Notes to the Condensed Financial Statements (Cont'd)

24. RELATED PARTY TRANSACTIONS

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

	Notes	31/12/04 (Unaudited) HK\$'000	31/12/03 (Unaudited) HK\$'000
Rental expenses paid to a related company	(a)	1,209	1,175
Rental expenses paid to a director	(b)	330	–
Sale of finished goods to a minority shareholder of a subsidiary, Indalex Aluminum Solution Group (“IASG”)	(c)	60,353	39,019
Sale of finished goods to a company of which a director of a non wholly-owned subsidiary is also a director	(d)	4,862	–
Consultancy fee paid to a former director of the Company	(e)	748	–
Cash maintained with bank accounts in the PRC under the name of associates of two directors held on behalf of the Group		2,293	–
Transfer of construction in progress from a jointly-controlled entity		16,761	–

- (a) 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, 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 value.

Notes to the Condensed Financial Statements (Cont'd)

24. RELATED PARTY TRANSACTIONS (Cont'd)

- (b) The rentals were paid in respect of the Group's leased staff quarters 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.
- (c) 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.
- (d) 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.
- (e) 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 commercial terms.

Management Discussion and Analysis

BUSINESS REVIEW

(a) Overview

For the six months ended 31 December 2004, the Group recorded a turnover of approximately HK\$1,763 million, representing an increase of 22% as compared with the corresponding period in the previous year. Profit attributable to shareholders for the period was approximately HK\$152 million, up 82% from HK\$83 million in the same period a year earlier. Strong growth in the Group's turnover and net profit for the period was attributable primarily to continued robust demand and improving profit margins for our aluminum products distributed in all major markets, in particular the PRC and the US.

The Group's gross profit margin improved to 26%, as compared with 19% posted in the corresponding period in the previous year, and was largely in line with the momentum generated by the higher gross profit margin delivered in the second half of the previous year. Although aluminum prices remained volatile during the period, the market has absorbed and become better adjusted to the price increase prevailing since 2003. The cost-plus pricing policy continued to enable the Group to manage its exposure to risks associated with aluminum price fluctuations.

Based on geographical distribution, the Group's turnover was 3% Hong Kong (2003: 6%), 83% Mainland China (2003: 83%), 9% North America (2003: 8%), and 5% Asia Pacific and others (2003: 3%).

By business line distribution, the Group's turnover was 96% aluminum extrusion and panels (2003: 80%), 3% stainless steel (2003: 19%), and 1% others (2003: 1%).

(b) Segment Performance

Aluminum Extrusion and Panels

Aluminum extrusion continued to be the Group's major driver and, together with aluminum panel products, the sales of this segment accounted for about 96% of the Group's total turnover for the period. Segment turnover rose 47% to HK\$1,698 million (2003: HK\$1,159 million) as a result of the strong exports to the US and growing domestic demand in the PRC, in particular the penetration into new markets in Zhejiang Province and the north western region of the country. Segment results also posted a significant 123% increase to HK\$343 million (2003: HK\$154 million) as efforts to diversify into more complex and therefore higher value-added products, such as multiple coating products, began to pay off. As the quality of the Group's multiple coating products was highly reputed, matched only by a few competitors in the market for similar products of distinctive quality, the Group was able to command higher selling prices and profit margins accordingly.

Management Discussion and Analysis (Cont'd)

Stainless Steel

Sales of stainless steel products dropped by 78% to approximately HK\$62 million with segment results shrinking 88% to about HK\$2 million over the same period in the previous year as the operating environment for the manufacturing and sales of stainless steel products continued to deteriorate amidst intensified competition and rising raw material costs. In view of the declining profit margins in stainless steel processing, the Group has converted part of its stainless steel plant facilities to aluminum extrusion operations. It is the intention of the Group to continue focusing on high margin businesses.

Others and Design and Testing Services

Revenue derived from this division dropped by 82% to approximately HK\$3 million largely due to the decrease in turnover from design and testing services during the period when our testing chamber facilities were mostly committed internally to the Group's expansion projects in Zhaoqing.

FINANCIAL REVIEW

(a) Issue of Senior Notes

In December 2004, the Company successfully issued senior notes (the "Notes") in the aggregate principal amount of US\$450 million due 2011 with a coupon of 8% per annum (the "Notes Issue"). The Notes Issue was arranged by Morgan Stanley & Co. International Limited and are listed on the Singapore Stock Exchange. The Notes have been rated BB and Ba3 by international rating agencies Standard & Poor's and Moody's respectively. The proceeds from the Notes are mainly to be used to develop a new aluminum flat rolled products manufacturing facility (the "FRP Project") in Zhaoqing, Guangdong Province, the PRC, and to finance the early repayment of a US\$75 million syndicated loan facility arranged by the Company in 2003.

The Company issued the Notes in a highly favorable market environment for bond issuers against a background of increasing interest rates and continued credit tightening 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.

Management Discussion and Analysis

(Cont'd)

(b) Capital Resources and Liquidity

The Group continues to maintain a strong and stable financial position. As at 31 December 2004, the Group's cash, bank balances and deposits amounted to approximately HK\$6,470 million (30 June 2004: HK\$2,953 million) after the successful issue of the Notes. This strong cash position will enable the Group to further expand its aluminum extrusion operations, successfully undertake the FRP Project and to develop other associated facilities and projects.

As at 31 December 2004, total bank loans and other Group borrowings amounted to approximately HK\$4,975 million (30 June 2004: HK\$1,480 million), of which HK\$3,499 million arose from the Notes Issue, with the balance consisting mainly of short-term trade finance and working capital loan facilities due within one year as well as the US\$75 million syndicated loan. The syndicated loan was originally due in 2006 but repaid early in January 2005 following the Notes Issue. Total debt to equity ratio of the Group increased to 170% (30 June 2004: 52%).

The Group's liquidity position remains strong, in a net cash position, and with ample undrawn aggregate banking and credit facilities available in respect of overdrafts, short-term loans, trade financing and finance leases. In addition, the Group continues to generate strong recurring cashflows from its core aluminum business. The ample financial resources available to the Group provide adequate funding for the Group's operational requirements and also put us in a favorable position for further expansion.

The Group had contingent liabilities of about HK\$15 million as at 31 December 2004, comprising approximately HK\$4 million of bills discounted with recourse and HK\$11 million guarantees for certain banking facilities respectively.

(c) Treasury Policy

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 in order to minimize the impact of exchange rate and interest rate fluctuations on earnings, assets and liabilities. Derivative instruments are used solely for hedging purposes, and speculation is strictly prohibited.

Management Discussion and Analysis (Cont'd)

(d) Dividend

The Board resolved not to declare an interim dividend for the six months ended 31 December 2004 (2003: HK1.2 cents per share) in order to maintain flexibility to make further investment in the future, including the expansion in the Asia Aluminum Industrial City ("Industrial City") in Zhaoqing, Guangdong Province, the PRC.

FUTURE PLAN AND PROSPECT

(a) Future Plan

Aluminum Extrusion

In 2004, the Group commenced construction of a new aluminum extrusion plant in the Industrial City in the Zhaoqing City High-Tech Development Zone, Guangdong Province, the PRC. Construction of the factory buildings to house the aluminum extrusion facilities and other associated infrastructure began in September 2004. The management anticipate construction related to the aluminum extrusion facilities to be completed by the middle of 2005, These facilities will commence commercial production in the second half of 2005, providing the Group with an initial annual extrusion capacity in Zhaoqing of about 200,000 metric tons.

Once our new extrusion facilities in Zhaoqing are running at sufficient capacity, we will be able to further enhance our operating efficiency and product mix of our extrusion operations. Together with the new capacity in Zhaoqing, our Group's estimated annual production capacity for extrusion products will increase to 300,000 metric tons. This will enable Asia Aluminum to strengthen its leadership as the largest and one of the most profitable aluminum extruders in Asia.

Aluminum FRP Project

In 2003, the Group announced the construction of the FRP Project, a large-scale aluminum flat rolled products project in the Industrial City in Zhaoqing, Guangdong Province, designed to produce high-quality rolled products, and with an annual production capacity of 400,000 metric tons. The products find wide application in the beverage and food can, transportation, precision construction, lithographic sheet for printing and aerospace industries. This horizontal expansion will generate a comprehensive aluminum product mix enabling the Group to address a broader range of end-user markets while expanding business with the Group's existing customers.

Management Discussion and Analysis

(Cont'd)

The FRP Project is now being implemented with site work started and some key contracts already signed, including those for the hot mill and the 5-stand cold mill. The management expect the 5-stand cold mill to be erected in first half of 2006 while the hot mill will be completed by the end of 2006. Commercial production for the hot rolling mill is expected to begin during the first half of 2007. We believe Asia Aluminum will be one of the first manufacturers in the PRC to produce high-quality aluminum rolled products suitable for a variety of uses that hitherto have been substantially satisfied through imports. Through a combination of high-quality products manufactured to exacting tolerances and a lower cost structure than our international competitors, we believe we are well positioned to gain significant market share through import substitution. We intend to become one of the largest manufacturers of these products supplying the high-growth market for rolled products in the PRC and overseas.

(b) Prospect

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 transportation, industrial and consumer applications and that the Group is well positioned to benefit from this growth. Given the limited number of producers in Asia-Pacific capable of producing high-grade aluminum extrusion and rolled products, the Directors also expect that the Group's significant cost advantage will allow the Group to export aluminum products to various overseas markets. The Directors are confident that the Group's existing core business will continue to prosper and that the Group will be able to continue to create long-term value for shareholders.

Disclosure of Interests

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

At 31 December 2004, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors 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 to be notified to the Company and the Stock Exchange pursuant to the Model Code For Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Name of Directors	Nature of interest	Notes	Number of issued ordinary shares held	Number of underlying shares held	Total	Approximate percentage of total issued shares as at 31 December 2004
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	
					<u>1,149,452,836</u>	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)			<u>5,000,000</u>	
					<u>29,434,800</u>	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.

Disclosure of Interests (Cont'd)

- (2) The interest disclosed represents the family interest in 4,000,000 shares and 4,900,000 underlying shares in respect of 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 SFO. These share options were granted on 25 January 2002 and were exercisable during the period from 25 January 2002 to 24 January 2005 at an exercise price of HK\$0.56 per share. Subsequent to the period end, on 21 January 2005, 4,900,000 shares were allotted to Ms. Li Chuk Kuan on her exercise of the 4,900,000 share options and accordingly, the family interest of Mr. Kwong Wui Chun increased to 8,900,000 shares.
- (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 of the Company.

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

Save as disclosed above and in the Section under the heading "Share option scheme" below, as at 31 December 2004, none of the directors had any interests or short positions in the equity or debt securities of the Company or 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 the directors 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 to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Disclosure of Interests (Cont'd)

SHARE OPTION SCHEME

Share options are granted to Directors, executives and employees under the share option scheme (the "Scheme") adopted by the Company on 7 December 2001. Summary of the movements in the share options granted under the Scheme during the period is as follows:

Type of grantees	At 1 July 2004	Notes	Granted during the period	Exercised during the period	Lapsed or cancelled during the period	At 31 December 2004
Executive directors						
Mr. Kwong Wui Chun	4,900,000	(i) (ii)	–	–	–	4,900,000
Dr. Chan Yiu Tsuan, Benby			5,000,000 (iii)	–	–	5,000,000
Mr. Zhong Jianqiu			5,000,000 (iii) (iv)	–	–	5,000,000
Other employees						
	65,600,000	(i)	–	–	–	65,600,000
			50,000,000 (iii)	–	–	50,000,000

Notes:

- (i) 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).
- (ii) These share options were granted to Ms. Li Chuk Kuan, the spouse of Mr. Kwong Wui Chun.
- (iii) These share options were granted on 6 July 2004. The 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 (subject to adjustments).
- (iv) These share options were granted to Ms. Kuang Shun Feng, the spouse of Mr. Zhong Jianqiu.

Disclosure of Interests (Cont'd)

SUBSTANTIAL SHAREHOLDERS

At 31 December 2004, save as disclosed in the section headed "Directors' Interests and Short Positions in Shares" above for interests of Mr. Kwong Wui Chun and his associates including Viewlink Assets Limited, in shares and underlying shares of the Company, the following persons had an interest in the shares and the underlying shares of the Company which (a) would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of shareholder	Capacity	Number of shares and underlying shares	Long/Short Position in shares	Approximate percentage of total issued shares as at 31 December 2004
Morgan Stanley	Interest of controlled companies	290,248,000	Long	9.14%
		1,644,000	Short	0.05%
JP Morgan Chase & Co	Interest of a controlled corporation	217,917,191	Long (Note)	6.86%
Mondrian Investment Partners Limited	Investment manager	194,612,000	Long	6.13%

Note: The interest disclosed represents lending pool.

Other Information

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

During the six months ended 31 December 2004, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 December 2004, in compliance with the Code of Best Practice ("Code of Best Practice") as set out in the old Appendix 14 of the Listing Rules, except that some of the independent non-executive directors of the Company are not appointed for a specific period as required by the Code of Best Practice, but are subject to retirement by rotation at the annual general meeting. In the opinion of the directors, this meets the same objective of the Code of Best Practice.

A detailed corporate governance report will be prepared and disclosed in the Company's 2005 Annual Report as required by the new Appendix 14 (Code on Corporate Governance Practices) of the Listing Rules.

AUDIT COMMITTEE

To comply with the Code of Best Practice, the Company has an audit committee (the "Committee"). The Committee comprises three members, namely, Mr. Ma Tsz Chun, a certified public accountant, Mr. Yau Wing Keung, Frankie and Mr. Chou Shun, Alan, all of them are independent non-executive directors of the Company.

The Committee has reviewed together with the management, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. The Group's external auditors, Ernst & Young, have carried out a limited scope financial review of these unaudited interim financial statements. Such limited scope review was not an audit conducted in accordance with the Auditing Standards issued by the HKICPA and the scope was less than that specified in the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA.

ON BEHALF OF THE BOARD

Kwong Wui Chun

Chairman

Hong Kong
29 March 2005