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If **you have sold** or otherwise transferred all your shares in the Company, you should at once hand this document and the accompanying forms of proxy to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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ASIA ALUMINUM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 930)

PROPOSED PRIVATISATION OF ASIA ALUMINUM HOLDINGS LIMITED BY

AA INVESTMENTS COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA INVOLVING THE CANCELLATION OF THE SCHEME SHARES AND WITHDRAWAL OF LISTING

Financial adviser to AA Investments Company Limited



Merrill Lynch (Asia Pacific) Limited

Independent financial adviser to the Independent Board Committee of
Asia Aluminum Holdings Limited



This document is issued jointly by Asia Aluminum Holdings Limited and AA Investments Company Limited. A letter from the board of directors of the Company is set out in Part I of this document. An explanatory statement regarding the Proposals is set out in Part IV of this document. A letter from the Independent Board Committee containing its advice to the Independent Shareholders and Optionholders in relation to the Share Proposal and the Option Proposal, respectively, is set out in Part II of this document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in relation to the Proposals is set out in Part III of this document.

The action to be taken by Independent Shareholders is set out in Part I of this document.

Notices convening the Court Meeting and the Special General Meeting to be held on Wednesday, 3 May 2006 are set out on pages 145 to 146 and 147 to 148 of this document, respectively. **Whether or not you are able to attend any of the Meetings in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and also the white form of proxy in respect of the Special General Meeting in accordance with the instructions printed respectively on them and to lodge them with the Company (12/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon Hong Kong, and marked "For the attention of the Company Secretary, Privatisation of the Company") as soon as possible but in any case not later than the times stated under the paragraph headed "Meetings and Action to be taken by Independent Shareholders" in Part I of this document.**

The English language text of this document shall prevail over the Chinese language text.

4 April 2006

CONTENTS

	<i>Page</i>
DEFINITIONS	1
EXPECTED TIMETABLE OF PRINCIPAL EVENTS	7
PART I – LETTER FROM THE BOARD	
INTRODUCTION	9
INTERESTED PARTIES	10
FINANCIAL ADVISERS	10
THE SCHEME DOCUMENT	11
SUMMARY OF THE SHARE PROPOSAL	11
THE SUBSCRIPTION ARRANGEMENTS	11
SUMMARY OF THE OPTION PROPOSAL	12
FINANCING OF THE PROPOSALS	12
COMPARISONS WITH THE SHARE OFFER PRICE	12
BACKGROUND TO, AND REASONS FOR, THE PROPOSALS	13
INFORMATION RELATING TO THE GROUP	15
INTENTIONS OF THE OFFEROR	15
MANAGEMENT	16
MEETINGS AND ACTION TO BE TAKEN	
BY INDEPENDENT SHAREHOLDERS	16
VOTES REQUIRED	17
ACTION TO BE TAKEN BY OPTIONHOLDERS	18
RECOMMENDATIONS	18
SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT	19
TAXATION AND INDEPENDENT ADVICE	19
FURTHER INFORMATION	19
PART II – LETTER FROM THE INDEPENDENT BOARD COMMITTEE	20
PART III – LETTER FROM THE INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE	21
PART IV – EXPLANATORY STATEMENT	46
PART V – FINANCIAL INFORMATION RELATING TO THE GROUP	60
PART VI – GENERAL INFORMATION	122
PART VII – SCHEME OF ARRANGEMENT	140
PART VIII – NOTICE OF COURT MEETING	145
PART IX – NOTICE OF SPECIAL GENERAL MEETING	147
APPENDIX 1 – SAMPLE OF LETTER TO OPTIONHOLDERS	149

DEFINITIONS

In this Scheme Document (other than the Scheme in Part VII and notices of the Meetings in Parts VIII and IX), the following words and expressions shall have the following meanings, unless the context otherwise requires:

“30-day Average Pre-announcement Price”	HK\$0.73 per Asia Aluminum Share, being the average closing price of Asia Aluminum Shares as quoted on the Stock Exchange over the 30 Trading Days prior to the Pre-announcement Date
“AA Investments” or “Offeror”	AA Investments Company Limited, a company incorporated in Bermuda with limited liability and wholly-owned by Mr. Kwong
“acting in concert”	has the meaning given in the Takeovers Code
“Announcement”	the announcement dated 16 March 2006 issued jointly by the Company and the Offeror relating to the Proposals
“Asia Aluminum” or “Company”	Asia Aluminum Holdings Limited, a company incorporated in Bermuda with limited liability, of which the ordinary shares are currently listed on the Stock Exchange
“Asia Aluminum Shareholders”	registered holders of Asia Aluminum Shares
“Asia Aluminum Shares”	ordinary shares of HK\$0.10 each in the issued share capital of the Company
“associate”	has the meaning given in the Takeovers Code
“Authorisations”	all necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Share Proposal
“Board”	the board of Directors of the Company
“Business Day”	a day (other than a Saturday) on which banks are generally open for business in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 (as amended) of Bermuda
“Conditions”	the conditions (or any of them) to which the Share Proposal is subject, which are set out in the Explanatory Statement in Part IV of this Scheme Document
“connected person”	has the meaning given in the Listing Rules
“Court Meeting”	a meeting of the Scheme Shareholders convened at the direction of the Supreme Court at which the Scheme will be voted upon, notice of which is set out in Part VIII of this Scheme Document, and any adjournment of such meeting

DEFINITIONS

“CSD”	China Steel Development Company Limited, a 60 per cent. indirectly owned subsidiary of the Company
“CSD Acquisition”	the proposed acquisition by the Company of the minority interests in CSD
“Director(s)”	director(s) of the Company
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Supreme Court, becomes effective in accordance with its terms, which is the date on which a copy of the Supreme Court order sanctioning the Scheme is delivered to the Registrar of Companies in Bermuda for registration, and which is expected to be 23 May 2006 (Bermuda time)
“Excluded Persons”	Mr. Kwong, the Family Member, Viewlink, Mr. Lau Yu Ching, Gilbert, Mr. Zhong Jianqiu and Merrill Lynch, being persons presumed to be acting in concert with the Offeror for the purposes of the Takeovers Code and who are collectively interested in 1,173,938,513 Asia Aluminum Shares, representing approximately 36.2 per cent. of the issued share capital of the Company as at the Latest Practicable Date and other persons (if any) acting in concert with the above
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Explanatory Statement”	the explanatory statement set out in Part IV of this Scheme Document issued in compliance with Section 100 of the Companies Act
“Family Member”	Ms. Li Chuk Kuan, the spouse of Mr. Kwong
“Fixed Rate Senior Notes”	US\$450 million 8.00 per cent. senior notes due 2011 issued by the Company in December 2004
“Group”	the Company and its subsidiaries and associated companies
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board (comprising Mr. Ma Tsz Chun, Mr. Yau Wing Keung and Mr. Chou Shun, Alan, being the three independent non-executive directors of the Company), which has been established for the purpose of advising the Independent Shareholders in relation to the Share Proposal and Optionholders in relation to the Option Proposal

DEFINITIONS

“Independent Financial Adviser”	ING Bank N.V., a registered institution under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities and the independent financial adviser to the Independent Board Committee appointed pursuant to Rule 2.1 of the Takeovers Code in connection with the Proposals
“Independent Shareholders”	Asia Aluminum Shareholders other than the Offeror and parties acting in concert with it
“Last Trading Date”	14 March 2006, being the last Trading Day of Asia Aluminum Shares on the Stock Exchange prior to the suspension of trading at the Company’s request at 9:30 a.m. on 15 March 2006 pending the issue of the Announcement
“Latest Practicable Date”	1 April 2006, being the latest practicable date prior to the printing of this Scheme Document for the purposes of ascertaining certain information for inclusion in this Scheme Document
“Letter to Optionholders”	the letter setting out the terms and conditions of the Option Proposal being sent to Optionholders and substantially in the form set out in Appendix 1
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Meeting(s)”	the Court Meeting and the Special General Meeting or either of them, as the case may be
“Merrill Lynch”	Merrill Lynch (Asia Pacific) Limited, an investment adviser registered under the SFO licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) of the regulated activities, and the financial adviser to the Offeror
“Mr. Kwong”	Mr. Kwong Wui Chun, who is directly and indirectly interested in 1,149,452,836 Asia Aluminum Shares representing approximately 35.4 per cent. of the issued share capital of the Company as at the Latest Practicable Date, and the chairman and an executive director of the Company
“Offeror Board”	the board of Offeror Directors
“Offeror Director(s)”	director(s) of the Offeror

DEFINITIONS

“Option(s)”	options granted under the Share Option Scheme and outstanding (being, as at the Latest Practicable Date, 47,250,000 Options conferring rights to subscribe for 47,250,000 Asia Aluminum Shares at a price of HK\$0.81 per Asia Aluminum Share)
“Option Offer Price”	HK\$0.64 per Option, the cancellation price payable in cash by the Offeror to the Optionholders pursuant to the Option Proposal
“Option Proposal”	the proposal to Optionholders for cancellation of all Outstanding Options
“Option Record Date”	two Business Days prior to the day of the court hearing of the petition to sanction the Scheme or such other times and date as shall have been announced by the Company for determining entitlements under the Option Proposal
“Optionholder(s)”	holder(s) of one or more Options
“Optionholder Form of Acceptance”	the form of acceptance despatched to Optionholders in connection with the Option Proposal
“Outstanding Options”	Options which are valid and are not exercised as at the Option Record Date
“Participating Management”	Dr. Chan Yiu Tsuan, Benby, Mr. Zhong Jianqiu, Mr. Lau Yu Ching, Gilbert, Mr. Ng Tze For, Benjamin, Ms. Lau Nga Man, Cynthia and Ms. Yee Kit Lin, Anita, each of whom is member of the senior management of the Company and is or will be a member of the senior management of the Offeror
“PRC”	the People’s Republic of China
“Pre-announcement Date”	7 February 2006, being the day on which the Company issued an announcement regarding a possible privatisation of the Company, at the request of the Stock Exchange following unusual movement in the price and trading volume of Asia Aluminum Shares
“Proposals”	the Share Proposal and the Option Proposal
“Registrar”	Hong Kong Registrars Limited, being the branch share registrar of the Company in Hong Kong
“Relevant Authorities”	relevant governments, governmental, quasi-governmental, supranational, statutory or regulatory bodies, courts, trade agencies or professional associations in any jurisdiction and any other persons or bodies with whom any member of the Group has entered into contractual arrangements or by whom any such company is bound

DEFINITIONS

“Rules of the Share Option Scheme”	the rules of the Share Option Scheme
“Scheme”	the scheme of arrangement under Section 99 of the Companies Act set out in Part VII of this Scheme Document, with or subject to any modifications or additions or condition(s) approved or imposed by the Supreme Court and agreed to by the Company and the Offeror, involving the cancellation of all the Scheme Shares
“Scheme Document”	this document, including each of the letters, statements, appendices and notices in it
“Scheme Record Date”	two Business Days prior to the day of the court hearing of the petition to sanction the Scheme or such other time and date as shall have been announced by the Company for determining entitlements under the Scheme
“Scheme Shareholder(s)”	Asia Aluminum Shareholders other than Mr. Kwong, Viewlink and the Family Member
“Scheme Share(s)”	Asia Aluminum Shares held by the Scheme Shareholders as at the Scheme Record Date (representing approximately 64.6% of the issued share capital of the Company as at the Latest Practicable Date)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Offer Price”	HK\$1.45 per Scheme Share, the cancellation price payable in cash by AA Investments to the Scheme Shareholders under the Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 7 December 2001 and as it may from time to time be amended or supplemented
“Share Proposal”	the proposal to Scheme Shareholders for the cancellation of all Scheme Shares pursuant to the Scheme
“Special General Meeting”	the special general meeting of the Company to be held to consider and approve, among other matters, the capital reduction arising as a result of the Scheme, notice of which is set out in Part IX of this Scheme Document, and any adjournment of such meeting
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supreme Court”	the Supreme Court of Bermuda
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“Trading Day”	a day on which the Stock Exchange is open for trading in securities
“United States”	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia
“US\$” and “US cents”	United States dollars and cents respectively, the lawful currency of the United States
“Viewlink”	Viewlink Assets Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Kwong, which held 908,622,000 Asia Aluminum Shares representing approximately 28.0 per cent. of the issued share capital of the Company as at the Latest Practicable Date

All references in this Scheme Document to times and dates are references to Hong Kong times and dates other than references to the expected dates of the Supreme Court hearing to sanction the Scheme and the Effective Date, which are references to the relevant times and dates in Bermuda. Bermuda time is 11 hours behind Hong Kong time.

For the purpose of this Scheme Document, the amounts in US\$ have been converted at a HK\$/US\$ exchange rate of 7.759/1.000.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

The following timetable takes into account the Supreme Court procedures for the Scheme. The expected timetable is indicative only and is subject to change.

Latest time for lodging transfers of Asia Aluminum Shares to qualify for entitlement to attend and vote at the Court Meeting and the Special General Meeting 4:00 p.m. on Tuesday, 25 April 2006

Register closed for determination of entitlements to attend and vote at the Court Meeting and the Special General Meeting (*Note 1*) from Wednesday, 26 April 2006 to Wednesday, 3 May 2006 (both dates inclusive)

Latest time for lodging forms of proxy in respect of:

Special General Meeting (*Note 2*) 11:00 a.m. on Monday, 1 May 2006

Court Meeting (*Note 2*) 10:00 a.m. on Wednesday, 3 May 2006

Suspension of dealings in Asia Aluminum Shares 9:30 a.m. on Wednesday, 3 May 2006

Court Meeting 10:00 a.m. on Wednesday, 3 May 2006

Special General Meeting (*Note 3*) 11:00 a.m. on Wednesday, 3 May 2006

Press announcement of the results of the Meetings in South China Morning Post and Hong Kong Economic Times Thursday, 4 May 2006

Resumption of dealing in Asia Aluminum Shares 9:30 a.m. on Thursday, 4 May 2006

Last day for dealing in Asia Aluminum Shares Thursday, 11 May 2006

Latest time for lodging transfers of the Scheme Shares to qualify for entitlements under the Scheme 4:00 p.m. on Tuesday, 16 May 2006

Scheme Record Date Wednesday, 17 May 2006

Register closed for determination of entitlements to qualify under the Scheme (*Note 4*) Wednesday, 17 May 2006 to Thursday, 18 May 2006 (both dates inclusive)

Court hearing of the petition to sanction the Scheme 9:30 a.m. on Friday, 19 May 2006 (Bermuda time)

Press announcement of the results of hearing of the petition to sanction the Scheme in South China Morning Post and Hong Kong Economic Times Monday, 22 May 2006

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Effective Date (*Note 5*) Tuesday, 23 May 2006

Press announcement of Effective Date and withdrawal of listing in South China Morning Post and Hong Kong Economic Times Wednesday, 24 May 2006

Expected withdrawal of the listing of Asia Aluminum Shares on the Stock Exchange becomes effective (*Note 6*) 9:30 a.m. on Wednesday, 24 May 2006

Cheques for cash payment under the Share Proposal and the Option Proposal to be despatched on or before Friday, 2 June 2006

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

1. The registers of members of the Company kept in Bermuda and Hong Kong will be closed during such period for the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and of Asia Aluminum Shareholders to attend and vote at the Special General Meeting. This book close period is not for determining the entitlements of Scheme Shares under the Scheme.
2. Forms of proxy should be lodged with the Company at 12/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong marked "For the attention of the Company Secretary, Privatisation of the Company", no later than the relevant times and dates stated above or, in the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting at the Court Meeting. Completion and return of a form of proxy for the Court Meeting or the Special General Meeting will not preclude an Asia Aluminum Shareholder from attending the relevant Meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.
3. The Special General Meeting will be held at the scheduled time as stated above or soon thereafter on the conclusion of the Court Meeting or after any adjournment of the Court Meeting.
4. The registers of members of the Company kept in Bermuda and Hong Kong will be closed during such period for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
5. The Scheme will become effective when (a) it is sanctioned (with or without modification) by the Supreme Court and (b) an office copy of the order of the Supreme Court sanctioning the Scheme is delivered to the Registrar of Companies in Bermuda for registration. Registration is expected to take place on 23 May 2006. Scheme Shareholders should note the Conditions of the Proposals set out on pages 47 to 49 of this Scheme Document.
6. It is expected that the listing of Asia Aluminum Shares on the Stock Exchange will be withdrawn on or before 24 May 2006, being the first Trading Day after the Effective Date.

The Court Meeting and the Special General Meeting will both be held at Nathan Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 3 May 2006. Please see the notice of the Court Meeting set out on pages 145 and 146 and the notice of the Special General Meeting set out on pages 147 and 148 of this Scheme Document for details.



ASIA ALUMINUM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 930)

Directors:

Mr. Kwong Wui Chun (*Chairman*)

Dr. Chan Yiu Tsuan, Benby

(*Deputy Chairman and Chief Executive Officer*)

Mr. Zhong Jianqiu

Mr. Ma Tsz Chun*

Mr. Yau Wing Keung*

Mr. Chou Shun, Alan*

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

* *Independent Non-executive Directors*

4 April 2006

To Asia Aluminum Shareholders and Optionholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF ASIA ALUMINUM HOLDINGS LIMITED
BY AA INVESTMENTS COMPANY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA
INVOLVING THE CANCELLATION OF THE SCHEME SHARES AND
WITHDRAWAL OF LISTING**

INTRODUCTION

It was announced on 16 March 2006 that the Offeror had requested the Board to put forward the Share Proposal (detailed below) to the Scheme Shareholders for cancellation of the Scheme Shares to effect the privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act and informed the Board that it will make the Option Proposal (detailed below and in the Letter to Optionholders) to Optionholders for the cancellation of Outstanding Options in exchange for cash. On 27 March 2006, the Offeror notified Asia Aluminum that the Share Offer Price under the Share Proposal was to be increased from HK\$1.30 to HK\$1.45 for each Scheme Share and correspondingly, the Option Offer Price under the Option Proposal was to be increased from HK\$0.49 to HK\$0.64 for each Outstanding Option.

If approved, the Scheme will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the Special General Meeting. The Asia Aluminum Shares held by Mr. Kwong, Viewlink and the Family Member will not form part of the Scheme Shares, but will be transferred to the Offeror in exchange for shares in the Offeror subject to and upon the Scheme becoming effective.

No Asia Aluminum Share acquired by the Offeror pursuant to the Share Proposal will be transferred, charged or pledged to any other persons, and there are no agreements arrangements or understandings to do the same, nor are there any related charges or pledges which may result in the transfer of voting rights attached to Asia Aluminum

Shares, except for a securities mortgage agreement in relation to all Asia Aluminum Shares intended to be entered into after the Scheme becomes effective by the Offeror and The Bank of New York as mortgagee on behalf of the parties providing the financing for the Proposals. The Bank of New York currently holds no securities in Asia Aluminum.

As at the Latest Practicable Date, Mr. Kwong, the Family Member, and Viewlink were interested in approximately 35.4% of the issued share capital of the Company.

As at the date of this Scheme Document, Scheme Shareholders who hold in aggregate up to approximately 55.5 per cent. of the Scheme Shares held by Independent Shareholders have irrevocably undertaken to AA Investments to vote in favour of the Scheme in respect of such Scheme Shares. The irrevocable undertakings will lapse in certain circumstances.

Your attention is drawn to the paragraph headed "Irrevocable Undertakings" in Part VI of this Scheme Document.

INTERESTED PARTIES

Other than Mr. Ma Tsz Chun, Mr. Yau Wing Keung and Mr. Chou Shun, Alan, none of the other Directors (namely Mr. Kwong, Dr. Chan Yiu Tsuan, Benby and Mr. Zhong Jianqiu) are considered to be independent for the purpose of giving any advice or recommendation to the Independent Shareholders in relation to the Share Proposal and Optionholders in relation to the Option Proposal for the following reasons: (i) they are Offeror Directors, (ii) they are executive Directors and (iii) they have interests in Asia Aluminum Shares and/or Options. As at the Latest Practicable Date, Mr. Kwong and Mr. Zhong Jianqiu⁽¹⁾ had beneficial interests in 1,149,452,836 Asia Aluminum Shares, and 24,434,800 Asia Aluminum Shares, respectively, representing in aggregate approximately 36.2% of the issued share capital of the Company. Dr. Chan Yiu Tsuan, Benby was an Optionholder holding 5,000,000 Outstanding Options as at the Latest Practicable Date.

In view of their interest in the Proposals, neither the Offeror, any of the Excluded Persons nor any persons acting in concert with any of them will vote in respect of the resolution to approve the Scheme at the Court Meeting. The Offeror and the Excluded Persons have, however, stated that, if the Scheme is approved at the Court Meeting, all the Asia Aluminum Shares held by them will be voted in favour of the special resolution to approve the capital reduction arising as a result of the Scheme at the Special General Meeting. Notices of the Meetings are set out in Parts VIII and IX of this Scheme Document. The Meetings will be held on Wednesday, 3 May 2006 at Nathan Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong at the times specified in the respective notices.

⁽¹⁾ As at the Latest Practicable Date, there were 5,000,000 Options granted to Ms. Kuang Shun Feng, an employee of the Group and spouse of Mr. Zhong Jianqiu.

FINANCIAL ADVISERS

Merrill Lynch has been appointed as the financial adviser to the Offeror in connection with the Proposals. In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising Mr. Ma Tsz Chun, Mr. Yau Wing Keung and Mr. Chou Shun, Alan, has been appointed by the Board to advise the Independent Shareholders in connection with the Share Proposal and Optionholders in connection with the Option Proposal.

The Independent Financial Adviser, ING Bank N.V., has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee in connection with the Proposals.

THIS SCHEME DOCUMENT

The purpose of this Scheme Document is to give you further information regarding the Share Proposal and the Option Proposal and to give you notice of the Court Meeting and the Special General Meeting. Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser, the Explanatory Statement and the Scheme. Further details of the Option Proposal are set out in the Letter to Optionholders.

SUMMARY OF THE SHARE PROPOSAL

It is proposed that, subject to the fulfilment or waiver (as applicable) of the Conditions as described in the Explanatory Statement, the Share Proposal will be implemented by way of the Scheme, which will involve the cancellation of all the Scheme Shares and a reduction of the issued share capital of the Company under Section 46 of the Companies Act. Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the Company will become a wholly-owned subsidiary of the Offeror.

In consideration of the cancellation of their Scheme Share(s), each Scheme Shareholder will receive the Share Offer Price for each Scheme Share held of:

For each Scheme Share HK\$1.45

The Scheme will lapse if it does not become effective on or before 31 July 2006 (or such later date as the Offeror and the Company may agree or (to the extent applicable) as the Supreme Court may direct and as may be permitted by the Takeovers Code) and provided that such extended date shall not be beyond 31 October 2006, and Asia Aluminum Shareholders will be notified by press announcement accordingly. Further announcements regarding the Share Proposal will be made as and when appropriate.

Assuming that the Scheme becomes effective on 23 May 2006, cheques for cash entitlements under the Scheme are expected to be despatched to Scheme Shareholders on or before 2 June 2006.

Mr. Kwong, Viewlink and the Family Member will not be entitled to receive the Share Offer Price as their Asia Aluminum Shares do not form part of the Scheme Shares and will not be cancelled under the Share Proposal.

THE SUBSCRIPTION ARRANGEMENTS

As an incentive to secure each of the management's services as employees and officers of the Company, certain members of the Participating Management shall have the right to subscribe for shares in the Offeror, subject to and conditional upon the Scheme becoming effective, on the following basis:

Participating Management	Percentage of Offeror share capital to which the individual is entitled on a fully diluted basis
Dr. Chan Yiu Tsuan, Benby	2.00%
Mr. Ng Tze For, Benjamin	1.00%
Ms. Lau Nga Man, Cynthia	0.25%
Ms. Yee Kit Lin, Anita	0.25%

SUMMARY OF THE OPTION PROPOSAL

The Company established the Share Option Scheme in December 2001 pursuant to which employees, executives and officers of the Company or any of its subsidiaries, and suppliers, consultants and advisers of the Company and/or its subsidiaries are eligible for the grant of Options. As at the Latest Practicable Date, 47,250,000 Options were outstanding which, when exercised, will entitle their holders to subscribe for 47,250,000 Asia Aluminum Shares.

Under the terms of the Share Option Scheme, an Optionholder may exercise his/her Option(s) to acquire Asia Aluminum Shares at HK\$0.81 per Asia Aluminum Share at any time up to and including 5 July 2007. Upon notice from the Company (to be given on the same day as the notices to holders of Asia Aluminum Shares of the Meetings), the Optionholders shall be entitled to give notice to the Company to exercise their Options in full or in part at any time up to the Option Record Date. Asia Aluminum Shares issued upon exercise of the Options prior to the Option Record Date will form part of the Scheme Shares.

The Option Proposal, which is conditional upon the Share Proposal becoming effective and binding, has been made by the Offeror to the Optionholders. The Letter to Optionholders setting out the terms and conditions of the Option Proposal is being despatched separately to Optionholders and is substantially in the form set out in Appendix 1. The Option Proposal is made on the following basis:

For each Outstanding Option HK\$0.64

Options which are not exercised in accordance with the Rules of the Share Option Scheme or in relation to which the Option Proposal is not accepted within the relevant time period will lapse and determine, subject to and conditional upon the Scheme becoming effective.

The attention of Optionholders is drawn to the Rules of the Share Option Scheme, and in particular paragraph 7.3(e) of the Rules of the Share Option Scheme.

FINANCING OF THE PROPOSALS

The Offeror has arranged external debt funding to effect the Proposals. None of the current cash resources of the Company will be used to finance the Proposals.

Merrill Lynch has confirmed that it is satisfied that sufficient financial resources are available to the Offeror for the implementation of the Proposals.

COMPARISONS WITH THE SHARE OFFER PRICE

The Share Offer Price represents:

- a premium of approximately 99.4 per cent. over the 30-day Average Pre-announcement Price of approximately HK\$0.73 per Asia Aluminum Share, by far the highest premium level paid in a comparable Hong Kong privatisation transaction in the past five years;
- a premium of approximately 74.7 per cent. over the closing price of HK\$0.83 per Asia Aluminum Share as quoted on the Stock Exchange on 6 February 2006, the day prior to the Pre-announcement Date;

- a premium of approximately 26.1 per cent. over the closing price of HK\$1.15 per Asia Aluminum Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 3.6 per cent. over the closing price of HK\$1.40 per Asia Aluminum Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 101.7 per cent. over the average closing price of approximately HK\$0.72 per Asia Aluminum Share based on the daily closing prices as quoted on the Stock Exchange over the 90 Trading Days prior to the Pre-announcement Date;
- a premium of approximately 84.8 per cent. over the average closing price of approximately HK\$0.78 per Asia Aluminum Share based on the daily closing prices as quoted on the Stock Exchange over the 180 Trading Days prior to the Pre-announcement Date;
- an implied price to earnings multiple of 27.9x, based on the Company's reported basic earnings per share of HK5.19 cents for the year ended 30 June 2005;
- a premium of approximately 58.0 per cent. to the audited consolidated net asset value per Asia Aluminum Share of approximately HK\$0.92 as at 30 June 2005;
- a premium of approximately 53.2 per cent. to the unaudited consolidated net asset value per Asia Aluminum Share of approximately HK\$0.95 as at 31 December 2005; and
- a 147.9 per cent. increase over the Company's split-adjusted IPO price of approximately HK\$0.59⁽¹⁾ in April 1998.

⁽¹⁾ Adjusted for a bonus issue on 4 May 2001 of 1,112,047,280 new Asia Aluminum Shares, on the basis of one bonus share for every then outstanding Asia Aluminum Share.

Historical share price information on Asia Aluminum Shares is set out in the paragraph headed "Market Prices" in Part VI of this Scheme Document.

BACKGROUND TO, AND REASONS FOR, THE PROPOSALS

Your attention is drawn to the paragraph headed "Background to, and reasons for, the Proposals" on pages 52 to 54 in the Explanatory Statement set out in Part IV of this Scheme Document.

The Company's share price has performed poorly over the past two years. The average closing price of Asia Aluminum Shares was approximately HK\$0.81 over the 12 months prior to the Pre-announcement Date. In the two year period prior to the Pre-announcement Date, the price of Asia Aluminum Shares decreased by 45.0 per cent. compared to an increase of 16.8 per cent. in the Hang Seng Index over the same period.

The Offeror believes that, in the absence of the privatisation offer, the poor price performance of Asia Aluminum Shares will continue. The Company will take several years to perform on its current business plan. Until implementation of the business plan is complete, the Company will continue to face substantial operational risk due to the planned

expansion of the extrusion operations and the development of the flat-rolled product facility. Furthermore, the Company has a high level of financial leverage due to the issue by the Company in December 2004 of US\$450 million of Fixed Rate Senior Notes due 2011 to support the Company's plans to build a flat-rolled product facility. The Company has stopped paying dividends from the financial year 2005 in order to maintain flexibility to support further investment in light of the tight restrictions on distributions imposed by the covenants on the Fixed Rate Senior Notes. As at 30 June 2005, the Company had a total debt to EBITDA ratio of approximately 7.9x. The Offeror has raised additional debt funding of approximately HK\$3,108.1 million to effect the Proposals (assuming all Options are exercised prior to the Option Record Date) and approximately HK\$737.1 million to finance the CSD Acquisition. As at 30 June 2005, the Offeror would have had a pro forma total debt to EBITDA ratio of approximately 13.3x assuming that both the Proposals and the CSD Acquisition had been effected in full before taking into account the fees, expenses and other costs of effecting the Proposals. The table below sets out the summary debt position of the Company and summary pro forma debt position of the Offeror:

<i>HK\$ in Millions</i>	<u>Asia Aluminum</u>	<u>Offeror</u>
	As at 30 June 2005 ⁽¹⁾	Pro forma as at 30 June 2005
Fixed Rate Senior Notes	3,498.8	3,498.8 ⁽¹⁾
Interest bearing bank & other loans	373.1	373.1 ⁽¹⁾
Trust receipt loans	278.7	278.7 ⁽¹⁾
Finance lease payables	173.5	173.5 ⁽¹⁾
Loans from minority shareholders	540.0	— ⁽²⁾
Financing of the Proposals	—	3,108.1 ⁽³⁾
CSD Acquisition	—	737.1 ⁽⁴⁾
Total	<u>4,864.1</u>	<u>8,169.3</u>
EBITDA ^(1,5) for the fiscal year ended 30 June 2005	616.0	616.0
Total debt / EBITDA	7.9x	13.3x

⁽¹⁾ Source: 2005 annual report of the Company.

⁽²⁾ Repaid in connection with the CSD Acquisition.

⁽³⁾ Assuming all Options have been exercised prior to the Option Record Date.

⁽⁴⁾ The Company has entered into an agreement with the minority shareholders in CSD, an indirect subsidiary of the Company, whereby each of the minority shareholders granted to the Company a call option at nil premium to acquire, at any time during the 365-day period commencing on 14 March 2006, their respective shareholdings in CSD and related shareholder loans of HK\$540.0 million for a total amount of US\$95 million (approximately HK\$737.1 million). The Company intends to exercise the call option after the Scheme becomes effective.

⁽⁵⁾ Earnings before interest, tax, depreciation and amortisation.

In addition to the reasons specific to the Company outlined above for the Company's poor share price performance, the Offeror believes that the Company will continue to suffer from the general negative sentiment of the stock market towards companies with smaller equity market capitalisation arising from a relative lack of liquidity and low level of coverage from equity market research analysts.

In view of the above, the Offeror believes that the ability of the Company to take advantage of being a listed company to raise funds from the equity market is limited and any such fund raising exercise would result in an unattractive level of dilution for all Asia Aluminum Shareholders. Furthermore, the Offeror believes that the costs associated with the maintenance of the Company's listing on the Stock Exchange and the Company's status as a publicly listed company are no longer justified.

The Offeror therefore believes that the Share Proposal represents a good opportunity for Scheme Shareholders to realise their investment in the form of immediate cash proceeds now at a price substantially above the levels at which Asia Aluminum Shares have consistently traded for the past 18 months. The Offeror also believes that the Share Offer Price is also significantly in excess of any price Scheme Shareholders may obtain from open market sale under current market conditions. In the absence of the Share Proposal, the Offeror considers it unlikely that market sentiment towards Asia Aluminum Shares will improve significantly in the foreseeable future.

AA Investments has stated that it will not further increase the Share Offer Price and the Option Offer Price. Asia Aluminum Shareholders should be aware that, following the making of this statement, AA Investments will not be allowed to further increase the Share Offer Price and Option Offer Price, save in wholly exceptional circumstances, as provided in Rule 18.3 of the Takeovers Code. Notwithstanding the above, AA Investments reserves the right not to be bound by the no increase statement in the event of a competing offer.

As at the Latest Practicable Date, Mr. Kwong and parties acting in concert with him hold an aggregate beneficial ownership of approximately 36.2 per cent. of the issued share capital of the Company. If any third party were to make a competing offer for the privatisation of the Company, such competing offer would not succeed without the acceptance by Mr. Kwong and parties acting in concert with him. Mr. Kwong has no intention to accept any competing offer.

INFORMATION RELATING TO THE GROUP

Your attention is drawn to the paragraph headed "Information on the Group" on page 52 in the Explanatory Statement set out in Part IV of this Scheme Document.

The Group designs, manufactures and sells customised aluminum extrusion products and processes and sells aluminum panels. To complement its principal extrusion business, the Group also produces a small volume of stainless steel products and provides design and testing services for aluminum products. The Company has its headquarters in Hong Kong and its manufacturing operations are located in the PRC.

INTENTIONS OF THE OFFEROR

Your attention is drawn to the paragraph headed "Intentions of the Offeror" on page 54 in the Explanatory Statement set out in Part IV of this Scheme Document.

It is the intention of the Offeror to maintain the existing businesses of the Group upon successful privatisation of the Company. The Offeror does not intend to introduce any major changes to the existing operating and management structure of the Group (including any redeployment of fixed assets of the Group), or to discontinue the employment of any employees of the Group, as a result of the implementation of the Proposals. The Offeror will, however, be solely responsible for the funding or procuring funding for the on-going requirements of the Group's business after the successful

implementation of the Proposals. Mr. Kwong also expects that there will be no material change to the existing business (such as business strategy and operating mode) of the Group as a result of the implementation of the Proposals.

The Company will apply to the Stock Exchange for the withdrawal of the listing of Asia Aluminum Shares on the Stock Exchange pursuant to Rule 6.15 of the Listing Rules conditional upon the Scheme becoming effective. Scheme Shareholders will be notified by way of a press announcement of the exact dates on which the Scheme and the withdrawal of the listing of Asia Aluminum Shares on the Stock Exchange will become effective.

The listing of Asia Aluminum Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and share certificates for the Scheme Shares will cease to have effect as documents of evidence of title and should be returned to the Company for cancellation.

MANAGEMENT

The Offeror intends to retain the Company's existing senior management team to manage the Company after completion of the Proposals. It is proposed that certain members of the Participating Management will acquire equity in the Offeror, subject to and conditional upon the Scheme becoming effective, as described in section headed "The Subscription Arrangements" on page 11.

MEETINGS AND ACTION TO BE TAKEN BY INDEPENDENT SHAREHOLDERS

As you will see from the notices on pages 145 to 148 of this Scheme Document, the Meetings will be convened on Wednesday, 3 May 2006 at Nathan Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong at the times specified in the respective notices. The Supreme Court has directed that the Court Meeting be held to consider and, if thought fit, to approve the Scheme (with or without modification).

The Court Meeting will be convened and held in accordance with the directions of the Supreme Court. The Special General Meeting will be convened and held in accordance with the Bye-laws of the Company.

Mr. Lau Yu Ching, Gilbert, Mr. Zhong Jianqiu and Merrill Lynch (who, as at the Latest Practicable Date, were respectively interested in 50,000, 24,434,800 and 877 Asia Aluminum Shares, representing in aggregate approximately 0.8% of the issued share capital of the Company), have undertaken that none of their Asia Aluminum Shares will be represented or voted at the Court Meeting.

Following the conclusion of the Court Meeting, the Special General Meeting will be held for the purpose of considering and, if thought fit, passing a special resolution to approve the capital reduction arising as a result of the Scheme.

If the Scheme is approved at the Court Meeting, the Excluded Persons have indicated that their respective Asia Aluminum Shares will be voted in favour of the special resolution to be proposed at the Special General Meeting to approve the capital reduction arising as a result of the Scheme.

Whether or not you are able to attend any of the Meetings in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and also the enclosed white form of proxy in respect of the Special General Meeting, in accordance with the instructions printed respectively on them and to lodge them with the Company marked "For the attention of the Company Secretary, Privatisation of the Company", at 12/F., Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong as soon as possible but in any case not later than the following respective times. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. on Wednesday, 3 May 2006. In order to be valid, the white form of proxy for use at the Special General Meeting must be lodged not later than 11:00 a.m. on Monday, 1 May 2006.

Completion and return of a form of proxy for each of the Court Meeting or the Special General Meeting will not preclude you from attending the relevant Meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.

Pursuant to Bye-law 73 of the Bye-laws of the Company, a resolution put to the vote of a general meeting of the Asia Aluminum Shareholders shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the chairman of the meeting;
- (ii) by at least three Asia Aluminum Shareholders present in person (or in the case of a Asia Aluminum Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting;
- (iii) by any Asia Aluminum Shareholder or Asia Aluminum Shareholders present in person (or, in the case of a Asia Aluminum Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Asia Aluminum Shareholders having the right to vote at the meeting;
- (iv) by any Asia Aluminum Shareholder or Asia Aluminum Shareholders present in person (or, in the case of a Asia Aluminum Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being Asia Aluminum 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 the Asia Aluminum Shares conferring that right; or
- (v) if required by the Listing Rules, by a Director or Directors who, individually or collectively, hold proxies in respect of Asia Aluminum Shares representing five per cent. or more of the total voting rights at such meeting.

VOTES REQUIRED

Approval of the Scheme will require the affirmative vote of a majority in number of the Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares, present and voting either in person or by proxy at the Court Meeting, provided that:

- (i) the Scheme is approved by at least 75 per cent. of the votes attaching to Scheme Shares held by Independent Shareholders that are cast either in person or by proxy at the Court Meeting (by way of poll); and
- (ii) the number of votes cast against the resolution to approve the Scheme at the Court Meeting (by way of poll) is not more than 10 per cent. of the votes attaching to all Scheme Shares held by Independent Shareholders.

The passing of a special resolution to approve the capital reduction of the relevant portion of the issued share capital of the Company as a result of the Scheme requires the affirmative vote by a majority of at least three-fourths of the votes cast by the Asia Aluminum Shareholders present and voting, in person or by proxy, at the Special General Meeting.

ACTION TO BE TAKEN BY OPTIONHOLDERS

The Letter to Optionholders setting out the terms and conditions of the Option Proposal is being despatched today separately to each of the Optionholders. Optionholders should refer to those letters, which are substantially in the form set out in Appendix 1 of this Scheme Document. Optionholders should also note the instructions and terms printed on the Optionholder Form of Acceptance.

The attention of Optionholders is drawn to the Rules of the Share Option Scheme, and in particular paragraph 7.3(e) of the Rules of the Share Option Scheme.

The Option Proposal is subject to and conditional upon the Scheme becoming effective but does not otherwise form part of the Scheme.

RECOMMENDATIONS

In the letter from the Independent Financial Adviser to the Independent Board Committee set out in Part III of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposals to be fair and reasonable so far as the Independent Shareholders are concerned and advises the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and the Asia Aluminum Shareholders to vote in favour of the special resolution to approve the capital reduction arising as a result of the Scheme at the Special General Meeting.

The Board believes the Scheme is in the best interests of the Company and is fair and reasonable as far as the Scheme Shareholders are concerned.

The Independent Board Committee, having considered the terms of the Proposals and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter in Part III of this Scheme Document, considers that the terms of the Proposals are fair and reasonable so far as the Independent Shareholders are concerned. **Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and the Asia Aluminum Shareholders to vote in favour of the special resolution to approve the capital reduction arising as a result of the Scheme at the Special General Meeting. The Independent Board Committee also recommends Optionholders to accept the Option Proposal if they have not exercised their Options prior to the Option Record Date.** The full text of the letter from the Independent Board Committee is set out in Part II of this Scheme Document.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Your attention is drawn to the paragraphs headed “Share certificates, dealings and listing” and “Registration and payment” on pages 56 and 57 in the Explanatory Statement set out in Part IV of this Scheme Document.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the paragraph headed “Taxation” on page 55 in the Explanatory Statement set out in Part IV of this Scheme Document.

Asia Aluminum Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation or other implications of the Scheme becoming effective or otherwise. It is emphasised that none of the Company, the Offeror, the Independent Financial Adviser or Merrill Lynch or any of their respective directors or any other person involved in the Proposals accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposals.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from the Independent Financial Adviser set out in Part II and Part III of this Scheme Document, respectively, the Explanatory Statement set out in Part IV of this Scheme Document, the general information set out in Part VI of this Scheme Document, the Scheme set out in Part VII of this Scheme Document and the notices of the Meetings set out in Part VIII and Part IX of this Scheme Document. Optionholders are urged to read carefully the Letter to Optionholders, a sample of which is set out in Appendix 1 of this Scheme Document.

Yours faithfully
for and on behalf of the Board
Mr. Kwong Wui Chun
Chairman



ASIA ALUMINUM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 930)

Members of the Independent Board Committee:

Mr. Ma Tsz Chun
Mr. Yau Wing Keung
Mr. Chou Shun, Alan

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

4 April 2006

To the Independent Shareholders and the Optionholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF ASIA ALUMINUM HOLDINGS LIMITED
BY AA INVESTMENTS COMPANY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA
INVOLVING THE CANCELLATION OF THE SCHEME SHARES AND
WITHDRAWAL OF LISTING**

We have been appointed as the Independent Board Committee to give a recommendation to the Independent Shareholders and the Optionholders in connection with the Share Proposal and the Option Proposal, respectively, details of which are set out in the "Letter from the Board" contained in the Part I of the Scheme Document. Terms used in this letter have the same meanings as defined in the Scheme Document. The Independent Financial Adviser has been appointed to advise us in connection with the Share Proposal and the Option Proposal.

Having considered the terms of the Share Proposal and the Option Proposal, and having taken into account the advice and recommendations of the Independent Financial Adviser contained in its letter in Part III of the Scheme Document (including the factors under the heading "Conclusions and Recommendation" in its letter, which should be read in the context of the full text of that letter), we are of the opinion that the terms of the Share Proposal are fair and reasonable so far as the Independent Shareholders are concerned, and that the terms of the Option Proposal are fair and reasonable so far as the Optionholders are concerned. We therefore recommend the Independent Shareholders to vote in favour of both the resolution to approve the Scheme at the Court Meeting and the special resolution to approve the capital reduction arising as a result of the Scheme at the Special General Meeting. We also recommend the Optionholders to accept the Option Proposal if they have not exercised their Options prior to the Option Record Date.

Yours faithfully

Independent Board Committee

Mr. Ma Tsz Chun
*Independent Non-executive
Director*

Mr. Yau Wing Keung
*Independent Non-executive
Director*

Mr. Chou Shun, Alan
*Independent Non-executive
Director*

The following is the text of a letter of advice from ING Bank N.V., the independent financial adviser appointed to advise the Independent Board Committee, which has been prepared for the purpose of incorporation into this document, setting out its advice to the Independent Board Committee in connection with the Proposals.



WHOLESALE BANKING

39/F One International Finance Center
1 Harbour View Street, Central
Hong Kong

4 April 2006

*To the Independent Board Committee of
Asia Aluminum Holdings Limited*

Dear Sirs,

**PROPOSED PRIVATISATION OF
ASIA ALUMINUM HOLDINGS LIMITED BY
AA INVESTMENTS COMPANY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA
INVOLVING THE CANCELLATION OF THE
SCHEME SHARES
AND WITHDRAWAL OF LISTING**

We refer to our engagement to advise the Independent Board Committee with respect to the proposal for the privatisation of Asia Aluminum Holdings Limited (the "**Company**" or "**Asia Aluminum**") by AA Investments Company Limited ("**AA Investments**") by way of the Scheme (the "**Share Proposal**") and the proposal to Optionholders for cancellation of all Outstanding Options (the "**Option Proposal**") (the Share Proposal and the Option Proposal are together referred to as the "**Proposals**"), details of which are contained in the document dated 4 April 2006 despatched to the Asia Aluminum Shareholders and the Optionholders of which this letter forms a part (the "**Scheme Document**"). ING has been appointed to act as the independent financial adviser to advise the Independent Board Committee as to whether or not the terms of the Proposals are fair and reasonable and recommend the Independent Board Committee to advise Independent Shareholders whether or not to vote in favour of the Scheme at the Court Meeting and the Special General Meeting and whether or not the Optionholders should accept the Option Proposal.

ING is independent from, and not connected with, any of the Company, the Offeror and any party acting, or presumed to be acting, in concert with the Company and the Offeror, and is accordingly considered qualified to give independent advice in respect of the Proposals. Apart from normal professional fees payable to us in connection with this engagement, no arrangements exist whereby we will receive any fees or benefits from the Company, the Offeror or any party acting, or presumed to be acting, in concert with the Company and the Offeror in connection with this engagement.

The terms used in this letter shall have the same meanings as defined elsewhere in the Scheme Document unless the context otherwise requires.

In accordance with Rule 2.1 of the Takeovers Code, an Independent Board Committee comprising Mr. Ma Tsz Chun, Mr. Yau Wing Keung and Mr. Chou Shun, Alan, the three independent non-executive Directors, has been set up to consider and make recommendations to the Independent Shareholders in respect of the Share Proposal and Optionholders in respect of the Option Proposal. None of the other Directors (namely Mr. Kwong, Dr. Chan Yiu Tsuan, Benby and Mr. Zhong Jianqiu) are considered to be independent for the purpose of giving any advice or recommendation to the Independent Shareholders in relation to the Share Proposal and Optionholders in relation to the Option Proposal for the following reasons: (i) they are Offeror Directors, (ii) they are executive Directors, and (iii) they have interests in the Asia Aluminum Shares and/or Options. As at the Latest Practicable Date, Mr. Kwong and Mr. Zhong Jianqiu had a beneficial interest in 1,149,452,836 Asia Aluminum Shares, and 24,434,800 Asia Aluminum Shares, respectively, representing in aggregate approximately 36.2 per cent. of the issued share capital of the Company. As at the Latest Practicable Date, there were 5,000,000 Options granted to Ms. Kuang Shun Feng, an employee of the Group and spouse of Mr. Zhong Jianqiu. Dr. Chan Yiu Tsuan, Benby, was an Optionholder holding 5,000,000 Outstanding Options as at the Latest Practicable Date.

Our recommendation is based solely on publicly available information and other information provided to us by the Company and its management. In formulating our recommendation, we have relied on the Directors to ensure that the information and facts supplied to us by the Company are true, accurate and complete in all material respects. We have also assumed that all information, representations and opinions contained or referred to in the Scheme Document were true at the time they were made and continued to be true at the date of the Scheme Document and, accordingly, we have relied on them.

We have been advised by the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Scheme Document and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading in any material respects.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to Offeror and the Offeror's future intentions with respect to the Group, for which the Offeror Directors accept full responsibility) and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, their opinions expressed in the Scheme Document have been arrived at after due and careful consideration and there are no other facts (other than those relating to the Offeror and the Offeror's future intentions) not contained in the Scheme Document the omission of which would make any statement in the Scheme Document misleading. The Offeror Directors have all declared in a responsibility statement set out in Part VI "General Information" of the Scheme Document that they are jointly and severally responsible for the accuracy of the information contained in the Scheme Document (other than information relating to the Group) and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, their opinions expressed in the Scheme Document have been arrived at after due and careful consideration and there are no facts (other than those relating to the Group) not contained in the Scheme Document the omission of which would make any of their statements in the Scheme Document misleading.

We have not independently verified such information nor have we conducted any independent in-depth investigation into the business and affairs of the Group, but have made such enquiries and exercised such judgments as we deemed necessary and we have

found no reason to doubt the reliability of the information. Our opinion is necessarily based upon information made available to us as of the date hereof and financial, economic, market and other conditions as they exist and can be evaluated on the date hereof.

In arriving at our recommendation, we have not had regard to the specific objectives, financial situation or unique needs and constraints of any individual Scheme Shareholder and the Optionholder. As different Scheme Shareholders and Optionholders would have different investment objectives, we would advise you to recommend that any individual Scheme Shareholder and Optionholder who may require specific advice in relation to his or her investment portfolio should consult his or her stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser.

THE OFFEROR

As stated in the "Letter from the Board" in Part I of the Scheme Document, the Offeror has requested the Board to put forward the Share Proposal to the Scheme Shareholders and informed the Board that it will make the Option Proposal to Optionholders. The Offeror is wholly-owned by Mr. Kwong who is directly and indirectly interested in 1,149,452,836 Asia Aluminum Shares, representing approximately 35.4 per cent. of the issued share capital of the Company as at the Latest Practicable Date. Mr. Kwong, together with his family interest and interests held through his companies, is the single largest shareholder of Asia Aluminum.

TERMS OF THE PROPOSALS

For details of the terms of the Scheme and the Proposals, your attention is drawn to the "Letter from the Board" and the "Explanatory Statement" in Parts I and IV of the Scheme Document, respectively.

The Share Proposal

The Share Proposal is to privatise the Company by way of the Scheme. All 2,096,279,565 Scheme Shares, representing 64.6 per cent. of the issued share capital of the Company, will be cancelled and the Company will become a wholly-owned subsidiary of the Offeror. In consideration for the cancelled Scheme Shares, each Scheme Shareholder will be entitled to receive HK\$1.45 in cash from the Offeror for each Scheme Share held. Upon the Scheme becoming effective, the listing of Asia Aluminum Shares on the Stock Exchange will be withdrawn.

The Share Proposal is subject to a number of conditions, including court sanction of the Scheme and approval by at least three-fourths in nominal value of the votes (taken by poll) cast by a majority in number of the Independent Shareholders present and voting either in person or by proxy at the Court Meeting, and dissenting votes (taken by poll) against the Scheme at the Court Meeting cast, either in person or by proxy, by the Independent Shareholders not exceeding 10 per cent. of the votes attaching to all the Scheme Shares held by Independent Shareholders.

As at the Latest Practicable Date, the Independent Shareholders held 2,071,793,888 Scheme Shares, representing 63.8 per cent. of the issued share capital of the Company, of which 10 per cent. is 207,179,389 Scheme Shares or 6.38 per cent. of the entire issued share capital of Asia Aluminum. Mr. Zhong Jianqiu, an executive Director, Mr. Lau Yu Ching, Gilbert, chief financial officer of the Company, and Merrill Lynch, financial adviser to the Offeror, who in aggregate hold 24,485,677 Scheme Shares as at the Latest Practicable Date and accordingly do not qualify as Independent Shareholders, will not vote at the Court Meeting.

The Company established the Share Option Scheme in December 2001. As at the Latest Practicable Date, 47,250,000 Options were outstanding which, when exercised, will entitle their holders to 47,250,000 Asia Aluminum Shares. Under the terms of the Share Option Scheme, Optionholders are entitled to exercise their Options to acquire Asia Aluminum Shares at HK\$0.81 per Asia Aluminum Share in full or in part at any time up to the Option Record Date, which is two Business Days prior to the day of the Court Meeting and Special General Meeting. Asia Aluminum Shares issued upon exercise of the Options prior to the Option Record Date will form part of the Scheme Shares.

As at the Latest Practicable Date, AA Investments has received irrevocable undertakings to vote at the Meetings to approve the proposals to privatise the Company at the Share Offer Price in respect of a total of up to 1,149,822,843 Scheme Shares (representing a total of up to approximately 55.5 per cent. of the Scheme Shares held by Independent Shareholders) from Genesis Fund Managers, LLP and Genesis Asset Managers, LLP (together, 124,364,000 Scheme Shares), Fidelity Investments International ("Fidelity" – 165,094,000 Scheme Shares) (the "Fidelity Irrevocable Undertaking"), Mondrian Investment Partners Limited (300,710,000 Scheme Shares), Morgan Stanley Investment Management Company (305,486,843 Scheme Shares), Penta Investment Advisers Limited (135,800,000 Scheme Shares), Martin Currie Inc. and Martin Currie Investment Management Limited ("Martin Currie" – 84,876,000 Scheme Shares) (the "Martin Currie Undertaking"), Franklin Templeton Investments (Asia) Limited and Franklin Templeton Investment Management ("Templeton" – 180,000 and 33,312,000 Scheme Shares, respectively) (the "Templeton Irrevocable Undertakings") (altogether, the "Irrevocable Undertakings").

The Irrevocable Undertakings shall lapse if (i) the proposal to privatise the Company is not approved at the Meetings or (ii) a third party makes a higher competing offer for the Company. In addition, the Fidelity Irrevocable Undertaking shall lapse in any event on 31 May 2006, the Martin Currie Undertaking shall lapse if the Scheme lapses on or before 31 July 2006 or such later date as the Offeror and the Company may agree provided always that such extension is not beyond 31 October 2006 and the Templeton Irrevocable Undertakings shall automatically lapse upon the approval of the Share Proposal to privatise the Company at the Meetings. The Martin Currie Undertaking is also subject to Martin Currie continuing to be in control of the voting rights in respect of the relevant 84,876,000 Asia Aluminum Shares it currently holds and Martin Currie's position as investment manager in respect of those Asia Aluminum Shares not being amended or terminated or under notice of termination.

The Option Proposal

Under the Option Proposal, the Offeror has offered to purchase Outstanding Options, for cancellation in exchange for HK\$0.64 in cash for each Outstanding Option, subject to and conditional upon the Share Proposal becoming effective and binding. The Letter to Optionholders setting out the terms and conditions of the Option Proposal is being despatched separately to Optionholders.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation and giving our advice to the Independent Board Committee, we have considered the following principal factors and reasons:

1. Background and Rationale

Asia Aluminum is a public company incorporated in Bermuda. The Group designs, manufactures and sells customised aluminum extrusion products and processes and sells aluminum panels. To complement its principal extrusion business, the Group also produces a small volume of stainless steel products and provides design and testing services for aluminum products. The Company has its headquarters in Hong Kong and its manufacturing operations are located in the PRC.

The Group is currently expanding its existing operations in Nanhai into the Asia Aluminum Industrial City which is being built in Zhaoqing. From this enlarged production base, the Group will be able to apply its extrusion industry experience to the rolled-products segment.

The background to, and reasons for, the Proposals are set out in the "Letter from the Board" and the "Explanatory Statement" in Part I and Part IV of the Scheme Document, respectively. In summary, the Offeror has identified the following factors:

- The Company's Share price has performed poorly over the past two years. The average closing price of the Asia Aluminum Shares was approximately HK\$0.81 over the 12 months prior to the Pre-announcement Date. In the two-year period prior to the Pre-announcement Date, the price of Asia Aluminum Shares decreased by 45.0 per cent. compared to an increase of 16.8 per cent. in the Hang Seng Index over the same period.
- The Offeror believes that, in the absence of the privatisation offer, the poor price performance of Asia Aluminum Shares will continue.
- The Company will take several years to perform on its current business plan. Until implementation of the business plan is complete, the Company will continue to face substantial operational risk due to the planned expansion of the extrusion operations and the development of the flat-rolled product facility.
- The Company has a high level of financial leverage due to the issue in December 2004 by the Company of US\$450 million of Fixed Rate Senior Notes due 2011 to support the Company's plans to build a flat-rolled product facility.
- The Company has stopped paying dividends from the financial year 2005 in order to maintain flexibility to support further investment in light of the tight restrictions on distributions imposed by the covenants on the Fixed Rate Senior Notes.
- The Offeror believes that the Company will continue to suffer from the general negative sentiment of the stock market towards companies with smaller equity market capitalisations arising from a relative lack of liquidity and low level of coverage from equity market research analysts.

- In view of the above, the Offeror believes that the ability of the Company to take advantage of being a listed company to raise funds from the equity market is limited and any such fund raising exercise would result in an unattractive level of dilution for all Asia Aluminum Shareholders.
- Furthermore, the Offeror believes that the costs associated with the maintenance of the Company's listing on the Stock Exchange and the Company's status as a publicly listed company are no longer justified.

In light of all the above, the Offeror has requested the Asia Aluminum Board to put forward the Share Proposal to the Scheme Shareholders for consideration. The Offeror believes that the Share Proposal represents a good opportunity for the Scheme Shareholders to realise their investment in the form of immediate cash proceeds now at a price substantially above the levels at which the Asia Aluminum Shares have consistently traded for the past 18 months. The Offeror also believes that the Share Offer Price is significantly in excess of any price Scheme Shareholders may obtain from open market sales under current market conditions. In the absence of the Share Proposal, the Offeror considers it unlikely that the market sentiment towards the Asia Aluminum Shares will improve significantly in the foreseeable future.

2. Historical Financial Performance of the Group

Set out below is a summary of the Group's consolidated profit and loss for the three years ended 30 June 2003, 2004 and 2005, and the unaudited consolidated results for the six months ended 31 December 2004 and 2005.

As stated in the paragraph headed "Material Changes" in Part V "Financial Information relating to the Group" of the Scheme Document, save as disclosed in the unaudited financial statements of the Group for the six months ended 31 December 2005, the extract of which is reproduced under paragraph 3 of Part V of this Scheme Document, the Directors are not aware of any material change in the financial or trading position or outlook of the Company since 30 June 2005, the date to which the latest audited consolidated financial statements of the Company were made up.

Accordingly, we have no reason to believe that this statement is incorrect and, therefore, we believe it is appropriate for us to rely on this statement in formulating our opinion.

Table (1): Summary Consolidated Profit & Loss Accounts

	Year ended 30 June – Audited			Six months ended 31 December – Unaudited	
	2003 HK\$m	2004 HK\$m	2005 HK\$m	2004 HK\$m	2005 HK\$m
Aluminum extrusion and panels	1,981	2,568	3,287	1,700	1,917
Stainless steel	362	353	117	62	65
Design and testing services	15	17	7	1	2
Total turnover	2,358	2,938	3,411	1,763	1,984
<i>Growth (year-on-year/ period-on-period)</i>	20%	25%	16%	22%	13%
Cost of sales and services	(1,822)	(2,240)	(2,624)	(1,313)	(1,539)
Gross profit	536	698	787	450	445
<i>Gross profit margin</i>	23%	24%	23%	26%	22%
Other revenue and gains	111	64	51	15	54
Selling and distribution costs	(56)	(77)	(92)	(46)	(45)
Administrative and other expenses	(144)	(156)	(157)	(71)	(101)
Profit from operating activities	447	529	589	348	353
Finance cost	(41)	(59)	(167)	(35)	(100)
Share of losses of jointly-controlled entities	-	(7)	(7)	(6)	-
Profit before tax for the year/period	406	463	415	307	253
Tax	(86)	(143)	(153)	(86)	(86)
Minority interests	(79)	(97)	(96)	(69)	(41)
Profit attributable to shareholders	241	223	166	152	126
<i>Net profit margin</i>	10%	8%	5%	9%	6%
EBITDA	426	561	669	408	365
<i>EBITDA margin</i>	18%	19%	20%	23%	18%

Source: Annual reports and interim financial statements of Asia Aluminum for the relevant periods.

Note: “HK\$m” denotes HK\$ million and “EBITDA” denotes earnings before interest, tax, depreciation and amortisation. We note that the EBITDA figures presented above differ from such figures disclosed in the Company’s annual reports and interim financial statements for the relevant periods. For the purpose of our EBITDA analysis above, we have excluded other revenue and gains, share of losses of jointly-controlled entities and minority interests in arriving at the EBITDA figures for the relevant financial years and/or periods.

2.1 *Analysis of Turnover and Segmental Profitability*

The Group is presently principally engaged in the (i) manufacture and sale of aluminum extrusion products and aluminum panels, (ii) manufacture and sale of stainless steel products, and (iii) the provision of design and testing services for aluminum products. For the financial year ended 30 June 2005, the Group generated a total turnover of approximately HK\$3,411 million, of which approximately 96 per cent. and approximately 3 per cent. was contributed by the aluminum extrusion and panels and stainless steel segments, respectively.

Production capacity remained constant at approximately 150,000 metric tons for financial years ended 30 June 2004 and 30 June 2005. With the development and commissioning of Asia Aluminum Industrial City, its new industrial base in Zhaoqing, Guangdong Province, China, production capacity is expected to increase to approximately 300,000 metric tons of aluminum extrusion and 400,000 metric tons of rolled-products by 2006 and 2007, respectively.

Turnover from aluminum extrusion and panels grew significantly over the past few financial years mainly as a result of higher demand in the PRC and increased penetration into other Asia Pacific markets. While overall turnover increased over the past few financial years and will continue to be underpinned by the economic development of the Group's core markets, particularly the PRC, we note that the year-on-year growth of the Group's turnover declined from approximately 25 per cent. for the year ended 30 June 2004 to approximately 16 per cent. for the year ended 30 June 2005, as shown in Table 1 above. A similar decline in period-on-period growth of approximately 22 per cent. to approximately 13 per cent. is also noted for the six months ended 31 December 2005.

Table (2): Breakdown of the Segmental Performance Results of the Group

	Year ended 30 June – Audited			Six months ended 31 December – Unaudited	
	2003	2004	2005	2004	2005
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
	<i>Segment results</i>			<i>Segment results</i>	
Aluminum extrusion and panels	325	468	577	343	330
Stainless steel	24	12	1	2	1
Design and testing services	13	14	6	1	1
Others ^(Note)	(5)	–	(14)	–	(17)
Total	357	494	570	346	315
	<i>Segment results (margin)</i>			<i>Segment results</i>	
	%	%	%	%	%
Aluminum extrusion and panels	16	18	18	20	17
Stainless steel	7	3	1	3	2
Design and testing services	83	83	83	–	83
Others ^(Note)	<u>nm</u>	<u>nm</u>	<u>nm</u>	<u>nm</u>	<u>nm</u>

Source: Annual reports and interim financial statements of Asia Aluminum for the relevant periods.

Note: "nm" denotes not meaningful; "Others" segment for the financial year ended 30 June 2003 relates to a discontinued operation of Asia Aluminum and for the financial year ended 30 June 2005, relates to the new flat rolled-products plant with commissioning anticipated to take place during 2007. Segments results are profit from operating activities before interest and unallocated gains as well as unallocated expenses.

For the last three financial years, the gross profit and EBITDA margins of the Group had remained broadly consistent, with EBITDA margins ranging between approximately 18 per cent. and 20 per cent. The financial performance is largely underpinned by aluminum extrusion and panels segment, which grew consistently over the past few financial years to account for approximately 96 per cent. of total turnover for the year ended 30 June 2005 and delivered relatively consistent segmental margin between approximately 17 per cent. and 18 per cent. for the last two financial years and for the six months ended 31 December 2005. Turnover from the stainless steel segment decreased by approximately 67 per cent., and amidst keen competition and higher raw material costs, the margin from this segment reached a low of approximately 1 per cent., for the year ended 30 June 2005. We note from the Management Discussion and Analysis in the 2005 Annual Report of the Group that "the Group will continue to redeploy more of its stainless steel processing facilities to aluminum extrusion operations". While the segmental margin for the design and testing services is strong at approximately 83 per cent. in 2005, it contributed less than 1 per cent. to the total turnover.

2.2 Profit Attributable to the Shareholders

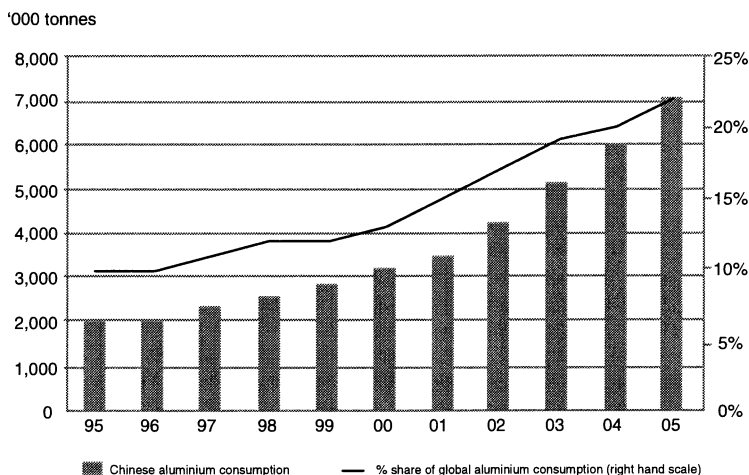
Despite the increase in the total turnover, gross profit and EBITDA, the Group had reported a decrease of approximately HK\$57 million (equivalent to approximately 26 per cent.) in net profit attributable to shareholders for the financial year ended 30 June 2005. This was largely due to the significant increase in net interest expense of approximately HK\$91 million incurred in that financial year, in connection with the US\$450 million Fixed Rate Senior Notes issued in December 2004 primarily to fund the rolled-products plant in the Asia Aluminum Industrial City. We note in the 2005 Annual Report that the Board has "resolved not to declare any dividend for the year ended 30 June 2005 in order to maintain flexibility to support further investment in the future, including the expansion in the Asia Aluminum Industrial City in Zhaoqing, Guangdong Province, China". Increase in net interest expense of HK\$65 million for the six months ended 31 December 2005 similarly contributed to the decline in net profit attributable to the shareholders and resulted in a net profit margin of approximately 6 per cent. for the period compared with approximately 9 per cent. for the same period last year. We note that the Company did not declare any interim dividend during the six months ended 31 December 2005 and the Board does not envisage declaring dividend in the foreseeable future in light of the tight restrictions on dividend distributions imposed by the covenants on the US\$450 million Fixed Rate Senior Notes.

2.3 Business Outlook

The PRC contributed to approximately 80 per cent. of the total turnover of the Group for the last three financial years under review. With sales from aluminum extrusion and panel products accounting for over 95 per cent. of total turnover, the business performance of the Group will be influenced by the PRC's consumption of aluminum.

Rapid economic growth in the PRC during recent years has been a key factor driving the demand growth for aluminum consumption. In 2003-2005, the PRC achieved GDP growth rates of approximately 10.0 per cent. each year on the back of growing urbanisation and construction activities, higher standards of living, and increased consumption of capital goods including appliances and automobiles. According to BHP Billiton, in 2005, the PRC accounted for over 20 per cent. of global aluminum consumption, and this is expected to increase to approximately 31 per cent. of global aluminum consumption of 51 million tonnes by 2015.

Chart (a): China Aluminum Demand and its Share of Global Aluminum Consumption



Source: BHP Billiton.

Driven primarily by strong domestic demand and low labour and capital costs, China became the largest aluminum producing country in 2002. According to CRU, China produced approximately 6.6 million tonnes of primary aluminum, which accounted for approximately 22.1 per cent. of global primary aluminum production of approximately 29.8 million tonnes in 2004, and China's importance as a producer is expected to continue to grow.

The financial performance of the Group will continue to be driven by its continuing focus on the aluminum extrusion and panels business, underpinned by, inter alia, the strong economic development and growing consumption of aluminum in the PRC. The Company expects that the development of its rolled-product plant in Zhaoqing and the anticipated commissioning in 2007 will enable it to enjoy the benefits of horizontal integration and a more diversified product range.

While the new plant will bring 400,000 metric tons of flat rolled-products capacity on stream, this is a "greenfield" project for Asia Aluminum, a new business segment in which it has no prior experience. In addition, though the business outlook for the Group seems strong, there is no assurance that the growth in expected aluminum demand will be achieved or be sustainable. We would also draw your attention to the Management Discussion and Analysis in the Company's 2005 Annual Report stating that "While we are confident of the future profitable growth of our Group on the back of additional capacity and strengthened capability, as well as recognised market demands, the Group's performance in the interim will inevitably be affected by the increase in finance and start-up costs".

3. Market Trading Performance of the Asia Aluminum Shares

3.1. Market price of the Asia Aluminum Shares

As Asia Aluminum is listed on the Stock Exchange, its share price should reflect the prevailing market assessment of its fair value. We have hence used the historical trading prices of the Asia Aluminum Shares as one of the principal factors for our consideration.

Set out below is a chart of historical daily closing market prices and trading volumes of the Asia Aluminum Shares for the period starting from 15 March 2004 to the Latest Practicable Date.

Chart (b): Share Price Performance from 15 March 2004 to the Latest Practicable Date



Source: Bloomberg.

Notes:

- (1) Daily volume is calculated as the aggregate of the volume transacted for the Asia Aluminum Shares on that day.
- (2) Daily Asia Aluminum Share price is, on market days when the Asia Aluminum Shares are traded, the last transacted price of the Asia Aluminum Shares on that day and, on market days when the Shares are not traded, the closing Asia Aluminum Share price from the last traded day.
- (3) Average Asia Aluminum Share price for each 12-month period starting from 15 March 2004 to 14 March 2005, and from 15 March 2005 to 14 March 2006, being the Last Trading Date.
- (4) 7 February 2006, being the Pre-announcement Date.
- (5) 16 March 2006, being the date of the Announcement.

From the above market price and trading volume information, we set out the following trading statistics for the period from 15 March 2004 to 14 March 2006, being the Last Trading Date (the “**Before-Announcement Period**”), and for the period from 28 March 2006, being the first trading day after the Announcement, to the Latest Practicable Date (the “**After-Announcement Period**”).

Table (3): Trading Price Statistics during Before-Announcement Period

Closing Market Prices	Price (HK\$)	Premium/ (discount) of the Share Offer Price to market price
Last transacted price prior to the Pre-announcement Date (6 February 2006)	0.830	74.7%
Last transacted price prior to the date of the Announcement (14 March 2006)	1.150	26.1%
Highest price in the 24-month prior to the Announcement (24 March 2004)	1.730	(16.2%)
Lowest price in the 24-month prior to the Announcement (28 October 2005)	0.560	158.9%
Highest price in the 12-month prior to the Announcement (14 March 2006)	1.150	26.1%
Lowest price in the 12-month prior to the Announcement (28 October 2005)	0.560	158.9%
30-day average price for the period prior to the date of the Announcement	0.969	49.7%
60-day average price for the period prior to the date of the Announcement	0.842	72.3%
90-day average price for the period prior to the date of the Announcement	0.799	81.6%
180-day average price for the period prior to the date of the Announcement	0.802	80.9%

Source: Bloomberg.

Note: Based on the daily average of the last transacted prices of the Asia Aluminum Shares during the last 30, 60, 90 and 180 days prior to and including 14 March 2006. Trading was suspended from 9.30 am on 15 March 2006 and resumed on 28 March 2006.

In our opinion, the recent rise in the Asia Aluminum Share price is highly likely to be induced by the Company's announcement regarding a possible privatisation of the Company on the Pre-announcement Date, and the speculation and eventual announcement of the Share Proposal. There is no assurance that the price of Asia Aluminum Shares will remain at the current levels should the Scheme not proceed to completion.

Table (4): Trading Price Statistics during After-Announcement Period

Closing Market Prices	Price (HK\$)	Premium of the Share Offer Price to market price
Last transacted price on 28 March 2006, being the first trading day of the Shares after the date of the Announcement	1.38	5.07%
Last transacted price as of the Latest Practicable Date (31 March 2006)	1.40	3.57%
Highest price since the Announcement date (30 March 2006 and 31 March 2006)	1.40	3.57%
Lowest price since the Announcement date (28 March 2006)	1.38	5.07%

Source: Bloomberg.

Based on the trading statistics shown in Table (4), we note that Asia Aluminum Share price traded at any day during the After-Announcement Period is higher than the highest price traded during the 12-month period prior to the Announcement. This is likely induced by the Company's revision of the Share Offer Price from HK\$1.30 to HK\$1.45 (refer section 7.1 of this letter). There is, hence, no assurance that the price of Asia Aluminum Shares will remain at current levels should the Scheme not proceed to completion.

Shareholders should note that the past trading performance of the Asia Aluminum Shares should not in any way be relied upon as an indication of its future trading performance. If the Scheme is not successful for whatever reason, the Asia Aluminum Shares may revert to their historical trading range before the Announcement, which may be below the Share Offer Price.

3.2. Trading liquidity of the Asia Aluminum Shares

We set forth below the following trading volume statistics for the Asia Aluminum Shares over the 180-day period prior to the date of the Announcement.

Table (5): Trading Volumes

Average Daily Trading Volumes	Number of Asia Aluminum Shares (‘000)	As a percentage of issued share capital of Asia Aluminum ⁽¹⁾
30-day average trading volume prior to the date of the Announcement	10,074	0.31%
60-day average trading volume prior to the date of the Announcement	6,312	0.19%
90-day average trading volume prior to the date of the Announcement	4,833	0.15%
180-day average trading volume prior to the date of the Announcement	3,541	0.11%
February and March 2006		
– From 6 February (one day prior to the Pre-announcement Date) to 10 February (end of Pre-announcement Date trading week)	21,066	0.65%
– From 13 February to Last Trading Date	8,466	0.26%
– From 28 March 2006, being the first trading day of the Shares after the date of the Announcement	51,197	1.58%

Source: Bloomberg.

Note:

- (1) Based on issued share capital of 3,245,732,401 Asia Aluminum Shares as at the Latest Practicable Date.

We note that the trading volume during the period before the Announcement was relatively low, with average trading volumes of only 0.11 per cent. of the issued share capital of Asia Aluminum over the 180-day period prior to the Announcement. Except for the period commencing from 6 February 2006 to 10 February 2006 (the **Pre-announcement Trading Week**”), during which the Company issued an announcement on 7 February 2006 regarding a possible privatisation of the Company at the request of the Stock Exchange following unusual movements in the price and trading volume of the Asia Aluminum Shares, the average daily trading volume ranges from approximately 0.11 per cent. to 0.19 per cent. over the 60-day, 90-day and 180-day periods preceding the Announcement. During the Pre-announcement Trading Week, though the trading volume is relatively higher, the average daily trading volume still represents less than 1.0 per cent. of the issued share capital of Asia Aluminum as at the Latest Practicable Date, and represents approximately 1.0 per cent. of the Scheme Shares.

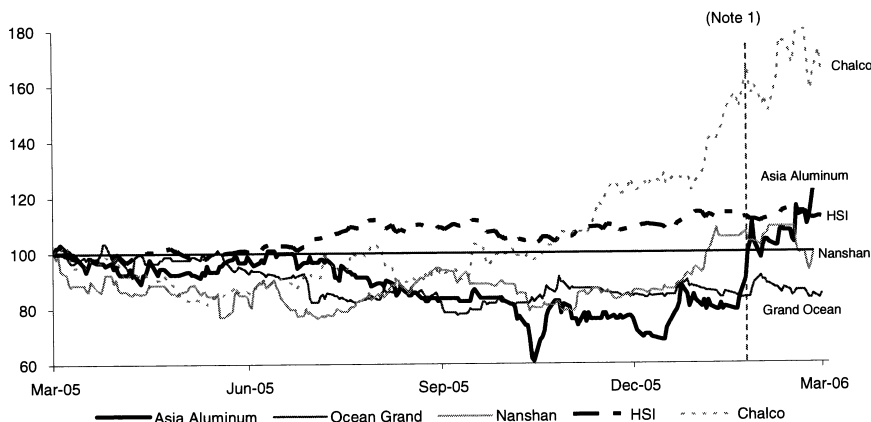
We also note that even during the After-Announcement Period, average daily trading volume increased to only 1.6 per cent. of the issued share capital of the Company as at the Latest Practicable Date, representing approximately 2.4 per cent. of the Scheme Shares.

We are of the view that, in the event the Scheme is not approved or lapses, trading volumes of Asia Aluminum Shares are likely to decline to the levels experienced during the period before the Pre-announcement Date. Given the relatively low level of liquidity of the Asia Aluminum Shares, the Company's ability to raise new equity in future may be limited. Furthermore, Independent Shareholders might also not be able to sell a significant number of their Asia Aluminum Shares in the market without depressing the market prices of the Asia Aluminum Shares. The Scheme, as such, represents an alternative avenue to the open market for Scheme Shareholders seeking to realise their investments.

3.3. Comparison to the Hang Seng Index and Peer Composite

For illustrative purposes only, we set out below the relative share price performance of the Company against the benchmark Hang Seng Index (the "HSI") and a composite of peer companies – Ocean Grand Holdings Limited ("Ocean Holdings"), Shandong Nanshan Industrial Co. Ltd. ("Nanshan") and Aluminum Corporation of China Limited ("Chalco") during the 12-month period prior to the Last Trading Date. We have compared the HSI and such companies' share performance with the Asia Aluminum Share price, as HSI is the main indicator of the share performance for listed stocks in Hong Kong, reflecting general trends of the market. Ocean Holdings and Nanshan are aluminum extrusion-related players listed on the Stock Exchange and the Shanghai Stock Exchange, respectively, while Chalco is the largest producer of alumina in the world and the largest producer of primary aluminum in PRC and is listed on the Stock Exchange (see the section entitled "Comparable Company Analysis" for a discussion on the selection of peer companies).

Chart (c): Relative Share Price Performance of Asia Aluminum against HSI and Peer Companies from 15 March 2005 to 14 March 2006 – Rebased



Source: Bloomberg.

Note:

- (1) 7 February 2006, being the date of the announcement by the Company of a possible privatisation.

During the 12-month period prior to the date of the Announcement, the price of Asia Aluminum Shares experienced a downward trend, from the last transacted price of HK\$0.92 on 15 March 2005 to its lowest transacted price of HK\$0.56 on 28 October 2005, being the next trading day after the announcement of the annual

results of the Company for the year ended 30 June 2005. Since then, the price of Asia Aluminum Shares rebounded to the last transacted price of HK\$0.92 on the Pre-announcement Date. Overall, Asia Aluminum Share price underperformed the HSI during the 12-month period prior to the date of the Announcement.

For illustrative purposes only, we note that the Hong Kong and the PRC comparables of Asia Aluminum, in general, similarly underperformed the HSI during the 12-month period prior to the date of the Announcement. Chalco shares have traded broadly in line with the HSI and recently outperformed the market index. While the trading performance of Chalco may provide a reference for the trading performance of Hong Kong and PRC aluminum stocks, we note that it may not be directly comparable to Asia Aluminum due to, inter alia, the upstream and integrated business model of Chalco vis-à-vis Asia Aluminum as a downstream player, Chalco's significantly larger market capitalisation and profitability, Chalco's recent announcement that its net profit for the year ended 31 December 2005 increased by approximately 9.9 per cent. over the previous year, the possible privatisation of A-share listed aluminum companies in which Chalco holds an equity interest, the proposed issue of up to 1.5 billion A-shares and the proposed listing of such A-shares on the Shanghai Stock Exchange of the PRC.

It would appear that the recent out-performance of Asia Aluminum Shares has been triggered by the possibility of a privatisation offer of the Company, and therefore the price of Asia Aluminum Shares may not be sustainable at current levels should the Scheme not proceed to completion.

4. Comparable Company Analysis

Aluminum generally passes through four stages of production namely, (i) bauxite mining, (ii) alumina refining, (iii) aluminum smelting, and (iv) semi-fabricating, before it is manufactured into its final products. Asia Aluminum, with its present key activities in aluminum extrusion, is principally engaged in the semi-fabricating phase as a downstream player.

The aluminum extrusion industry in the PRC is fragmented, characterised by a large number of players. According to the Company's website, Asia Aluminum is China's largest aluminum extruder, commanding a share of between 6 per cent. and 7 per cent. of the PRC market. In selecting the comparable companies, we have taken into account their roles in the aluminum production process, their primary business focus, geographic markets in which they operate and their respective sizes in terms of market capitalization and turnover, relative to the Company.

Based on our discussion with the management of the Company, we note that there are currently no pure aluminum extrusion comparable companies listed on Stock Exchange. As such, we have included, as part of the analysis, aluminum extrusion-related companies listed in Hong Kong and the PRC with a primary market focus in the PRC and/or Hong Kong, and in which aluminum extrusion-related activities form substantial part of the total turnover.

For illustration purposes only, we have also included upstream producers in the comparable company analysis.

While comparable company analysis can reflect current market sentiment towards the sector and provide guidance on valuation, we note that the analysis does not take into account differences in accounting policies and standards as well as differences in local

PART III	LETTER FROM THE INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE
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regulations, operating environments, business models, and/or tax treatments, nor does it take into account possible unique characteristic(s) of the different companies. No adjustments have been made to account for these differences.

In our assessment of the Share Offer Price, we have considered the following commonly used valuation multiples:

- Price-to-earnings ratio (“PER”);
- Enterprise value to EBITDA (“EV/EBITDA” or “EBITDA Multiple”); and
- Price-to-book multiple.

Although these multiples may not necessarily fully reflect the fundamental value of aluminum extrusion players, they typically provide a useful insight into their relative valuations.

Based on the above selection criteria and discussions with the management of the Company, we set out in the table below the relevant multiples for the selected companies (the “**Comparables**”). All multiples have been computed on a historical basis, using financial data obtained from their respective latest publicly available annual reports and interim financial statements. Valuation multiples for Asia Aluminum are based on the Share Offer Price of HK\$1.45. The historical multiples for the Comparables are based on their respective closing prices as at the Latest Practicable Date.

Table (6): Comparable Multiples

Comparables	Country	PER ^{(1),(2)}	EV/EBITDA ⁽³⁾	Price to book multiple ⁽⁴⁾	Net debt/ (cash) as percent of book value
Hong Kong and PRC Extrusion Comparables					
Ocean Grand	Hong Kong	6.45	4.45	0.57	24.6%
Nanshan	China	9.53	7.23	0.75	53.0%
Average		7.99	5.84	0.66	38.8%
Other Comparables					
Chalco	Hong Kong	12.90	9.84	2.78	23.9%
Alcan	US	20.25	9.12	1.76	64.6%
Alcoa	US	17.97	10.42	2.11	43.3%
Novelis *	US	nm	8.39	3.89	1,160.8%
Average		17.04	9.44	2.64	323.2%
Asia Aluminum	Hong Kong	33.80	11.17	1.53	50.7%

* Amongst the other comparables, Novelis is the only pure downstream producer. The others are vertically integrated.

Notes:

- (1) Number of shares is based on the total number of shares in issue as at 31 December 2005, except for Asia Aluminum, total number of shares in issue as at the Latest Practicable Date. Number of shares for Novelis is based on its total number of shares in issue as at 30 June 2005, the date of the latest available reported results.
- (2) PERs are calculated based on the respective share prices as at the Latest Practicable Date in the case of the Comparables, and the Share Offer Price in the case of Asia Aluminum, divided by the respective earnings per share for the 12-month period ended 31 December 2005. Except for Asia Aluminum which has a financial year ended 30 June 2005, the Comparables have financial years ended 31 December 2005. Earnings per share for Novelis are calculated based on the 12-month period ended 30 June 2005, the date of its latest available reported results.
- (3) EBITDA Multiples are calculated based on the market capitalisation (using the respective share prices as at the Latest Practicable Date in the case of the Comparables, and the Share Offer Price in the case of Asia Aluminum) plus net debt or less net cash plus minority interests, divided by the respective EBITDA for the 12-month period ended 31 December 2005. Except for Asia Aluminum which has a financial year ended 30 June 2005, the Comparables have financial years ended 31 December 2005. EBITDA for Novelis are calculated based on the 12-month period ended 30 June 2005, the date of its latest available reported results.
- (4) Price to book multiples are calculated based on the respective share prices as at the Latest Practicable Date in the case of the Comparables, and the Share Offer Price in the case of Asia Aluminum, divided by the respective book value per share as at 31 December 2005. Book value per share for Novelis is calculated based on its book value per share as at 30 June 2005, the date of its latest available reported results.

The underlying data for deriving the valuation multiples in Table (6) is set out in the following Table (7). Certain amounts have been rounded for convenience and certain multiples derived in Table (6) therefore may not sum up to equal quotients or products:

Table (7)

Comparables	Share Price ⁽¹⁾ (LC) ⁽²⁾	Market Capitalisation ⁽³⁾ (LC m)	Net debt/ (cash) ⁽⁴⁾ (LC m)	MI ⁽⁴⁾ (LC m)	EV (LC m)	EBITDA ⁽⁵⁾ (LC m)	EPS ^{(3),(5)} (LC)	Book value per share ^{(3),(6)} (LC)
Hong Kong and PRC Extrusion Comparables								
Ocean Grand	1.78	754	329	133	1,216	273	0.28	3.15
Nanshan	5.11	1,313	925	95	2,333	323	0.54	6.79
Other Comparables								
Chalco	8.20	90,609	7,797	1,560	99,966	10,155	0.64	2.95
Alcan	45.73	17,008	6,234	67	23,309	2,556	2.26	25.93
Alcoa	30.56	28,255	5,787	1,365	35,407	3,398	1.70	14.46
Novelis	20.57	1,522	2,654	144	4,320	515	NM	5.28
Asia Aluminum	1.45	4,706	1,559	729	6,994	626	0.04	0.95

Sources: Annual reports, interim financial statements and Bloomberg.

Notes:

- (1) All share prices as at the Latest Practicable Date except in the case of Asia Aluminum, for which the Share Offer Price was used.

- (2) "LC" denotes local currency.
- (3) Market capitalisation is calculated based on the share prices multiplied by the number of shares. Number of shares is based on the total number of shares in issue as at 31 December 2005, except for Asia Aluminum, total number of shares in issue as at the Latest Practicable Date. Number of shares for Novelis is based on its total number of shares in issue as at 30 June 2005, the date of its latest available reported results.
- (4) Net debt/(cash) and minority interests ("MI") as at 31 December 2005. Figures for Novelis are calculated based on the relevant figures as at 30 June 2005, the date of its latest available reported results.
- (5) "EPS" denotes earnings per share. EBITDA and EPS are based on the respective results for the 12-month period ended 31 December 2005, except for Novelis' EBITDA and EPS which are calculated based on the 12-month period ended 30 June 2005, the date of its latest available reported results.
- (6) Book values per share are as at 31 December 2005, except for Novelis which is based on its book value per share as at 30 June 2005, the date of its latest available reported results.

4.1. *Price-to-Earnings Ratio ("PER")*

PER is one of the most commonly used benchmarks for valuing companies. The PER implied by the Share Offer Price of approximately 33.8 times is higher than the Comparables. We note that the net profit attributable to Asia Aluminum shareholders for the financial year ended 30 June 2005 declined by approximately HK\$57 million, due mainly to an increase of HK\$91 million in net interest expense incurred in connection with the US\$450 million Fixed Rate Senior Notes issued in December 2004 to finance, inter alia, the construction of the Asia Aluminum City, which is still under-development. As such, the potential earnings impact from the foregoing development was not reflected in the financial year ended 30 June 2005. Accordingly, the PER may not be a meaningful basis to evaluate the Share Offer Price.

4.2. *EBITDA Multiple*

The EBITDA Multiple, calculated as market capitalisation plus net debt or less net cash plus minority interests divided by EBITDA for the year is a common benchmark used for the valuation of companies as it helps to eliminate the differences in capital structures and depreciation policies between the different selected comparable companies.

We note that the EBITDA multiple implied by the Share Offer Price of approximately 11.2 times is higher than the average of Hong Kong and PRC extrusion comparables and than the other comparables, although the premium is smaller for the latter. We would like to highlight that the EBITDA multiples of other comparables are for illustration purposes only, and do not necessarily provide a meaningful reference of the valuation due to differences in, inter alia, the business models, operating environment, and various other factors as set out in our earlier discussion in this letter.

4.3. *Price-to-Book Multiple*

The price-to-book multiple implied by the Share Offer Price of approximately 1.53 times is higher than the average of the Hong Kong and PRC extrusion comparables, but lower than those of the other comparables.

5. Comparison to Past Transactions

We have identified 16 announced proposals of companies which have received approvals from their independent shareholders to be taken private between the period from 1 January 2003 to the Latest Practicable Date, details of which are summarised in the following table (the “**Past Transactions**”). We note that the companies as shown below are engaged in different businesses from Asia Aluminum. While the Past Transactions can provide certain benchmarks to evaluate the terms of the Share Proposal, we would like to highlight that the Past Transactions included in this assessment were transactions undertaken in the past in market conditions and expectations that may not reflect those prevailing on the Latest Practicable Date.

Therefore, any comparison of the Share Proposal with the Past Transactions is solely for illustration purposes only. Conclusions drawn from such comparisons may not necessarily reflect any perceived market valuation of Asia Aluminum.

Table (8): Past Transactions

Date of announcement	Company	Principal activities	Offer price (HK\$)	Premium of offer price over closing price/ average closing share price prior to the relevant announcements		
				Last trading day	30-day average price	90-day average price
3 May 2003	Top Glory International	Property investment and development	0.74	72.1%	75.0%	73.7%
21 May 2003	Oxford Properties & Finance Limited	Property investment and development	15.00	59.6%	70.8%	90.4%
21 May 2003	SHC Medical Science and Technology (Group)	Manufacturing, sales and distribution	2.15	15.0%	24.3%	35.2%
26 May 2003	Pacific Concord Holding Limited	Manufacturing	0.65	51.2%	60.9%	46.4%
20 August 2003	iLink Holdings Limited	Operation of data centres	0.035	75.0%	66.7%	52.2%
31 October 2003	Chevalier Construction Holdings Limited	Construction services and maintenance	0.25	16.3%	23.8%	58.2%
13 October 2004	Alpha General (Holdings) Limited	Provisions of electrical appliances	0.70	125.8%	133.3%	125.8%
4 November 2004	The Kwong Sang Hong International Limited	Property trading and leasing	1.25	5.0%	36.2%	64.0%

Date of announcement	Company	Principal activities	Offer price (HK\$)	Premium of offer price over closing price/ average closing share price prior to the relevant announcements		
				Last trading day	30-day average price	90-day average price
29 December 2004	Sinopec Beijing Yanhua Petrochemical Company Limited	Petrochemical business	3.80	11.0%	23.9%	29.0%
3 May 2005	Hutchison Global Communications Holdings Limited	Telecommunications services	0.65	36.8%	43.3%	44.5%
19 May 2005	Henderson China Holdings Limited	Property investment and development	8.00	66.7%	64.3%	68.4%
16 August 2005	Henderson Cyber Limited	Information technology services and investment	0.42	90.9%	110.0%	106.4%
30 August 2005	Far Eastern Polychem Industries Limited	Production and distribution of polyester products	2.20	57.1%	57.6%	55.9%
28 October 2005	Jilin Chemical Industrial Company Limited	Production and sale of petroleum products	2.80	15.5%	17.2%	30.7%
2 November 2005	New World TMT Limited	Telecommunications services	0.75	78.6%	70.1%	63.7%
12 November 2005	Sinopec Zhenhai Refining Chemical Company Limited	Production and sale of petroleum products	10.60	12.2%	20.3%	29.0%
Past Transactions Average				49.3%	56.1%	60.8%
Asia Aluminum Share Proposal - Prior to the date of the Announcement ⁽¹⁾				1.45	26.1%	49.7%
Asia Aluminum Share Proposal - Prior to the Pre-announcement Date ⁽²⁾				1.45	74.7%	101.7%

Source: Bloomberg and shareholders' circulars.

Notes:

- (1) Premium of Share Offer Price over closing price/average closing share price prior to the date of the Announcement.
- (2) Premium of Share Offer Price over closing price/average closing share price prior to the Pre-announcement Date.

For illustration purposes only, we note that the premium represented by the Share Offer Price over the closing price on the last trading day and the average closing price for the 30-day period, prior to the date of the Announcement are lower than those represented by the Past Transactions. This is due to the upward movement in the market price of Asia Aluminum Shares following the announcement by the Company regarding a possible privatisation of the Company on 7 February 2006. However, the premium represented by the Share Offer Price over the closing price on the last trading day and the average closing prices for the 30 and 90-day period prior to the Pre-announcement Date are higher than nearly all of those represented by the Past Transactions.

6. Dividends

The following table sets out the dividend-related statistics of Asia Aluminum for the past five financial years ended 30 June 2005 and for the six months ended 31 December 2005:

Table (9): Dividend-related Statistics of Asia Aluminum

For the year ended 30 June	Dividend per Asia Aluminum Share (HK cents)	Earnings per Asia Aluminum Share (HK cents)	Dividend payout ratio (%)	Average daily closing price of Asia Aluminum Shares (HK\$)	Dividend Yield ⁽²⁾ (%)
2001 ⁽¹⁾	5.50	9.02	60.98	0.77	7.14
2002	2.50	5.78	43.25	0.62	4.03
2003 ⁽¹⁾	4.30	9.83	43.74	0.73	5.89
2004	3.00	7.78	38.56	1.30	2.31
2005	–	5.19	–	0.85	–
For the six months ended 31 December 2005	–	3.88	–	0.77	–

Source: Bloomberg, annual reports and interim financial statements of Asia Aluminum.

Notes:

- (1) Includes special dividends of HK3.5 cents per ordinary Asia Aluminum Share and HK1.0 cent per ordinary Asia Aluminum Share for financial years ended 30 June 2001 and 30 June 2003, respectively.
- (2) Dividend yield calculated by using the respective annual average daily closing price of Asia Aluminum.

The dividend per Asia Aluminum Share decreased from HK5.5 cents for the financial year ended 30 June 2001 to zero for the financial year ended 30 June 2005 and the six months ended 31 December 2005. Dividend payout ratios and dividend yields also correspondingly decreased over the same period.

We also note in the “Letter from the Board” and the “Explanatory Statement” in Part I and Part IV of the Scheme Document, respectively, that the “Company has stopped paying dividends from financial year 2005 in order to maintain flexibility to support further investment in light of the tight restrictions on distributions imposed by the covenants on the Fixed Rate Senior Notes”.

Based on the foregoing, there is no assurance that the Scheme Shareholders will receive any dividends in the coming years. We are of the view that the Share Proposal, with the Share Offer Price, which represents a premium in the prevailing market prices of the Asia Aluminum Shares, presents an opportunity for the Scheme Shareholders to realise the Asia Aluminum Shares in cash and reinvest the proceeds in other potentially higher yielding investments.

7. Other Considerations

7.1. Increase in Share Offer Price and the Option Offer Price

On 27 March 2006, the Offeror notified Asia Aluminum that the Share Offer Price under the Share Proposal is to be increased from HK\$1.30 to HK\$1.45 for each Scheme Share and correspondingly, the Option Offer Price under the Option Proposal is to be increased from HK\$0.49 to HK\$0.64 for each Outstanding Option.

AA Investments has stated that it will not further increase the Share Offer Price and the Option Offer Price. Asia Aluminum Shareholders should be aware that, following the making of this statement, AA Investments will not be allowed to further increase the Share Offer Price and Option Offer Price, save in wholly exceptional circumstances, as provided in Rule 18.3 of the Takeovers Code. Notwithstanding the above, AA Investments reserves the right not to be bound by the no increase statement in the event of a competing offer.

7.2. Alternative offer from third parties

As at the Latest Practicable Date, Mr. Kwong and the parties acting in concert with him hold an aggregate beneficial ownership of approximately 36.2 per cent. of the issued share capital of the Company. If any third party were to make a competing offer for the privatisation of the Company, such competing offer would not succeed without the acceptance by Mr. Kwong and parties acting in concert with him. We note in the "Letter from the Board" and the "Explanatory Statement" that Mr. Kwong has no intention to accept any competing offer. As at the Latest Practicable Date, we are not aware of any such alternative offer from a third party.

7.3. Intentions of the Offeror

As stated in the "Letter from the Board" and the "Explanatory Statement", the Offeror intends to maintain the existing business of the Group upon the successful privatisation of the Company. The Offeror does not intend to introduce any major changes to the existing operating and management structures of the Group (including any redeployment of fixed assets of the Group), or to discontinue the employment of any employees of the Group, as a result of the implementation of the Proposals.

The Offeror intends to retain the Company's existing senior management team to manage the Company after completion of the Proposals. Mr. Kwong has the full support of the Company's executive management team to implement the Proposals and to privatise the Company. Certain members of the senior management of the Company shall have the right to subscribe for shares in the Offeror, subject to and conditional upon the Scheme becoming effective.

We further note that as soon as practicable after the Scheme becomes effective, the Company will apply to the Stock Exchange for the withdrawal of the listing of Asia Aluminum Shares on the Stock Exchange. The listing of Asia Aluminum Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

OFFER TO OPTION HOLDERS

The Company established the Share Option Scheme in December 2001 pursuant to which employees, executives and officers of the Company or any of its subsidiaries, and suppliers, consultants and advisers of the Company and/or its subsidiaries are eligible for the grant of Options. As at the Latest Practicable Date, 47,250,000 Options were outstanding which, when exercised, will entitle their holders to 47,250,000 Asia Aluminum Shares. Under the terms of the Share Option Scheme, an Optionholder may exercise his/her Option(s) to acquire Asia Aluminum Shares at HK\$0.81 per Asia Aluminum Share at any time up to and including 5 July 2007. Upon notice from the Company (to be given on the same day as the notice to holders of Asia Aluminum Shares of the Meetings), the holders of Options shall be entitled to give notice to the Company to exercise their Options in full or in part at any time up to the Option Record Date, which is two Business Days prior to the day of the Court Meeting and Special General Meeting. Asia Aluminum Shares issued upon exercise of the Options prior to the Option Record Date will form part of the Scheme Shares.

Under the Option Proposal, the Offeror has offered to purchase the Outstanding Options, for cancellation in exchange for HK\$0.64 in cash for each Outstanding Option, subject to and conditional upon the Share Proposal becoming effective and binding. The Option Offer Price (HK\$0.64) represents the "see-through" price of that Outstanding Option, being the amount by which the Share Offer Price (HK\$1.45) exceeds the exercise price of that Outstanding Option (HK\$0.81).

The information, analyses and conclusions set out in this letter above with respect to the terms of the Share Proposal are also relevant for the Optionholders in considering the Option Proposal.

Optionholders should note Options which are not exercised in accordance with the Rules of the Share Option Scheme or in relation to which the Option Proposal is not accepted within the relevant time period will lapse, subject to and conditional upon the Scheme becoming effective. If the Scheme does not become effective, to the extent that Optionholders have any Options not exercised, these will remain unaffected and will be exercisable during their relevant exercise period pursuant to the terms of the Share Option Scheme.

CONCLUSIONS AND RECOMMENDATION**The Share Proposal**

Having considered the above principal factors and reasons, we draw your attention to the following key factors, which should be read in conjunction with, and interpreted, in the full context of this letter, in arriving at our conclusions:

1. The Directors have indicated that the Company will take several years to perform on its current business plan. Until the implementation of the business plan is complete, the Company will continue to face substantial operational risk due to the planned expansion of the extrusion operations and the development of the flat rolled product facility.
2. Asia Aluminum Shares have not traded above the Share Offer Price of HK\$1.45 per Asia Aluminum Share since 30 March 2004, and the Share Offer Price represents a premium of approximately 76.8 per cent. over the 12-month average daily closing to the Last Trading Date of Asia Aluminum Share price of HK\$0.82.
3. The premium represented by the Share Offer Price over the prevailing average share price prior to the Pre-announcement Date as shown in Table (8) of the section headed "Comparison to Past Transactions" are consistently higher than those offered in the Past Transactions.

4. During the 12-month period prior to the Pre-announcement Date, Asia Aluminum Share price underperformed the HSI – the price of Asia Aluminum Shares decreased by approximately 45 per cent. compared to an increase of approximately 17 per cent. in the HSI over the same period.
5. During the After-Announcement Period, Asia Aluminum Shares traded in a narrow band of HK\$1.38 to HK\$1.40 per Asia Aluminum Share. It would therefore appear that the market prices of Asia Aluminum Shares during the After-Announcement Period have been underpinned by the proposed privatisation and may not be sustainable at current levels should the proposed privatisation not proceed to completion.
6. The Share Offer Price represents approximately 11.2 times the Group's EBITDA for the twelve-month period ended 31 December 2005, which is relatively higher compared to the broad peer composite identified under the section headed "Comparable Company Analysis".
7. Asia Aluminum Shares are thinly traded on the Stock Exchange. The average daily trading volume of Asia Aluminum Shares represents approximately only 0.11 per cent. of the issued share capital of the Company over the 180-day period prior to the Announcement. Therefore, the Scheme presents an opportunity for Scheme Shareholders (in particular for those with significant holdings) to realise their investments in Asia Aluminum, which is thinly traded in the market, at a price higher than the last transacted prices since 30 March 2004.
8. The Company stopped paying dividends from the financial year ended 30 June 2005. In light of the tight restrictions on distributions imposed by the covenants on the US\$450 million Fixed Rate Senior Notes, the Board does not envisage declaring a dividend in the foreseeable future.
9. The Offeror and parties acting in concert with him hold approximately 36.2 per cent. of the issued share capital of the Company. Any competing offer from a third party for the privatisation of the Company would not succeed without the acceptance by Mr. Kwong and parties acting in concert with him. Mr. Kwong has indicated no intention to accept any competing offer. As at the Latest Practicable Date, there is no publicly available evidence of an alternative offer for the Company.

Based on the above, and as of the date of this letter, we consider the terms of the Scheme taken as a whole are fair and reasonable so far as the Independent Shareholders are concerned and recommend that the Independent Board Committee advise the Independent Shareholders to vote in favour of the resolution(s) to approve the Scheme at the Court Meeting and the special resolution(s) to approve and give effect to the Scheme at the Special General Meeting.

The Option Proposal

On the basis of our opinion on the terms of the Share Proposal as discussed above and our analysis of the terms of the Option Proposal, we consider the terms of the Option Proposal also fair and reasonable so far as the Optionholders are concerned.

Yours faithfully,
For and on behalf of
ING Bank N.V.
Malcolm E.O. Brown
Managing Director

PART IV – EXPLANATORY STATEMENT

This Explanatory Statement constitutes the statement required under Section 100 of the Companies Act.

SCHEME OF ARRANGEMENT FOR THE CANCELLATION OF THE SCHEME SHARES AND THE PAYMENT OF THE SHARE OFFER PRICE AND OPTION OFFER PRICE

INTRODUCTION

It was announced on 16 March 2006 that the Offeror had requested the Board to put forward the Share Proposal (detailed below) to the Scheme Shareholders for cancellation of the Scheme Shares to effect the privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act and informed the Board that it will make the Option Proposal (detailed below) to Optionholders for the cancellation of Outstanding Options in exchange for cash. On 27 March 2006, the Offeror notified Asia Aluminum that the Share Offer Price under the Share Proposal was to be increased from HK\$1.30 to HK\$1.45 for each Scheme Share and correspondingly, the Option Offer Price under the Option Proposal was to be increased from HK\$0.49 to HK\$0.64 for each Outstanding Option.

If approved, the Scheme will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the Special General Meeting. The Asia Aluminum Shares held by Mr. Kwong, Viewlink and the Family Member will not form part of the Scheme Shares, but will be transferred to the Offeror in exchange for shares in the Offeror subject to and upon the Scheme becoming effective. The effect of the Proposals is that Asia Aluminum will become a wholly-owned subsidiary of the Offeror.

TERMS OF THE PROPOSALS

The Share Proposal

The Share Proposal is to privatise the Company by way of the Scheme, to cancel all the Scheme Shares which will result in a reduction of the issued share capital of the Company under Section 46 of the Companies Act. In consideration of the cancellation, Scheme Shareholders will be entitled to receive the Share Offer Price, being HK\$1.45 per Scheme Share, in cash.

The Option Proposal

In accordance with the terms of the Share Option Scheme, Optionholders are entitled to exercise their Options in full or in part at any time up to the Option Record Date. The Asia Aluminum Shares issued upon exercise of the Options prior to the Option Record Date in accordance with the Rules of the Share Option Scheme will form part of the Scheme Shares. Options which are not exercised prior to the Option Record Date in accordance with the Rules of the Share Option Scheme, or in relation to which the Option Proposal is not accepted within the relevant time period, will lapse.

Under the Option Proposal, the Offeror has offered to purchase Outstanding Options, for cancellation in exchange for HK\$0.64 in cash for each Outstanding Option, subject to and conditional upon the Scheme becoming effective. The Option Proposal does not otherwise form part of the Scheme. Further information on the Option Proposal is set out in Appendix 1 headed "Sample of Letter to Optionholders" on pages 149 to 153 of this Scheme Document.

PART IV – EXPLANATORY STATEMENT

No set-off of consideration

The consideration to which any Asia Aluminum Shareholder is entitled under the Proposals will be implemented in full in accordance with the terms of the Proposals without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Asia Aluminum Shareholder.

Irrevocable undertakings

As at the date of this Scheme Document, Scheme Shareholders who hold in aggregate up to approximately 55.5 per cent. of the Scheme Shares held by Independent Shareholders have irrevocably undertaken to AA Investments to vote in favour of the Scheme in respect of such Scheme Shares. The irrevocable undertakings will lapse in certain circumstances.

Your attention is drawn to the paragraph headed “Irrevocable Undertakings” in Part VI of this Scheme Document.

THE SUBSCRIPTION ARRANGEMENTS

As an incentive to secure each of the management’s services as employees and officers of the Company, certain members of the Participating Management will have the right to subscribe for shares in the Offeror, subject to and conditional upon the Scheme becoming effective, on the following basis:

Participating Management	Percentage of Offeror share capital to which the individual is entitled on a fully diluted basis
Dr. Chan Yiu Tsuan, Benby	2.00%
Mr. Ng Tze For, Benjamin	1.00%
Ms. Lau Nga Man, Cynthia	0.25%
Ms. Yee Kit Lin, Anita	0.25%

CONDITIONS OF THE PROPOSALS

The Scheme will become effective and binding on the Company and all Scheme Shareholders subject to fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme by a majority in number of the Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares, present and voting either in person or by proxy at the Court Meeting, provided that:
 - (i) the Scheme is approved by at least 75 per cent. of the votes attaching to Scheme Shares held by Independent Shareholders that are cast either in person or by proxy at the Court Meeting (by way of poll); and

PART IV – EXPLANATORY STATEMENT

- (ii) the number of votes cast against the resolution to approve the Scheme at the Court Meeting (by way of poll) is not more than 10 per cent. of the votes attaching to all Scheme Shares held by Independent Shareholders;
- (b) the passing of a special resolution to approve and give effect to the cancellation of the Scheme Shares and the reduction of the relevant portion of the issued share capital of the Company as a result of the Scheme by a majority of at least three-fourths of the votes cast by the Asia Aluminum Shareholders present and voting in person or by proxy, at the Special General Meeting;
- (c) the sanction of the Scheme (with or without modifications) by the Supreme Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Supreme Court for registration;
- (d) the compliance with the procedural requirements of Section 46 of the Companies Act in relation to the reduction of the issued share capital of the Company;
- (e) all other Authorisations in connection with the Share Proposal having been obtained from the Relevant Authorities in Bermuda, Hong Kong and other relevant jurisdictions;
- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for in these Conditions, or is in addition to the requirements expressly so provided for, in relevant laws, rules, regulations or codes in connection with the Share Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (g) all necessary third party consents which are required under contractual obligations of the Company and/or any of its subsidiaries having been obtained; and
- (h) since the Announcement, there having been no adverse change in the business, assets, financial or trading position or prospects of the Group which is material in the context of the Group taken as a whole.

The Offeror reserves the right to waive Condition (g) either in whole or in part in respect of any particular matter. Failure to obtain certain Authorisations may not affect the effectiveness and completion of the Scheme. In the event that Condition (e) or (f) is not fulfilled by reason of an Authorisation not having been obtained, the Offeror reserves the right to assess the materiality of such non-fulfilment and to waive the fulfilment of such Condition(s) to such extent where it considers appropriate. Conditions (a) to (d) and (h) cannot be waived in any event. The Offeror may only invoke any or all of Conditions (a) to (h) as a basis for not proceeding with the Scheme if the provisions of Note 2 to Rule 30.1 of the Takeovers Code are satisfied. Note 2 to Rule 30.1 of the Takeovers Code provides that an offeror should not invoke any condition (other than the acceptance condition) so as to cause the offer to lapse unless the circumstances which gives rise to the right to invoke the condition are of material significance to the offeror in the context of the offer. The waiver or invoking by the Offeror of any Condition in accordance with the terms of this paragraph shall not be subject to the Company's agreement, approval or consent. The Company has no right to waive any of the Conditions.

PART IV – EXPLANATORY STATEMENT

All of the above Conditions will have to be fulfilled or waived, as applicable, on or before 31 July 2006 (or such later date as the Offeror and the Company may agree or (to the extent applicable) as the Supreme Court may direct and as may be permitted by the Takeovers Code), failing which the Scheme will lapse. Any extension to such later date shall not be beyond 31 October 2006.

The implementation of the Option Proposal is conditional upon the Scheme becoming effective.

FINANCIAL EFFECTS OF THE SHARE PROPOSAL AND THE OPTION PROPOSAL

Capital value

The Share Offer Price represents:

- a premium of approximately 99.4 per cent. over the 30-day Average Pre-announcement Price of approximately HK\$0.73 per Asia Aluminum Share, by far the highest premium level paid in a comparable Hong Kong privatisation transaction in the past five years;
- a premium of approximately 74.7 per cent. over the closing price of HK\$0.83 per Asia Aluminum Share as quoted on the Stock Exchange on 6 February 2006, the day prior to the Pre-announcement Date;
- a premium of approximately 26.1 per cent. over the closing price of HK\$1.15 per Asia Aluminum Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 3.6 per cent. over the closing price of HK\$1.40 per Asia Aluminum Share as quoted on the Stock Exchange on the Last Practicable Date;
- a premium of approximately 101.7 per cent. over the average closing price of approximately HK\$0.72 per Asia Aluminum Share based on the daily closing prices as quoted on the Stock Exchange over the 90 Trading Days prior to the Pre-announcement Date;
- a premium of approximately 84.8 per cent. over the average closing price of approximately HK\$0.78 per Asia Aluminum Share based on the daily closing prices as quoted on the Stock Exchange over the 180 Trading Days prior to the Pre-announcement Date;
- an implied price to earnings multiple of 27.9x, based on the Company's reported basic earnings per share of HK5.19 cents for the year ended 30 June 2005;
- a premium of approximately 58.0 per cent. to the audited consolidated net asset value per Asia Aluminum Share of approximately HK\$0.92 as at 30 June 2005;
- a premium of approximately 53.2 per cent. to the unaudited consolidated net asset value per Asia Aluminum Share of approximately HK\$0.95 as at 31 December 2005; and

PART IV – EXPLANATORY STATEMENT

- a 147.9 per cent. increase over the Company's split-adjusted IPO price of approximately HK\$0.59⁽¹⁾ in April 1998.

⁽¹⁾ Adjusted for a bonus issue on 4 May 2001 of 1,112,047,280 new Asia Aluminum Shares, on the basis of one bonus share for every then outstanding Asia Aluminum Share.

A summary of the closing prices of the Asia Aluminum Shares on the Stock Exchange (i) on the last Trading Day of each of the six calendar months preceding the date of the Announcement; (ii) on the Last Trading Day; and (iii) on the Latest Practicable Date is set out in Part VI of this Scheme Document.

Net tangible assets

As at 30 June 2005, the audited consolidated net assets of the Group amounted to approximately HK\$2,978,027,000, or approximately HK\$0.92 per Asia Aluminum Share. The Share Offer Price represents a premium of approximately 58.0% to the audited consolidated net asset value per Asia Aluminum Share as at 30 June 2005.

As at 31 December 2005, the unaudited consolidated net assets of the Group amounted to approximately HK\$3,072,933,000, or approximately HK\$0.95 per Asia Aluminum Share. The Share Offer Price represents a premium of approximately 53.2% to the unaudited consolidated net asset value per Asia Aluminum Share as at 31 December 2005.

For the purpose of this Scheme Document, consolidated net assets means the aggregate of the amount paid up on the issued share capital and the consolidated capital and revenue reserves (including but not limited to the share premium account and retained profits) but after deducting all minority interests in subsidiaries.

Earnings

The Group's audited consolidated profit attributable to the Asia Aluminum Shareholders for the year ended 30 June 2005 amounted to approximately HK\$166,240,000, representing basic and diluted earnings of approximately HK5.19 cents and HK5.18 cents per Asia Aluminum Share, respectively.

The Group's unaudited consolidated profit attributable to the Asia Aluminum Shareholders for the six month period ended 31 December 2005 amounted to approximately HK\$125,991,000, representing earnings of approximately HK3.88 cents per Asia Aluminum Share.

Dividends

Asia Aluminum did not declare any dividend during the year ended 30 June 2005 or any interim dividend during the six months ended 31 December 2005.

PART IV – EXPLANATORY STATEMENT

OTHER EFFECTS OF THE SHARE PROPOSAL AND THE OPTION PROPOSAL

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately following the implementation of the Share Proposal and completion of the Option Proposal assuming none of the Options have been exercised on or prior to the Option Record Date and all Optionholders accept the Option Proposal:

Asia Aluminum Shareholders	As at the Latest Practicable Date		Immediately after the Scheme becomes effective and the listing of the Asia Aluminum Shares on the Stock Exchange is withdrawn	
	Number of Asia Aluminum Shares	%	Number of Asia Aluminum Shares	%
The Offeror	–	0.0%	1,149,452,836	100.0%
Parties acting in concert with AA Investments ⁽¹⁾	1,149,452,836	35.4%	–	–
Personal Interest (Mr. Kwong Wui Chun)	231,930,836	7.1%	–	–
Corporate Interest (Viewlink)	908,622,000	28.0%	–	–
Family Interest (Ms. Li Chuk Kuan)	8,900,000	0.3%	–	–
Scheme Shareholders	2,096,279,565	64.6%	–	0.0%
Mr. Zhong Jianqiu	24,434,800	0.8%	–	–
Mr. Lau Yu Ching, Gilbert	50,000	0.0%	–	–
Merrill Lynch	877	0.0%	–	–
Independent Shareholders	2,071,793,888	63.8%	–	–
Total	3,245,732,401	100.0%	1,149,452,836	100.0%

⁽¹⁾ The Offeror and parties acting in concert with it, but excluding Mr. Zhong Jianqiu, Executive Director of the Company, Mr. Lau Yu Ching, Gilbert, CFO of the Company, and Merrill Lynch, financial adviser to the Offeror (all are presumed to be acting in concert with the Offeror under the Share Proposal).

Following the Effective Date and the withdrawal of the listing of Asia Aluminum Shares on the Stock Exchange, the Company will become a wholly-owned subsidiary of the Offeror.

As at the Latest Practicable Date, save and except for the Options, there were no outstanding warrants, derivatives or other securities issued by the Company that carried a right to subscribe for or which were convertible into Asia Aluminum Shares.

FINANCING

The Offeror has arranged external debt funding to effect the Proposals. None of the current cash resources of the Company will be used to finance the Proposals.

Merrill Lynch has confirmed that it is satisfied that sufficient financial resources are available to the Offeror for the implementation of the Proposals.

PART IV – EXPLANATORY STATEMENT

INFORMATION ON THE GROUP

The principal activity of the Company is investment holding. The Group designs, manufactures and sells customised aluminum extrusion products and processes and sells aluminum panels. To complement its principal extrusion business, the Group also produces a small volume of stainless steel products and provides design and testing services for aluminum products. The Company has its headquarters in Hong Kong and its manufacturing operations are located in the PRC.

The Group is currently expanding its existing operations in Nanhai into the Asia Aluminum Industrial City which is being built in Zhaoqing. From this enlarged production base, the Group will be able to apply extrusion industry experience to the rolled products segment.

INFORMATION ON THE OFFEROR

The Offeror, incorporated in Bermuda on 4 January 2006, is a company wholly-owned by Mr. Kwong. The directors of the Offeror are Mr. Kwong, Dr. Chan Yiu Tsuan, Benby and Mr. Zhong Jianqiu, all of whom are also executive directors of the Company. The Offeror has been established for the purpose of effecting the Proposals and has no other business activities.

BACKGROUND TO, AND REASONS FOR, THE PROPOSALS

The Company's share price has performed poorly over the past two years. The average closing price of Asia Aluminum Shares was approximately HK\$0.81 over the 12 months prior to the Pre-announcement Date. In the two year period prior to the Pre-announcement Date, the price of Asia Aluminum Shares decreased by 45.0 per cent. compared to an increase of 16.8 per cent. in the Hang Seng Index over the same period.

The Offeror believes that, in the absence of the privatisation offer, the poor price performance of Asia Aluminum Shares will continue. The Company will take several years to implement on its current business plan. Until implementation of the business plan is complete, the Company will continue to face substantial operational risk due to the planned expansion of the extrusion operations and the development of the flat-rolled product facility. Furthermore, the Company has a high level of financial leverage due to the issue by the Company in December 2004 of US\$450 million of Fixed Rate Senior Notes due 2011 to support Asia the Company's plans to build a flat-rolled product facility. The Company stopped paying dividends from the financial year 2005 in order to maintain flexibility to support further investment in light of the tight restrictions on distributions imposed by the covenants on the Fixed Rate Senior Notes. As at 30 June 2005, the Company had a total debt to EBITDA ratio of approximately 7.9x. The Offeror has raised additional debt funding of approximately HK\$3,108.1 million to effect the Proposals (assuming all Options are exercised prior to the Option Record Date) and approximately HK\$737.1 million to finance the CSD Acquisition. As at 30 June 2005, the Offeror would have had a pro forma total debt to EBITDA ratio of approximately 13.3x assuming that both the Proposals and the CSD Acquisition had been effected in full before taking into account the costs of effecting the Proposals. The table below sets out the summary debt position of the Company and summary pro forma debt position of the Offeror:

PART IV – EXPLANATORY STATEMENT

<i>HK\$ in Millions</i>	Asia Aluminum	The Offeror
	As at	Pro forma as at
	30 June 2005⁽¹⁾	30 June 2005
Fixed Rate Senior Notes	3,498.8	3,498.8 ⁽¹⁾
Interest bearing bank & other loans	373.1	373.1 ⁽¹⁾
Trust receipt loans	278.7	278.7 ⁽¹⁾
Finance lease payables	173.5	173.5 ⁽¹⁾
Loans from minority shareholders	540.0	– ⁽²⁾
Financing of the Proposals	–	3,108.1 ⁽³⁾
CSD Acquisition	–	737.1 ⁽⁴⁾
	4,864.1	8,169.3
Total	4,864.1	8,169.3
EBITDA^(1,5) for the fiscal year ended 30 June 2005	616.0	616.0
Total debt/EBITDA	7.9x	13.3x

⁽¹⁾ Source: 2005 annual report of the Company.

⁽²⁾ Repaid in connection with the CSD Acquisition.

⁽³⁾ Assuming all Options have been exercised prior to the Option Record Date.

⁽⁴⁾ The Company has entered into an agreement with the minority shareholders in CSD, an indirect subsidiary of the Company, whereby each of the minority shareholders granted to the Company a call option at nil premium to acquire, at any time during the 365-day period commencing on 14 March 2006, their respective shareholdings in CSD and related shareholder loans of HK\$540.0 million for a total amount of US\$95 million (approximately HK\$737.1 million). The Company intends to exercise the call option after the Scheme becomes effective.

⁽⁵⁾ Earnings before interest, tax, depreciation and amortisation.

In addition to the reasons specific to the Company outlined above for the Company's poor share price performance, the Offeror believes that the Company will continue to suffer from the general negative sentiment of the stock market towards companies with smaller equity market capitalisation arising from a relative lack of liquidity and low level of coverage from equity market research analysts.

In view of the above, the Offeror believes that the ability of the Company to take advantage of being a listed company to raise funds from the equity market is limited and any such fund raising exercise would result in an unattractive level of dilution for all Asia Aluminum Shareholders. Furthermore, the Offeror believes that the costs associated with the maintenance of the Company's listing on the Stock Exchange and the Company's status as a publicly listed company are no longer justified.

The Offeror therefore believes that the Share Proposal represents a good opportunity for Scheme Shareholders to realise their investment in the form of immediate cash proceeds at a price substantially above the levels at which Asia Aluminum Shares have consistently traded for the past 18 months. The Offeror also believes that the Share Offer Price is also significantly in excess of any price Scheme Shareholders may obtain from a sale in the open market under current market conditions. In the absence of the Share Proposal, the Offeror considers it unlikely that market sentiment towards Asia Aluminum Shares will improve significantly in the foreseeable future.

PART IV – EXPLANATORY STATEMENT

AA Investments has stated that it will not further increase the Share Offer Price and the Option Offer Price. Asia Aluminum Shareholders should be aware that, following the making of this statement, AA Investments will not be allowed to further increase the Share Offer Price and Option Offer Price, save in wholly exceptional circumstances, as provided in Rule 18.3 of the Takeovers Code. Notwithstanding the above, AA Investments reserves the right not to be bound by the no increase statement in the event of a competing offer.

As at the Latest Practicable Date, Mr. Kwong and parties acting in concert with him held an aggregate beneficial ownership of approximately 36.2 per cent. of the issued share capital of the Company. If any third party were to make a competing offer for the privatisation of the Company, such competing offer would not succeed without the acceptance by Mr. Kwong and parties acting in concert with him. Mr. Kwong has no intention to accept any competing offer.

INTENTIONS OF THE OFFEROR

It is the intention of the Offeror to maintain the existing businesses of the Group upon successful privatisation of the Company. The Offeror does not intend to introduce any major changes to the existing operating and management structure of the Group, or to discontinue the employment of any employees of the Group, as a result of the implementation of the Proposals. The Offeror will, however, be solely responsible for the funding or procuring funding for the on-going requirements of the Group's business after the successful implementation of the Proposals. Mr. Kwong also expects that there will be no material change to the existing business (such as business strategy and operating mode) of the Group as a result of the implementation of the Proposals.

The Offeror intends to retain the Company's existing senior management team to manage the Company after completion of the Proposals. Mr. Kwong has the full support of the Company's executive management team to implement the Proposals and to privatise the Company.

It is proposed that certain members of the Participating Management will acquire equity in the Offeror, subject to and conditional upon the Scheme becoming effective. Further information on the arrangements between Offeror and the management team of the Company is set out in the paragraph headed "The Subscription Arrangements" in Part I and Part IV of this Scheme Document.

The Company will apply to the Stock Exchange for the withdrawal of the listing of Asia Aluminum Shares on the Stock Exchange pursuant to Rule 6.15 of the Listing Rules conditional upon the Scheme becoming effective. Scheme Shareholders will be notified by way of a press announcement of the exact dates on which the Scheme and the withdrawal of the listing of Asia Aluminum Shares on the Stock Exchange will become effective.

The listing of Asia Aluminum Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and share certificates for the Scheme Shares will cease to have effect as documents of evidence of title and should be returned to the Company for cancellation.

PART IV – EXPLANATORY STATEMENT

INFORMATION RELATING TO THE DIRECTORS AND MANAGEMENT

Other than Mr. Ma Tsz Chun, Mr. Yau Wing Keung and Mr. Chou Shun, Alan, none of the Directors are considered to be independent for the purpose of giving any advice or recommendation to the Independent Shareholders in relation to the Share Proposal and Optionholders in relation to the Option Proposal for the following reasons: (i) they are Offeror Directors; (ii) they are executive Directors and (iii) they have interests in Asia Aluminum Shares and/or Options. As at the Latest Practicable Date, Mr. Kwong and Mr. Zhong Jianqiu⁽¹⁾ had a beneficial interest in 1,149,452,836 and 24,434,800 Asia Aluminum Shares, respectively, representing in aggregate approximately 36.2 per cent. of the issued share capital of the Company. Dr. Chan Yiu Tsuan, Benby was an Optionholder holding 5,000,000 Outstanding Options as at the Latest Practicable Date.

⁽¹⁾ As at the Latest Practicable Date, there were 5,000,000 Options granted to Ms. Kuang Shun Feng, an employee of the Group and spouse of Mr. Zhong Jianqiu.

OVERSEAS SCHEME SHAREHOLDERS

In so far as those Scheme Shareholders not resident in Hong Kong are concerned, they may be subject to the laws of the jurisdiction in which they reside or are located. Such Scheme Shareholders should inform themselves of and observe any applicable legal or regulatory requirements. It is the responsibility of all overseas Scheme Shareholders to satisfy themselves as to the full observance of the laws of the relevant jurisdiction, including the obtaining of any government approval, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

TAXATION

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Share Proposal and, in particular, whether the receipt of the Share Offer Price would make such Scheme Shareholders liable to taxation in Hong Kong or in other jurisdictions.

COSTS OF THE SCHEME

In the event the Scheme becomes effective, the costs of the Scheme will be borne by the Offeror. The costs of the Scheme and of its implementation to the Company are expected to amount to approximately HK\$5.7 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

In the event the Scheme is either not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the Independent Financial Adviser, and the Scheme is not approved at the relevant Meeting(s), all the expenses incurred by Asia Aluminum in connection with the Scheme shall be borne by the Offeror.

PART IV – EXPLANATORY STATEMENT

SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished, and all the certificates representing the Scheme Shares will accordingly cease to have effect as documents or evidence of title.

Conditional upon the approval of the Scheme by the Independent Shareholders at the Court Meeting and the passing of the special resolution to approve the capital reduction arising as a result of the Scheme by the Asia Aluminum Shareholders at the Special General Meeting, the Company will apply to the Stock Exchange for the withdrawal of the listing of the Asia Aluminum Shares on the Stock Exchange. Dealings in Asia Aluminum Shares on the Stock Exchange are expected to cease after 4:00 p.m. on 11 May 2006 and the listing of Asia Aluminum Shares on the Stock Exchange is expected to be withdrawn at 9:30 a.m. on 24 May 2006.

Asia Aluminum Shareholders will be notified of the exact dates on which the Scheme and the withdrawal of the listing of Asia Aluminum Shares on the Stock Exchange will become effective by press announcement.

If the Scheme is not approved or lapses, it is intended that the listing of Asia Aluminum Shares on the Stock Exchange will be maintained.

REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on 17 May 2006, it is proposed to close the register of members of the Company from 4:00 p.m. on 16 May 2006 to 18 May 2006 (or such other date as may be notified to Scheme Shareholders by press announcement) in order to establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, Scheme Shareholders should ensure that the relevant transfer documentation for their Asia Aluminum Shares is lodged with the Registrar for registration in their names or in the names of their nominees before the closure of the register of members of the Company. The Registrar is Hong Kong Registrars Limited which is located at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Upon the Scheme becoming effective, cheques for cash entitlements under the Scheme will be sent to the holders of Scheme Shares whose names appear on the register of members of the Company at 4:00 p.m. on the Scheme Record Date. In the case of joint holders, cheques for cash entitlements will be sent to the holder whose name first appears in respect of such holdings in the register of members of the Company at 4:00 p.m. on the Scheme Record Date.

Cheques in respect of the Share Offer Price are expected to be sent out to the holders of Scheme Shares not later than 10 calendar days after the Effective Date. Assuming that the Scheme becomes effective on 23 May 2006, cheques for cash entitlements under the Scheme are expected to be despatched on or before 2 June 2006. In the absence of any specific instructions to the contrary received in writing by the Registrar, cheques for cash entitlements under the Scheme will be sent to the persons entitled thereto at their respective registered addresses on the register of members of the Company or, in the case of joint holders, to the registered address of that joint holder whose name first appears on the register of members in respect of the joint holding. All such cheques will be sent at the risk of the holders of the Scheme Shares and neither the Offeror nor the Company will be responsible for any loss or delay in transmission.

PART IV – EXPLANATORY STATEMENT

On the day being six calendar months after the posting of such cheques, the Offeror will have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and will place all such monies in a bank account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company will hold such monies until the expiry of six years from the Effective Date and will, prior to such date, make payments out of the sums (without interest in accordance with Clause 3(e) of the Scheme) payable pursuant to Clause 2 of the Scheme to persons who satisfy the Company that they are respectively entitled thereto and that the cheques referred to in Clause 3(b) of the Scheme of which they are payees have not been cashed.

On the expiry of six years from the Effective Date, the Offeror will be released from any further obligation to make any payments under the Scheme and the Company will thereafter transfer to the Offeror the balance (if any) of the sums then standing to the credit of the bank account referred to in Clause 3(e) of the Scheme including accrued interest subject, if applicable, to the deduction of interest tax or any withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

MEETINGS

In accordance with the direction of the Supreme Court, the Court Meeting will be convened for the purpose of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). In so far as the sanction of the Scheme by the Supreme Court is concerned, such a resolution will be deemed to have been passed if a majority in number representing three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. Such a resolution will only be considered to have been passed under the Takeovers Code if (i) the Scheme is approved by at least 75 per cent. of the votes attaching to the Scheme Shares of the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is not more than 10 per cent. of all the Scheme Shares held by all of the Independent Shareholders. Based on 2,071,793,888 Scheme Shares held by the Independent Shareholders as at the Latest Practicable Date, 10 per cent. of such Scheme Shares amounted to 207,179,389 Scheme Shares.

Immediately following the Court Meeting, the Special General Meeting will be convened for the purpose of considering and, if thought fit, passing a special resolution to approve the capital reduction arising as a result of the Scheme. The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the votes cast by Asia Aluminum Shareholders present and voting in person or by proxy, at the Special General Meeting. All Asia Aluminum Shareholders will be entitled to attend and vote on such special resolution at the Special General Meeting.

As at the Latest Practicable Date, the Excluded Persons are beneficially interested in an aggregate of 1,173,938,513 Asia Aluminum Shares, representing approximately 36.2 per cent. of the issued share capital of the Company. Asia Aluminum Shares owned by the Excluded Persons (the Excluded Persons include all the Directors who hold Asia Aluminum Shares), by reason of the fact that the Excluded Persons are parties acting in concert with the Offeror under the Takeovers Code, will not form part of the Scheme Shares eligible for voting in the Court Meeting and, accordingly, will neither be represented nor voted at the Court Meeting to approve the Scheme. The Excluded Persons intend to vote at the Special General Meeting and have indicated that if the Scheme is approved at the Court Meeting, those Asia Aluminum Shares held by them will be voted in favour of the special resolution to be proposed at the Special General Meeting to approve the capital reduction arising as a result of the Scheme.

PART IV – EXPLANATORY STATEMENT

For the purpose of determining entitlements of the Independent Shareholders to attend and vote at the Court Meeting and the entitlements of Asia Aluminum Shareholders to attend and vote at the Special General Meeting, the registers of members of the Company in Hong Kong and Bermuda will be closed from Wednesday, 26 April 2006 to Wednesday, 3 May 2006 (both days inclusive). During such period no transfer of Asia Aluminum Shares will be effected. In order to qualify to vote at the Court Meeting and at the Special General Meeting, Asia Aluminum Shareholders should ensure that the relevant transfer documentation for their Asia Aluminum Shares is lodged with the registrar of the Company for registration in their names or in the names of their nominees before the closure of the registers of members of the Company. The registrar of the Company is Hong Kong Registrars Limited which is located at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Notices of the Meetings are set out on pages 145 to 148 of this Scheme Document. The Meetings will be held on Wednesday, 3 May 2006 at Nathan Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong at the respective times specified in such notices in Parts VIII and IX of this Scheme Document.

ACTION TO BE TAKEN BY INDEPENDENT SHAREHOLDERS

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the Special General Meeting are enclosed with this Scheme Document.

Whether or not you are able to attend the Meetings in person, the Independent Shareholders are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and also the enclosed white form of proxy in respect of the Special General Meeting, in accordance with the instructions printed respectively on them and to lodge them with the Company at 12/F., Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong, marked "For the attention of the Company Secretary, Privatisation of the Company" as soon as possible, but in any case not later than the following respective times. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. on Wednesday, 3 May 2006. In order to be valid, the white form of proxy for use at the Special General Meeting must be lodged not later than 11:00 a.m. on Monday, 1 May 2006.

The completion and return of a form of proxy for the Court Meeting or the Special General Meeting will not preclude you from attending the relevant Meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.

Shareholders who hold their Asia Aluminum Shares in CCASS

No person shall be recognised by the Company as holding any Asia Aluminum Shares on trust. Any beneficial owner of Asia Aluminum Shares ("Beneficial Owner") whose Asia Aluminum Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party ("Registered Owner") should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Asia Aluminum Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the Special General Meeting. A Beneficial Owner who wishes to attend the Court Meeting and/or the Special General Meeting personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the Special General Meeting and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the Special General Meeting shall be in accordance with all relevant provisions in the Bye-

PART IV – EXPLANATORY STATEMENT

laws of Asia Aluminum. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

Any Beneficial Owner whose Asia Aluminum Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant (the “Investor Participant”), contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Asia Aluminum Shares with, a CCASS participant (“Other CCASS Participant”) regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to Asia Aluminum Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

RECOMMENDATIONS

In the letter from the Independent Financial Adviser to the Independent Board Committee set out in Part III of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Share Proposal and the Option Proposal to be fair and reasonable so far as the Independent Shareholders and Optionholders are respectively concerned and advises the Independent Board Committee to recommend the Independent Shareholders to vote in favour of both the resolution to approve the Scheme at the Court Meeting and the special resolution to approve the capital reduction arising as a result of the Scheme at the Special General Meeting.

The Independent Board Committee, having considered the terms of the Proposals and having taken into account the advice and recommendations of the Independent Financial Adviser set out in its letter in Part III of this Scheme Document (including the factors under the heading “Conclusions and Recommendation” in its letter, which should be read in the context of the full text of that letter), considers that the terms of the Share Proposal and the Option Proposal are fair and reasonable so far as the Independent Shareholders and Optionholders are respectively concerned. **Accordingly, the Independent Board Committee has recommended that the Independent Shareholders vote in favour of both the resolution to approve the Scheme at the Court Meeting and the special resolution to approve the capital reduction arising as a result of the Scheme at the Special General Meeting. The Independent Board Committee also recommends Optionholders to accept the Option Proposal if they have not exercised their Options prior to the Option Record Date.** The full text of the letter from the Independent Board Committee is set out in Part II of this Scheme Document.

FURTHER INFORMATION

Certain Directors, namely Mr. Kwong Wui Chun, Dr. Chan Yiu Tsuan, Benby and Mr. Zhong Jianqiu are also directors of the Offeror. As such, such Directors may be regarded as having interests in the Proposals which are different from the interests of the other Directors.

Further information is set out in the other Parts of this Scheme Document, all of which form part of this Explanatory Statement.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

1. THREE-YEAR FINANCIAL SUMMARY

The following information is based on the audited consolidated financial statements of the Group for the three years ended 30 June 2003, 2004 and 2005, which were audited by the Company's external auditors, Ernst & Young:

Consolidated Profit and Loss Account

	<i>Note</i>	For the year ended 30 June		
		2005	2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		3,410,968	2,938,482	2,358,026
Cost of sales		<u>(2,623,659)</u>	<u>(2,240,164)</u>	<u>(1,821,766)</u>
Gross profit		787,309	698,318	536,260
Gain on partial disposal of interests in subsidiaries	2	–	–	52,400
Other revenue		50,553	64,075	58,580
Selling and distribution costs		(91,478)	(76,755)	(55,819)
Administrative expenses		(155,334)	(132,721)	(130,360)
Provision for bad & doubtful debts, net		<u>(1,883)</u>	<u>(24,040)</u>	<u>(14,350)</u>
Profit from operating activities		589,167	528,877	446,711
Finance costs		(166,684)	(59,144)	(40,734)
Share of losses of jointly-controlled entities		<u>(7,195)</u>	<u>(6,768)</u>	<u>–</u>
Profit before tax		415,288	462,965	405,977
Tax		<u>(152,695)</u>	<u>(143,224)</u>	<u>(86,309)</u>
Profit after tax		262,593	319,741	319,668
Minority interests		<u>(96,353)</u>	<u>(97,218)</u>	<u>(79,149)</u>
Net profit attributable to shareholders		<u>166,240</u>	<u>222,523</u>	<u>240,519</u>
Dividend	3	<u>–</u>	<u>96,246</u>	<u>111,737</u>
Earnings per share (HK cents)				
– Basic	4	<u>5.19</u>	<u>7.78</u>	<u>9.83</u>
– Diluted	4	<u>5.18</u>	<u>7.52</u>	<u>9.47</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Note :

- (1) There were no qualifications in the audited financial statements of the Company for each of the years ended 30 June 2003, 2004 and 2005.
- (2) This amount represents the exceptional profit earned on partial disposal of interest in subsidiaries.
- (3) Dividend:

	Interim <i>HK cents</i>	Special <i>HK cents</i>	Final <i>HK cents</i>	Total per share <i>HK cents</i>
2003	1.5	1.0	1.8	4.3
2004	1.2	–	1.8	3.0

- (4) Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of (i) 2005: HK\$166,240,000; (ii) 2004: HK\$222,523,000; (iii) 2003: HK\$241,191,000 and the weighted average number of (i) 2005: 3,205,444,456; (ii) 2004: 2,861,574,074; (iii) 2003: 2,446,290,127 ordinary shares in issue during the year (i) 2005; (ii) 2004; (iii) 2003.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of (i) 2005: HK\$166,240,000; (ii) 2004: HK\$222,523,000; (iii) 2003: HK\$241,191,000 and on (i) 2005: 3,208,151,384; (ii) 2004: 2,957,178,847; (iii) 2003: 2,547,615,290 ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of the dilutive potential ordinary shares outstanding during the year (i) 2005; (ii) 2004; (iii) 2003.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 30 JUNE 2005

The following information has been extracted without amendment from the audited consolidated financial statements of the Group for the year ended 30 June 2005, the page numbers in the statements below refer to the 2005 annual report of the Company:

Consolidated Profit and Loss Account

Year ended 30 June 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
TURNOVER	6	3,410,968	2,938,482
Cost of sales and services provided		<u>(2,623,659)</u>	<u>(2,240,164)</u>
Gross profit		787,309	698,318
Other revenue and gains	6	50,553	64,075
Selling and distribution costs		(91,478)	(76,755)
Administrative expenses		(155,334)	(132,721)
Provision for bad and doubtful debts, net		<u>(1,883)</u>	<u>(24,040)</u>
PROFIT FROM OPERATING ACTIVITIES	7	589,167	528,877
Finance costs	9	(166,684)	(59,144)
Share of losses of jointly-controlled entities		<u>(7,195)</u>	<u>(6,768)</u>
PROFIT BEFORE TAX		415,288	462,965
Tax	10	<u>(152,695)</u>	<u>(143,224)</u>
PROFIT BEFORE MINORITY INTERESTS		262,593	319,741
Minority interests		<u>(96,353)</u>	<u>(97,218)</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	11	<u>166,240</u>	<u>222,523</u>
DIVIDENDS	12	<u>–</u>	<u>96,246</u>
		<i>HK cents</i>	<i>HK cents</i>
EARNINGS PER SHARE	13		
– Basic		<u>5.19</u>	<u>7.78</u>
– Diluted		<u>5.18</u>	<u>7.52</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Consolidated Balance Sheet

30 June 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	14	2,799,835	950,457
Interests in jointly-controlled entities	17	–	410,136
Interest in an associate	18	91	–
Deposits paid	19	683,919	68,047
Deposits held in escrow account, pledged	20	1,654,241	–
Deposits held in collateral account	21	174,712	–
Deferred expenditure	22	116,614	–
Deferred tax assets	10	2,436	1,666
		5,431,848	1,430,306
CURRENT ASSETS			
Trade receivables	23	555,666	545,509
Inventories	24	349,693	343,054
Prepayments, deposits and other receivables		321,388	251,433
Due from related companies	25	35,159	28,823
Due from minority equity/shareholders	26	69	67,910
Deposits with a non-bank financial institution		13,642	203,588
Cash and bank balances	27	2,674,972	2,595,900
Pledged bank deposits	27, 31	38,606	153,330
		3,989,195	4,189,547
CURRENT LIABILITIES			
Trade payables	28	174,840	263,555
Accrued liabilities and other payables		528,112	258,855
Due to minority equity/shareholders	29	77,528	50,071
Trust receipt loans	31	278,656	417,495
Interest-bearing bank and other loans	30, 31	373,117	477,213
Finance lease payables	32	540	473
Tax payable		101,145	109,048
Dividends payable		32,462	10,522
		1,566,400	1,587,232
NET CURRENT ASSETS		2,422,795	2,602,315
TOTAL ASSETS LESS CURRENT LIABILITIES		7,854,643	4,032,621
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	30, 31	–	583,725
Finance lease payables	32	173,002	626
Loans from minority shareholders	33	540,005	–
Fixed rate senior notes	34	3,498,750	–
		4,211,757	584,351
MINORITY INTERESTS		664,859	618,809
		2,978,027	2,829,461
CAPITAL AND RESERVES			
Issued capital	35	324,573	317,523
Share premium account	37	1,638,993	1,606,563
Reserves	38(a)	1,014,461	848,221
Proposed final dividend	12	–	57,154
		2,978,027	2,829,461

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Consolidated Statement of Changes in Equity Year ended 30 June 2005

	Reserves										Total HK\$'000
	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Statutory surplus reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory public welfare fund HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Proposed dividends HK\$'000	
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 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 and 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)
Exercise of share options	7,050	32,430	-	-	-	-	-	-	-	-	39,480
Net profit for the year	-	-	-	-	-	-	-	166,240	166,240	-	166,240
Transfer to statutory surplus reserve	-	-	-	-	32,769	-	-	(32,769)	-	-	-
At 30 June 2005	<u>324,573</u>	<u>1,638,993</u>	<u>4,151</u>	<u>51,419</u>	<u>194,864</u>	<u>(4,116)</u>	<u>9,476</u>	<u>758,667</u>	<u>1,014,461</u>	<u>-</u>	<u>2,978,027</u>

As at 30 June 2005, all reserves were retained by the Company and its subsidiaries.

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	<u>317,523</u>	<u>1,606,563</u>	<u>4,151</u>	<u>51,419</u>	<u>162,095</u>	<u>(4,116)</u>	<u>9,476</u>	<u>625,196</u>	<u>848,221</u>	<u>57,154</u>	<u>2,829,461</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Consolidated Cash Flow Statement

Year ended 30 June 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operating activities		589,167	528,877
Adjustments for:			
Interest income	6	(27,957)	(21,393)
Depreciation of fixed assets	7	130,388	97,484
Provision for bad and doubtful debts, net	7	1,883	24,040
Loss on disposal/write-off of fixed assets, net	7	16,040	14,092
		<hr/>	<hr/>
Operating profit before working capital changes		709,521	643,100
Increase in trade receivables		(12,040)	(118,552)
Increase in inventories		(6,639)	(53,728)
Decrease in prepayments, deposits and other receivables		69,000	49,834
Increase in amounts due from related companies		(6,336)	(6,991)
Decrease in amounts due from minority equity/shareholders		67,841	–
Increase/(decrease) in trade payables		(88,715)	30,811
Increase in accrued liabilities and other payables		123,481	78,463
Increase/(decrease) in amounts due to minority equity/shareholders		27,457	(29,258)
Decrease in trust receipt loans		(138,839)	(101,286)
		<hr/>	<hr/>
Cash generated from operations		744,731	492,393
Interest paid		(188,114)	(51,781)
Interest element on finance lease rental payments		(3,840)	(327)
Arrangement fees on bank and other loans		–	(7,036)
Hong Kong profits tax paid		(73)	–
Mainland China corporate income tax paid		(161,295)	(121,927)
		<hr/>	<hr/>
Net cash inflow from operating activities		391,409	311,322
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(945,386)	(157,032)
Proceeds from sales of fixed assets		9	527
Deposits paid	39(iii)	(664,975)	(68,047)
Interest received		51,456	21,393
Capital injection to jointly-controlled entities		–	(4,668)
Advances to jointly-controlled entities	39(iii)	(29,373)	(295,898)
Cash inflow from the change of jointly-controlled entities to subsidiaries		79,533	–
Capital injection to an associate		(4)	–
Advances to an associate		(87)	–
Increase in deposits held in escrow account		(1,654,241)	–
Increase in deposits held in collateral account		(174,712)	–
Decrease/(increase) in pledged bank deposits		114,724	(37,666)
Increase in non-pledged time deposits with original maturity of more than three months when acquired		(9,158)	(32,154)
		<hr/>	<hr/>
Net cash outflow from investing activities		(3,232,214)	(573,545)

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of options to subscribe for new ordinary shares in the Company	35	39,480	49,665
Exercise of warrants to subscribe for new ordinary shares in the Company		–	137,795
Placement of new shares		–	517,920
Share issue expenses		–	(11,113)
Proceeds from the Notes	34	3,498,750	–
Issuance expenses of the Notes	22	(126,136)	–
Loan from minority shareholders		76,685	–
New bank loans		320,386	1,140,975
New other loans		–	3,767
Repayment of bank loans		(1,004,440)	(547,969)
Repayment of other loans		(3,767)	(3,230)
Capital element of finance lease rental payments		(540)	(11,581)
Dividends paid		(35,214)	(84,786)
Dividends paid by a subsidiary to minority shareholders		(44,431)	(32,394)
		<u>2,720,773</u>	<u>1,159,049</u>
Net cash inflow from financing activities			
		(120,032)	896,826
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		2,204,943	1,308,633
Effect of foreign exchange rate changes		–	(516)
		<u>2,084,911</u>	<u>2,204,943</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash on hand and at banks		2,071,269	1,901,835
Deposits with a non-bank financial institution		13,642	203,588
Non-pledged time deposits with original maturity of less than three months when acquired		–	99,520
		<u>2,084,911</u>	<u>2,204,943</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Balance Sheet

30 June 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	14	8	12
Investments in subsidiaries	16	664,881	664,881
Deposits paid	19	8,696	3,450
Deposits held in escrow account, pledged	20	1,654,241	–
Deposits held in collateral account	21	174,712	–
Deferred expenditure	22	116,614	–
		2,619,152	668,343
CURRENT ASSETS			
Due from subsidiaries	16	3,202,581	2,167,594
Prepayments, deposits and other receivables		55,178	50
Cash and bank balances	27	12,292	25,916
		3,270,051	2,193,560
CURRENT LIABILITIES			
Accrued liabilities and other payables		66,141	6,127
Due to subsidiaries	16	45,450	19,025
Dividends payable		32,463	10,522
		144,054	35,674
NET CURRENT ASSETS		3,125,997	2,157,886
TOTAL ASSETS LESS CURRENT LIABILITIES		5,745,149	2,826,229
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	30, 31	–	583,725
Fixed rate senior notes	34	3,498,750	–
		3,498,750	583,725
		2,246,399	2,242,504
CAPITAL AND RESERVES			
Issued capital	35	324,573	317,523
Share premium account	37	1,638,993	1,606,563
Reserves	38(b)	282,833	261,264
Proposed final dividend	12	–	57,154
		2,246,399	2,242,504

Notes to the Accounts

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.

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

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, hereinafter collectively referred to as the new HKFRSs, which are generally effective for the Company's accounting period beginning on or after 1 July 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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 Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2005. 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

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

- (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.

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.

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.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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.

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 and 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.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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%

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 and installation and capitalised borrowing costs on related borrowed funds during the period of construction. 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 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.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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.

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.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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.

Intangible assets

All research costs 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Other direct costs incurred in connection with arranging borrowings are amortised over the terms of the fixed rate senior notes due 2011 in aggregate principal amount of US\$450,000,000.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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 and associate are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associate 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.

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.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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:

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Rental expense paid to a related company	<i>(i)</i>	3,141	2,350
Termination fee in respect of rental paid to a related company	<i>(i)</i>	–	100
Rental expense paid to a director	<i>(ii)</i>	628	297
Sale of finished goods to a minority shareholder of a subsidiary: Indalex Aluminum Solutions Group (“IASG”)	<i>(iii)</i>	139,234	102,617
Sale of finished goods to a company of which a director of a non wholly-owned subsidiary is also a director	<i>(iv)</i>	10,805	14,241
Deposit received from a jointly-controlled entity	<i>(v)</i>	–	25,424
Purchase of fixed assets from IASG	<i>(iii)</i>	–	778
Consultancy fee paid to a former director of the Company	<i>(vi)</i>	–	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
Interest income received from minority shareholders of two non wholly-owned subsidiaries	<i>(vii)</i>	6,748	–

In addition to the foregoing, management fees in the amount of HK\$16,330,000 (2004: HK\$16,330,000) were paid during the year by Asia Aluminum Group Limited (“AAG”) and certain of its subsidiaries, which are not 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. Also, interest income of HK\$74,008,000 in aggregate (2004: HK\$10,117,000) was received by the Company from China Steel Development Company Limited, AAG and Asia Aluminum Manufacturing Company Limited, which are not wholly-owned by the Company. This interest income was charged at fixed rates of 8% – 9% (2004: 2.2%) per annum and were eliminated on consolidation.

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 quarter 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.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

- (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 sales 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) The deposit was received in respect of the sales 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.
- (vii) The interest was received in respect of amounts due from equity/shareholders of subsidiaries at a fixed rate of 7.2% per annum.

Each of Guangdong Nanhua Aluminum 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 aluminum extrusion products segment engages in the manufacture and sale of aluminum extrusion products;
- the stainless steel products segment comprises the manufacture and sale of stainless steel products;
- the aluminum panels segment refers to the manufacture and sale of aluminum panels;
- the design and testing services segment represents the Group’s provision of design and testing services for aluminum products; and
- the flat-rolled products segment engages in the manufacture and sale of aluminum flat-rolled products.

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.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

(a) Business segments

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

Group	2005					Total HK\$'000
	Aluminum extrusion products HK\$'000	Stainless steel products HK\$'000	Aluminum panels HK\$'000	2005 Design and testing services HK\$'000	Flat-rolled products HK\$'000	
Segment revenue						
Sales to external customers	3,227,952	116,978	59,345	6,693	–	3,410,968
Other revenue	11,395	–	–	–	–	11,395
Total	3,239,347	116,978	59,345	6,693	–	3,422,363
Segment results	559,141	1,166	17,504	5,555	(13,711)	569,655
Interest and unallocated gains						39,158
Unallocated expenses						(19,646)
Profit from operating activities						589,167
Finance costs						(166,684)
Share of losses of jointly-controlled entities	–	–	–	–	(7,195)	(7,195)
Profit before tax						415,288
Tax						(152,695)
Profit before minority interests						262,593
Minority interests						(96,353)
Net profit attributable to shareholders						166,240

Note: Due to the increasing significance of the flat-rolled products segment to the Group, separate disclosure of this business segment has been made in the current year. Besides, due to the relatively insignificance of the other segment to the Group which was included in the financial statements of the Group for the year ended 30 June 2004, this business segment has been reclassified in unallocated expenses in the current year. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Group	2004					Total HK\$'000
	Aluminum extrusion products HK\$'000	Stainless steel products HK\$'000	Aluminum panels HK\$'000	Design and testing services HK\$'000	Flat-rolled products 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
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	2,499,309	353,057	74,867	16,939	–	2,944,172
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Segment results	437,589	11,618	30,923	14,059	–	494,189
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Interest and unallocated gains						58,385
Unallocated expenses						(23,697)
						<hr/>
Profit from operating activities						528,877
Finance costs						(59,144)
Share of losses of jointly-controlled entities	–	–	–	–	(6,768)	(6,768)
						<hr/>
Profit before tax						462,965
Tax						(143,224)
						<hr/>
Profit before minority interests						319,741
Minority interests						(97,218)
						<hr/>
Net profit attributable to shareholders						222,523
						<hr/>
						<hr/>
Group	2005					Total HK\$'000
	Aluminum extrusion products HK\$'000	Stainless steel products HK\$'000	Aluminum panels HK\$'000	Design and testing services HK\$'000	Flat-rolled products HK\$'000	
Segment assets	2,479,215	68,374	89,444	18,320	3,437,883	6,093,236
Unallocated assets						3,327,807
						<hr/>
Total assets						9,421,043
						<hr/>
Segment liabilities	888,439	251	13,738	55	89,617	992,100
Unallocated liabilities						4,786,057
						<hr/>
Total liabilities						5,778,157
						<hr/>
Other segment information:						
Depreciation	121,727	5,145	3,078	–	438	130,388
Provision for bad and doubtful debts, net	1,883	–	–	–	–	1,883
Unallocated amortisation of deferred expenditure						9,522
Loss on disposal/write-off of fixed assets, net	16,040	–	–	–	–	16,040
Capital expenditure	639,372	368	1,739	–	1,308,375	1,949,854
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PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Group	2004					Total HK\$'000
	Aluminum extrusion products HK\$'000	Stainless steel products HK\$'000	Aluminum panels HK\$'000	Design and testing services HK\$'000	Flat-rolled products HK\$'000	
Segment assets	2,026,111	68,751	99,197	20,317	410,136	2,624,512
Unallocated expenses						<u>2,995,341</u>
Total assets						<u><u>5,619,853</u></u>
Segment liabilities	968,850	251	13,974	56	–	983,131
Unallocated liabilities						<u>1,188,452</u>
Total liabilities						<u><u>2,171,583</u></u>
Other segment information:						
Depreciation	87,242	5,023	3,338	–	–	95,603
Unallocated depreciation						1,881
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	<u>155,857</u>	<u>1,456</u>	<u>713</u>	<u>–</u>	<u>–</u>	<u>158,026</u>

(b) Geographical segments

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

Group	2005					Total HK\$'000
	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	
Segment revenue						
Sales to external customers	<u>97,123</u>	<u>2,772,795</u>	<u>348,096</u>	<u>182,137</u>	<u>10,817</u>	<u>3,410,968</u>
Group	2004					Total HK\$'000
	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	
Segment revenue						
Sales to external customers	<u>142,281</u>	<u>2,362,764</u>	<u>306,651</u>	<u>119,595</u>	<u>7,191</u>	<u>2,938,482</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Group	2005					
	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	North America <i>HK\$'000</i>	Asia Pacific, excluding Mainland China and Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Other segment information						
Segment assets	<u>2,376,176</u>	<u>6,766,802</u>	<u>233,695</u>	<u>38,877</u>	<u>5,493</u>	<u>9,421,043</u>
Capital expenditure	<u>269</u>	<u>1,818,403</u>	<u>131,182</u>	<u>-</u>	<u>-</u>	<u>1,949,854</u>
Group	2004					
	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	North America <i>HK\$'000</i>	Asia Pacific, excluding Mainland China and Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Other segment information						
Segment assets	<u>349,029</u>	<u>5,075,844</u>	<u>120,774</u>	<u>4,629</u>	<u>69,577</u>	<u>5,619,853</u>
Capital expenditure	<u>1,543</u>	<u>156,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>158,026</u>

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:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover:		
Manufacture and sale of aluminum extrusion products	3,227,952	2,493,619
Manufacture and sale of stainless steel products	116,978	353,057
Manufacture and sale of aluminum panels	59,345	74,867
Provision of design and testing services for aluminum products	<u>6,693</u>	<u>16,939</u>
	<u>3,410,968</u>	<u>2,938,482</u>
Other revenue and gains:		
Interest income	27,957	21,393
Net gains/(losses) on trading of forward contracts:		
Realised gains	5,543	38,849
Unrealised gains/(losses)	3,122	(3,266)
Sales of scrap materials	5,748	3,809
Sundry income	<u>8,183</u>	<u>3,290</u>
	<u>50,553</u>	<u>64,075</u>
	<u>3,461,521</u>	<u>3,002,557</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

7. PROFIT FROM OPERATING ACTIVITIES

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

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold *	2,622,521	2,237,284
Cost of services provided	1,138	2,880
Depreciation *	130,388	97,484
Staff costs (excluding directors' emoluments, note 8):		
Salaries and wages	107,223	94,264
Pension scheme contributions	354	362
	107,577	94,626
Auditors' remuneration	3,871	2,500
Provision for bad and doubtful debts, net	1,883	24,608
Provision/(write-back of provision) for other bad and doubtful debts	–	(568)
Minimum lease payments under operating leases on land and buildings	12,658	13,350
Loss on disposal/write-off of fixed assets, net *	16,040	14,092
Exchange gains, net	(971)	(917)
	107,577	94,626

* *Out of the total depreciation charge of HK\$130,388,000 (2004: HK\$97,484,000), an amount of HK\$98,215,000 (2004: HK\$72,494,000) 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	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	677	480
Other emoluments paid and payable to executive directors:		
Basic salaries, allowances and benefits in kind	5,745	5,411
Pension scheme contributions	24	26
	6,446	5,917
	6,446	5,917

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

	Group	
	2005	2004
	Number of directors	Number of directors
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	–	–
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	1	1
	6	6
	6	6

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Five highest paid individuals

The five highest paid individuals for the current year included two (2004: two) directors, details of whose remuneration are set out above. The remuneration of the remaining three (2004: three) non-director, highest paid individuals was analysed as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Basic salaries, allowances and benefits in kind	3,419	2,872
Pension scheme contributions	20	36
	3,439	2,908
	3,439	2,908

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

	Group	
	2005 Number of employees	2004 Number of employees
Nil – HK\$1,000,000	1	2
HK\$1,000,001 – HK\$1,500,000	2	1
	3	3
	3	3

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

No value is included in the directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

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	
	2005 HK\$'000	2004 HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	47,842	51,781
Interest on finance leases	3,840	327
Interest on fixed rate senior notes	147,988	–
Interest income over deposits held in escrow account pledged against the fixed rate senior notes	(23,499)	–
	176,171	52,108
Total interest	176,171	52,108
Less: Interest capitalised	(19,009)	–
	157,162	52,108
Other finance costs		
Amortisation of deferred expenditure (note 22)	9,522	–
Arrangement fees on bank and other loans	–	7,036
	9,522	7,036
	166,684	59,144

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

10. TAX

	Group	
	2005 HK\$'000	2004 HK\$'000
Current – Hong Kong		
Charge for the year	–	–
Under provision in prior years	73	–
Current – Mainland China		
Charge for the year	153,392	144,890
Deferred tax	(770)	(1,666)
	<u>152,695</u>	<u>143,224</u>
Total tax charge for the year	<u>152,695</u>	<u>143,224</u>

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 (2004: Nil). The statutory tax rate for Hong Kong profits tax is 17.5% (2004: 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% (2004: 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.

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	
	2005 HK\$'000	2004 HK\$'000
Profit before tax	<u>415,288</u>	<u>462,965</u>
Tax at the Mainland China's statutory rate of 33%	137,045	152,778
Lower tax rate for Hong Kong and specific provinces in Mainland China	(25,510)	(28,437)
Adjustments in respect of current tax of previous periods	73	–
Income not subject to tax	(2,765)	(1,209)
Expenses not deductible for tax	42,398	15,619
Tax losses utilised from previous periods	(155)	(1,054)
Increase in unutilised losses carried forward	1,609	5,527
	<u>152,695</u>	<u>143,224</u>
Tax charge at the effective rate	<u>152,695</u>	<u>143,224</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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

	Accelerated depreciation allowances <i>HK\$'000</i>	Provision for bad and doubtful debts <i>HK\$'000</i>	Unrealised losses/ (gains) of forward contracts <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2003	–	–	–	–
Deferred tax credited/(charged) to the profit and loss account during the year	(240)	1,379	527	1,666
At 30 June 2004 and 1 July 2004	(240)	1,379	527	1,666
Deferred tax credited/(charged) to the profit and loss account during the year	101	1,787	(1,118)	770
At 30 June 2005	(139)	3,166	(591)	2,436

The Group has unrecognised tax losses arising in Hong Kong of HK\$66,301,000 (2004: HK\$58,298,000) 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.

11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 30 June 2005 dealt with in the financial statements of the Company was HK\$21,569,000 (2004: HK\$51,627,000).

12. DIVIDENDS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Paid:		
Interim: Nil (2004: HK1.2 cents) per ordinary share	–	38,102
Underaccrual of final dividend for prior year due to exercise of warrants and share options before dividend record date	–	990
Proposed:		
Final: Nil (2004: HK1.8 cents) per ordinary share	–	57,154
	–	96,246

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\$166,240,000 (2004: HK\$222,523,000) and the weighted average number of 3,205,444,456 (2004: 2,861,574,074) 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\$166,240,000 (2004: HK\$222,523,000) and on 3,208,151,384 (2004: 2,957,178,847) 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.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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:

	2005 HK\$'000	2004 HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share (net profit for the year) calculation	<u>166,240</u>	<u>222,523</u>
	2005	2004
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	3,205,444,456	2,861,574,074
Weighted average number of ordinary shares: Assuming issued at no consideration on deemed exercise of all share options outstanding during the year	2,706,928	57,409,881
Assuming issued at no consideration on deemed exercise of all warrants outstanding during the year	<u>–</u>	<u>38,194,892</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	<u>3,208,151,384</u>	<u>2,957,178,847</u>

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 2004	189,208	8,368	1,166,096	39,838	32,422	42,885	1,478,817
Additions	10,883	1,833,852	96,600	449	2,651	5,419	1,949,854
Change from jointly- controlled entities to subsidiaries (<i>note 39(iii)</i>)	–	42,099	810	173	682	2,197	45,961
Disposals	–	–	(335)	–	–	–	(335)
Write-off	–	–	(20,803)	–	–	–	(20,803)
Transfer from construction in progress	3,162	(13,234)	10,072	–	–	–	–
At 30 June 2005	<u>203,253</u>	<u>1,871,085</u>	<u>1,252,440</u>	<u>40,460</u>	<u>35,755</u>	<u>50,501</u>	<u>3,453,494</u>
Accumulated depreciation:							
At 1 July 2004	65,104	–	393,419	12,347	26,044	31,446	528,360
Provided during the year	13,842	–	102,903	2,616	3,587	7,440	130,388
Write-back on disposals	–	–	(143)	–	–	–	(143)
Write-off	–	–	(4,946)	–	–	–	(4,946)
At 30 June 2005	<u>78,946</u>	<u>–</u>	<u>491,233</u>	<u>14,963</u>	<u>29,631</u>	<u>38,886</u>	<u>653,659</u>
Net book value:							
At 30 June 2005	<u>124,307</u>	<u>1,871,085</u>	<u>761,207</u>	<u>25,497</u>	<u>6,124</u>	<u>11,615</u>	<u>2,799,835</u>
At 30 June 2004	<u>124,104</u>	<u>8,368</u>	<u>772,677</u>	<u>27,491</u>	<u>6,378</u>	<u>11,439</u>	<u>950,457</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Company	Office equipment HK\$'000
Cost:	
At 1 July 2004 and at 30 June 2005	23
Accumulated depreciation:	
At 1 July 2004	11
Provided during the year	4
At 30 June 2005	15
Net book value:	
At 30 June 2005	8
At 30 June 2004	12

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

At 30 June 2005, certain fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK\$7,658,000 (2004: HK\$5,329,000) and HK\$20,265,000 (2004: HK\$8,336,000) were pledged as security for certain banking facilities granted to the Group as set out in notes 30 and 31 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 2005 amounted to HK\$173,961,000 (2004: HK\$1,448,000).

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 ("Zhaoqing City") in prior year, the Company has agreed to acquire 50 years' land use rights of 10,300 市畝 ("mu") (approximately 6,867,000 square metres) of land located in the High-Tech Development Zone at an aggregate consideration of approximately HK\$271,600,000. In turn, the local bureau of Zhaoqing City has agreed to refund the whole consideration of HK\$271,600,000 to the Company as compensation for the construction cost of basic infrastructure incurred by the Group. In the prior year, the Group had paid a consideration of approximately HK\$92,291,000 to obtain 3,500 mu of land use rights and its related certificate. The local bureau of Zhaoqing City had refunded the same amount to the Group. During the year, the Group applied for another 3,000 mu of land use rights and its related certificate at a consideration of approximately HK\$79,096,000. Accordingly, the Company and the Group had contracted capital commitment in respect of the acquisition of the land use rights for the remaining 3,800 mu of approximately HK\$100,213,000 (note 42).

15. GOODWILL

The amount of goodwill remaining in consolidated reserves as at 30 June 2005, 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 2005	119,878
Accumulated impairment:	
At beginning of year and at 30 June 2005	—
Net amount:	
At 30 June 2004 and 2005	119,878

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	664,881	664,881

The balances with subsidiaries are unsecured, repayable on demand and interest-free, except for amounts due from certain non wholly-owned subsidiaries of HK\$2,067,847,000 (2004: HK\$437,324,000) which bear interest at rates of 8% – 9% (2004: 2.2%) per annum.

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		Principal activities
			2005	2004	
Directly held					
Asia Aluminum Group Limited ("AAG")	British Virgin Islands	US\$23,609	69.05 <i>(note a)</i>	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
Asia-RED Testing Consultants Ltd	Hong Kong	HK\$10,000	55	55	Structural testing and consultancy
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
Guangdong Asia Aluminium Factory Co., Ltd.	Mainland China	US\$34,790,000	69.05 <i>(note b)</i>	69.05	Manufacture and trading of aluminum products
Foshan Nanhai Panasia Metal Spraying Co., Ltd.	Mainland China	US\$2,900,000	69.05 <i>(note b)</i>	69.05	Subcontracting of aluminum panels and high grade aluminum extrusion products processing

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2005	2004	
Foshan Nanhai Xinya Aluminium & Stainless Steel Co., Ltd.	Mainland China	US\$13,390,000	69.05 <i>(note b)</i>	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 aluminium 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 Aluminium Company Limited ("Foshan Hongjia")	Mainland China	US\$13,300,000	41.43 <i>(note c)</i>	41.43	Manufacture and trading of aluminum products
Foshan Nanhua Aluminum Company Limited ("Foshan Nanhua")	Mainland China	US\$17,000,000	41.43 <i>(note c)</i>	41.43	Manufacture and trading of aluminum products
Sino Advance Investments Limited ("Sino Advance")	British Virgin Islands	US\$1	100	100	Investment holding
Asia Advanced Metal Products Company Ltd.	Hong Kong/ Mainland China	HK\$10,000	55	55	Design and manufacture of advanced metal products
Zhaoqing Asia Aluminum Factory Co., Ltd.	Mainland China	US\$15,000,000	69.05 <i>(note b)</i>	69.05	Manufacture and trading of aluminum products
Zhaoqing Asia Innovative Metalworks & Products Co., Ltd.	Mainland China	US\$5,000,000	55 <i>(note b)</i>	55	Design and manufacture of advanced metal products
China Steel Development Company Limited ("CSD")	Samoa/ Mainland China	US\$1,000,000	60#	–	Investment holding
Asia Aluminum (China) Company Limited ("AA China")	Mainland China	US\$30,000,000	60# <i>(note b)</i>	–	Manufacture of aluminum flat rolled 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.

Became subsidiaries of the Company during the year, further details of which are set out in note 17 to the financial statements.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Notes:

- (a) 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 included, 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”) 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 were exercised during the year ended 30 June 2005.

- (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 years, 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 in the current year. The purpose of the establishment of these subsidiaries is to execute the investment in assets of each of Guangdong Nanhua and Hongjia Aluminum and the Group has fully paid its share of 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 Aluminum at an aggregate consideration of HK\$73,558,000 in the prior years. As at the balance sheet date, the unsettled consideration in respect of HK\$14,548,000 (2004: HK\$14,548,000) was classified as part of “due to minority equity/shareholders” under current liabilities.

17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2005	2004
	<i>HK\$’000</i>	<i>HK\$’000</i>
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 the then jointly-controlled entities, CSD and AA China (as defined in note 16 to the financial statements), were unsecured, interest-free and had no fixed terms of repayment.

Prior to 16 December 2004, the board of directors of CSD comprised of five members. The Group had the right to appoint two directors and each of Mr. Kwong, Record Break Investments Limited (“Record Break”) and Think Success Industries Limited (“Think Success”) had 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 in accordance with the articles of association of CSD, CSD and its wholly-owned subsidiary, AA China, (the “CSD Group”) were treated as jointly-controlled entities of the Company.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Pursuant to a resolution passed by all the shareholders of CSD on 6 December 2004, which 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 seven directors. The Group has the right to appoint four directors and each of Mr. Kwong, Record Break and Think Success has the right to appoint one director. The provisions 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 Group is able to exercise unilateral control over the board of directors of CSD, the CSD Group became subsidiaries of the Company since 16 December 2004. Accordingly, the balances with jointly-controlled entities are re-classified as balances with subsidiaries.

The related accumulated losses in relation to these former jointly-controlled entities of the Group amounted to HK\$13,963,000, including the loss of HK\$7,195,000 for the period from 1 July 2004 to 15 December 2004.

18. INTERESTS IN AN ASSOCIATE

	2005	Group
	<i>HK\$'000</i>	<i>2004</i>
		<i>HK\$'000</i>
Share of net assets other than goodwill	4	–
Due from an associate	87	–
	91	–
	91	–

The associate remained dormant during the year. Accordingly, no profit/loss of the associate was shared by the Group during the year.

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Nominal value of issued ordinary share	Percentage of equity attributable to the Group	Principal activities
Phoenix Asia Dies Company Limited	Corporate	Hong Kong	US\$1,000	40	Investment holding

19. DEPOSITS PAID

The current year's balance mainly represented deposits paid for the purchase of aluminum extrusion presses and its associated handling systems, aluminum rolling mills and its associated auxiliary equipment and for construction works of plants. The prior year's balance mainly represented deposits paid for the purchase of aluminum extrusion presses and its associated handling systems, and were capitalised as construction in progress under fixed assets upon receipt of those equipment and systems.

20. DEPOSITS HELD IN ESCROW ACCOUNT, PLEDGED

On 23 December 2004, the Company issued 8% fixed rate senior notes (the "Notes") due 2011 in the principal amount of US\$450 million (note 34). 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 a bank as trustee and the escrow agent for the Notes Issue proceeds. At 30 June 2005, the deposits held in escrow account represented the proceeds which have not been withdrawn by the Group and the interest income generated from the deposits up to 30 June 2005.

21. DEPOSITS HELD IN COLLATERAL ACCOUNT

The balance represented the deposits held in collateral account in respect of an interest rate swap agreement with a financial institution. Further details of the interest rate swap agreement are set out in note 34 to the financial statements.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

22. DEFERRED EXPENDITURE

The deferred expenditure represented the capitalisation of the underwriting discount and other expenses in connection with the issuance of Notes (the "Issuance Expenses"). The Issuance Expenses are amortised over the terms of the Notes of seven years on the straight-line basis.

	Group <i>HK\$'000</i>
Cost:	
Additions during the year and at 30 June 2005	126,136
Accumulated amortisation:	
Amortisation provided during the year and at 30 June 2005	<u>(9,522)</u>
Net amount:	
At 30 June 2005	<u><u>116,614</u></u>

23. 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	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	498,978	487,940
4 to 6 months	63,110	55,475
7 to 12 months	19,078	29,970
More than 1 year	<u>66,358</u>	<u>62,099</u>
	647,524	635,484
Provision for bad and doubtful debts	<u>(91,858)</u>	<u>(89,975)</u>
	<u><u>555,666</u></u>	<u><u>545,509</u></u>

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 is an amount of HK\$7,285,000 (2004: HK\$6,862,000) due from a related company, of which a director of a non wholly-owned subsidiary is also a director, which is repayable on similar credit terms to those offered to the major customers of the Group.

24. INVENTORIES

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	124,118	137,565
Work in progress	115,460	98,265
Finished goods	<u>110,115</u>	<u>107,224</u>
	<u><u>349,693</u></u>	<u><u>343,054</u></u>

As at the balance sheet date, there were no inventories carried at net realisable value (2004: Nil).

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

25. 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 2005 <i>HK\$'000</i>	Maximum amount outstanding during the year <i>HK\$'000</i>	At 1 July 2004 <i>HK\$'000</i>
IASG (note)	<u>35,159</u>	<u>40,491</u>	<u>28,823</u>

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.

26. DUE FROM MINORITY EQUITY/SHAREHOLDERS

The amounts due from minority equity/shareholders of subsidiaries of approximately HK\$69,000 (2004: HK\$67,910,000) represent the accounts receivable arising from the sale of raw materials to the minority equityholders.

27. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Group		Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cash on hand and at banks	2,071,269	1,901,835	12,292	25,916
Time deposits with banks	<u>642,309</u>	<u>847,395</u>	<u>–</u>	<u>–</u>
	2,713,578	2,749,230	12,292	25,916
<i>Less: Pledged time deposits (note 31)</i>	<u>(38,606)</u>	<u>(153,330)</u>	<u>–</u>	<u>–</u>
	<u><u>2,674,972</u></u>	<u><u>2,595,900</u></u>	<u><u>12,292</u></u>	<u><u>25,916</u></u>

At 30 June 2005, the cash and bank balances and time deposits with banks of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$2,667,869,000 (2004: HK\$2,321,147,000). The 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.

28. TRADE PAYABLES

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

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within 3 months	149,997	235,357
4 to 6 months	7,989	11,126
7 to 12 months	7,827	12,753
More than 1 year	<u>9,027</u>	<u>4,319</u>
	<u><u>174,840</u></u>	<u><u>263,555</u></u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

29. DUE TO MINORITY EQUITY/SHAREHOLDERS

A portion of the amounts due to the minority equity/shareholders of approximately HK\$38,703,000 (2004: HK\$39,063,000) 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\$38,825,000 (2004: HK\$11,008,000) represents dividend payables to minority shareholders and cash advance from minority equityholder.

30. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans repayable:				
Within one year or on demand	373,117	473,446	–	–
In the second year	–	–	–	–
In the third to fifth years, inclusive	–	583,725	–	583,725
	373,117	1,057,171	–	583,725
Other loans, wholly repayable within one year or on demand	–	3,767	–	–
	373,117	1,060,938	–	583,725
Portion classified as current liabilities	(373,117)	(477,213)	–	–
Non-current portion	–	583,725	–	583,725
Secured	373,117	477,213	–	–
Unsecured	–	583,725	–	583,725
	373,117	1,060,938	–	583,725

The details of assets pledged as security for these borrowings are set out in note 31 to the financial statements.

31. BORROWING FACILITIES

The Group's borrowings at 30 June 2005 were secured by fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK\$7,658,000 (2004: HK\$5,329,000) and HK\$20,265,000 (2004: HK\$8,336,000), respectively, and by bank deposits of HK\$38,606,000 (2004: HK\$153,330,000).

The Company has guaranteed certain of the Group's bank loans up to HK\$529,347,000 (2004: HK\$743,589,000). In addition, certain of the Group's bank loans are secured by certain machineries of minority shareholders of a non wholly-owned subsidiary, corporate guarantees granted by four non wholly-owned subsidiaries and minority shareholders of a non wholly-owned subsidiary and joint and several personal guarantees by certain directors of two non wholly-owned subsidiaries.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

32. 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 2005 HK\$'000	Present value of minimum lease payments 2005 HK\$'000	Minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2004 HK\$'000
Amounts payable:				
Within one year	10,737	540	531	501
In the second year	10,542	379	445	385
In the third to fifth years, inclusive	179,098	172,623	251	213
Total minimum finance lease payments	200,377	173,542	1,227	1,099
Future finance charges	(26,835)		(128)	
Total net finance lease payables	173,542		1,099	
Portion classified as current liabilities	(540)		(473)	
Non-current portion	173,002		626	

Certain of the finance leases are secured by corporate guarantees granted by the Company and two non wholly-owned subsidiaries.

33. LOANS FROM MINORITY SHAREHOLDERS

The loans from minority shareholders are unsecured, interest-free and are not repayable within one year.

34. 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 are set out in the Company's announcement dated 16 December 2004 and the Company's circular dated 7 January 2005 to its shareholders.

The obligations of the Company under the Notes are guaranteed by certain subsidiaries of the Company including Topmost Precision Limited, Sino Advance, Asia Cybertech Limited, Asia Advanced Metal Products Company Ltd., CSD and Asia Aluminum Management Limited (the "Subsidiary Guarantors") and further secured by:

- (i) pledge of the escrow account for keeping the net proceeds of the Notes as mentioned in note 20 to the financial statements;
- (ii) pledges of the Company's rights under the advance provided to and to be provided to CSD;
- (iii) pledges of certain amounts due from subsidiaries which are the inter-company loan each of up to US\$100 million from the Company to AAG and Asia Aluminum Manufacturing Company Limited; and
- (iv) pledges of shares of certain Subsidiary Guarantors.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

In connection with the Notes, the Group entered into an interest rate swap agreement with a financial institute, under which, the Group makes interest payment semi-annually at a fixed rate of 8% per annum on a notional amount of US\$450 million during the period from 23 December 2004 to 23 December 2011, and receives and makes interest payment semi-annually at a fixed rate of 3% per annum and 2.12% per annum during the periods from 23 December 2004 to 23 June 2007 and from 23 June 2007 to 23 December 2011, respectively. Besides, US\$22.5 million (approximately HK\$174,712,000) is deposited in a collateral account held with the financial institute and will be repaid by six equal instalments semi-annually during the period from 23 December 2009 to 23 December 2011 (note 21).

35. SHARE CAPITAL

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
6,000,000,000 ordinary shares of HK\$0.10 each	<u>600,000</u>	<u>600,000</u>
<i>Issued and fully paid:</i>		
3,245,732,401 (2004: 3,175,232,401) ordinary shares of HK\$0.10 each	<u>324,573</u>	<u>317,523</u>

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

	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
At 1 July 2003	2,567,677,831	256,768
Exercise of share options	96,600,000	9,660
Exercise of warrants	178,954,570	17,895
Placing of new shares	<u>332,000,000</u>	<u>33,200</u>
At 30 June 2004 and 1 July 2004	3,175,232,401	317,523
Exercise of share options (<i>Note</i>)	<u>70,500,000</u>	<u>7,050</u>
At 30 June 2005	<u>3,245,732,401</u>	<u>324,573</u>

Note: A total of 70,500,000 ordinary shares of HK\$0.10 each were issued upon exercise of share options granted to a director and certain employees at an exercise price of HK\$0.56 per share, for a total cash consideration before related issue expenses of approximately HK\$39,480,000.

36. SHARE OPTION SCHEMES

During the year, there were no share options under the previous share option scheme outstanding.

Pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 7 December 2001, the Company adopted a new share option scheme (the "Existing Scheme").

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Under 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.
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 2005, the number of shares issuable under share options granted under the Existing Scheme was 52,000,000, which represented approximately 1.6% 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

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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

A summary of the movements in share options granted under the Existing Scheme of the Company issued by the Company is as follows:

Type of grantees	Number of options				At end of the year
	At beginning of the year ⁽ⁱ⁾	Granted during the year ⁽ⁱⁱ⁾	Exercised during the year	Lapsed or cancelled during the year	
Executive directors					
Mr. Kwong Wui Chun	4,900,000 ⁽ⁱⁱⁱ⁾	–	(4,900,000) ^(iv)	–	–
Dr. Chan Yiu Tsuan, Benby	–	5,000,000	–	–	5,000,000
Mr. Zhong Jianqiu	–	5,000,000 ^(v)	–	–	5,000,000
Other employees	65,600,000	50,000,000	(65,600,000) ^(vi)	(8,000,000)	42,000,000
	<u>70,500,000</u>	<u>60,000,000</u>	<u>(70,500,000)</u>	<u>(8,000,000)</u>	<u>52,000,000</u>

Notes:

- (i) These share options were granted on 25 February 2002. The share options were exercisable during the period from 25 January 2002 to 24 January 2005 at an exercise price of HK\$0.56 per share.
- (ii) 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). The market price of the Company's shares at the date of grant was HK\$0.81.
- (iii) These share options were granted to Ms. Li Chuk Kuan, an employee of the Group and spouse of Mr. Kwong Wui Chun.
- (iv) 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\$0.79 per share.
- (v) These share options were granted to Ms. Kuang Shun Feng, an employee of the Group and spouse of Mr. Zhong Jianqiu.
- (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\$0.79 per share.

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\$0.56 per share '000	HK\$0.81 per share '000
At beginning of year	70,500	–
Granted during the year	–	60,000
Lapse of share options	–	(8,000)
Exercise of share options (note)	(70,500)	–
At balance sheet date	<u>–</u>	<u>52,000</u>

Note: During the year, 70,500,000 share options were exercised at the subscription price of HK\$0.56 per share and resulted in the issuance of 70,500,000 new ordinary shares in the Company. The excess of the cash consideration received over the nominal value of the issued shares of HK\$32,430,000 was credited to the share premium account (note 37).

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

37. SHARE PREMIUM ACCOUNT

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
At beginning of year	1,606,563	973,051
Arising on exercise of share options	32,430	40,005
Arising on exercise of warrants	–	119,900
Arising on placement of shares	–	473,607
	–	–
At end of year	1,638,993	1,606,563

38. 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 profits 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 <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2003	330,903	(25,020)	305,883
Net profit for the year	–	51,627	51,627
Dividends (<i>note 12</i>)	–	(96,246)	(96,246)
	–	–	–
At 30 June 2004 and 1 July 2004	330,903	(69,639)	261,264
Net profit for the year	–	21,569	21,569
Dividends (<i>note 12</i>)	–	–	–
	–	–	–
At 30 June 2005	330,903	(48,070)	282,833

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.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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.

39. 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\$172,463,000 (2004: HK\$994,000).
- (ii) During the year, deposits paid for the purchase of aluminum flat rolled products equipment and extrusion presses and its auxiliary handling systems of HK\$812,996,000 were capitalised as construction in progress under fixed assets upon receipt of those equipment and systems.

During the year ended 30 June 2004, dividends declared by a subsidiary to minority shareholders of HK\$6,222,000 were recorded as part of "due to minority equity/shareholders" under current liabilities.

(iii) Change from jointly-controlled entities to subsidiaries

As set out in note 17 to financial statements, the CSD Group has been changed from jointly-controlled entities to subsidiaries of the Group.

	2005 HK\$'000	2004 HK\$'000
Details of net liabilities of the CSD Group as at 16 December 2004 shared by the Group:		
Fixed assets	45,961	–
Deposits paid	763,893	–
Prepayments, deposits and other receivables	4,928	–
Due from Group companies	34,475	–
Cash and bank balances acquired	79,533	–
Accrued liabilities and other payables	(4,033)	–
Due to a Group company	(301)	–
Finance lease payables	(520)	–
Loan from a Group company	(475,783)	–
Loan from minority shareholders	(463,320)	–
Minority interests	5,872	–
	(9,295)	–
	(9,295)	–
Reclassification from:		
Share of net liabilities of jointly-controlled entities	(9,295)	–
	(9,295)	–

An analysis of the net inflow of cash and cash equivalents in respect of the change from jointly-controlled entities to subsidiaries is as follows:

	2005 HK\$'000	2004 HK\$'000
Net inflow of cash and cash equivalents:		
Cash and bank balances from the CSD Group	79,533	–
	79,533	–

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Since the CSD Group changed from jointly-controlled entities to subsidiaries of the Group on 16 December 2004, the CSD Group did not contribute any turnover to the Group but contributed net loss of HK\$8,687,000 to the net profit attributable to shareholders for the year.

If the changes had taken place on 1 July 2004, there would have no effect on the Group's revenue, and the net loss attributable to shareholders of the Group for the year would have been approximately HK\$15,882,000.

40. CONTINGENT LIABILITIES

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bills discounted with recourse	28,060	19,312	–	–
Guarantees granted to and utilised by certain non wholly-owned subsidiaries in respect of:				
Banking facilities	–	–	529,347	751,152
Finance lease payables	–	–	172,463	–
Purchase of aluminium ingots	–	–	–	114,708
Guarantee granted to and utilised by a minority equity holder in respect of banking facilities	10,829	10,829	–	–
	<u>38,889</u>	<u>30,141</u>	<u>701,810</u>	<u>865,860</u>

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 companies in 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.

41. OPERATING LEASE ARRANGEMENTS

The Group leases its manufacturing premises in the PRC and directors' quarter and office premises in Hong Kong under operating lease arrangements. Leases for properties are negotiated for terms which expire between the years 2006 and 2016.

At 30 June 2005, the Group had total future minimum lease payments under operating leases falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	10,707	8,237
In the second to fifth years, inclusive	35,439	30,895
After five years	55,602	63,583
	<u>101,748</u>	<u>102,715</u>

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

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

42. COMMITMENTS

In addition to the operating lease arrangements detailed in note 41 above, the Group and the Company had the following commitments at the balance sheet date.

- (a) At 30 June 2005, the Group and the Company had capital commitments not provided for in the financial statements as follows:

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted for (<i>Note</i>)	<u>3,324,548</u>	<u>694,577</u>	<u>32,912</u>	<u>5,550</u>

Note: At the balance sheet date, the Group was committed to make capital injections to three (2004: one) subsidiaries in the PRC of approximately HK\$1,232,337,000 (2004: HK\$31,200,000). In addition, the Group and the Company had contracted capital commitments in respect of the acquisition of fixed assets of HK\$1,807,657,000 (2004: HK\$283,725,000) and HK\$32,912,000 (2004: HK\$5,550,000), respectively.

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 2005, the Group's outstanding committed loan amount was HK\$265,894,000 (2004: HK\$379,652,000). Also, each of the Group and another subscriber has agreed to provide shareholders' loan to Phoenix Asia Dies Company Limited ("Phoenix") in proportion to their respective interest in Phoenix. As at 30 June 2005, the Group's outstanding committed loan amount was HK\$18,660,000 (2004: Nil).

- (b) At 30 June 2005, the Group and the Company had a contracted capital commitment in respect of the acquisition of the land use rights of approximately HK\$100,213,000 (2004: HK\$179,309,000). However, the local bureau of Zhaoqing City has agreed to refund the same amount of the commitment to the Group and the Company (note 14).
- (c) At 30 June 2005, 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\$39,874,000 (2004: HK\$79,955,000).
- (d) At the balance sheet date, the Group and the Company had a commitment in respect of foreign exchange forward contracts in the amount of HK\$266,540,000 (2004: Nil) and HK\$118,122,000 (2004: Nil), respectively.
- (e) In the prior years, the Company granted Put Option 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 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.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

43. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (a) On 9 July 2005, CSD entered into a contract for an aluminum six-high cold rolling mill with independent suppliers pursuant to which CSD agreed to buy certain equipment, parts, engineering, application software, technical services and other materials to CSD to facilitate the manufacturing of aluminium rolled products by AA China. The total consideration payable by CSD under the contract is approximately HK\$188,438,000 of which (i) an amount of US\$9,614,000 (equivalent to HK\$74,654,000) is to be paid to a supplier; and (ii) an amount of Euro11,717,000 (equivalent to HK\$113,784,000) is to be paid to another supplier.
- (b) On 17 August 2005, CSD entered into a contract for an aluminum coil handling system for hot and cold mills with an independent supplier pursuant to which CSD agreed to buy certain equipment, including a high-base storage, parts, engineering, application software, technical services and other materials to CSD to facilitate the manufacturing of aluminium rolled products by AA China. The total consideration payable by CSD under the contract is approximately Euro9,990,000 (equivalent to HK\$97,013,000).
- (c) On 5 September 2005, CSD entered into a contract for an aluminum scalping system for hot and cold mills with an independent supplier pursuant to which CSD agreed to buy certain equipment, parts, engineering, application software, technical services and other materials to CSD to facilitate the manufacturing of aluminum rolled products by AA China. The total consideration payable by CSD under the contract is approximately Euro4,950,000 (equivalent to HK\$48,069,000).

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 October 2005.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

3. UNAUDITED INTERIM REPORT FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2005

The following information has been extracted from the unaudited interim report of the Group for the six month period ended 31 December 2005, which have been reviewed by the Company's audit committee:

Condensed Consolidated Income Statement

For the six months ended 31 December 2005

		For the six months ended 31 December	
		2005	2004
		(Unaudited)	(Restated and unaudited)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	2	1,984,104	1,762,862
Cost of sales and services provided		<u>(1,538,796)</u>	<u>(1,313,170)</u>
Gross profit		445,308	449,692
Other income and gains	3	53,548	15,060
Selling and distribution costs		(45,416)	(46,005)
Administrative expenses		(99,303)	(68,742)
Provision for bad and doubtful debts		<u>(1,176)</u>	<u>(1,886)</u>
PROFIT FROM OPERATING ACTIVITIES	4	352,961	348,119
Finance costs	5	(99,832)	(34,726)
Share of losses of jointly-controlled entities		<u>–</u>	<u>(6,439)</u>
PROFIT BEFORE TAX		253,129	306,954
Tax	6	<u>(85,578)</u>	<u>(85,877)</u>
NET PROFIT FOR THE PERIOD		<u><u>167,551</u></u>	<u><u>221,077</u></u>
ATTRIBUTABLE TO:			
Equity holders of the parent		125,991	152,253
Minority interests		<u>41,560</u>	<u>68,824</u>
		<u><u>167,551</u></u>	<u><u>221,077</u></u>
DIVIDEND PER SHARE	7	<u>–</u>	<u>–</u>
		HK cents	HK cents
EARNINGS PER SHARE	8		
Basic		<u>3.88</u>	<u>4.80</u>
Diluted		<u><u>3.88</u></u>	<u><u>4.76</u></u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Condensed Consolidated Balance Sheet

As at 31 December 2005

		31/12/05 (Unaudited)	30/06/05 (Restated)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,863,867	2,797,069
Prepaid land lease payments		2,590	2,612
Deposits paid for purchase of property, plant and equipment	10	954,129	683,919
Interest in an associate		91	91
Deposits held in escrow account, pledged	11	425,277	1,654,241
Deposits held in collateral account		174,712	174,712
Deferred expenditure	12	–	116,614
Deferred tax assets		2,436	2,436
		<hr/>	<hr/>
Total non-current assets		5,423,102	5,431,694
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		322,934	349,693
Trade receivables	13	546,380	555,666
Prepayments, deposits and other receivables		74,292	321,542
Due from related companies		33,287	35,159
Due from minority equity/ shareholders		69	69
Deposits with a non-bank financial institution		9,873	13,642
Cash and bank balances		3,436,754	2,674,972
Pledged bank deposits		34,615	38,606
		<hr/>	<hr/>
Total current assets		4,458,204	3,989,349
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	14	197,751	174,840
Tax payable		121,353	101,145
Other payables and accruals		493,202	528,112
Trust receipt loans and import loans		269,741	278,656
Short term bank loans		470,513	373,117
Finance lease payables – current portion		732	540
Derivative financial instruments	15(a)	9,065	–
Due to minority equity/ shareholders		64,538	77,528
Dividend payable		22,463	32,462
		<hr/>	<hr/>
Total current liabilities		1,649,358	1,566,400
		<hr/>	<hr/>
NET CURRENT ASSETS		2,808,846	2,422,949
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		8,231,948	7,854,643
		<hr/>	<hr/>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

	<i>Note</i>	31/12/05 (Unaudited) HK\$'000	30/06/05 (Restated) HK\$'000
NON-CURRENT LIABILITIES			
Finance lease payables		320,869	173,002
Loans from minority shareholders		540,005	540,005
Derivative financial instruments	15(b)	175,619	–
Fixed rate senior notes	16	<u>3,393,814</u>	<u>3,498,750</u>
 Total non-current liabilities		 <u>4,430,307</u>	 <u>4,211,757</u>
		 <u><u>3,801,641</u></u>	 <u><u>3,642,886</u></u>
EQUITY			
Equity attributable to equity holders of the parent			
Share capital		324,573	324,573
Share premium account		1,638,993	1,638,993
Other reserves		303,847	255,794
Retained profits		<u>805,520</u>	<u>758,667</u>
		 3,072,933	 2,978,027
Minority interests		<u>728,708</u>	<u>664,859</u>
		 <u><u>3,801,641</u></u>	 <u><u>3,642,886</u></u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2005

	Attributable to equity holders of the parent											
	Share capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Contributed surplus (Unaudited) <i>HK\$'000</i>	Capital reserve (Unaudited) <i>HK\$'000</i>	Statutory surplus reserve (Unaudited) <i>HK\$'000</i>	Exchange fluctuation reserve (Unaudited) <i>HK\$'000</i>	Statutory public welfare fund (Unaudited) <i>HK\$'000</i>	Retained profits (Unaudited) <i>HK\$'000</i>	Proposed dividends (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>	Minority interests (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 July 2005												
As previously reported	324,573	1,638,993	4,151	51,419	194,864	(4,116)	9,476	758,667	-	2,978,027	664,859	3,642,886
Opening adjustments: <i>(note 1)</i>												
In respect of financial instruments	-	-	-	-	-	-	-	(74,303)	-	(74,303)	-	(74,303)
As restated	324,573	1,638,993	4,151	51,419	194,864	(4,116)	9,476	684,364	-	2,903,724	664,859	3,568,583
Net profit for the period	-	-	-	-	-	-	-	125,991	-	125,991	41,560	167,551
Exchange realignment	-	-	-	-	-	43,218	-	-	-	43,218	22,289	65,507
Transfer to statutory surplus reserve	-	-	-	-	4,835	-	-	(4,835)	-	-	-	-
At 31 December 2005	<u>324,573</u>	<u>1,638,993</u>	<u>4,151</u>	<u>51,419</u>	<u>199,699</u>	<u>39,102</u>	<u>9,476</u>	<u>805,520</u>	<u>-</u>	<u>3,072,933</u>	<u>728,708</u>	<u>3,801,641</u>
At 1 July 2004	317,523	1,606,563	4,151	51,419	162,095	(4,116)	9,476	625,196	57,154	2,829,461	618,809	3,448,270
Final 2004 dividend declared	-	-	-	-	-	-	-	-	(57,154)	(57,154)	-	(57,154)
Share of change in equity interest of jointly-controlled entities to subsidiaries	-	-	-	-	-	-	-	-	-	-	(5,367)	(5,367)
Equity contribution from minority interests	-	-	-	-	-	-	-	-	-	-	5	5
Exchange realignment	-	-	-	-	-	676	-	-	-	676	-	676
Net profit for the period	-	-	-	-	-	-	-	152,253	-	152,253	68,824	221,077
Transfer to statutory surplus reserve	-	-	-	-	27,171	-	-	(27,171)	-	-	-	-
At 31 December 2004	<u>317,523</u>	<u>1,606,563</u>	<u>4,151</u>	<u>51,419</u>	<u>189,266</u>	<u>(3,440)</u>	<u>9,476</u>	<u>750,278</u>	<u>-</u>	<u>2,925,236</u>	<u>682,271</u>	<u>3,607,507</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2005

	For the six months ended 31 December	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	541,478	464,074
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	96,107	(3,448,458)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>81,841</u>	<u>3,225,743</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	719,426	241,359
Cash and cash equivalents at beginning of period	2,084,911	2,204,943
Effects of foreign exchange rate changes, net	<u>20,527</u>	<u>188</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,824,864	2,446,490
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,436,754	2,844,872
Deposits with financial institutions	9,873	200,988
<i>Less:</i> Non-pledged time deposits with original maturity of more than three months when acquired	<u>(621,763)</u>	<u>(599,370)</u>
	<u><u>2,824,864</u></u>	<u><u>2,446,490</u></u>

Notes To Condensed Consolidated Interim Financial Statements

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the audited financial statements for the year ended 30 June 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group are adopted for the first time for the current period’s financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 16, 18, 19, 20, 21, 23, 24, 28, 33, 37 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements. The impact of adopting the other HKASs/HKFRSs is summarised as follows:

(a) HKAS 1 – Presentation of Financial Statements and HKAS 27 – Consolidated and Separate Financial Statements

Minority interests

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the period were also separately presented in the consolidated income statement as a deduction before arriving at the net profit attributable to shareholders.

Upon the adoption of HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the condensed consolidated balance sheet as at 30 June 2005 and in the condensed consolidated income statement and condensed consolidated statement of changes in equity for the comparative period 31 December 2004 has been restated accordingly.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

(b) HKAS 17 – Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained profits. The comparatives on the consolidated balance sheet as at 30 June 2005 have been restated to reflect the reclassification of leasehold land.

(c) HKAS 32 and HKAS 39 – Financial Instruments

(I) Derivative financial instruments, including foreign exchange contracts, interest rate swaps and forward contracts of primary aluminum are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair values. They are classified as financial assets or liabilities at fair value through profit or loss and changes in the fair value of any derivative instruments are recognised immediately in the profit and loss account.

The effect of the above changes are summarised in the following tables. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(II) In prior periods, all loans and borrowings were stated at cost. Deferred expenditure which represented the capitalisation of the underwriting discount and other expenses in connection with the issuance of the fixed rate senior notes, were amortised over the terms of the fixed rate senior notes on the straight line basis.

Upon adoption of HKAS 32 and HKAS 39, all loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. The effects of the above changes are summarised in the following tables. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

Following the adoption of HKAS 32 and 39, the details of the effect in respect of note (I) and (II) are summarised as follows:

(i) Effect on opening balance of total equity at 1 July 2005 and 2004:

Effect of HKAS 39 (Increase/(decrease))	Retained profits (Unaudited) <i>HK\$'000</i>
Opening adjustments:	
Fixed rate senior notes	
– Amortisation of deferred expenditure	9,315
– Change in effective interest method	(4,481)
Derivative financial instruments	
– Change in fair value	(79,137)
	(74,303)
Total effect at 1 July 2005	(74,303)

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

In accordance with the transitional provisions of HKAS 39, adjustments are taken into effect prospectively from 1 July 2005.

(ii) Effect on net profit for the six months ended 31 December 2005 and 2004:

Effect of HKAS 39 (Increase/(decrease))	Equity holders of the parent (Unaudited) <i>HK\$'000</i>
Effect on net profit for the six months ended 31 December 2005:	
Fixed rate senior notes	
– Amortisation of deferred expenditure	9,069
– Change in effective interest method	(5,467)
Derivative financial instruments	
– Change in fair value	8,958
Total effect for the period	12,560

In accordance with the transitional provisions of HKAS 39, adjustments are taken into effect prospectively from 1 July 2005.

(III) HKAS 39 requires that where an entity sells trade receivables with recourse, these trade receivables should be accounted for as a collateralised borrowing, since it does not qualify for derecognition. In the past, the Group followed the principles under the replaced accounting standard SSAP 28 “Provisions, Contingent Liabilities and Contingent Assets” and disclosed such type of transaction as contingent liabilities.

The Group has adopted HKAS 32 and HKAS 39 prospectively. For trade receivables sold with recourse, the change in the accounting policy has resulted in an increase in trade receivables and a corresponding increase in borrowings of approximately HK\$25,192,000 as at 31 December 2005.

(d) HKFRS 2 – Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments, the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The Group adopted the transitional provision of HKFRS 2, the cost of share options granted after 7 November 2002 and had vested before 1 July 2005 did not result in an expense in the income statement in the current period and prior years.

(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior periods, goodwill arising on acquisitions prior to 1 July 2001 was eliminated against consolidated reserves in the year of acquisition and was not recognised in the consolidated income statement until disposal or impairment of the acquired business.

The Group adopted the transitional provision of HKFRS 3, goodwill previously eliminated against the capital reserve remains eliminated against the capital reserve and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

This change in accounting policy has had no significant effect on the condensed consolidated interim financial statements.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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.

Group	Six months ended 31 December 2005 (Unaudited)					Total HK\$'000
	Aluminum extrusion products HK\$'000	Stainless steel products HK\$'000	Aluminum panels HK\$'000	Design and testing services HK\$'000	Flat-rolled products HK\$'000	
Segment revenue						
Sales to external customers	1,908,025	64,907	9,301	1,871	-	1,984,104
Other revenue	3,966	-	-	-	-	3,966
Total	1,911,991	64,907	9,301	1,871	-	1,988,070
Segment results	328,443	788	1,984	1,553	(17,467)	315,301
Interest and unallocated gains						49,582
Unallocated expenses						(11,922)
Profit from operating activities						352,961
Finance costs						(99,832)
Share of losses of jointly-controlled entities						-
Profit before tax						253,129
Tax						(85,578)
Net profit for the period						167,551

Note:

Due to the increasing significance of the flat-rolled products segment to the Group, separate disclosure of this business segment has been made in the current period. Besides, due to the relatively insignificance of the other segment to the Group which was included in the condensed consolidated financial statements of the Group for the six months ended 31 December 2004, this business segment has been reclassified in unallocated expenses in the current period. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

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	Flat-rolled products HK\$'000	
Segment revenue						
Sales to external customers	1,660,441	61,651	40,249	521	–	1,762,862
Other revenue	<u>2,444</u>	–	–	–	–	<u>2,444</u>
Total	<u>1,662,885</u>	<u>61,651</u>	<u>40,249</u>	<u>521</u>	<u>–</u>	<u>1,765,306</u>
Segment results	<u>328,010</u>	<u>2,230</u>	<u>15,305</u>	<u>432</u>	<u>–</u>	345,977
Interest and unallocated gains						12,616
Unallocated expenses						<u>(10,474)</u>
Profit from operating activities						348,119
Finance costs						<u>(34,726)</u>
Share of losses of jointly-controlled entities	–	–	–	–	(6,439)	<u>(6,439)</u>
Profit before tax						306,954
Tax						<u>(85,877)</u>
Net profit for the period						<u>221,077</u>

(b) Geographical segments

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

Group	Six months ended 31 December 2005 (Unaudited)					Total HK\$'000
	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	
Segment revenue						
Sales to external customers	<u>37,252</u>	<u>1,595,860</u>	<u>200,410</u>	<u>136,874</u>	<u>13,708</u>	<u>1,984,104</u>

Group	Six months ended 31 December 2004 (Unaudited)					Total HK\$'000
	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	
Segment revenue						
Sales to external customers	<u>53,559</u>	<u>1,457,315</u>	<u>166,819</u>	<u>79,995</u>	<u>5,174</u>	<u>1,762,862</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

3. OTHER INCOME AND GAINS

	For the six months ended 31 December	
	2005 (Unaudited) <i>HK\$'000</i>	2004 (Unaudited) <i>HK\$'000</i>
Exchange gains, net	22,758	–
Interest income	20,462	12,560
Net gains/(losses) on trading of forward contracts		
Realised gains	–	2,851
Unrealised losses	–	(6,413)
Fair value gains on derivative financial instruments	425	–
Sales of scrap materials	3,966	2,444
Sundry income	5,937	3,618
	<u>53,548</u>	<u>15,060</u>

4. PROFIT FROM OPERATING ACTIVITIES

	For the six months ended 31 December	
	2005 (Unaudited) <i>HK\$'000</i>	2004 (Restated and unaudited) <i>HK\$'000</i>
Profit from operating activities was determined after charging/(crediting) the following:		
Cost of inventories sold	1,538,622	1,313,081
Cost of services provided	174	89
Depreciation	66,182	75,117
Amortisation of prepaid land lease payments	13	13
	<u>1,605,071</u>	<u>1,388,300</u>

5. FINANCE COSTS

	For the six months ended 31 December	
	2005 (Unaudited) <i>HK\$'000</i>	2004 (Unaudited) <i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	17,728	29,343
Interest on finance leases	7,634	29
Interest on fixed rate senior notes	148,195	4,960
Interest income over deposits held in escrow account pledged against the fixed rate senior notes	(13,725)	–
Total interest	159,832	34,332
Less: Interest capitalized	(60,000)	–
	99,832	34,332
Other finance costs		
Amortisation of deferred expenditure	–	394
	<u>99,832</u>	<u>34,726</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

6. TAX

	For the six months ended 31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current period:		
Provision in Hong Kong	7,200	–
Provision in Mainland China	78,378	85,804
Under provision in previous years in Hong Kong	–	73
	85,578	85,877
Total tax charge for the period	85,578	85,877

Hong Kong profits tax has been provided at a rate 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. In prior period, 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 six months period ended 31 December 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The statutory rate for Mainland China corporate income tax is 33% (2004: 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 2005 and 2004, provisions for income tax have been made at the applicable reduced rate for the PRC subsidiaries.

7. DIVIDENDS

The directors have resolved not to declare any interim dividend for the six months ended 31 December 2005 (2004: NIL).

8. EARNINGS PER SHARE

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

	For the six months ended 31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Earnings (net profit attributable to equity holders of the parent for the period) for the purpose of basic and diluted earnings per share calculation	125,991	152,253
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	3,245,732,401	3,175,232,401
Effect of dilutive share options	–	25,642,857
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,245,732,401	3,200,875,258

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2005, the additions to property, plant and equipment were approximately HK\$1,099,782,000 (2004: HK\$228,122,000). Items of property, plant and equipment with a net book value of HK\$8,978,000 (2004: HK\$7,624,000) were disposed of during the six months ended 31 December 2005, resulting in loss on disposal of HK\$8,598,000 (2004: HK\$7,624,000).

10. DEPOSITS PAID FOR PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

The balance mainly represented deposits paid for the purchase of aluminum extrusion presses and its associated handling systems, aluminum rolling mills and its associated auxiliary equipment and for construction works of plants.

11. DEPOSITS HELD IN ESCROW ACCOUNT, PLEDGED

On 23 December 2004, the Company issued 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 a bank as trustee and, the escrow agent for the Notes Issue proceeds. At 31 December 2005, the deposits held in escrow account represented the proceeds which have not been withdrawn by the Group and the interest income generated from the deposits up to 31 December 2005.

12. DEFERRED EXPENDITURE

The balance as at 30 June 2005 represented the capitalisation of the underwriting discount and other expenses in connection with the Notes Issue. Upon adoption of HKAS 39 as mentioned in note 1 to the condensed consolidated interim financial statements, the deferred expenditure was net off with the Notes.

13. TRADE RECEIVABLES

The Company’s trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. The Company normally grants a credit policy of up to 90 days. The Company seeks to maintain strict control over its credit terms and outstanding receivables. Overdue balances are reviewed regularly by senior management.

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

	31/12/05 (Unaudited) <i>HK\$'000</i>	30/06/05 <i>HK\$'000</i>
Within 3 months	440,873	498,978
4 to 6 months	81,357	63,110
7 to 12 months	47,213	19,078
More than 1 year	66,436	66,358
	635,879	647,524
Impairment allowance	(89,499)	(91,858)
	546,380	555,666

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

14. TRADE PAYABLES

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

	31/12/05 (Unaudited) HK\$'000	30/06/05 HK\$'000
Within 3 months	156,174	149,997
4 to 6 months	17,848	7,989
7 to 12 months	14,012	7,827
More than 1 year	9,717	9,027
	<u>197,751</u>	<u>174,840</u>

15. DERIVATIVE FINANCIAL INSTRUMENTS

- (a) The balance represents the financial liabilities of foreign exchange forward contracts and forward contracts of primary aluminum at fair value through profit and loss.
- (b) The balance represents the financial liabilities of an interest rate swap agreement. In connection with the Notes, the Group entered into an interest rate swap agreement with a financial institute, under which the Group makes interest payment semi-annually at a fixed rate of 8% per annum on a notional amount of US\$450 million during the period from 23 December 2004 to 23 December 2011, and receives and makes interest payment semi-annually at a fixed rate of 3% per annum and 2.12% per annum on a notional amount of approximately US\$450 million during the periods from 23 December 2004 to 23 June 2007 and from 23 June 2007 to 23 December 2011, respectively. Besides, US\$22.5 million (approximately HK\$174,712,000) is deposited in a collateral account held with the financial institute and will be repaid by six equal instalments semi-annually during the period from 23 December 2009 to 23 December 2011.

16. 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 are set out in the Company's announcement dated 16 December 2004 and the Company's circular dated 7 January 2005 to its shareholders.

17. CONTINGENT LIABILITIES

As at 31 December 2005, the Group has no contingent liabilities related to the bills discounted with recourse (30/06/05: HK\$28,060,000). In addition, the Group had granted a guarantee to and utilised by a minority equity holder in respect of banking facilities of HK\$11,058,000 (30/06/05: HK\$10,829,000).

18. COMMITMENTS

- (a) As at 31 December 2005, the Group had total future minimum lease payments under operating leases falling due as follows:

	31/12/05 (Unaudited) HK\$'000	30/06/05 HK\$'000
Within one year	10,933	10,707
In the second to fifth years, inclusive	34,782	35,439
After five years	52,660	55,602
	<u>98,375</u>	<u>101,748</u>

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

- (b) As at 31 December 2005, the Group had capital commitments not provided for in the consolidated financial statements as follows:

	31/12/05 (Unaudited) HK\$'000	30/6/05 HK\$'000
Contracted for (<i>Note</i>)	<u>2,773,730</u>	<u>3,324,548</u>

Note:

At the balance sheet date, the Group was committed to make capital injections to four (30/06/05: three) subsidiaries in the PRC of approximately HK\$892,285,000 (30/06/05: HK\$1,232,337,000). In addition, the Group had contracted capital commitments in respect of the acquisition of fixed assets of HK\$1,642,986,000 (30/06/05: HK\$1,807,657,000).

In addition, each of the Group and the other three subscribers in China Steel Development Company Limited ("CSD") has agreed to provide shareholders' loans to CSD in proportion to their respective interests in CSD. The maximum amount of the Group's proportion attributable to the shareholders' loans is HK\$810,000,000. As at 31 December 2005, the Group's outstanding committed loan amount was HK\$219,837,000 (30/06/05: HK\$265,894,000). Also, each of the Group and another subscriber has agreed to provide shareholders' loan to Phoenix Asia Dies Company Limited ("Phoenix") in proportion to their respective interest in Phoenix. As at 31 December 2005, the Group's outstanding committed loan amount was HK\$18,622,000 (30/06/05: HK\$18,660,000).

- (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 ("Zhaoqing City") in 2003, the Company has agreed to acquire 50 years' land use rights of 10,300 市畝 ("mu") (approximately 6,867,000 square metres) of land located in the High-Tech Development Zone at an aggregate consideration of RMB288,400,000 (approximately HK\$277,308,000). In turn, the local bureau of Zhaoqing City has agreed to refund the whole consideration of RMB288,400,000 (approximately HK\$277,308,000) to the Company as compensation for the construction cost of basic infrastructure incurred by the Group. The Group had paid a consideration of approximately RMB182,000,000 (approximately HK\$175,000,000) to obtain 6,500 mu of land use rights and its related certificate. The local bureau of Zhaoqing City had refunded the same amount to the Group. Accordingly, the Company and the Group had contracted capital commitment in respect of the acquisition of the land use rights for the remaining 3,800 mu of approximately RMB106,400,000 (approximately HK\$102,308,000) (30/06/05: HK\$100,213,000).
- (d) In 2001, the company granted a put option ("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.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

19. RELATED PARTY TRANSACTIONS

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

		For the six months ended 31 December	
		2005	2004
	Note	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Rental expenses paid to a related company	(i)	1,895	1,209
Rental expenses paid to a director	(ii)	360	330
Sale of finished goods to a minority shareholder of a subsidiary, Indalex Aluminum Solution Group ("IASG")	(iii)	94,217	60,353
Sale of finished goods to a company of which a director of a non wholly-owned subsidiary is also a director	(iv)	3,761	4,862
Consultancy fee paid to a former director of the Company	(v)	–	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

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, 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.
- (ii) 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.
- (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 commercial terms.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

- (b) The Group had the following outstanding balances with related parties:

	Due from related parties		Due to related parties	
	31/12/05 (Unaudited) HK\$'000	30/06/05 HK\$'000	31/12/05 (Unaudited) HK\$'000	30/06/05 HK\$'000
IASG	33,287	35,159	–	–
Minority equity/shareholders of subsidiaries	69	69	64,538	77,528
Minority shareholders	–	–	540,005	540,005
	33,356	35,228	604,543	617,533
	33,356	35,228	604,543	617,533

20. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (a) On 14 March 2006, the Company entered into an agreement with Mr. Kwong Wui Chun, Record Break Investments Limited and Think Success Industries Limited, the minority shareholders in CSD, whereby the minority shareholders granted to the Company a call option at nil premium to acquire, at any time during the 365-day period commencing on 14 March 2006, their respective shareholdings in CSD and related shareholder loans for a total amount of US\$95 million (approximately HK\$737.1 million). The minority shareholders' interests represent in aggregate 40 per cent. of the outstanding issued share capital of CSD, comprising 20 per cent. held directly by Mr. Kwong Wui Chun and 10 per cent. held by each of Record Break Investments Limited and Think Success Industries Limited. Mr. Kwong Wui Chun, Record Break Investments Limited and Think Success Industries Limited each have related shareholder loans outstanding of HK\$270,000,000, HK\$135,005,000 and HK\$135,000,000 respectively.

The Company intends to exercise the call option to acquire the outstanding minority interests and related shareholder loans after the subsequently announced privatisation (see below) of the Company has become effective. The acquisition of the CSD shares and related shareholder loans, if and when the call option is exercised by the Company, will be financed by the Company from the proceeds of an issue of new shares to AA Investments Company Limited ("AA Investments"). If the privatisation does not become effective, the Company will not have sufficient funds to acquire the minority interests in CSD and the related shareholder loans and the call option will not be exercised.

- (b) On 16 March 2006, the Company made a joint announcement with AA Investments in which it was announced that the Company intended to put forward a proposal to the shareholders other than the Company's Chairman and controlling shareholder, Mr. Kwong Wui Chun, his spouse Ms. Li Chuk Kuan and Viewlink Assets Limited (a company wholly owned by Mr. Kwong Wui Chun) (the "Scheme Shareholders"), regarding the privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act of Bermuda (the "Share Proposal"). The Company proposed that all shares held by the Scheme Shareholders (the "Scheme Shares") will be cancelled in exchange for HK\$1.30 in cash for each Scheme Share. In the same announcement, it was announced that AA Investments would, in parallel with the Share Proposal, make a proposal to the holders of share options granted under the Company's share option scheme for the cancellation of their outstanding options in exchange for HK\$0.49 in cash for each outstanding option, subject to and conditional upon the scheme of arrangement becoming effective.

In a further announcement dated 27 March 2006, the Company made a joint announcement with AA Investments in which it was announced that the share offer price is to be increased from HK\$1.30 to HK\$1.45 for each Scheme Share and correspondingly the option offer price is to be increased from HK\$0.49 to HK\$0.64 for each outstanding option. The Share Proposal and the proposal to optionholders are otherwise unchanged.

21. COMPARATIVE AMOUNTS

As further explained in note 1 to the condensed consolidated interim financial statements, due to the adoption of the HKASs/HKFRSs during the current period, the accounting treatment and presentation of certain items and balances in the condensed consolidated interim financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current period's presentation.

22. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 27 March 2006.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

4. SHARE CAPITAL

The authorised share capital and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised:

<u>6,000,000,000</u>	Asia Aluminum Shares	<u>HK\$600,000,000</u>
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Issued and fully paid:

<u>3,245,732,401</u>	Asia Aluminum Shares	<u>HK\$324,573,240.1</u>
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Each of the Asia Aluminum Shares ranks pari passu in all respects, including dividends, voting and capital.

No Asia Aluminum Shares have been issued since 30 June 2005, being the end of the last financial year of the Company.

Other than the Asia Aluminum Shares and Options, the Company has no other outstanding equity securities (including equity related convertible securities or warrants, options or subscription rights in respect of any equity share capital, including non-transferable options).

5. INDEBTEDNESS STATEMENT

As at 28 February 2006, the Group had outstanding borrowings of approximately HK\$1,615.2 million. The borrowings comprised secured bank loans of approximately HK\$357.5 million; unsecured bank loans of approximately HK\$56.5 million; unsecured trust receipt loans and import loans of approximately HK\$317.2 million; secured finance lease payables of approximately HK\$344.0 million and unsecured loans from minority shareholders of CSD of approximately HK\$540.0 million respectively.

As at 28 February 2006, the banking facilities of the Group were supported by the following:

- (i) legal charges over certain fixed assets of the Group, mainly leasehold land in the PRC with total cost of approximately HK\$2.7 million, buildings in the PRC with a total net book value of approximately HK\$4.7 million, plant and machinery with a total net book value of approximately HK\$19.6 million and motor vehicles with a total net book value of approximately HK\$2.7 million;
- (ii) legal charge over certain current assets of the Group, mainly inventories with a total value of HK\$39.2 million;
- (iii) pledge of certain bank deposits of HK\$39.4 million;
- (iv) corporate guarantees executed by the Company;
- (v) corporate guarantees executed by four non-wholly owned subsidiaries of the Company; and
- (vi) joint and several personal guarantees by certain directors of the two non-wholly owned subsidiaries of the Company.

PART V – FINANCIAL INFORMATION RELATING TO THE GROUP

As at 28 February 2006, the Group had guarantees granted to and utilised by a minority equity holder of a subsidiary of the Company in respect of banking facilities of approximately HK\$10.8 million.

As at 28 February 2006, the Company has US\$450,000,000 8% Fixed Rate Senior Notes due 23 December 2011 outstanding (which are not convertible into and do not confer any other rights to Asia Aluminum Shares). The Fixed Rate Senior Notes are listed on the Singapore Exchange Securities Trading Limited.

The obligations of the Company under the Fixed Rate Senior Notes are guaranteed by certain subsidiaries of the Company (the "Subsidiary Guarantors"). The Notes are further secured by (i) pledges of the Company's rights under a shareholder's loan 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 ("AAG"); and (iii) pledges of shares of certain of the Subsidiary Guarantors.

AAG, Indalex UK Limited (a minority shareholder of AAG) ("Indalex") and the Company, among others, entered into a deed of tax indemnity on 8 June 2001 (the "Tax Indemnity"). Under the Tax Indemnity the Company shall indemnify Indalex in respect of any tax arising from 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 policy or accounting practice which were not in compliance with applicable law or published practice in force.

Save as aforesaid or otherwise mentioned in this Scheme Document, the Group had no other material contingent liabilities or outstanding mortgages, charges, loan capital issued and outstanding or agreed to be issued, bank loans and overdrafts or other similar indebtedness as at the close of business on 28 February 2006.

6. MATERIAL CHANGES

Save as disclosed in the unaudited financial statement of the Group for the six months ended 31 December 2005, the extract of which is reproduced under paragraph 3 of Part V of this Scheme Document, the Directors are not aware of any material change in the financial or trading position or outlook of the Company since 30 June 2005, the date to which the latest audited consolidated financial statements of the Company were made up.

PART VI – GENERAL INFORMATION

1 RESPONSIBILITY STATEMENTS

The information in this Scheme Document relating to the Group has been supplied by the Directors. The issue of this Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Offeror and the Offeror's future intentions with respect to the Group, for which the Offeror Directors accept full responsibility) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, their opinions expressed in this Scheme Document have been arrived at after due and careful consideration and there are no other facts (other than those relating to the Offeror and the Offeror's future intentions) not contained in this Scheme Document the omission of which would make any of their statements in this Scheme Document misleading.

The information in this Scheme Document relating to the Offeror has been supplied by the Offeror Directors. The issue of this Scheme Document has been approved by the Offeror Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, their opinions expressed in this Scheme Document have been arrived at after due and careful consideration and there are no other facts (other than those relating to the Group) not contained in this Scheme Document the omission of which would make any of their statements in this Scheme Document misleading.

2 MARKET PRICES

Asia Aluminum Shares are traded on the Stock Exchange.

- (a) The table below shows the respective closing prices of Asia Aluminum Shares on the Stock Exchange: (i) on the last Trading Day of each of the calendar months during the period commencing 6 months preceding the Pre-Announcement Date; (ii) on the Pre-announcement Date; (iii) on the Last Trading Date; and (iv) on the Latest Practicable Date.

Date	Price per Asia Aluminum Share HK\$
31 August 2005	0.78
30 September 2005	0.80
31 October 2005	0.63
30 November 2005	0.72
30 December 2005	0.67
27 January 2006	0.74
28 February 2006	0.96
Pre-announcement Date	0.92
Last Trading Date	1.15
Latest Practicable Date	1.40

PART VI – GENERAL INFORMATION

- (b) The highest and lowest closing prices of Asia Aluminum Shares recorded on the Stock Exchange, during the period from 7 August 2005 (being the date six months prior to the Pre-announcement Date) to the Latest Practicable Date, were HK\$0.52 on 28 October 2005 and HK\$1.40 on 31 March 2006, respectively.

3 IRREVOCABLE UNDERTAKINGS

As at the Latest Practicable Date, AA Investments has received irrevocable undertakings to vote at the Meetings to approve the proposals to privatise the Company at the Share Offer Price in respect of a total of up to 1,149,822,843 Scheme Shares (representing a total of up to approximately 55.5 per cent. of the Scheme Shares held by Independent Shareholders) from Genesis Fund Managers, LLP and Genesis Asset Managers, LLP (together, 124,364,000 Scheme Shares), Fidelity Investments International (“Fidelity” – 165,094,000 Scheme Shares) (the “Fidelity Irrevocable Undertaking”), Mondrian Investment Partners Limited (300,710,000 Scheme Shares), Morgan Stanley Investment Management Company (305,486,843 Scheme Shares), Penta Investment Advisers Limited (135,800,000 Scheme Shares), Martin Currie Inc. and Martin Currie Investment Management Limited (“Martin Currie” – 84,876,000 Scheme Shares) (the “Martin Currie Undertaking”) Franklin Templeton Investments (Asia) Limited (“Templeton HK” – 180,000 Scheme Shares) and Franklin Templeton Investment Management Limited (“Templeton UK” – 33,312,000 Scheme Shares) (together, the “Templeton Irrevocable Undertakings”) (the “Irrevocable Undertakings”).

The Irrevocable Undertakings shall lapse if (i) the proposal to privatise the Company is not approved at the Meetings or (ii) a third party makes a higher competing offer for the Company. In addition, the Fidelity Irrevocable Undertaking shall lapse in any event on 31 May 2006, the Martin Currie Undertaking shall lapse if the Scheme lapses on or before 31 July 2006 or such later date as the Offeror and the Company may agree provided always that such extension is not beyond 31 October 2006 and the Templeton Irrevocable Undertakings shall automatically lapse upon the approval of the Share Proposal to privatise the Company at the Meetings. The Martin Currie Undertaking is also subject to Martin Currie continuing to be in control of the voting rights in respect of the relevant 84,876,000 Asia Aluminum Shares it currently holds and Martin Currie’s position as investment manager in respect of those Asia Aluminum Shares not being amended or terminated or under notice of termination.

As at the Latest Practicable Date, the following persons who have irrevocably committed themselves to vote to approve the Scheme had the following interests in Asia Aluminum Shares:

Giver of Irrevocable Undertakings	Number of Asia Aluminum Shares in which the giver of the Irrevocable Undertakings is interested
Fidelity Investments International	181,794,000
Franklin Templeton Investments (Asia) Limited	180,000
Franklin Templeton Investment Management Limited	33,312,000
Genesis Fund Managers, LLP and Genesis Asset Managers, LLP	124,364,000
Martin Currie Inc. and Martin Currie Investment Management Limited	84,876,000
Mondrian Investment Partners Limited	300,710,000
Morgan Stanley Investment Management Company	305,486,843
Penta Investment Advisers Limited	173,304,000

PART VI – GENERAL INFORMATION

Templeton HK and Templeton UK did not deal for value in Asia Aluminum Shares during the period commencing six months prior to the offer period and up to the Latest Practicable Date. In the six months prior to the Latest Practicable Date, the following dealings for value in Asia Aluminum Shares have taken place by the following persons who have irrevocably committed themselves to vote to approve the Scheme:

Party	Trade Date	Transaction	Number of Asia Aluminum Shares	Execution price per Asia Aluminum Share (HK\$)
Fidelity Investments International	15-Sep-05	Buy	1,510,000	0.77
	16-Sep-05	Buy	774,000	0.767955
	16-Sep-05	Buy	204,000	0.767955
	20-Sep-05	Buy	460,000	0.764348
	21-Sep-05	Buy	298,000	0.77
	22-Sep-05	Buy	324,000	0.766173
	23-Sep-05	Buy	356,000	0.77
	23-Sep-05	Buy	200,000	0.77
	26-Sep-05	Buy	420,000	0.76
	27-Sep-05	Buy	100,000	0.76
	28-Sep-05	Buy	100,000	0.76
	29-Sep-05	Buy	1,748,000	0.793799
	29-Sep-05	Buy	200,000	0.793799
	30-Sep-05	Buy	296,000	0.790811
	30-Sep-05	Buy	700,000	0.787143
	3-Oct-05	Buy	1,998,000	0.77
	3-Oct-05	Buy	202,000	0.77
	4-Oct-05	Buy	2,300,000	0.7768
	4-Oct-05	Buy	200,000	0.7768
	5-Oct-05	Buy	3,100,000	0.77
	5-Oct-05	Buy	200,000	0.77
	6-Oct-05	Buy	1,832,000	0.769454
	10-Oct-05	Buy	600,000	0.77
	12-Oct-05	Buy	3,180,000	0.77
	12-Oct-05	Buy	744,000	0.768333
	7-Feb-06	Buy	7,022,000	0.895844
	8-Feb-06	Buy	602,000	0.89897
	9-Feb-06	Buy	12,376,000	1.007865
	10-Feb-06	Buy	90,000	0.94
	10-Feb-06	Buy	74,000	0.94
	10-Feb-06	Buy	96,000	0.94
	10-Feb-06	Buy	114,000	0.94
	13-Feb-06	Buy	968,000	0.9042
	13-Feb-06	Buy	42,000	0.9042
	13-Feb-06	Buy	170,000	0.9042
	13-Feb-06	Buy	140,000	0.9042
	13-Feb-06	Buy	178,000	0.9042
	13-Feb-06	Buy	214,000	0.9042
	14-Feb-06	Buy	526,000	0.927
	14-Feb-06	Buy	88,000	0.927
	14-Feb-06	Buy	72,000	0.927
	14-Feb-06	Buy	92,000	0.927
	14-Feb-06	Buy	112,000	0.927
	15-Feb-06	Buy	724,000	0.96281
	15-Feb-06	Buy	118,000	0.96281

PART VI – GENERAL INFORMATION

Party	Trade Date	Transaction	Number of Asia Aluminum Shares	Execution price per Asia Aluminum Share (HK\$)
Fidelity	15-Feb-06	Buy	98,000	0.96281
Investments	15-Feb-06	Buy	124,000	0.96281
International	15-Feb-06	Buy	148,000	0.96281
<i>(Continued)</i>	16-Feb-06	Buy	1,036,000	0.960166
	16-Feb-06	Buy	40,000	0.960166
	16-Feb-06	Buy	166,000	0.960166
	16-Feb-06	Buy	136,000	0.960166
	16-Feb-06	Buy	174,000	0.960166
	16-Feb-06	Buy	208,000	0.960166
	17-Feb-06	Buy	412,000	0.93052
	17-Feb-06	Buy	64,000	0.93052
	17-Feb-06	Buy	54,000	0.93052
	17-Feb-06	Buy	68,000	0.93052
	17-Feb-06	Buy	80,000	0.93052
	20-Feb-06	Buy	334,000	0.9479
	20-Feb-06	Buy	98,000	0.9479
	20-Feb-06	Buy	80,000	0.9479
	20-Feb-06	Buy	102,000	0.9479
	20-Feb-06	Buy	122,000	0.9479
	21-Feb-06	Buy	68,000	0.944239
	21-Feb-06	Buy	56,000	0.944239
	21-Feb-06	Buy	72,000	0.944239
	21-Feb-06	Buy	84,000	0.944239
	22-Feb-06	Buy	40,000	0.98213
	22-Feb-06	Buy	242,000	0.98213
	22-Feb-06	Buy	198,000	0.98213
	22-Feb-06	Buy	254,000	0.98213
	22-Feb-06	Buy	300,000	0.98213
	23-Feb-06	Buy	26,000	0.999722
	23-Feb-06	Buy	366,000	0.999722
	23-Feb-06	Buy	302,000	0.999722
	23-Feb-06	Buy	386,000	0.999722
	23-Feb-06	Buy	458,000	0.999722
	24-Feb-06	Buy	110,000	0.991123
	24-Feb-06	Buy	90,000	0.991123
	24-Feb-06	Buy	114,000	0.991123
	24-Feb-06	Buy	136,000	0.991123
	27-Feb-06	Buy	704,000	0.993278
	27-Feb-06	Buy	136,000	0.993278
	27-Feb-06	Buy	738,000	0.993278
	27-Feb-06	Buy	882,000	0.993278
	28-Feb-06	Buy	40,000	0.961667
	28-Feb-06	Buy	142,000	0.961667
	28-Feb-06	Buy	150,000	0.961667
	28-Feb-06	Buy	180,000	0.961667
	1-Mar-06	Buy	58,000	0.962878
	1-Mar-06	Buy	90,000	0.962878
	1-Mar-06	Buy	22,000	0.949339
	1-Mar-06	Buy	98,000	0.962878
	2-Mar-06	Buy	38,000	1.016222
	2-Mar-06	Buy	172,000	1.016222
	3-Mar-06	Buy	72,000	1.0426

PART VI – GENERAL INFORMATION

Party	Trade Date	Transaction	Number of Asia Aluminum Shares	Execution price per Asia Aluminum Share (HK\$)
Genesis Fund Managers, LLP and Genesis Asset Managers, LLP	1-Sep-05	Buy	1,684,000	0.7982
	2-Sep-05	Buy	1,200,000	0.7907
	5-Sep-05	Buy	316,000	0.7706
	6-Sep-05	Buy	1,000,000	0.7678
	8-Sep-05	Buy	6,112,000	0.77
	9-Sep-05	Buy	4,688,000	0.7686
	7-Nov-05	Buy	794,000	0.7562
	8-Nov-05	Buy	1,186,000	0.7622
	8-Nov-05	Buy	1,294,000	0.76
Martin Currie Inc. and Martin Currie Investment Management Limited	29-Nov-05	Sell	1,196,000	0.7252
	30-Nov-05	Sell	126,000	0.72
	1-Dec-05	Sell	350,000	0.72
	2-Dec-05	Sell	782,000	0.7439
	5-Dec-05	Sell	150,000	0.7233
	12-Dec-05	Sell	150,000	0.72
	12-Dec-05	Sell	1,170,000	0.709
	14-Dec-05	Sell	2,246,000	0.7
	15-Dec-05	Sell	4,670,000	0.6891
	16-Dec-05	Sell	598,000	0.667
	19-Dec-05	Sell	776,000	0.6536
	20-Dec-05	Sell	1,960,000	0.6492
	21-Dec-05	Sell	874,000	0.65
	22-Dec-05	Sell	1,298,000	0.6418
	23-Dec-05	Sell	1,104,000	0.6367
	28-Dec-05	Sell	300,000	0.64
	29-Dec-05	Sell	912,000	0.6317
	13-Mar-06	Sell	1,710,000	1.1332
13-Mar-06	Sell	1,274,000	1.1332	
Mondrian Investment Partners Limited	18-Aug-05	Buy	3,080,000	0.8309
	19-Aug-05	Buy	962,000	0.8269
	22-Aug-05	Buy	250,000	0.822
	23-Aug-05	Buy	454,000	0.8158
	25-Aug-05	Buy	104,000	0.79
	26-Aug-05	Buy	518,000	0.8017
	30-Aug-05	Buy	2,372,000	0.7848
	31-Aug-05	Buy	2,700,000	0.7828
	1-Sep-05	Buy	508,000	0.799
	5-Sep-05	Sell	142,000	0.7727
	5-Sep-05	Sell	522,000	0.7727
	5-Sep-05	Sell	42,000	0.7727
	5-Sep-05	Sell	44,000	0.7727
	5-Sep-05	Sell	60,000	0.7727
	6-Sep-05	Sell	36,000	0.77
	6-Sep-05	Buy	714,000	0.7678
	6-Sep-05	Sell	128,000	0.77
	6-Sep-05	Sell	10,000	0.77
	6-Sep-05	Sell	12,000	0.77

PART VI – GENERAL INFORMATION

Party	Trade Date	Transaction	Number of Asia Aluminum Shares	Execution price per Asia Aluminum Share (HK\$)
Mondrian Investment Partners Limited <i>(Continued)</i>	6-Sep-05	Sell	14,000	0.77
	7-Sep-05	Sell	18,000	0.78
	7-Sep-05	Sell	64,000	0.78
	7-Sep-05	Sell	4,000	0.78
	7-Sep-05	Sell	6,000	0.78
	7-Sep-05	Sell	8,000	0.78
	12-Sep-05	Sell	24,000	0.78
	12-Sep-05	Sell	90,000	0.78
	12-Sep-05	Sell	8,000	0.78
	12-Sep-05	Sell	8,000	0.78
	12-Sep-05	Sell	10,000	0.78
	13-Sep-05	Sell	302,000	0.7865
	13-Sep-05	Sell	1,106,000	0.7865
	13-Sep-05	Sell	88,000	0.7865
	13-Sep-05	Sell	96,000	0.7865
	13-Sep-05	Sell	126,000	0.7865
	14-Sep-05	Sell	304,000	0.77
	14-Sep-05	Sell	1,114,000	0.77
	14-Sep-05	Sell	90,000	0.77
	14-Sep-05	Sell	96,000	0.77
	14-Sep-05	Sell	126,000	0.77
	15-Sep-05	Sell	28,000	0.77
	15-Sep-05	Sell	106,000	0.77
	15-Sep-05	Sell	8,000	0.77
	15-Sep-05	Sell	10,000	0.77
	15-Sep-05	Sell	12,000	0.77
	16-Sep-05	Sell	62,000	0.78
	16-Sep-05	Sell	224,000	0.78
	16-Sep-05	Sell	16,000	0.78
	16-Sep-05	Sell	20,000	0.78
	16-Sep-05	Sell	26,000	0.78
	20-Sep-05	Sell	60,000	0.77
	20-Sep-05	Sell	216,000	0.77
	20-Sep-05	Sell	18,000	0.77
	20-Sep-05	Sell	18,000	0.77
	20-Sep-05	Sell	24,000	0.77
	21-Sep-05	Sell	46,000	0.77
	21-Sep-05	Sell	170,000	0.77
	21-Sep-05	Sell	14,000	0.77
	21-Sep-05	Sell	14,000	0.77
	21-Sep-05	Sell	20,000	0.77
22-Sep-05	Sell	60,000	0.77	
22-Sep-05	Sell	220,000	0.77	
22-Sep-05	Sell	20,000	0.77	
22-Sep-05	Sell	18,000	0.77	
22-Sep-05	Sell	24,000	0.77	
23-Sep-05	Sell	64,000	0.77	
23-Sep-05	Sell	230,000	0.77	
23-Sep-05	Sell	18,000	0.77	
23-Sep-05	Sell	20,000	0.77	
23-Sep-05	Sell	26,000	0.77	

PART VI – GENERAL INFORMATION

Party	Trade Date	Transaction	Number of Asia Aluminum Shares	Execution price per Asia Aluminum Share (HK\$)
Mondrian Investment Partners Limited	26-Sep-05	Sell	4,000	0.77
	26-Sep-05	Sell	16,000	0.77
<i>(Continued)</i>	26-Sep-05	Sell	2,000	0.77
	26-Sep-05	Sell	2,000	0.77
	26-Sep-05	Sell	2,000	0.77
	27-Sep-05	Sell	8,000	0.77
	27-Sep-05	Sell	30,000	0.77
	27-Sep-05	Sell	4,000	0.77
	27-Sep-05	Sell	2,000	0.77
	27-Sep-05	Sell	4,000	0.77
	29-Sep-05	Sell	480,000	0.7913
	29-Sep-05	Sell	1,758,000	0.7913
	29-Sep-05	Sell	138,000	0.7913
	29-Sep-05	Sell	152,000	0.7913
	29-Sep-05	Sell	200,000	0.7913
	30-Sep-05	Buy	3,608,000	0.79
	30-Sep-05	Sell	294,000	0.7907
	30-Sep-05	Sell	1,072,000	0.7907
	30-Sep-05	Sell	84,000	0.7907
	30-Sep-05	Sell	92,000	0.7907
	30-Sep-05	Sell	122,000	0.7907
	3-Oct-05	Sell	190,000	0.7721
	3-Oct-05	Sell	696,000	0.7721
	3-Oct-05	Sell	56,000	0.7721
	3-Oct-05	Sell	60,000	0.7721
	3-Oct-05	Sell	78,000	0.7721
	4-Oct-05	Sell	954,000	0.7799
	4-Oct-05	Sell	3,484,000	0.7799
	4-Oct-05	Sell	278,000	0.7799
	4-Oct-05	Buy	1,184,000	0.7883
	4-Oct-05	Sell	300,000	0.7799
	4-Oct-05	Sell	394,000	0.7799
	5-Oct-05	Sell	834,000	0.7707
	5-Oct-05	Sell	3,046,000	0.7707
5-Oct-05	Sell	242,000	0.7707	
5-Oct-05	Sell	262,000	0.7707	
5-Oct-05	Sell	346,000	0.7707	
5-Oct-05	Buy	1,800,000	0.7706	
6-Oct-05	Sell	72,000	0.77	
6-Oct-05	Sell	260,000	0.77	
6-Oct-05	Sell	20,000	0.77	
6-Oct-05	Sell	22,000	0.77	
6-Oct-05	Sell	30,000	0.77	
6-Oct-05	Buy	1,110,000	0.7691	
7-Oct-05	Sell	54,000	0.77	
7-Oct-05	Sell	200,000	0.77	
7-Oct-05	Sell	16,000	0.77	
7-Oct-05	Sell	18,000	0.77	
7-Oct-05	Sell	22,000	0.77	
10-Oct-05	Sell	140,000	0.77	
10-Oct-05	Sell	516,000	0.77	

PART VI – GENERAL INFORMATION

Party	Trade Date	Transaction	Number of Asia Aluminum Shares	Execution price per Asia Aluminum Share (HK\$)
Mondrian Investment Partners Limited <i>(Continued)</i>	10-Oct-05	Sell	42,000	0.77
	10-Oct-05	Sell	44,000	0.77
	10-Oct-05	Sell	58,000	0.77
	12-Oct-05	Sell	348,000	0.77
	12-Oct-05	Sell	1,274,000	0.77
	12-Oct-05	Sell	102,000	0.77
	12-Oct-05	Sell	110,000	0.77
	12-Oct-05	Sell	144,000	0.77
	31-Oct-05	Buy	342,000	0.619
	3-Nov-05	Buy	958,000	0.7149
	4-Nov-05	Buy	936,000	0.7213
	17-Nov-05	Sell	138,000	0.7
	18-Nov-05	Sell	210,000	0.6914
	21-Nov-05	Sell	200,000	0.702
	22-Nov-05	Sell	128,000	0.6939
	23-Nov-05	Sell	182,000	0.7097
	5-Dec-05	Buy	354,000	0.7212
	9-Dec-05	Sell	1,000,000	0.7
	12-Dec-05	Sell	1,214,000	0.7107
	13-Dec-05	Sell	186,000	0.71
	14-Dec-05	Sell	600,000	0.6973
	15-Dec-05	Sell	1,000,000	0.687
	16-Dec-05	Sell	438,000	0.6625
	19-Dec-05	Sell	460,000	0.64961
	18-Jan-06	Sell	296,000	0.74001
	19-Jan-06	Sell	388,000	0.75642
	20-Jan-06	Sell	192,000	0.7377
	20-Jan-06	Sell	238,000	0.73771
	23-Jan-06	Sell	290,000	0.73361
	23-Jan-06	Sell	202,000	0.73361
	24-Jan-06	Sell	618,000	0.7276
	24-Jan-06	Buy	882,000	0.7315
	24-Jan-06	Sell	898,000	0.72761
	25-Jan-06	Sell	1,086,000	0.74391
	25-Jan-06	Sell	1,636,000	0.74391
26-Jan-06	Sell	332,000	0.73141	
26-Jan-06	Sell	502,000	0.73141	
27-Jan-06	Sell	390,000	0.73731	
27-Jan-06	Sell	590,000	0.73731	
1-Feb-06	Sell	968,000	0.7323	
2-Feb-06	Sell	1,630,000	0.74491	
3-Feb-06	Buy	1,070,000	0.747	
3-Feb-06	Sell	460,000	0.74801	
6-Feb-06	Buy	2,702,000	0.8161	
6-Feb-06	Buy	934,000	0.81608	
6-Mar-06	Sell	1,170,000	1.04562	

PART VI – GENERAL INFORMATION

Party	Trade Date	Transaction	Number of Asia Aluminum Shares	Execution price per Asia Aluminum Share (HK\$)
Morgan Stanley Investment Management Company	15-Aug-05	Sell	256,000	0.817
	15-Aug-05	Buy	418,000	0.82
	26-Aug-05	Buy	1,228,000	0.8036
	29-Aug-05	Sell	102,000	0.79
	30-Aug-05	Buy	472,000	0.7885
	1-Sep-05	Sell	222,000	0.8014
	1-Sep-05	Sell	332,000	0.8
	2-Sep-05	Sell	494,000	0.791
	16-Sep-05	Buy	156,000	0.7712
	29-Sep-05	Buy	1,026,000	0.7913
	29-Sep-05	Buy	1,006,000	0.7913
	30-Sep-05	Sell	292,000	0.781
	24-Oct-05	Sell	230,000	0.6844
	25-Oct-05	Sell	244,000	0.6711
	11-Nov-05	Buy	1,292,000	0.7393
	14-Nov-05	Buy	834,000	0.7371
	29-Nov-05	Buy	428,000	0.72
	1-Dec-05	Sell	190,000	0.7102
	1-Dec-05	Buy	1,054,000	0.718
	8-Dec-05	Buy	360,000	0.7028
	9-Dec-05	Buy	13,968,000	0.7
	12-Dec-05	Buy	1,230,000	0.7114
	21-Dec-05	Sell	414,000	0.6427
	3-Jan-06	Buy	462,000	0.6994
	4-Jan-06	Buy	428,000	0.7229
	4-Jan-06	Sell	148,000	0.72
	5-Jan-06	Buy	1,604,000	0.7217
	6-Jan-06	Buy	9,902,000	0.7793
	9-Jan-06	Buy	860,000	0.81
	11-Jan-06	Buy	328,000	0.7576
	19-Jan-06	Buy	222,000	0.7695
	24-Jan-06	Sell	894,000	0.7279
	25-Jan-06	Buy	1,216,000	0.7451
	25-Jan-06	Sell	138,000	0.741
	25-Jan-06	Buy	1,376,000	0.7451
	1-Feb-06	Buy	1,116,000	0.7325
	8-Feb-06	Sell	1,404,000	0.9258
	13-Feb-06	Buy	562,000	0.9131
	14-Feb-06	Buy	84,000	0.9152
	16-Feb-06	Buy	796,000	0.96
22-Feb-06	Buy	996,000	0.9812	
1-Mar-06	Buy	158,000	0.97	
7-Mar-06	Sell	866,000	1.0179	
8-Mar-06	Buy	2,192,000	0.9908	
9-Mar-06	Buy	9,756,000	1.0877	
14-Mar-06	Buy	164,000	1.0909	

PART VI – GENERAL INFORMATION

Party	Trade Date	Transaction	Number of Asia Aluminum Shares	Execution price per Asia Aluminum Share (HK\$)
Penta Investment Advisers Limited	15-Aug-05	Buy	360,000	0.826
	15-Aug-05	Buy	14,000	0.826
	15-Aug-05	Buy	126,000	0.826
	30-Sep-05	Buy	536,000	0.802096
	30-Sep-05	Buy	28,000	0.802096
	30-Sep-05	Buy	186,000	0.802096
	12-Oct-05	Buy	1,220,000	0.772018
	13-Oct-05	Sell	222,000	0.76
	13-Oct-05	Sell	78,000	0.76
	19-Oct-05	Sell	258,000	0.74
	19-Oct-05	Sell	88,000	0.74
	20-Oct-05	Sell	372,000	0.7102
	20-Oct-05	Sell	128,000	0.7102
	21-Oct-05	Sell	372,000	0.7025
	21-Oct-05	Sell	128,000	0.7025
	24-Oct-05	Buy	222,000	0.68
	24-Oct-05	Buy	78,000	0.68
	24-Oct-05	Sell	222,000	0.68
	24-Oct-05	Sell	148,000	0.693179
	24-Oct-05	Sell	78,000	0.68
	24-Oct-05	Sell	52,000	0.693179
	4-Nov-05	Sell	148,000	0.718114
	4-Nov-05	Sell	52,000	0.718114
	8-Nov-05	Sell	434,000	0.7567
	8-Nov-05	Sell	22,000	0.7567
	8-Nov-05	Sell	148,000	0.7567
	8-Nov-05	Sell	54,000	0.7567
	8-Nov-05	Sell	76,000	0.7567
	8-Nov-05	Sell	8,000	0.7567
	8-Nov-05	Sell	8,000	0.7567
	9-Nov-05	Sell	750,000	0.75
	9-Nov-05	Sell	372,000	0.75
	9-Nov-05	Sell	128,000	0.75
	10-Nov-05	Sell	102,000	0.74803
	11-Nov-05	Sell	148,000	0.7379
	11-Nov-05	Sell	52,000	0.7379
	14-Nov-05	Sell	148,000	0.73
	14-Nov-05	Sell	52,000	0.73
	15-Nov-05	Sell	60,000	0.698166
	15-Nov-05	Sell	20,000	0.698166
17-Nov-05	Sell	34,000	0.7	
17-Nov-05	Sell	12,000	0.7	
18-Nov-05	Sell	20,000	0.7	
18-Nov-05	Sell	6,000	0.7	
21-Nov-05	Sell	148,000	0.7011	
21-Nov-05	Sell	52,000	0.7011	
22-Nov-05	Sell	60,000	0.688182	
22-Nov-05	Sell	20,000	0.688182	
29-Nov-05	Sell	38,000	0.704	
29-Nov-05	Sell	12,000	0.704	
30-Nov-05	Sell	38,000	0.698166	
30-Nov-05	Sell	12,000	0.698166	
1-Dec-05	Sell	36,000	0.716	
1-Dec-05	Sell	14,000	0.716	
2-Dec-05	Sell	110,000	0.7413	

PART VI – GENERAL INFORMATION

Party	Trade Date	Transaction	Number of Asia Aluminum Shares	Execution price per Asia Aluminum Share (HK\$)
Penta	2-Dec-05	Sell	40,000	0.7413
Investment	5-Dec-05	Sell	154,000	0.7195
Advisers Limited	5-Dec-05	Sell	14,000	0.7195
<i>(Continued)</i>	15-Dec-05	Sell	12,802,000	0.68
	15-Dec-05	Buy	12,802,000	0.68
	30-Dec-05	Buy	136,000	0.669637
	30-Dec-05	Buy	964,000	0.669637
	2-Jan-06	Sell	3,376,000	0.67
	2-Jan-06	Buy	3,376,000	0.67
	6-Jan-06	Buy	1,378,000	0.7761
	6-Jan-06	Buy	70,000	0.7761
	6-Jan-06	Buy	552,000	0.7761
	12-Jan-06	Sell	3,300,000	0.758594
	12-Jan-06	Buy	3,300,000	0.761406
	1-Feb-06	Sell	400,000	0.728102
	2-Feb-06	Sell	400,000	0.7443
	3-Feb-06	Sell	200,000	0.7435
	6-Feb-06	Sell	200,000	0.8121
	7-Feb-06	Sell	300,000	0.8903
	8-Feb-06	Sell	300,000	0.914912
	9-Feb-06	Sell	300,000	1.004678
	13-Feb-06	Sell	300,000	0.9053
	14-Feb-06	Sell	300,000	0.927482

4 DISCLOSURE OF INTERESTS

For the purpose of this paragraph: (i) the “Offer Period” means the period from 7 February 2006 (being the date on which the Company first announced the possibility of an offer by the Offeror which might lead to a privatisation of the Company) to the Effective Date, both dates inclusive; (ii) the “Disclosure Period” means the period beginning from the date which is six months prior to the commencement of the Offer Period (from 7 August 2005) and ending with the Latest Practicable Date, both dates inclusive; and (iii) “interested” and “interests” have the same meanings as given to them in the appropriate part of the SFO.

(a) Interests and dealings in Asia Aluminum Shares

- (i) As at the Latest Practicable Date, the Offeror had no interest in Asia Aluminum Shares.
- (ii) As at the Latest Practicable Date, the following persons acting in concert with the Offeror had the following interests in Asia Aluminum Shares:

Asia Aluminum Shareholder	Number of Asia Aluminum Shares held	Approximate percentage of total issued share capital of the Company
Viewlink Assets Limited	908,622,000	28.0
Mr. Kwong Wui Chun*	231,930,836	7.1
Mr. Zhong Jianqiu*	24,434,800	0.8
Ms. Li Chuk Kuan	8,900,000	0.3
Mr. Lau Yu Ching, Gilbert	50,000	0.0
Merrill Lynch	877	0.0

* *Directors of the Offeror*

PART VI – GENERAL INFORMATION

Asia Aluminum had 47,250,000 Options as at the Latest Practicable Date. Each Option, on exercise, will entitle the Optionholder to be allotted with one Asia Aluminum Share. As at the Latest Practicable Date, parties acting in concert with the Offeror held in aggregate 26,000,000 Options. The table below sets out details of the Options as at the Latest Practicable Date:

Optionholders	Number of Options
The Offeror	–
Executive Directors	
Dr. Chan Yiu Tsuan, Benby	5,000,000
Mr. Zhong Jianqiu	5,000,000 ⁽¹⁾
Other parties acting in concert with the Offeror	
Mr. Lau Yu Ching, Gilbert	5,000,000
Mr. Ng Tze For, Benjamin	5,000,000
Ms. Lau Nga Man, Cynthia	2,000,000
Ms. Yee Kit Lin, Anita	4,000,000
Other employees of the Company	<u>21,250,000</u>
Total	<u><u>47,250,000</u></u> ⁽²⁾

⁽¹⁾ These Options were granted to Ms. Kuang Shun Feng, an employee of the Group and spouse of Mr. Zhong Jianqiu.

⁽²⁾ These 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 Asia Aluminum Share.

PART VI – GENERAL INFORMATION

In the six months prior to the Pre-announcement Date, the following dealings for value in Asia Aluminum Shares have taken place by the following person(s) who is (are) deemed to be acting in concert with the Offeror:

Party	Trade Date	Transaction	Number of Asia Aluminum Shares	Execution price per Asia Aluminum Share
Merrill Lynch	16-Aug-05	Buy	20,000	US\$0.09
	25-Aug-05	Buy	20,000	US\$0.09
	29-Aug-05	Sell	52,000	HK\$0.79
	29-Aug-05	Sell	2,000	HK\$0.80
	2-Sep-05	Sell	100,000	US\$0.11
	6-Sep-05	Buy	20,000	HK\$0.77
	6-Sep-05	Buy	70,000	HK\$0.77
	6-Sep-05	Buy	10,000	HK\$0.78
	7-Sep-05	Buy	8,000	US\$0.08
	8-Sep-05	Buy	20,000	US\$0.085
	28-Sep-05	Sell	8,000	US\$0.115
	25-Oct-05	Buy	42,000	US\$0.075
	15-Nov-05	Sell	58,000	HK\$0.70
	15-Nov-05	Sell	6,000	HK\$0.71
	1-Dec-05	Buy	5,000	US\$0.08
	15-Dec-05	Buy	5,000	US\$0.075
	30-Jan-06	Buy	129,703	US\$0.08
	1-Feb-06	Sell	8,000	HK\$0.73
	1-Feb-06	Sell	14,000	HK\$0.73
	1-Feb-06	Sell	12,000	HK\$0.72
	1-Feb-06	Sell	8,000	HK\$0.72
	1-Feb-06	Sell	10,000	HK\$0.73
	1-Feb-06	Sell	10,000	HK\$0.73
	1-Feb-06	Sell	10,000	HK\$0.72
	1-Feb-06	Sell	2,000	HK\$0.73
	1-Feb-06	Sell	8,000	HK\$0.73
	1-Feb-06	Sell	12,000	HK\$0.73
1-Feb-06	Sell	10,000	HK\$0.73	
1-Feb-06	Sell	2,000	HK\$0.74	
1-Feb-06	Sell	12,000	HK\$0.73	
1-Feb-06	Sell	10,000	HK\$0.73	
1-Feb-06	Sell	12,000	HK\$0.73	

- (iii) Save as disclosed in this Scheme Document, none of the Offeror, its directors or any persons acting in concert with them owned or controlled any Asia Aluminum Shares as at the Latest Practicable Date and none of the Offeror or any persons acting in concert with them dealt for value in any Asia Aluminum Shares during the Disclosure Period.

PART VI – GENERAL INFORMATION

- (iv) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company or adviser of the Company owned or controlled any Asia Aluminum Shares or dealt for value in any Asia Aluminum Shares during the Disclosure Period.
- (v) As at the Latest Practicable Date, no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror (or with any person acting in concert with the Offeror) owned or controlled any Asia Aluminum Shares or dealt for value in any Asia Aluminum Shares during the Disclosure Period.
- (vi) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company (or with any person who is an associate of the Company by virtue of class (1) to (4) of the definition of “associate” under the Takeovers Code) and no such person owned or controlled any Asia Aluminum Shares or dealt for value in any Asia Aluminum Shares during the Disclosure Period.
- (vii) As at the Latest Practicable Date the following Directors had the following shareholdings in the Company:

Director	Number of Asia Aluminum Shares held	Approximate percentage of total issued share capital of the Company
Mr. Kwong Wui Chun –		
<i>Personal interest</i>	231,930,836	7.1
<i>Corporate interest</i>	908,622,000	28.0
<i>Family interest</i>	8,900,000	0.3
Mr. Zhong Jianqiu	24,434,800	0.8

As at the Latest Practicable Date, there were 5,000,000 Options granted to Ms. Kuang Shun Feng, an employee of the Group and spouse of Mr. Zhong Jianqiu.

In the six months prior to the Pre-announcement Date, no dealings for value in Asia Aluminum Shares have taken place by any Director.

- (viii) Save as disclosed above, no Director had any interest in Asia Aluminum Shares as at the Latest Practicable Date and no Director dealt for value in any such shares during the Disclosure Period.
- (ix) As at the Latest Practicable Date, no shareholding in the Company was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company.

PART VI – GENERAL INFORMATION

(b) Interests and dealings in the Offeror's shares

- (i) As at the Latest Practicable Date, Mr. Kwong controlled and held the entire issued share capital of the Offeror, being 1,000,000 ordinary shares of HK\$0.10 each. None of the other Offeror Directors had any interests in the Offeror's shares.
- (ii) Save as disclosed above, neither the Directors nor the Company had any interest in the Offeror's shares as at the Latest Practicable Date and neither the Directors nor the Company dealt for value in any such shares during the Disclosure Period.

(c) Arrangements with the Offeror

- (i) No arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code exist between the Offeror or any person acting in concert with the Offeror and any other person.
- (ii) Under the financing arrangements, the parties providing the financing for the Proposals have the right to notify the Offeror that, in their opinion, a circumstance or event might reasonably be expected fall within the scope of Condition (h) (material adverse change), and if the Executive agrees that Condition (h) can be invoked the Scheme shall lapse. If the Executive does not agree that Condition (h) can be invoked the Scheme shall not lapse. There are no other agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a Condition.

(d) Other interests

- (i) No benefit is or will be paid to any Director as compensation for loss of office or otherwise in connection with the Scheme.
- (ii) Save as disclosed in this Scheme Document, no agreement or arrangement or understanding (including any compensation arrangement) exists between any of the Offeror or parties acting in concert with them and any of the Directors or any other person; or between any Director, recent Directors, shareholders or recent shareholders of the Company and any other person, which is conditional upon the outcome of the Scheme or otherwise in connection with the Scheme.
- (iii) No material contract has been entered into by the Offeror in which any Director has a material personal interest.
- (iv) None of the Directors has a service contract with any member of the Group in force which is a continuous contract with a notice period of 12 months or more or is a fixed term contract that has more than 12 months to run or which has been entered into or amended within 6 months before the Pre-announcement Date.

PART VI – GENERAL INFORMATION

5 MATERIAL CONTRACTS

Save as disclosed below, the Company nor any of its subsidiaries had within the two years prior to the Pre-announcement Date entered into any contracts which are or may be material, other than in the ordinary course of business carried on or intended to be carried on by the Company or other members of the Group:

- (a) Purchase Agreement dated 16 December 2004 entered into between Morgan Stanley & Co. International Limited, The Hongkong and Shanghai Banking Corporation Limited and Asia Aluminum and certain of its subsidiaries in relation to the purchase and issue of the Fixed Rate Senior Notes; and
- (b) Indenture dated 23 December 2004 entered into between Asia Aluminum and Citibank N.A. as trustee and the entities listed on schedule I hereto as subsidiaries guarantors in respect of the issue of the Fixed Rate Senior Notes.

6 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 was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

7 MISCELLANEOUS

- (a) The names and addresses of the interested Directors are as follows:

Name of the Director	Address
(i) Mr. Kwong Wui Chun	Flat E, 2nd Floor, Royal Magnolia, 1 Magnolia Road, Yau Yat Chuen, Kowloon, Hong Kong
(ii) Dr. Chan Yiu Tsuan, Benby	Flat C, 70th Floor, Tower 2, The Harbourside, 1 Austin Road West, Kowloon, Hong Kong
(iii) Mr. Zhong Jianqiu	Room 508, Block B, Xinjuli Lane 2, Dali Township, Nanhai, Guangdong, PRC

- (b) The Directors are Mr. Kwong Wui Chun, Dr. Chan Yiu Tsuan, Benby, Mr. Zhong Jianqiu, Mr. Ma Tsz Chun, Mr. Yau Wing Keung and Mr. Chou Shun, Alan. The Offeror Directors are Mr. Kwong Wui Chun, Dr. Chan Yiu Tsuan, Benby, and Mr. Zhong Jianqiu.
- (c) As at the Latest Practicable Date the sole shareholder of the Offeror is Mr. Kwong Wui Chun.
- (d) The registered address of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

PART VI – GENERAL INFORMATION

- (e) The registered address of the Offeror is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The business address of the Offeror is at Units 1-2, 11th Floor, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.
- (f) The principal place of business of ING Bank N.V. is at 39th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong. The principal place of business of Merrill Lynch is at 17th Floor, ICBC Tower, 3 Garden Road, Central, Hong Kong.
- (g) All costs, charges and expenses of and incidental to this Scheme and the cost of carrying the Scheme into effect, will be borne by the Offeror.
- (h) The English text of this Scheme Document, the forms of proxy, the Letter to Optionholders and Optionholders Form of Acceptance shall prevail over the Chinese text of such documents.
- (i) All announcements in relation to the Proposals will be published as paid announcements in at least one leading English language newspaper and one leading Chinese language newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong.

8 EXPERTS

The following are the qualifications of each of the experts who have been named in this Scheme Document or given their opinion or advice which are contained in this Scheme Document:

Name	Qualification
Merrill Lynch (Asia Pacific) Limited	A deemed licensed corporation under the SFO, licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) of the regulated activities.
ING Bank N.V.	A registered institution under the SFO, registered for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities.

9 CONSENTS

Each of Merrill Lynch and ING Bank N.V. has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion in it of its opinions and/or letters and/or valuation reports and/or the references to its name and/or opinions and/or letters and/or valuation reports, in the form and context in which they respectively appear.

PART VI – GENERAL INFORMATION

10 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at 12th Floor, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong during normal business hours (9 a.m. to 5 p.m.) on any weekday (Monday to Friday, public holidays excepted) and on the website of the Company (www.asiaalum.com/proposed-privatisation) until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is the earliest:

- (a) the memorandum of association and Bye-laws of the Company;
- (b) the memorandum of association and Bye-laws of the Offeror;
- (c) the audited consolidated financial statements of the Group for each of the years ended 30 June 2003, 30 June 2004 and 30 June 2005;
- (d) written consents of Merrill Lynch and the Independent Financial Adviser stating that they have given and not withdrawn their consent to the publication of their names in this Scheme Document;
- (e) the documents evidencing the irrevocable undertakings referred to in paragraph 3 of this Part VI;
- (f) the material contracts referred to in paragraph 5 of this Part VI;
- (g) the letter from the Board, the text of which is set out in Part I of this Scheme Document;
- (h) the letter of recommendation of the Independent Board Committee, the text of which is set out in Part II of this Scheme Document; and
- (i) the letter from the Independent Financial Adviser, the text of which is set out in Part III of this Scheme Document.

PART VII – SCHEME OF ARRANGEMENT

IN THE SUPREME COURT OF BERMUDA CIVIL JURISDICTION

2006: NO. 102

IN THE MATTER OF

ASIA ALUMINUM HOLDINGS LIMITED

and

IN THE MATTER OF SECTION 99 OF THE COMPANIES ACT 1981 (AS AMENDED)

SCHEME OF ARRANGEMENT

between

ASIA ALUMINUM HOLDINGS LIMITED

and

THE HOLDERS OF SCHEME SHARES (as defined herein)

PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall bear the meanings respectively set opposite them:

“Business Day”	a day (other than a Saturday) on which banks are generally open for business in Hong Kong;
“Company”	Asia Aluminum Holdings Limited, a company incorporated in Bermuda with limited liability;
“Companies Act”	the Companies Act 1981 (as amended) of Bermuda;
“Controlling Shareholder”	the controlling shareholder of the Company, Mr. Kwong Wui Chun;
“Court”	the Supreme Court of Bermuda;
“Effective Date”	the day on which this Scheme becomes effective in accordance with Clause 6 of this Scheme;
“Excluded Persons”	the Controlling Shareholder, the Family Member, Viewlink, Mr. Zhong Jianqiu and Mr. Lau Yu Ching, Gilbert and Merrill Lynch being persons presumed to be acting in concert with the Offeror for the purposes of the Hong Kong Code on Takeovers and Mergers;

PART VII – SCHEME OF ARRANGEMENT

“Family Member”	Ms. Li Chuk Kuan, the spouse of the Controlling Shareholder;
“HK\$”	Hong Kong dollars;
“holder(s)”	a registered holder and includes a person entitled by transmission to be registered as such and joint holders;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Shareholders”	Shareholders other than the Excluded Persons;
“Latest Practicable Date”	1 April 2006, being the latest practicable date prior to the printing of the document containing this Scheme for the purposes of ascertaining certain information for inclusion therein;
“Merrill Lynch”	Merrill Lynch (Asia Pacific) Limited and its affiliates;
“Offeror”	AA Investments Company Limited, a company incorporated in Bermuda with limited liability and wholly-owned by the Controlling Shareholder;
“Register”	the registers of members of the Company;
“Scheme”	this scheme of arrangement under Section 99 of the Companies Act in its present form or with or subject to any modifications or additions or conditions imposed or approved by the Court;
“Scheme Record Date”	two Business Day prior to the day of the court hearing of petition to sanction the Scheme or such other time or date as shall have been announced by the Company for determining entitlements under the Scheme;
“Scheme Shareholders”	Shareholders other than Mr. Kwong Wui Chun, Viewlink and Ms. Li Chuk Kuan;
“Scheme Shares”	all the Shares held by the Scheme Shareholders as at the Scheme Record Date, and of which there were 2,096,279,565 such Shares (which represented approximately 64.6 per cent. of the issued Shares) as at the Latest Practicable Date;
“Share Proposal”	the proposal to Scheme Shareholders for the cancellation of all Scheme Shares upon the Scheme becoming effective;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company;

PART VII – SCHEME OF ARRANGEMENT

“Shareholder”	a holder of the Share(s);
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers;
“Viewlink”	Viewlink Assets Limited, a company incorporated in British Virgin Islands with limited liability and wholly-owned by Mr. Kwong Wui Chun.

- (B) The Company was incorporated with limited liability on 20 January 1998 in Bermuda under the Companies Act and as at the Latest Practicable Date, the Company had an authorised share capital of HK\$600,000,000 divided into 6,000,000,000 Shares, of which 3,245,732,401 Shares have been issued and are fully paid or credited as fully paid.
- (C) The primary purpose of this Scheme is that on the Effective Date, all the Scheme Shares should be cancelled and that the Company should become a wholly-owned subsidiary of the Offeror.
- (D) As at the Latest Practicable Date, the Excluded Persons are beneficially interested in 1,173,938,513 Shares in aggregate and registered as follows:

Excluded Persons	Registered Holders/ Beneficial Owners	Number of Shares
Mr. Kwong Wui Chun	Mr. Kwong Wui Chun	231,930,836
Ms. Li Chuk Kuan	Ms. Li Chuk Kuan	8,900,000
Viewlink Assets Limited	Viewlink Assets Limited	908,622,000
Mr. Zhong Jianqiu	Mr. Zhong Jianqiu	24,434,800
Mr. Lau Yu Ching, Gilbert	Mr. Lau Yu Ching, Gilbert	50,000
Merrill Lynch	Merrill Lynch	877

- (E) Each of the Excluded Persons, being presumed to be acting in concert with the Offeror under the Takeovers Code, has undertaken that in relation to the Shares in which each of them is beneficially interested, that they will remain so beneficially interested in such Shares and each of such Shares will remain so registered until the date on which this Scheme becomes effective, is withdrawn or lapses. Each of the Excluded Persons has also undertaken to procure that such Shares will not be represented or voted at the meeting convened by the direction of the Court for the purpose of approving this Scheme.
- (F) The Offeror and the Excluded Persons have agreed to appear by Counsel at the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by each of them respectively for the purpose of giving effect to this Scheme.

PART VII – SCHEME OF ARRANGEMENT

THE SCHEME

PART I

CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

1. On the Effective Date:
 - (a) the authorised and issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares; and
 - (b) the Company shall apply the credit arising in its books of account as a result of the reduction of capital referred to in paragraph (a) of this Clause 1 to a reserve account in the books of account of the Company.

PART II

CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay (or procure that there shall be paid) to each person who is a holder of Scheme Shares (as appearing in the Register at 4:00 p.m. on the Scheme Record Date) HK\$1.45 in cash for each Scheme Share held.

PART III

GENERAL

3.
 - (a) Not later than ten calendar days after the Effective Date, the Offeror shall send (or cause to be sent) to the holders of the Scheme Shares (as appearing in the Register at 4:00 p.m. on the Scheme Record Date) cheques in respect of the sums payable to such holders pursuant to Clause 2 of this Scheme.
 - (b) Unless indicated otherwise in writing to the share registrar of the Company (being Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong), all such cheques shall be sent by post in pre-paid envelopes addressed to the holders of Scheme Shares at their respective addresses as appearing in the Register at 4:00 p.m. on the Scheme Record Date or, in the case of joint holders, at the address appearing in the Register at such time of the joint holder whose name stands first in the Register in respect of the relevant joint holding.
 - (c) Cheques shall be posted at the risk of the holders of Scheme Shares and neither the Offeror nor the Company shall be responsible for any loss or delay in transmission.
 - (d) Each such cheque shall be payable to the order of the person to whom (in accordance with the provisions of paragraph (b) of this Clause 3) the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror and the Company for the monies represented thereby.

PART VII – SCHEME OF ARRANGEMENT

- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not then been encashed (or has been returned uncashed) and shall place all monies represented thereby in a bank account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies until the expiration of six years from the Effective Date and shall prior to such date make payments thereout of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy the Company that they are respectively entitled thereto and the cheques referred to in paragraph (b) of this Clause 3 of which they are payees have not been cashed. Any payments made by the Company hereunder shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to Clause 2 of this Scheme. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled or not so entitled, as the case may be, and any such determination shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
 - (f) On the expiration of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme and the Company shall transfer to the Offeror the balance (if any) of the sums then standing to the credit of the bank account referred to in paragraph (e) of this Clause 3 including accrued interest subject, if applicable, to the deduction of interest tax or any withholding tax or any other deduction required by law and subject to the deduction of any expenses.
 - (g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
4. As from the Effective Date, all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title and every holder thereof shall be bound on the request of the Company to deliver up to the Company the certificates in respect of his or her or its existing holding.
 5. All mandates or other instructions to the Company in force at 9:00 a.m. in Hong Kong on the Effective Date in relation to the Scheme Shares shall cease to be valid and effective.
 6. This Scheme shall become effective as soon as an office copy of the Order of the Court sanctioning this Scheme under Section 99 of the Companies Act shall have been delivered to the Registrar of Companies in Bermuda for registration.
 7. Unless this Scheme shall have become effective on or before 31 July 2006 (or such later date, if any, as the Company and the Offeror may agree or the Court on the application of the Company and the Offeror may allow), this Scheme shall lapse. Any extension to such later date shall not be beyond 31 October 2006.
 8. The Company and the Offeror may jointly consent for and on behalf of all concerned to any modification of, or addition to, this Scheme or to any condition which the Court may think fit to approve or impose.
 9. All costs, charges and expenses of and incidental to this Scheme and the cost of carrying this Scheme into effect shall be borne by the Offeror if this Scheme does or does not become effective.

PART VIII – NOTICE OF COURT MEETING

IN THE SUPREME COURT OF BERMUDA

CIVIL JURISDICTION

2006: No. 102

IN THE MATTER OF

ASIA ALUMINUM HOLDINGS LIMITED

and

**IN THE MATTER OF SECTION 99 OF THE COMPANIES ACT
OF BERMUDA**

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an Order dated 30 March 2006 made in the above matters, the Court has directed a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme mentioned below) of the shares of HK\$0.10 each in the capital of Asia Aluminum Holdings Limited (the “**Company**”) for the purpose of considering and, if thought fit, approving (with or without modifications) a scheme of arrangement (“**Scheme**”) proposed to be made between the Company and the Scheme Shareholders (as defined in the Scheme) of the shares of HK\$0.10 each and that the Court Meeting will be held at Nathan Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 3 May 2006 at 10:00 a.m. at which place and time all the Scheme Shareholders are requested to attend.

A copy of the Scheme and a copy of the Explanatory Statement required to be furnished pursuant to Section 100 of the Companies Act of Bermuda are incorporated in the composite document of which this Notice forms part. A copy of the said composite document can also be obtained by the Scheme Shareholders from the Company’s branch share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

The Scheme Shareholders of the Company may vote in person at the Court Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A **pink** form of proxy for use at the Court Meeting is enclosed.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

PART VIII – NOTICE OF COURT MEETING

It is requested that forms appointing proxies be lodged with the Company at 12/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong, marked "For the attention of the Company Secretary, Privatisation of the Company", prior to the time appointed for the Court Meeting, but if forms are not so lodged they may be handed to the Chairman of the Court Meeting at the Court Meeting.

By the abovementioned Order, the Court has appointed Dr. Chan Yiu Tsuan, Benby or, failing him Mr. Kwong Wui Chun, to act as Chairman of the Court Meeting and has directed the Chairman to report the result of the Court Meeting to the Court.

The Scheme will be subject to the subsequent approval of the Court.

Dated: 4 April 2006

Conyers Dill & Pearman
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Attorneys for the Company

PART IX – NOTICE OF SPECIAL GENERAL MEETING



ASIA ALUMINUM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 930)

NOTICE IS HEREBY GIVEN that a Special General Meeting of Asia Aluminum Holdings Limited (the “Company”) will be held at Nathan Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 3 May 2006 at 11:00 a.m. (or so soon thereafter as the meeting of the Scheme Shareholders (as defined in the Scheme (as set out in the composite document of which this notice forms part)), convened by direction of the Supreme Court of Bermuda for the same place and day shall have been concluded or concluded after any adjournment of such meeting) for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a Special Resolution.

SPECIAL RESOLUTION

“**THAT**

- (a) for the purpose of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
 - (i) the authorised and issued share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares; and
 - (ii) the Company shall apply the credit arising in its books of account as a result of the reduction of capital referred to in such sub-paragraph (i) above to a reserve account in the books of account of the Company.
- (b) the directors of the Company be authorised to do all acts and things necessary or desirable in connection with the implementation of the Scheme, including (without limitation) the giving, on behalf of the Company, of consent to any modification of, or addition to, the Scheme, which the Supreme Court of Bermuda may see fit to impose.”

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:

12th Floor, Railway Plaza
39 Chatham Road South
Tsimshatsui
Kowloon
Hong Kong

By Order of the Board
Asia Aluminum Holdings Limited
Yee Kit Lin, Anita
Company Secretary

Dated: 4 April 2006

PART IX – NOTICE OF SPECIAL GENERAL MEETING

Notes:

- (i) A member entitled to attend and vote at the Special General Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
- (ii) A **white** form of proxy for use at the Special General Meeting is enclosed.
- (iii) To be valid, the **white** form of proxy for the Special General Meeting, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited with the Company at 12/F., Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong, marked "For the attention of the Company Secretary, Privatisation of the Company", not less than 48 hours before the time appointed for holding the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending the Special General Meeting and voting in person if he so wishes. In the event that a member attends the Special General Meeting after having lodged the form of proxy, his form of proxy will be deemed to have been revoked.
- (iv) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
- (v) The register of members will be closed from Wednesday, 26 April 2006 to Wednesday, 3 May 2006 (both dates inclusive) during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Special General Meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Tuesday, 25 April 2006.

The following is a sample of the Letter to Optionholders being sent to Optionholders in connection with the Option Proposal.

THIS LETTER IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

The making of the Option Proposal (as defined in the Scheme Document) to persons located or with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. If you are a citizen or resident or national of or located in a jurisdiction outside Hong Kong, you should inform yourself about and observe any applicable legal requirements. It is your responsibility if you wish to accept the Option Proposal to satisfy yourself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consent which may be required or the compliance with other necessary formalities or legal requirements and the payment of any taxes due in respect of such jurisdiction.

Unless the context otherwise requires, terms used in this letter shall bear the same meanings as defined in the scheme document dated 4 April 2006 (the “**Scheme Document**”) issued by the Company and the Offeror accompanying this letter.

This letter should be read in conjunction with the accompanying Scheme Document and form of acceptance and cancellation (the “Form of Acceptance”).

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this letter, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this letter.

AA Investments Company Limited

4 April 2006

Dear Optionholder,

**Proposed privatisation of Asia Aluminum Holdings Limited by
AA Investments Company Limited by way of a scheme of arrangement
under Section 99 of the Companies Act 1981 of Bermuda
at the Share Offer Price of HK\$1.45 per Scheme Share and the
Option Proposal**

On 16 March 2006 the Company and the Offeror jointly announced the proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act, and that the Offeror will make a Option Proposal to the Optionholders of Outstanding Options subject to and conditional upon the Scheme becoming effective. On 27 March 2006, the Offeror notified the Company that the Option Offer Price under the Option Proposal was to be increased from HK\$0.49 to HK\$0.64 for each Outstanding Option.

This letter explains the actions available to you for you to take in relation to your Outstanding Options. You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the Rules of the Share Option Scheme, and in particular paragraph 7.3(e) of the Rules of the Share Option Scheme.

COURSES OF ACTION AVAILABLE TO OPTIONHOLDERS

- (1) You may exercise on or before the Option Record Date all or any of your Options which have become exercisable in accordance with the Rules of the Share Option Scheme. Any Asia Aluminum Shares issued as a result of the exercise of your Options on or prior to the Scheme Record Date will be subject to and eligible to participate in the Scheme.

This means that once you have exercised your Options on or prior to the Scheme Record Date, you will be entitled to receive, in relation to the Options exercised, in accordance with the terms of the Share Proposal:

for each Scheme Share HK\$1.45 in cash

If you elect to exercise your Options you must send a cheque to the Company for your exercise monies if you wish to exercise. If you elect to send a cheque, the cheque (for the total of your outstanding Options multiplied by the exercise price of HK\$0.81 per Asia Aluminum Share should be made payable to 'Asia Aluminum Holdings Limited'.

Please refer to the Scheme Document for details of the Share Proposal to privatise the Company and the Scheme.

- (2) To the extent any of your Options is not exercised on or prior to the Option Record Date, you may accept the Option Proposal in accordance with its terms, as set out below and in the Scheme Document, by allowing such unexercised Options to lapse on the Option Record Date and elect on the enclosed Form of Acceptance, by not later than 4:00 p.m. on Tuesday, 16 May 2006 (or such later time as may be notified to you by the Offeror), to receive the Option Offer Price.
- (3) Do nothing, in which case, if the Scheme becomes effective, your Options will lapse and determine on the day immediately following the Scheme Record Date and be worthless.

Each Option you hold is independent and you should make a separate decision for each one.

For further details, please refer to the remaining sections of this letter, the Scheme Document and the Rules of the Share Option Scheme.

Merrill Lynch, the Offeror's financial adviser, is satisfied that sufficient financial resources are available to the Offeror for the implementation of the Share Proposal and the Option Proposal.

IF THE SCHEME DOES NOT BECOME EFFECTIVE

If the Scheme does not become effective, the Share Proposal and the Option Proposal will lapse and:

- (1) to the extent you have any Options not exercised, these will remain unaffected and will be exercisable during their relevant exercise periods pursuant to the terms of the Share Option Scheme; and
- (2) any Asia Aluminum Shares allotted and issued to you on exercise of your Options will not be cancelled.

TERMS OF THE OPTION PROPOSAL

The Offeror is making an offer, which is conditional upon the Scheme becoming effective and binding, to you pursuant to the Rules of the Share Option Scheme. Each Optionholder who accepts the Option Proposal and lodges the Form of Acceptance by the prescribed deadline will be entitled to the Option Offer Price as follows:

for each Outstanding Option HK\$0.64 in cash

The Option Offer Price represents the “see-through” price of the Options, being the amount by which the value of the Share Offer Price exceeds the exercise price of the Options.

The Option Proposal is conditional upon the Scheme becoming effective and binding. The Conditions of the Scheme are set out in Part IV of the Scheme Document.

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders and the Optionholders set out in Part II of the Scheme Document and the letter from ING Bank N.V. to the Independent Board Committee set out in Part III of the Scheme Document which contain the recommendations of the Independent Board Committee and of ING Bank N.V., respectively, in relation to the Scheme and the Option Proposal.

GENERAL TERMS AND CONDITIONS

- (i) The delivery of the Form of Acceptance, duly signed, may if the Offeror determines it appropriate, be as effective as if it were duly completed and received notwithstanding that it is not completed or received strictly in accordance with the Form of Acceptance and this letter, including the date specified for receipt.
- (ii) By completing the “Accept the Option Proposal” section on the Form of Acceptance in respect of a particular Option you irrevocably elect to authorise the Offeror to send to you, or procure the sending to you of, the cash to which you are entitled at your own risk.

OUTSTANDING OPTIONS HELD AS AT THE LATEST PRACTICABLE DATE

Information on the Options held by you as at the Latest Practicable Date is set out in the Appendix to this letter. If there is any exercise of your Options after the Latest Practicable Date you may accept the Option Proposal only in respect of such outstanding Options which remain unexercised as at the Option Record Date.

LAPSED OPTIONS

Please note that nothing in this letter or the Scheme Document serves to extend the life of an Option which lapses, or has already lapsed, under the Rules of the Share Option Scheme. You cannot exercise or accept the Option Proposal in respect of an Option which has lapsed.

INDEPENDENT FINANCIAL ADVICE

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

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

DECLARATION

By returning the Form of Acceptance you thereby:

- (i) confirm that each Option in respect of which you make an election is valid and subsisting free from all liens, mortgages and third party interests of any nature whatsoever and you acknowledge that any Option certificate (if any) in respect of such Option shall become void once that Option has been exercised or cancelled pursuant to your decisions shown on the Form of Acceptance;
- (ii) confirm that the decisions which you have made on the Form of Acceptance cannot be withdrawn or altered;
- (iii) authorise the Company, the Offeror, jointly and severally, and any director or officer of the Company or the Offeror or any agent of such person to do all acts and things and to execute any document as may be necessary or desirable to give effect to or in consequence of the elections and acceptances you have made on the Form of Acceptance, and you hereby undertake to execute any further assurance that may be required in respect of such elections and acceptances;
- (iv) undertake to confirm and ratify any action properly or lawfully taken on your behalf by any attorney appointed by or pursuant to the Form of Acceptance; and
- (v) confirm you have read, understood and agreed to the Option Proposal, the terms and conditions set out in this letter and the Form of Acceptance, and that you have received the Scheme Document and this letter.

GENERAL

- (i) All communications, notices, Forms of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from Optionholders will be delivered by or sent to or from them, or their designated agents, at their risk, and none of Merrill Lynch, the Offeror or the Company accepts any liability for loss any loss or any other liabilities whatsoever which may arise as a result.

- (ii) The provisions set out in the Form of Acceptance form part of the terms of the Option Proposal.
- (iii) The Option Proposal and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (iv) Due execution of the Form of Acceptance in respect of the Option Proposal will constitute an authority to Merrill Lynch, the Offeror, any Offeror Director or their respective agents to complete and execute on behalf of the accepting Optionholder any document and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or such persons as the Offeror shall direct, all rights of the Optionholders in respect of the Options which are the subject of such acceptance.

ACTION TO BE TAKEN

You should return the duly completed Form of Acceptance to the Company Secretary of the Company at, 12th Floor, Railway Plaza, 39 Chatham Road South, Kowloon, Hong Kong to be received by no later than 4:00 p.m. on 16 May 2006. If you do not complete a Form of Acceptance or exercise your Options prior to the Option Record Date, subject to and conditional upon the Scheme becoming effective, your Options will lapse and be worthless.

Before forwarding the Form of Acceptance to the Company Secretary of the Company, please ensure that you have signed the Form of Acceptance and that your signature has been witnessed.

As stated above, the Option Proposal is conditional upon the Scheme becoming effective and binding. Unless the Scheme becomes effective and binding, and therefore the Option Proposal becomes unconditional, on or before 31 October 2006, the Option Proposal will lapse.

Assuming the Option Proposal becomes unconditional on 23 May 2006 (Bermuda time) cheques for the Option Offer Price are expected to be despatched on or before 2 June 2006.

No acknowledgment of receipt of any Form of Acceptance will be given.

Yours faithfully
for and on behalf of
AA Investments Company Limited

Appendix

[Details of Optionholders' Outstanding Options shall be inserted in each individual Letter to Optionholders.]