

In this section, I would like to put Asia Aluminum's position under the microscope from the perspectives of market change and industry developments, as well as of our long-term strategies to sustain our returns-generating power and to break new ground in tomorrow's landscape.

Market changes: Constantly transforming our infrastructure to explore new areas of opportunity.

China is now a powerful presence on the world aluminum scene but, as a result of the Government's economic slow-down policies, manufacturers on the mainland are now being squeezed between rising commodity prices and energy costs, and tightening liquidity and growing economic distortions. The cost of raw materials has outpaced consumer prices causing industrial profit margins to narrow across the board.

As a result of feverish investment over the past few years, industrial capacity growth is likely to continue and the demand for raw materials to remain high, therefore taking commodity prices up with them. Economists expect that, overall, industrial margins could contract by as much as 20% over the next two years.

I think both the Government and the trade agree that only the lower and middle sectors of the industry are overheating. Oversupply has been mainly caused by the fragmented state of the industry in China. So, despite macro-economic control, companies specializing in higher value-added products are still expanding capacity.

Against this backdrop, Asia Aluminum's established and consistent business strategy is to increase economies of scale by capacity expansion. Next year, this initiative will be furthered as we move to our new production base which will both integrate and expand the current five separate facilities. Further vertical integration, upstream into billet making by collaboration with smelters, and downstream into the production of semi-finished products, is also expected to improve overall margins. To add further value to our production capabilities, we are also seeking new end-user applications for our products in the transportation, outdoor furniture and home improvement sectors.

Although China is subject to many of the same pressures facing aluminum producers in other regions of the world – including high costs for energy inputs and raw materials such as alumina – these negative factors are largely offset by sustained economic growth and the increase in industrial

output. With primary aluminum consumption forecast to continue growing at a rate of between 10% and 12% over the next few years, China's current experience is reminiscent of what is fondly remembered as the US aluminum industry's "golden era" following World War II. For a continuous period of almost 30 years, industry shipments in the US grew at a compound annual rate of 8.5 percent.

Industry advances: Our pursuit of innovation and excellence never ceases.

The aluminum industry has been dubbed the "Industry of the Future" because of the fast-developing technologies that make aluminum a modern, highly flexible, environmentally friendly and innovative material for building our skylines, homes, streets, automobiles, and for manufacturing cans and many of our everyday articles.

Let us take a brief look at the factors that are now reshaping the aluminum business and causing the current wave of industry consolidation. First, there was a long-term decline in aluminum prices and eroding margins, coupled with pressures on companies to improve return on investment. Then there were constant technological changes, particularly on the upstream side, and intense competition from alternative materials. Finally, aluminum manufacturers are faced with ever-changing demands and specifications from global customers.

Rapid developments in the technological capabilities of China-based manufacturers have had a dramatic influence on aluminum manufacturing worldwide. In view of competitive market conditions and the increasingly demanding needs of 21st-century customers, we need to constantly innovate our solutions by investing in leading-edge technologies in profiling, coating and other treatments. The composite panels that give Beijing's magnificent new opera house the perfect curvature is a prime example of widening the applications of aluminum by improving on the technical specification of the material.

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The industry benefits from constant updates in technologies making the process of re-smelting, extrusion, fabrication and surface-finish treatment more efficient and energy saving. Recycling is also a factor critical to the industry, both as regards its environmental contribution and because of its favorable economic impact on production.

Asia Aluminum is working on new ways of reducing energy consumption, and a number of technological upgrade projects are ongoing as part of our environmental initiative. We have defined our energy and environmental performance targets, researched new manufacturing technologies and procedures, and initiated collaborative efforts between the industry and government. R&D in innovative technologies is key to our continued success. To secure tomorrow's excellence, we have established our goals for the future and clearly defined our R&D roadmap to tap into expanded tools and resources.

We believe that relocation to our new expanded production base in Zhaoqing, China, will boost us on our trajectory towards product and management excellence.

New challenges will emerge in the new era of discontinuity. How do we operate in the new battleground?

The future is often portrayed as fast, chaotic and, most important of all, unique, unbounded and challenging. While we have the capabilities and expertise to competitively respond to our customers' most testing requirements, it is more important to think and act ahead of our customers' and their end-users' expectations. To stay at the forefront, we are constantly developing environmentally sustainable solutions and delivering superior value to end-users. Asia Aluminum aims to advance further from Asia's powerhouse in China to being a one-stop world leader in providing innovative, materials-based solutions.

Notwithstanding the many challenges that lie ahead, ours is a business with a bright future. There are limitless opportunities, especially in this rapidly growing part of the world. For example, the aluminum flat-rolled products market in Asia (excluding China) is currently expanding at



around 3.7% per year. The rise of a new middle class in China has also resulted in a double-digit percentage growth in the country's automobile market. China's accelerated urbanization process is being translated into a continuing demand for more infrastructure and property over the coming decade.

With our uniquely vertical set up, state-of-the-art technologies, and expert industrial management established on a new scalable platform, I have every reason to be confident of sustained progress in the depth and breadth of our operations.

Dr. Chan Yiu Tsuan, Benby
Deputy Chairman and CEO

Hong Kong, 27 October 2004



To many designers and materials specifiers, extruded aluminum is the material of choice for a wide range of applications. Aluminum profiles are suited to a variety of design options because extrusion enables complex shapes, tooling is inexpensive, lead times for custom shapes are relatively short, and many different finishes are available.



The metal's recyclability also makes it an environmentally friendly option for home designers.

In recent years, the stainless look has become a staple of high-end kitchens with designers building 25% of their kitchens in this finish. However, with the price of stainless steel surging as much as 60% last year, the aluminum kitchen has emerged as a



lower-cost, environmentally friendly and highly accommodating alternative for designers.

Transforming even the best ideas into functional products takes special expertise and proven skill sets. Asia Aluminum has all the experience and resources to fulfill the needs of home makers and household consumers worldwide.

