

In responding to the macro environment and the industry challenges we face, our priority tasks in 2006 will include the cost-effective and timely completion of Asia Aluminum Industrial City in Zhaoqing, a project which will enable us to expand our lead in extrusion by more than doubling our capacity to 300,000 tonnes, and to make inroads in the aluminum rolled products segment with a designed capacity of 400,000 tonnes coming on stream by 2007. Our medium-term business plan also envisions the consolidation and effective management of our existing manufacturing facilities in Nanhai.

Our long-term goal is to grow from being Asia's largest extruder into a world-leading aluminum processing company. Our skills in project and facilities management, combined with corporate strengths in financial management, will enable us to apply our industry knowledge to transform our vision into bottom-line reality.

While cost control and efficiency disciplines will continue to be tightly applied to maintain our management edge, the financing and fund-raising exercises of the past year have also helped to place our Group on the sound long-term financial footing that will see us achieve our corporate goals.

On 23 December 2004, taking advantage of favourable pricing conditions in the international debt market and for long-term fixed rate bonds in a rising interest-rate environment, the Group raised additional funds by way of a senior notes (the "Notes") issue in the principal amount of US\$450 million (approximately HK\$3,510 million). We were much encouraged by the warm response from investors to the issue, which points to their recognition of and support for our business goals and our master plan for achieving them.

The Notes issue will support the active roll-out of our Group's expansion plans in both extrusion and rolled products. We also look forward to enhancing our corporate governance and transparency as we welcome the participation of international institutional investors in the Group through subscription to the Notes.

The extrusion and rolled-products projects are not only intended to increase our scale of business by way of capacity expansion, but more importantly to enable us to set sights on new business horizons through the upgrading of our industrial capability. The Group will commission state-of-the-art machinery from Europe, the US and Japan as a means of enhancing the sophistication of the extrusion,

fabrication, treatment and testing standards to be achieved at the new plants. New areas of specialization will also support the Group's long-term strategy to develop on a broader front.

Diversification drives in terms of end-user sectors and geographical distribution were initiated well before the commissioning of the new industrial base in Zhaoqing, and we continue to leverage our pre-eminent position and technological lead in the infrastructure and construction sector in order to expand into other segments. Success has also been achieved by tapping into the industrial and transport sectors where we have secured increasing orders for a range of furniture, electronic devices, telecoms equipment, container boxes and vehicle parts.

In the past year, China remained the Group's largest market, and will continue to be our most promising one, given its ascent as an economic powerhouse. At the same time, our efforts to penetrate further into North America have yielded satisfactory results. The expansion plan at the new Zhaoqing premises incorporates the construction of a customized fabrication plant with top-of-the-line machinery turning out home-improvement DIY products targeting the



While Asia Aluminum Holdings

pursues growth and excellence through a proactive business strategy, the expansion program is also essential to maintaining the reliability and quality of service which Group customers have come to expect and which the Group has a duty to provide.

developed North American markets. The scheduled technological upgrades will also pave the way for further development of our finished-products segment.

The planned rolled-products capability will further empower the Group to advance into such profitable end-user markets as beverage and food cans, lithographic sheets for printing, and precision construction and industrial sheets.

I am also delighted to report satisfactory progress in the construction of Asia Aluminum Industrial City in Zhaoqing, which is designed to provide one-stop solutions to customers by incorporating extrusion and rolled-products facilities, as well as sophisticated testing, mould-and-die, surface-treatment and other post-production workshops. When completed, Asia Aluminum Industrial City will be one of the most highly automated aluminum processing plants in Asia, and when operations commence in phases from 2006, this new operating platform will provide the main support for the Group's flexible and broad-based growth plans.

In Zhaoqing, construction of the extrusion plants has already been completed, with installation of machinery and production trials now underway in phases, and commencement of full operations scheduled for the near future. As regards the rolled-products facility, civil engineering works for the plant infrastructure has commenced, with installation of machinery planned for mid-2006 onwards. We have scheduled trial runs of the rolled-products lines in phases for the final quarter of 2006 and the first half of 2007.

Our chairman has already remarked on the market potential for extrusion and rolled products in the earlier section. I would like to add that, whatever action we take, we must look not just to next year, but to the longer term. We need to make the necessary investments in advance of demand in order to enhance supply reliability for existing customers, and to maintain growth momentum by seeking new drivers.

Asia Aluminum Holdings is a leader. And as a leader, we have a responsibility. The Group is making large-scale investments in procuring top-class machinery to further improve our plants' environmental performance, achieving standards that will not only place us on a par with the world's top performers but, in relevant areas, in a position that exceeds compliance with the existing pollution-control standards of developed nations.

At the threshold of a new era, new business models and macro-trends are emerging, bringing about an ever-changing competitive environment, but the increased risk has inspired us to work even harder in securing our shareholders' interests. While we are confident that the Group will continue to profit through goodwill and world-class production capabilities and economies, it will also mean breaking new ground to find new ways of getting the desired results. We are therefore actively exploring new business opportunities with a view to expanding our solutions offerings to a broader range of end-user sectors and markets. Huge challenges lie ahead. This is an exciting time, with ample opportunities presenting themselves.



Fulfilling a Multitude of Lifestyles



The commercialization of aluminum applications is a process of recognition of the value of this most common metallic element in the earth's crust as, by using this material, people may realize a great many possible improvements in both function and aesthetics.

As an extremely versatile material, aluminum accommodates intelligent designs which can solve a wide range of problems. The material has four important properties - strength, corrosion resistance, light weight and flexibility - giving it an important niche in everyday use. Aluminum speaks the language of the new lifestyle and responds to the everlasting quest for value by remaining true to its functional roots while embracing the attributes people admire in chic aluminum products.

Aluminum's combination of low weight and high strength makes it an indispensable material for the modern lifestyle. In the western world, transportation is the largest and fastest growing aluminum market sector. Without aluminum, there would be no commercial air travel nor any fuel-efficient engines in cars and trucks. Most modern subway cars are also made of aluminum. Fast ferries built of aluminum are revolutionizing transport over short sea routes. A Boeing 747 jumbo jet contains around 75,000 kg of aluminum. The structure of the space shuttle is 90% aluminum.

Aluminum facilitates the construction of corrosion-resistant and low-maintenance-cost buildings. The ultimate combination of durability and flexibility of aluminum gives the domestic household unlimited design possibilities to complement its architectural design. Aluminum enhances a home's character, adds value and enhances lifestyle without adding upkeep. These qualities explain the extensive application of aluminum in new home construction and renovation.

Aluminum used in packaging preserves food quality and avoids waste, and its low weight reduces fuel consumption and emissions during transportation. Around the world, most high-voltage transmission lines are made of aluminum. Aluminum is used extensively for the protection, storage and preparation of food, beverages, cosmetics and pharmaceutical products. Aluminum packages are secure, tamper-proof, hygienic, easy to open and recyclable.

Today, around half of the cookware sold globally each year is made of aluminum. The World Health Organization has also recognized the benefits of using aluminum as a coagulant in water treatment to remove unwanted material and to make tap water drinkable.

Imagine a world without aluminum.

Designs in aluminum are timeless and sophisticated.



