



ASIA ALUMINUM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 930)



Committed to **Service**
and Quality

Interim Report **2006**



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Corporate Information

EXECUTIVE DIRECTORS

Mr. KWONG Wui Chun (alias Kwong Wui)
(Chairman)
Dr. CHAN Yiu Tsuan, Benby
(Deputy Chairman and CEO)
Mr. ZHONG Jianqiu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. MA Tsz Chun
Mr. YAU Wing Keung
Mr. CHOU Shun, Alan

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

12th Floor, Railway Plaza
39 Chatham Road South
Tsimshatsui, Kowloon
Hong Kong
Telephone: (852) 2156 8688
Facsimile: (852) 2156 8600
Website: <http://www.asiaalum.com>
HKSE Stock Code: 930

PRINCIPAL BANKERS

Bank of Communications
Bank of Tokyo-Mitsubishi UFJ
Citic Ka Wah Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
HSH Nordbank AG

QUALIFIED ACCOUNTANT

Mr. LAU Yu Ching, Gilbert

COMPANY SECRETARY

Ms. YEE Kit Lin, Anita

MEMBERS OF THE AUDIT COMMITTEE

Mr. MA Tsz Chun
Mr. YAU Wing Keung
Mr. CHOU Shun, Alan

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street
Central, Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SHAREHOLDER SERVICES

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

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

Telephone: (852) 2862 8628
Facsimile: (852) 2865 0990

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



Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

The board of directors ("Board") of Asia Aluminum Holdings Limited (the "Company") are pleased to present the unaudited condensed consolidated income statement of the Company and its subsidiaries (collectively the "Group") for the six months ended 31 December 2005, together with the comparative figures for the corresponding period in 2004, the unaudited condensed consolidated balance sheet as at 31 December 2005 of the Group, together with the audited comparative figures as at 30 June 2005, as follows:

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

	Note	For the six months ended 31 December	
		2005 (Unaudited) HK\$'000	2004 (Restated and unaudited) HK\$'000
TURNOVER	2	1,984,104	1,762,862
Cost of sales and services provided		(1,538,796)	(1,313,170)
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		(1,176)	(1,886)
PROFIT FROM OPERATING ACTIVITIES	4	352,961	348,119
Finance costs	5	(99,832)	(34,726)
Share of losses of jointly-controlled entities		-	(6,439)
PROFIT BEFORE TAX		253,129	306,954
Tax	6	(85,578)	(85,877)
NET PROFIT FOR THE PERIOD		167,551	221,077
ATTRIBUTABLE TO:			
Equity holders of the parent		125,991	152,253
Minority interests		41,560	68,824
		167,551	221,077
DIVIDEND PER SHARE	7	-	-
		HK cents	HK cents
EARNINGS PER SHARE	8		
Basic		3.88	4.80
Diluted		3.88	4.76

**Condensed Consolidated
Balance Sheet**

AS AT 31 DECEMBER 2005

	Note	31/12/05 (Unaudited) HK\$'000	30/06/05 (Restated) HK\$'000
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
Total non-current assets		5,423,102	5,431,694
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
Total current assets		4,458,204	3,989,349
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
Total current liabilities		1,649,358	1,566,400
NET CURRENT ASSETS		2,808,846	2,422,949
TOTAL ASSETS LESS CURRENT LIABILITIES		8,231,948	7,854,643

**Condensed Consolidated
Balance Sheet (Cont'd)**

AS AT 31 DECEMBER 2005

	Note	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	3,393,814	3,498,750
Total non-current liabilities		4,430,307	4,211,757
		3,801,641	3,642,886
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		805,520	758,667
		3,072,933	2,978,027
Minority interests		728,708	664,859
		3,801,641	3,642,886



Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

Attributable to equity holders of the parent

	Share capital	Share premium account	Contributed surplus	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Statutory public welfare fund	Retained profits	Proposed dividends	Total	Minority interests	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 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: (note 1)												
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	324,573	1,638,993	4,151	51,419	199,699	39,102	9,476	805,520	-	3,072,933	728,708	3,801,641
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	317,523	1,606,563	4,151	51,419	189,266	(3,440)	9,476	750,278	-	2,925,236	682,271	3,607,507

**Condensed Consolidated
Cash Flow Statement**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	For the six months ended 31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	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	81,841	3,225,743
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	20,527	188
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
Less: Non-pledged time deposits with original maturity of more than three months when acquired	(621,763)	(599,370)
	2,824,864	2,446,490



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



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

1. ACCOUNTING POLICIES (Cont'd)

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.

(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.



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

1. ACCOUNTING POLICIES (Cont'd)

(b) HKAS 17 – Leases (Cont'd)

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.



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

1. ACCOUNTING POLICIES (Cont'd)

(c) HKAS 32 and HKAS 39 – Financial Instruments (Cont'd)

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) HK\$'000
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)
Total effect at 1 July 2005	(74,303)

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) HK\$'000
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.



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

1. ACCOUNTING POLICIES (Cont'd)

(c) HKAS 32 and HKAS 39 – Financial Instruments (Cont'd)

- (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.



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

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.



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

2. SEGMENT INFORMATION (Cont'd)

(b) Geographical segments

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

Six months ended 31 December 2005 (Unaudited)

Group	Hong Kong HK\$'000	Mainland China HK\$'000	North America HK\$'000	Asia Pacific, excluding Mainland	Others HK\$'000	Total HK\$'000
				China and Hong Kong HK\$'000		
Segment revenue						
Sales to external customers	37,252	1,595,860	200,410	136,874	13,708	1,984,104

Six months ended 31 December 2004 (Unaudited)

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

**Notes To Condensed Consolidated
Interim Financial Statements (Cont'd)****3. OTHER INCOME AND GAINS**

	For the six months ended 31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
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 scarp materials	3,966	2,444
Sundry Income	5,937	3,618
	53,548	15,060

4. PROFIT FROM OPERATING ACTIVITIES

	For the six months ended 31 December	
	2005	2004
	(Unaudited)	(Restated and unaudited)
	HK\$'000	HK\$'000
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



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

5. FINANCE COSTS

	For the six months ended 31 December	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
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
	99,832	34,726

6. TAX

	For the six months ended 31 December	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) 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
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.



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

6. TAX (Cont'd)

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

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).



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

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) HK\$'000	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



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

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
	197,751	174,840

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.



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

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 <i>HK\$'000</i>
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
	98,375	101,748

- (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 <i>HK\$'000</i>
Contracted for (Note)	2,773,730	3,324,548

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).



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

18. COMMITMENTS (Cont'd)

- (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.



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

19. RELATED PARTY TRANSACTIONS

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

	Note	For the six months ended 31 December	
		2005 (Unaudited) HK\$'000	2004 (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.



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

19. RELATED PARTY TRANSACTIONS (Cont'd)

- (a) The Group had the following transactions with related parties during the period: (Cont'd)

Notes: (Cont'd)

- (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.

- (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

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.



Notes To Condensed Consolidated Interim Financial Statements (Cont'd)

20. POST BALANCE SHEET EVENTS (CONT'D)

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.



Management Discussion and Analysis

BUSINESS REVIEW

(a) Overview

The Group started the fiscal year 2005/06 facing a challenging operating environment with higher interest rates and a volatile metal price. For the six months ended 31 December 2005, the Group achieved turnover of approximately HK\$1,984 million, representing a moderate 13% increase over the comparable period in 2004.

The Group's overall gross profit margin declined to 22% (2004: 26%) due to escalating manufacturing overheads, especially other material costs, although this was partly mitigated by the Group's enhanced economies of scale as well as a continued shift of product mix to higher-value categories and industrial extrusion products. Whilst world primary aluminum supply grew at a faster rate than overall demand in 2005, which brought the market from a supply deficit to a more balanced supply/demand position, the announcement of smelter closures by a number of aluminum producers in response to rising energy prices helped push aluminum prices sharply higher in the first half of fiscal 2005/06, in particular towards the calendar year end of 2005.

The Group's operating profit for the period increased slightly to HK\$353 million (2004: HK\$348 million) but the operating margin declined to 18% from 20% for the comparable period.

Profit attributable to equity holders of the parent for the period declined to HK\$126 million (2004: HK\$152 million). The 17% decrease was mainly due to a fall in gross profit, higher administrative expenses and increased interest costs in connection with the issuance of the US\$450 million Senior Notes (the "Notes") in December 2004.

In terms of geographical spread, the Group remained focused on markets where we have established networks and competitive strengths. During the period under review, Hong Kong provided 2% (2004: 3%) of the Group's turnover, while Mainland China accounted for 81% (2004: 83%), North America 10% (2004: 9%), and Asia Pacific and others 7% (2004: 5%).

Aluminum extrusion continued to account for a large part of the Group's revenues in the reporting period. By business line distribution, aluminum extrusion and panels contributed 97% (2004: 96%) to the Group's total turnover and stainless steel 3% (2004: 4%).

(b) Segment Performance

Aluminum Extrusion and Panels

Sales of aluminum extrusion and panels contributed to a 13% increase in segment turnover to HK\$1,917 million (2004: HK\$1,701 million), spread across geographical regions. Segment results remained stable at HK\$330 million (2004: HK\$343 million) following initiatives to improve efficiency and cut costs, as well as continued efforts to advance into downstream processes, such as surface treatments and multiple coatings. By leveraging its strong market position in aluminum extrusion, the Group made further inroads in tapping new end-markets in the industrial and transportation sectors.



Management Discussion and Analysis (Cont'd)

BUSINESS REVIEW (Cont'd)

(b) Segment Performance (Cont'd)

Stainless Steel

The stainless steel segment continued to be adversely affected by high raw material costs and severe market competition, resulting in a 65% decline in segment results year on year to less than HK\$1 million (2004: HK\$2 million). This segment provided a turnover of HK\$65 million (2004: HK\$62 million), or 3% (2004: 4%) of Group total. In the face of the continued low operating margins of this segment, the Group will continue to deploy resources to higher-margin growth segments.

Design and Testing Services

This segment recorded a turnover of HK\$2 million (2004: HK\$1 million) during its transition period, when the Group's testing chamber facilities were partly deployed internally in support of the expansion of the Industrial City in Zhaoqing.

FINANCIAL REVIEW

(a) Capital Resources and Liquidity

As at 31 December 2005, the Group had aggregate cash and bank balances, and other deposits of HK\$4,081 million (30 June 2005: HK\$4,556 million) against total borrowings of HK\$4,456 million (30 June 2005: HK\$4,324 million). Approximately 76% of total borrowings, or HK\$3,394 million (30 June 2005: HK\$3,499 million), was the HK\$ equivalent of the Notes stated at amortised cost (with a notional amount of approximately US\$450 million), and 23%, or HK\$1,063 million (30 June 2005: HK\$825 million), was the aggregate of trust receipts loans, import loans, interest-bearing loans and finance lease payables. With the exception of the Notes, a majority of the Group's banking facilities are for trade finance and working capital purposes and are denominated in US Dollars and Renminbi. Likewise, the majority of the bank deposits are denominated in US Dollars and Renminbi.

The total debt to total capital (debt/shareholders' funds) ratio of the Group as at 31 December 2005 was 145% (30 June 2005: 145%).

As at 31 December 2005, the Group had no contingent liabilities related to bills discounted with recourse. (30 June 2005: HK\$28 million). The Group had granted a guarantee to and utilised by a minority equity holder in respect of banking facilities of HK\$11 million (30 June 2005: HK\$11 million).



Management Discussion and Analysis (Cont'd)

FINANCIAL REVIEW (Cont'd)

(b) Treasury Policy

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

(c) Dividend

The Board resolved not to declare an interim dividend for the six months ended 31 December 2005 (2004: Nil) in order to maintain flexibility to support further investment in the future, including the expansion of the Asia Aluminum Industrial City ("Industrial City") in Zhaoqing, Guangdong Province, the PRC. In addition, in light of the tight restrictions on distributions imposed by the covenants on the US\$450 million Notes issued on 23 December 2004, the Board does not envisage declaring a dividend in the foreseeable future.

FUTURE PLANS AND PROSPECTS

(a) Future Plans

The commissioning of the Industrial City will add approximately 200,000 metric tons of aluminum extrusion capacity and provide for the introduction of 400,000 metric tons of rolled-products capacity beyond the current fiscal year. Part of the new production base has also been earmarked to incorporate expanded capabilities in downstream processes and to enable the development of a broader offering of aluminum products.

New Extrusion Facilities

The installation of machinery imported from Japan, Italy and the US has been progressing at the new extrusion plant in the Industrial City. Testing of the equipment has commenced. When fully operational, the new extrusion facilities in Zhaoqing will deliver a capacity of about 200,000 metric tons each year.

Rolled Products Project

The construction of the new rolled products plant is ongoing at the Industrial City in Zhaoqing. The project experienced some initial delay owing to adverse weather conditions and prolonged negotiations over some design and engineering contracts. Efforts are now focused on trying to maintain the overall project commissioning timeline.

(b) Prospects

The Group continues to face a challenging operating environment with aluminium prices close to a historical high. At the same time, demand for the Group's core products is stable. Research and development and capacity expansion will continue to be closely aligned with the needs of the Group's core businesses and for tapping new growth areas. The Group is focused on improving manufacturing processes and developing new product applications for a more diversified range of markets and customers.



Disclosure of Interests

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code For Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(a) The Company

Directors	Nature of interest	Note	Number of issued ordinary shares held	Number of underlying shares held	Total	Approximate percentage of Interest as at 31 December 2005
Mr. Kwong Wui Chun	Personal		231,930,836	-	231,930,836	
	Corporate	(1)	908,622,000	-	908,622,000	
	Family	(2)	8,900,000	-	8,900,000	
					<u>1,149,452,836</u>	35.41%
Dr. Chan Yiu Tsuan, Benby	Personal	(3)	-	5,000,000	5,000,000	0.16%
Mr. Zhong Jianqiu	Personal		24,434,800	-	24,434,800	
	Family	(4)	-	5,000,000	5,000,000	
					<u>29,434,800</u>	0.91%

Notes:

- (1) The interest disclosed represents the corporate interest of 908,622,000 shares held by Viewlink Assets Limited, which is a company incorporated in the British Virgin Islands and wholly-owned by Mr. Kwong Wui Chun, by virtue of Section 344(3) of the SFO.
- (2) The interest disclosed represents the family interest of 8,900,000 shares held by Ms. Li Chuk Kuan, an employee of the Group and spouse of Mr. Kwong Wui Chun, by virtue of Section 344(1) of the SFO.
- (3) The interest disclosed represents 5,000,000 underlying shares in respect of 5,000,000 share options granted by the Company to Dr. Chan Yiu Tsuan, Benby. These share options were granted on 6 July 2004 and are exercisable during the period from 6 July 2004 to 5 July 2007 at an exercise price of HK\$0.81 per share.
- (4) The interest disclosed represents the family interest in 5,000,000 underlying shares in respect of 5,000,000 share options granted by the Company to Ms. Kuang Shun Feng, an employee of the Group and spouse of Mr. Zhong Jianqiu, by virtue of Section 344(1) of SFO. These share options were granted on 6 July 2004 and are exercisable during the period from 6 July 2004 to 5 July 2007 at an exercise price of HK\$0.81 per share.
- (5) All the interests disclosed above represent long position in the shares of the Company.



Disclosure of Interests (Cont'd)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Cont'd)

(b) Associate corporations of the Company

- (1) Mr. Kwong Wui Chun has beneficial interest in his personal capacity in 200,000 shares of US\$1.00 each in China Steel Development Company Limited ("CSD"), representing a 20% interest of CSD.
- (2) In addition to the above, certain directors have non-beneficial personal interests in certain subsidiaries incorporated in Hong Kong held for the benefit of the Company solely for the purposes of complying with the minimum shareholder requirement under the Hong Kong Companies Ordinance.

Save as disclosed above and in the Section under the heading "Share option scheme" below, as at 31 December 2005, none of the directors had any interests or short positions in the equity or debt securities of the Company or its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

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

Type of grantees	At 1 July 2005	Granted during the period	Exercised during the period	Lapsed or cancelled during the period	At 31 December 2005
Executive directors					
Dr. Chan Yiu Tsuan, Benby	5,000,000	–	–	–	5,000,000
Mr. Zhong Jianqiu	5,000,000 (ii)	–	–	–	5,000,000
Other employees	42,000,000	–	–	(4,750,000)	37,250,000
	<u>52,000,000 (i)</u>	<u>–</u>	<u>–</u>	<u>(4,750,000)</u>	<u>47,250,000</u>

Notes:

- (i) 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.
- (ii) These share options were granted to Ms. Kuang Shun Feng, an employee of the Group and spouse of Mr. Zhong Jianqiu.



Disclosure of Interests (Cont'd)

SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, save as disclosed in the section headed "Directors' interests and short positions in shares and underlying shares" above for interest of Mr. Kwong Wui Chun and his associates including Viewlink Assets Limited, in shares and underlying shares of the Company, the following persons had an interest and short position in the shares and the underlying shares of the Company which (a) would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of shareholder	Capacity	Number of shares and underlying shares	Approximate percentage of interest as at 31 December 2005
Morgan Stanley	Interest of controlled corporations	259,774,000	8.00%
Mondrian Investment Partners Limited	Investment manager	325,846,000	10.04%
Penta Investment Advisers Limited	Investment manager	162,924,000	5.02%
Mr. John Zwaanstra (<i>Note 1</i>)	Interest of controlled corporations	162,924,000	5.02%
Mr. Michael William Moore (<i>Note 1</i>)	Interest of controlled corporation	162,924,000	5.02%

Notes:

- (1) Mr. John Zwaanstra and Mr. Michael William Moore are deemed to be interested in the Company's shares in which Penta Investment Advisers Limited is interested.
- (2) All the interest disclosed above represent long position in the shares of the Company.



Other Information

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

During the six months ended 31 December 2005, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") throughout the six months ended 31 December 2005.

MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in the Appendix 10 of the Listing Rules as its code of conduct regarding the directors' securities transactions. Having made specific enquiry of all directors of the Company, they have confirmed that they complied with the required standard as set out in the Model Code during the six months ended 31 December 2005.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 1 April 2005 which comprises three independent non-executive directors of the Company, namely Mr. Ma Tsz Chun, Mr. Yau Wing Keung and Mr. Chou Shun, Alan. The remuneration committee would meet at least annually to make recommendation to the Board on the Group's remuneration policy including remuneration packages, bonuses and other compensation payable to the directors and management of the Company.

AUDIT COMMITTEE

The Company has an audit committee (the "Committee") which was established for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The existing member of the Committee are Mr. Ma Tsz Chun, a certified public accountant, Mr. Yau Wing Keung and Mr. Chou Shun, Alan, all of them are independent non-executive directors of the Company.

The Committee has reviewed together with the management, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim results of the Group for the six months ended 31 December 2005.

ON BEHALF OF THE BOARD

Kwong Wui Chun

Chairman

Hong Kong SAR
27 March 2006