The directors of Asia Aluminum Holdings Limited (the "Company") are pleased to present the interim report and unaudited condensed accounts of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2001. The consolidated income statement, consolidated cash flow statement and consolidated statement of recognised gains and losses of the Group for the six months ended 31 December 2001, all of which are unaudited and condensed, and the audited consolidated balance sheet at 30 June 2001 of the Group, along with relevant explanatory notes, are set out on pages 10 to 26 of this report.

This unaudited interim report has been reviewed by the Company's audit committee.

MANAGEMENT DISCUSSION AND ANALYSIS

The Operating Review

The period under review was a challenging year for the Group amidst a difficult operating environment and prevailing economic uncertainty. Management has continued to put every effort to focus on and strengthen the business of its major subsidiary, Asia Aluminum Group Limited ("AAG"), which is engaged in the manufacture and sale of aluminum and stainless steel products, by investing in new manufacturing facilities through organic growth and mergers and acquisitions. This persistent strategy of the management has enabled the Group to secure its status as the largest aluminum extruder in Asia.

(a) Operating Results for the Period

The Group's turnover decreased 15.6% to approximately HK$942.3 million as compared to last corresponding period as a result of rationalization efforts and the strategy of the management to focus on gross profit margin ratio rather than sales amount. The success of this strategy can be proved by the increase in the Group's gross profit margin for the period from 23.3% to 27.3%.

Despite an unfavourable market environment and intensive competition, the Group has invested a total of HK$42.1 million in capital expenditure and HK$215.2 million in the establishment of two new extrusion manufacturing joint ventures in Nanhai, PRC, for the period under review and up to the date of this report, in order to maintain the Group's leading position in the market. During the period under review, the Group has also consolidated and rationalized the operations of AAG and its subsidiaries (the "AAG Group") and implemented a cost-controlling system which resulted in lower operating costs for the period. As a result, compared with the previous period, net profit before tax margins moved upwards from 13.9% to 18.2% during the period under review.

Unaudited profits attributable to shareholders dropped approximately 12.7% to approximately HK$96.8 million. It was mainly due to a profit draw-down by Indalex Aluminum Solutions ("Indalex") after the disposal by the Company of a 26.2% interest in AAG in June 2001.

(b) Dynamics of the Business

AAG continues to be the major profit contributor to the Group. During the period under review, the AAG Group continued to consolidate its leading position in aluminum extrusion and efforts were made to further expand production capacity, sales network and market share.

The I-Metal group continues to act as a value-added e-service to customers and industry practitioners in the trading of non-ferrous metals.

Turnover from the manufacture and sale of aluminum products amounted to HK$844.7 million for the period, representing a decrease of HK$120.4 million from the previous period. Sales revenue from the manufacture and sale of stainless steel products dropped 36.0% to HK$82.1 million in 2001. In view of the difficult operating environment, the management has adopted a more prudent approach in the control of credit granted to customers and is now focusing on gross profit margin ratio rather than sales amount in the assessment of sales contracts. This approach has proved effective in maintaining the Group's profitability.

The provision of design and testing services for aluminum products by the Group and the Internet trading services for non-ferrous metals, which are integral parts of a total solution for, and an essential relationship-building element with, customers and distributors, contributed HK$12.6 million and HK$2.9 million to the Group's revenue during the period under review.

The total net profit attributable to shareholders contributed by the AAG Group amounted to HK$128.8 million, an increase of 2.7% as compared to the previous period.

Expansion of Production Capacity

To maximize economy of scale, the Group formed two joint-venture entities in the PRC with a 60% equity interest in each of them to operate and manage two aluminum extrusion manufacturing facilities in Nanhai in September and November 2001 respectively. At present, the Group has altogether five extrusion manufacturing plants with current annual total production capacity increased to 120,000 metric tones, being the largest in Asia.

Business Sales

The PRC continues to be the Group's largest and most promising market. The Group is pleased to report that aluminum extrusion and panel supply contracts have already been secured for Guangzhou Airport, several massive residential projects in Shanghai, and Fujian and there are many others currently under negotiation.

In Hong Kong, the Group has obtained supply contracts for the Science Park.

It is the Group's strategy to achieve a well-balanced geographical spread and product portfolio to minimize risk exposure and focus on markets and products with the most attractive potential and to maximize business growth.

Sales to international markets and the PRC domestic market were HK$242.3 million and HK$700.0 million respectively. As a result of the softness in the US market, the supply agreement with Indalex for the Group's sales to North American market for the year 2002 is revised to 20,000 metric tons, representing a decrease of 30% from the amount original stipulated in the supply agreement.

Equal shares in the sale of construction/non-construction and paint-coated/anodized products is likely to be accomplished within this fiscal period.

(c) *Employees and Remuneration Policies*

As at 31 December, 2001, the Group employed over 4,500 full time management, administrative and production staff in Hong Kong and the PRC. The remuneration policies of the Group are reviewed on an annual basis and the remuneration package includes medical insurance, pension funds (Mandatory Provident Fund Scheme for the Group's employees in Hong Kong), bonuses and share options. Structured training programmes are also provided to reinforce the skills of key staff members. A new share-option scheme was adopted by the Company in December 2001.

(d) *Prospects and Plans for the Future*

The Group will pursue a multi-faceted growth strategy through a combination of vertical and horizontal expansion. The Group will continue to expand its production capacity through mergers and acquisitions, so as to maximize the benefits derived from economy of scale and to strengthen the position of the Group as a global player in the industry. Management is confident that the two new joint ventures can become major profit contributors to the Group in the near future.

The Group is also working on developing a system to provide a fully integrated supply chain with our suppliers and customers and developing vertical integration opportunities in aluminum smelting and distribution channels to shorten the lead time for inbound raw materials and outbound finished goods, to reduce unnecessary production steps, and achieve more effective control over inventories and logistics costs.

In order to provide value-added service and solutions to the Group's customers, the Group has established a product design and development team to provide technical support to customers, especially in media and the advertising industry, electronic industry and automobile industry, in the design, development and application of the Group's products in their specific industry. The team is now working on the development of bus stop, newspaper kiosk, post box, furniture and outdoor screen designs. The directors believe the team can facilitate the diversification of the Group's product portfolio into new industries and strengthen the linkage with the Group's customers.

A series of economic indicators released lately by the United States government supports the view that the United States economy is recovering from recession and that consumer sentiment in the United States has strengthened. Management is confident that Indalex, the Group's strategic partner in the North American market, can achieve the revised sales target for the year 2002. The management will also work closely with Indalex on the formulation of a marketing strategy to increase the global market share of both Indalex and the Group.

Looking ahead, the Group will focus on enhancing production capacity and quality, products of higher profit margins, and new market developments. Enhancement to the production cycle will also be sought through the appointment of international technical consultants.

The Financial Review

(a) Attributable Return to Shareholders and Dividend Policy

Basic earnings per share for the current period were HK4.3 cents, compared to HK5.2 cents for the previous period.

The Group maintained a position of financial stability and solid cash holdings at the end of 2001. In light of this, the Group has continued its policy of consistent dividend payments to shareholders.

The Board of Directors declared an interim dividend of HK1.0 cent per share payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 8 April 2002. The dividend warrants are expected to be dispatched on or before 10 April 2002.

(b) Capital Structure and Treasury Policy

The Group maintains a strong and stable financial position. As at 31 December 2001, the Group had total assets of approximately HK$3,131.1 million, comprising non-current assets of approximately HK$604.5 million and current assets of approximately HK$2,526.6 million, which were financed by current liabilities, non-current liabilities, minority interest and shareholders' funds of approximately HK$785.9 million, HK$368.6 million, HK$304.2 million and HK$1,672.4 million respectively.

The Group generally finances its operations with internal resources as well as banking and credit facilities granted by banks, financial institutions and others in Hong Kong and the PRC. Financing channels include convertible bonds, syndicated loans, term loans and trade facilities. The interest rates of most of these are fixed by reference to the London Interbank Offered Rate. Both bank deposits and borrowings are mainly in United States dollars.

As at the balance sheet date, the Group's cash and bank balances and total borrowings were approximately HK$1,093.9 million and HK$789.0 million respectively. The Group's consolidated net cash as at 31 December 2001, being cash and bank deposits less total borrowings, amounted to HK$304.9 million as compared to HK$279.8 million as at 30 June 2001.

The conversion of US$1.2 million convertible bonds of the Company (the "CB") into ordinary shares of the Company during the period under review have resulted in an increase in the issued share capital of the Company by a total of HK$2.2 million. Subsequent to the period end and up to the date of this report, an additional US$1.2 million CB was converted into shares of the Company.

The objective of the Group's overall treasury and funding policy is to manage exposures to fluctuation in foreign currency exchange rates and interest rates on specific transactions. It is our policy not to engage in speculative activities. The Group will closely monitor overall exchange and interest rate exposures and will use appropriate financial instruments to hedge any exposure.

As at 31 December 2001, the Group has no contingent liabilities.

(c) Liquidity and Financial Resources

The Group's liquidity position remains strong with available undrawn bank facilities and bank deposits of HK$242.5 million and HK$1,093.9 million respectively as at 31 December 2001. The ample financial resources available to the Group will provide adequate resources for the Group's daily operational requirements and also put the Group in a favourable position to take advantage of potential mergers and acquisitions.

As at 31 December 2001, the Group had aggregate banking and credit facilities in respect of overdrafts, short term loans, trade financing and finance leases of approximately HK$665.3 million. Certain of the Group's banking and credit facilities were secured by some of the Group's tangible fixed assets with net book value totaling HK$6.4 million. The Group had utilized a total of approximately HK$427.3 million of the aforesaid banking and credit facilities as at the same date.

The debt to equity ratio of the Group as at 31 December 2001 was 47.2%, which was lower than the level of 60.2% as at 30 June 2001. The current ratio increased from 2.7 to 3.2 at the current period end as compared to that at 30 June 2001. Of the total borrowings as at 31 December 2001, 53.3% is repayable with one year and 46.7% is repayable within 2 to 5 years.

In September and November 2001, two joint venture entities, of which 60% of their respective equity interests were held by the Group, were established in the PRC to acquire certain business and assets of two aluminum extrusion factories in Nanhai, PRC. The consideration for the acquisition is approximately HK$215.2 million and was settled subsequent to the period end.

Up to the date of this report, in accordance with the payment terms of the disposal of the Group's business of environmental protection products ("Disposal"), a total of HK$200.0 million has been received by the Group as partial settlement of the total consideration for the Disposal. Further details of the Disposal are set out in the Company's circular of 14 September 2001 to its shareholders.

The Group services its debts primarily through cash generated from operations. Taking into consideration the Group's present cash position, the future internally generated funds and available banking facilities, the Directors are confident that the Group has adequate financial resources to sustain its working capital requirements and future expansion and meet its foreseeable debt repayment requirements.

The Group will continue to adopt its conservative and prudent policy in financial and treasury management.

DIRECTORS' INTEREST IN SECURITIES

At 31 December 2001, the interests of the directors and the chief executive of the Group in the securities of the Company and its associates as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as notified to the Company were as follows:

Number of ordinary shares and warrants held in the Company:–

Name of directors	Nature of interests	Number of shares held	Percentage of the issued share capital	Number of warrants held
Mr. Kwong Wui Chun	Personal	178,393,488	7.89%	3,970,908
	Corporate *(Note)*	826,020,000	36.54%	83,120,000
Mr. Hung Pann Yi	Personal	28,200,000	1.25%	700,000
Mr. Zhong Jianqiu	Personal	1,668,000	0.07%	766,800

Note: These securities are held by Viewlink Assets Limited ("Viewlink"), a company incorporated in the British Virgin Islands. Mr. Kwong Wui Chun ("Mr. Kwong") is deemed to be interested in these securities under the SDI Ordinance as he is the sole beneficial owner of Viewlink.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

(a) Share options of 17,200,000 were granted to Mr. Zhong Jianqiu ("Mr. Zhong") on 26 February 2001. The share options are exercisable during the period from 26 February 2001 to 25 February 2004, each of which entitles Mr. Zhong to subscribe for one share in the capital of the Company at an exercise price of HK$0.4312 (subject to adjustments). No share options has been exercised by Mr. Zhong during the period under review.

(b) Subsequent to the period end, share options of 5,400,000 and 8,900,000 were granted to Mr. Zhong and Mr. Gan Ming Hui respectively on 25 January 2002. The share options are exercisable during the period from 25 January 2002 to 24 January 2005, each of which entitles the holder to subscribe for one share in the capital of the Company at an exercise price of HK$0.56 (subject to adjustments).

Apart from the foregoing, at no time during the period and up to the date of this report was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed in the section headed "Directors' interest in securities" above for interest of Mr. Kwong and his associate, Viewlink, in securities of the Company as at 31 December 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that as at 31 December 2001, the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital.

BONUS ISSUE OF WARRANTS

Subject to the conditions mentioned below, the directors proposed to make a bonus issue (the "Bonus Issue") of warrants (the "Warrants") to its shareholders, to subscribe for shares of HK$0.10 each in the capital of the Company on the terms set out below.

The Warrants will be issued on the basis of one Warrant for every ten shares then held by the shareholders whose names appear on the register of members of the Company on 8 April 2002. Each Warrant will entitle the holder to subscribe HK$0.77 in cash for one share at an initial subscription price of HK$0.77 per share, subject to adjustments, at any time for a period of two years from the date of issue of the Warrants. Fractional entitlements to Warrants will not be granted but will be aggregated and sold and the proceeds of the sale will be retained for the benefit of the Company. The Warrants will be issued in registered form for the purpose of trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and will be traded in board lots of 30,000 units of subscription rights of HK$23,100. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Warrants and any shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants.

CONDITION OF THE BONUS ISSUE

The proposed Bonus Issue is conditional upon the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Warrants and any shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants.

A circular containing further information of the Bonus Issue will be dispatched to shareholders of the Company as soon as possible.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 April 2002 (Thursday) to 8 April 2002 (Monday), both dates inclusive. During such period, no transfer of shares will be effected.

Shareholders are reminded that in order to be qualify for the interim dividend and Bonus Issue, all completed transfer forms accompanied by the relevant certificates must be lodged with the branch registrar of the Company in Hong Kong, Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong for registration not later than 4:00 p.m. on 3 April 2002 (Wednesday).

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

During the six months ended 31 December 2001, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 December 2001, in compliance with the Code of Best Practice ("Code of Best Practice") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange, except that the independent non-executive directors of the Company are not appointed for specific term but are subject to retirement by rotation at the annual general meeting. In the opinion of the directors, this meets with the same objective of the Code of Best Practice.

AUDIT COMMITTEE

To comply with the revised Code of Best Practice, the Company has an audit committee (the "Committee"), the Committee comprises two members, namely, Messrs. Ma Tsz Chun and Gan Ming Hui, all of whom are independent non-executive directors of the Company.

The Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 31 December 2001. At the request of the Committee, the Group's external auditors have carried out a limited scope review of the unaudited interim report. Such limited scope review was not an audit conducted in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants and was less than that specified in the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants.