Management Discussions And Analysis

"Moving closer to being a leading aluminum extrusion manufacturer in the world."

THE OPERATING REVIEW

The year under review was a year of business repositioning for the Group. In view of a challenging and highly competitive market, the management has dedicated more efforts into investing in new manufacturing facilities, re-engineering its production cycles, strengthening its core business and forming strategic alliance with global leaders. The Group has moved a significant step closer to being a leading aluminum extrusion manufacturer in the world.

(A) OPERATING RESULTS FOR THE YEAR

The Group achieved satisfactory results for the year. Underpinned by aggressive marketing efforts to expand customer base and to develop overseas markets, the Group's turnover reached approximately HK$2,061.9 million, an increase of 18.0% compared to last year. Profits attributable to shareholders grew approximately 20.5% to reach approximately HK$195.5 million, including an exceptional gain of HK$120.7 million from the disposal of 26.2% of the issued share capital of Asia Aluminum Group Limited ("AAG").

AAG and its subsidiaries (the "AAG Group") the major subsidiaries of the Group, are engaged in the aluminum extrusion and stainless steel business and continues to be the major profit contributor for the Group.

AAG Group maintained its gross profit margin for the year and recording a net profit before tax and minority interests ("EBT") of HK$245.6 million, a gain of 9.4% compared to last year. During the year, the Group invested HK$130.5 million in capital expenditures and HK$293.5 million in acquisition of subsidiaries. The Group's diversification into other businesses during the year 2000 resulted in an additional operating cost and finance cost of HK$46.2 million for the year. These new businesses recorded a loss of HK$37.4 million during the year under review.

(B) DYNAMICS OF THE BUSINESS

Manufacture and sale of aluminum and stainless steel products

During the year under review, the Group continued to consolidate its leading position in aluminum extrusion business and efforts were made to further expand production capacity, sales network and market share.

Turnover from the manufacture and sale of aluminum products amounted to HK$1,760.6 million for the year, representing an increase of HK$222.0 million from the previous year. The growth impetus came from the prosperous construction industry in the PRC but fierce price wars cut into the profit margin. The Group pursued the value-added strategy of improving product quality and diversifying product portfolio and applications. This approach was proved effective in maintaining the Group's leading market position.

Sales revenue from the manufacture and sale of stainless steel products fared favourably with a 57.0% increase to HK$278.5 million in 2001. Again, the growth momentum came from the robust construction industry in the PRC.

The Group also derived HK$17.7 million revenue from the provision of design and testing services for aluminum products. Though not a core business, it is an integral part of a total solution to, and an essential relationship-building element with, distributors and construction companies.

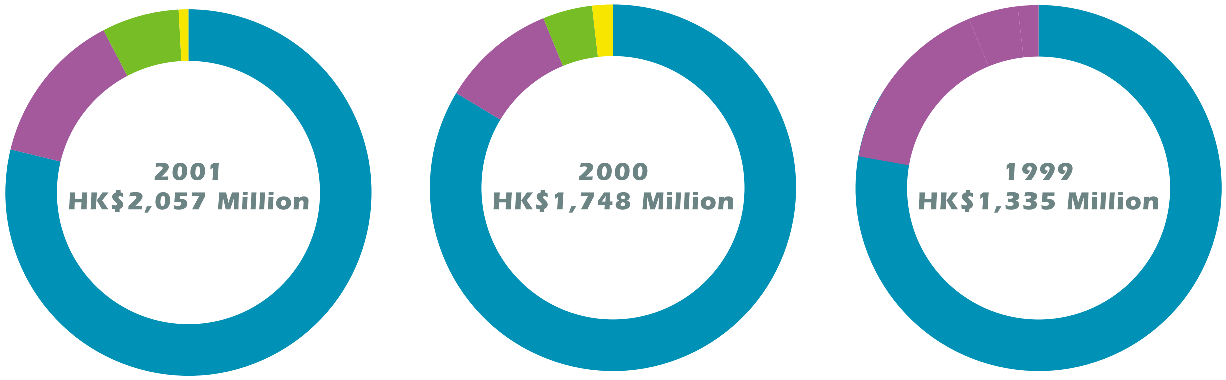
The total EBT contributed by AAG Group amounted to HK$245.6 million, an increase of 9.4% compared with the previous year.

Some of the reputable construction projects to which the Group supplied its products included Nina Tower, Cyberport, and IFC Tower Phase II in Hong Kong.

"We pursue the value-added strategy of improving product quality and diversifying product portfolio and applications"

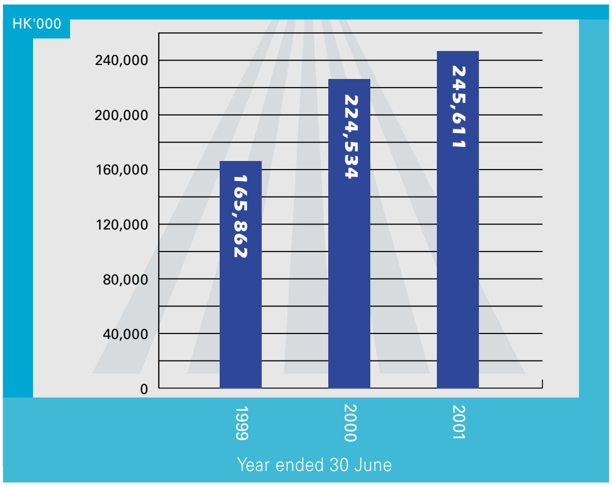
Management Discussions And Analysis

TURNOVER OF AAG GROUP BY PRODUCTS



	2001	2000	1999
Manufacture and sale of:	**%**	%	%
aluminium extrusion products	**78.9**	83.6	80.6
stainless steel products	**13.5**	10.1	19.4
aluminium panels	**6.8**	4.5	—
Provision of:			
design and testing services for aluminium products	**0.8**	1.8	—

EBT OF AAG GROUP BY YEAR



Effective Control of Production Capabilities

To effect a stronger management of production capabilities, the Group acquired the remaining minority interests of 9.0% in Pavilion Services Limited and 45.0% in Majestic Holdings Limited in November 2000. Both manufacturing companies are now wholly-owned subsidiaries of the Company.

New Strategic Partner - Indalex

In October 2000, the Company entered into an aluminum extrusion products supply agreement with Indalex - the beginning of a strategic alliance. Indalex is one of the top 3 aluminum extrusion manufacturers in the world and operates 15 extrusion facilities and 2 aluminum billet casting plants in the United States and Canada. It employs over 3,500 employees.

The ultimate parent company of Indalex is Novar plc.("Novar"), a company listed on the London Stock Exchange that is engaged in the manufacture of a wide range of aluminum extrusion products, electric and electrical control products, software components and the provision of security printing and other specialized services to financial institutions.

According to the supply agreement with Indalex ("Supply Agreement"), Indalex will distribute the Group's aluminum extrusion products in the United States and Canada as exclusive distributor, thus enhancing the Group's presence in North America significantly.

In April 2001, the Group further strengthened its relationship with Novar and Indalex through a strategic equity alliance. Indalex acquired from the Company 26.2% of the issued share capital of the AAG for a cash consideration of up to HK$524.0 million, indicating its confidence and optimism in the business of the Group and also the tremendous synergy generating from the alliance.

Novar's investment in AAG secures the strategic alliance between the two groups, strengthens the basis for co-operation and is part of a comprehensive shareholders agreement with AAG. This partnership can now develop further, enhancing growth and returns for each of Novar and the Company.

Business Sales

The PRC continues to be the Group's largest and most promising market. Buoyed by a GDP growth forecast of 7% in 2001, the country's infrastructure and property development activities will gain in momentum. National projection said there will be 40 new airports in the coming five years. The Group is pleased to report that aluminum extrusion and panel supply contracts have already been secured for 4 new airports in 2001 and there are others currently under negotiations.

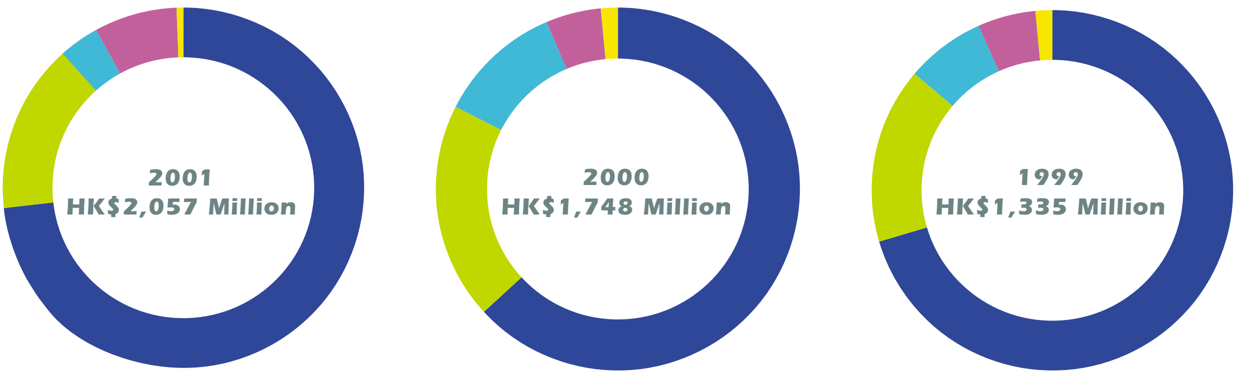
In Hong Kong, the Group has obtained supply contracts to Nina Tower in Tsuen Wan, Cyberport, IFC Tower Phase II in Central and West Rail etc.

It is the Group's strategy to achieve a well-balanced geographical spread and product portfolio and applications to minimize risk exposure. The three 50/50 targets are hypothetical benchmarks and it is more important for the Group to pursue the targets flexibly to focus on markets and products with the most attractive potential, so as to maximize business growth.

Having said that, good progress has been made in achieving the balance during the year under review. Sales to international market and domestic market were HK$535.5 million and HK$1,526.4 million

Management Discussions And Analysis

TURNOVER OF AAG GROUP BY GEOGRAPHICAL AREAS



By geographical area	**2001** **%**	2000 %	1999 %
PRC, excluding Hong Kong	**74.0**	63.1	70.4
Asia Pacific, excluding PRC and Hong Kong	**15.1**	19.3	15.8
North America	**2.9**	11.1	7.1
Hong Kong	**7.4**	5.0	5.2
Others	**0.6**	1.5	1.5

respectively. According to the Supply Agreement, sales to North American market will reach 25,000, 30,000 and 40,000 metric tons respectively for each of the three years ending 31 December 2001, 2002 and 2003. The consideration of the Supply Agreement, based on the agreed capacity and the average unit price of approximately HK$18,000 per metric ton, is estimated to be approximately HK$450 million, HK$540 million and HK$720 million respectively for each of the three years ending 31 December, 2001, 2002 and 2003.

Equal share in the sale of construction/non-construction and paint-coated/anodized products is likely to be accomplished within this fiscal year. A considerable share of the contracts to North America is for non-construction products and helps enhance the Company's gross profit margin. Sales of aluminum panels grew 83.3% to HK$140.3 million.

E-business

The Group launched an Internet trading platform for non-ferrous metal through the i-Metal Group, primarily as a value-added service to customers and industry practitioners. The Group is pleased to report that i-metal.com has attained operational breakeven point status.

Spot B2B metal spot trading has been officially launched to the market in October 2001.

Other investments

The Group diversified its business to environmental protection products in July 2000.

Unforeseen technical difficulties arisen during the pilot production stage and delayed mass production and commercial launch of the environmental protection products designed and developed by Prime Hill Technology Limited ("PHT") and its subsidiaries led to a net loss of approximately HK$19.9 million.

Given the changes in market conditions as well as substantial time and additional capital investment in research and equipment deployment needed to kick off mass production, the Group disposed of all of its interests in this business to a third party for a cash consideration of HK$455 million in August 2001.

(C) EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2001, the Group employed over 2,000 full time management, administrative and production staff in Hong Kong and the PRC. The Group remunerates its employees in accordance with their performance and experience and also in line with the relevant business and employment market situation. The remuneration policies of the Group are reviewed on an annual basis and the remuneration package includes pension funds, bonuses and share options. Structured training programmes are provided to reinforce the skills of key staff members. As required by the Hong Kong Government, the Group's employees in Hong Kong have joined the mandatory provident fund scheme in December 2000.

(D) PROSPECTS AND PLANS FOR THE FUTURE

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.

On 9 August 2001, 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, the PRC. When the manufacturing facilities of these two joint ventures become fully operational in late 2001, the Group's annual total production capacity of 120,000 metric tons will become the largest in Asia.

In order to enjoy further economy of scale, the Company will continue to seek valuable vertical integration opportunities like aluminum smelting.

Looking ahead, the Group will focus on enhancing production capacity and quality, producing non-construction and paint-coated products of higher profit margins, and new market developments in Europe and South America. Enhancement of production cycle will also be sought through the appointment of international technical consultants.

The Company's B2B portal, i-metal.com, has launched spot trading services of primary materials, including logistics support for general membership use, in October 2001. The Directors believe that the portal that directly leverages on the Group's expert industry experience and knowledge will become a revenue generating platform. The portal provides comprehensive services to the non-ferrous metals business community – information exchange, e-trading platform, logistics, warehousing, customs and tax support and trade arbitration. And most of all, the revolutionary contribution of Internet commerce debit card product and online settlement which came from the integration of PRC brokerage houses and financial institutions will benefit the entire business community, not just our member community and the non-ferrous metal community.

Management Discussions And Analysis

THE FINANCIAL REVIEW

(A) ATTRIBUTABLE RETURN TO SHAREHOLDERS

The Board of Directors has recommended the payment of a final dividend of HK1.0 cent per share and a special dividend of HK3.5 cents per share to the shareholders of the Company registered on 7 December 2001, together with the interim dividend of HK1.0 cent per share paid in April 2001, making a total dividend of HK5.5 cents per share for the year ended 30 June 2001.

During the year, the Group wrote off the goodwill arising from the acquisition of PHT of HK$456.5 million in the capital reserve account. Subsequent to the balance sheet date, the Group disposed of all of its interests in PHT to a third party for a cash consideration of HK$455 million and as a result, the write–off was reversed in August 2001.

In order to reflect more accurately the useful lives of moulds, the depreciation rate has been revised from 6.25% to 12.5% per annum. Had the depreciation rate remained unchanged from the previous year, the depreciation charge for the year would have been reduced by approximately HK$4.1 million.

During the year, 94,500,001 new shares of the Company were issued for acquisition of a new investment and the benefit from this business was not reflected in this year's result. Another new issue of 81,966,638 shares of the Company pursuant to the share option scheme of the Company and the rights attaching to the convertible bonds issued by the Group were recorded. Basic earnings per share for the current year were therefore decreased by 11.7% to HK9.02 cents.

(B) CAPITAL STRUCTURE AND TREASURY POLICY

The Group maintains a strong and stable financial position. As at 30 June 2001, the Group had total assets of approximately HK$2,597.9 million, comprising non-current assets of approximately HK$603.3 million and current assets of approximately HK$1,994.6 million, which were financed by current liabilities, non-current liabilities, minority interests and shareholders' funds of approximately HK$832.3 million, HK$386.4 million, HK$270.5 million and HK$1,108.7 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 and Renminbi.

As at the balance sheet date, the Group's cash and bank balances and total borrowings were approximately HK$1,007.4 million and HK$727.6 million respectively. The Group's consolidated net cash as at 30 June 2001, being cash and bank deposits less bank borrowings, amounted to HK$279.8 million, compared to HK$175.3 million as at 30 June 2000.

Due to the expansion of the Group, more bank loans were raised for capital expenditures and general working capital purposes and together with the issue of US$16.0 million convertible bonds in September 2000 (see below), an increase of approximately HK$35.7 million in finance costs including the bank interests and interests on the convertible bonds was noted.

In September 2000, the Group raised new funding by way of an issue of an aggregate principal amount of US$16.0 million 3% convertible bonds due September 2003 ("CBs") to Credit Suisse First Boston (Hong Kong) Limited ("CSFB") and The SCM Growth Fund II L.P. ("SCM"). The purposes of the net proceeds derived from the issue of the CBs are for the expansion of certain production facilities and general working capital purposes. During the year, CSFB and SCM converted approximately US$1.1 million and US$4.0 million bonds respectively into ordinary shares of the Company, which resulted in an increase in the shareholders' funds of the Company by a total of HK$39.4 million.

In January 2001, a three-year syndicated loan of US$40 million was concluded, which is mainly used to increase production capacity and general working capital. The facility received very strong support from seven leading banks, demonstrating the solid credit of the Group as well as the confidence of the banking community in the Group's long term financial status. During the year, early repayment of US$5.0 million was made in view of the excess cash position of the Group.

The Group's overall treasury and funding policy is that of risk management and control. The assets and liabilities of the Group are mainly denominated either in Renminbi, Hong Kong or United States dollars. Accordingly, the Group has minimal exposure to foreign exchange risk. The Group will closely monitor the overall exchange and interest rate exposures and will use appropriate financial instruments for hedging against these exposures.

(C) LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2001, the Group had aggregate banking and credit facilities in respect of overdrafts, short term loans, trade financing and finance leases of approximately HK$777.6 million. All were secured by certain of the Group's tangible fixed assets with net book value totaling HK$17.4 million and bank deposits of approximately HK$24.5 million. The Group had utilized a total of approximately HK$368.6 million, representing 47.4% of the aforesaid banking and credit facilities as at the same date.

Subsequent to the year end, the Group reviewed its funding needs in the coming year and HK$102.6 million of the aforesaid facilities were terminated by the Group.

Total loans outstanding at the end of the financial year amounted to HK$727.6 million, an increase of HK$457.5 million from last year. Loans drawndown from new long term facilities primarily convertible bonds and syndicated loans were approximately HK$436.8 million. They were used to finance capital expenditures and the acquisition of new aluminium extrusion factories by the Group in the PRC. As a result, the debt to equity ratio (debt / shareholders' funds) of the Group increased from 22.0% a year ago to 59.0% at year-end. This is in line with the Group's strategy to consolidate its capital investment financing policy. Long term facilities will be better utilised so as to improve the Group's short term financial position. The current ratio increased to 2.8 at 30 June 2001 compared to 2.2 a year ago.

In August 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, the PRC. The total cash consideration for the acquisition is approximately HK$214.0 million and is expected to be completed in the last quarter of 2001.

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

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