MANAGEMENT Discussion and Analysis

THE OPERATING REVIEW

The year under review was a challenging one for the Group amidst a difficult operating environment and the recession in the worldwide economy. Management has continued to put every effort on focusing on and strengthening the business of its principal subsidiary, Asia Aluminum Group Limited ("AAG"), which is engaged in the manufacture and sales of aluminum and stainless steel products, by investing in new manufacturing facilities through organic growth and acquisitions. This ongoing strategy of the management has enabled the Group to secure its status as the largest aluminum extruder in Asia.

(a) OPERATING RESULTS FOR THE YEAR

The Group achieved satisfactory operating results for the year. The Group's turnover maintained at approximately HK$1,965.7 million, a slight decrease of 4.7% as compared to last year. As a result of the adoption of the new Hong Kong accounting standards that came into effect during the current financial year, the profits attributable to shareholders for the year included certain non-recurring expenditure of approximately HK$73.6 million which is the expenditure in the acquisition of certain business database. The net profit attributable to shareholders, therefore, decreased by HK$64.0 million to HK$131.4 million.

In order to concentrate our focus on the core aluminum extrusion business, the Company, in August 2001, disposed of its business in the production of environmental protection products, with a gain amounting to HK$8.7 million.

The Group maintained a stable gross profit margin in the past three years and improved its gross profit margin for the year to 22.9% through persistent cost control and enhancement of product mix. The Group adopts a cost plus approach to price its products, i.e. the product price is quoted according to London Mercantile Exchange ingot spot or forward price plus processing fees. As such, the Group is essentially not exposed to any risk of fluctuations in aluminum ingot prices.

During the year, the Group invested HK$208.8 million in capital expenditures and HK$46.8 million as capital injection into the newly set up joint ventures. Compared with last year, excluding the exceptional and non-recurring items including the gain on disposal of interests in subsidiaries and of discontinued operations, the write-off of fixed assets and expenditure in acquisition of certain business database, the adjusted consolidated operating profit before tax was HK$271.4 million, as compared to HK$173.7 million last year, representing an increase of 56.2%.

(b) DYNAMICS OF THE BUSINESS

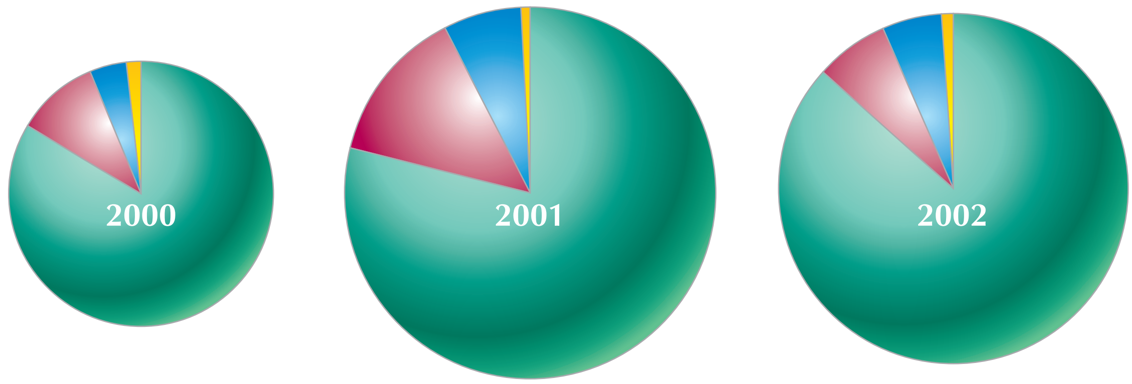
Manufacture and Sale of Aluminum and Stainless Steel Products

AAG and its subsidiaries (the "AAG Group") are engaged in the aluminum extrusion and stainless steel business and continues to be the major profit contributor for the Group. 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$1,806.8 million for the year, representing an increase of HK$46.3 million from the previous year. Given the competitive market environment, the Group pursued the value-added strategy of improving product quality and diversifying product portfolio especially on high-margin and high-end products with complex applications. This approach was proved effective in maintaining the Group's leading market position.

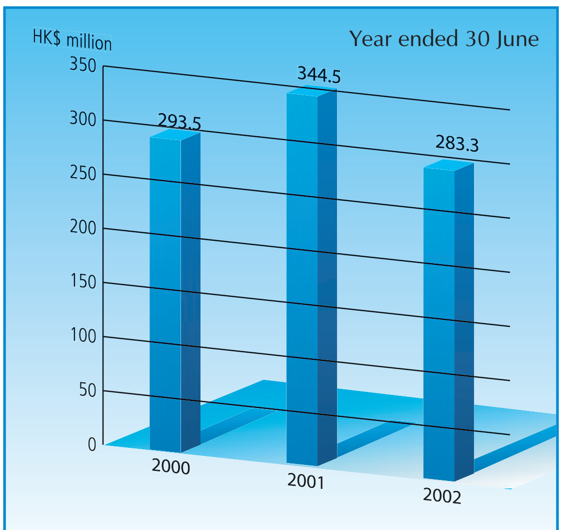
• Major Projects of the Group

Turnover of AAG Group by products

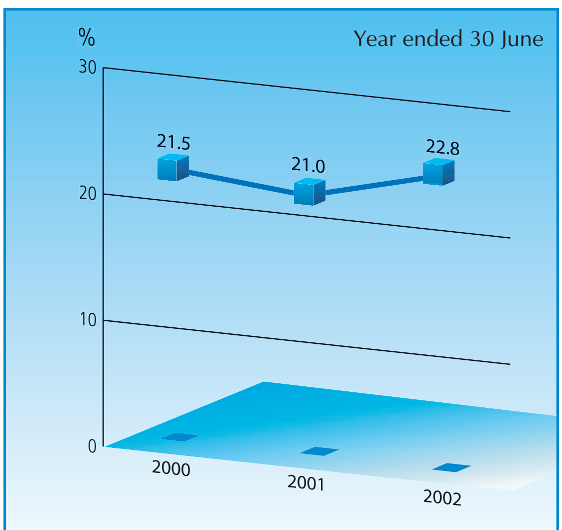


HK$1,748 Million | HK$2,057 Million | HK$1,961 Million

	2000 %	2001 %	2002 %
Manufacture and sale of:			
aluminum extrusion products	83.6	78.9	**86.6**
stainless steel products	10.1	13.5	**6.8**
aluminum panels	4.5	6.8	**5.5**
Provision of:			
design and testing services for aluminum products	1.8	0.8	**1.1**



EBITDA* of AAG Group



Gross profit margin of AAG Group

* EBITDA – Earnings before interest, tax and depreciation

• Major Projects of the Group

Sales revenue from the manufacture and sale of stainless steel products decreased by 52.2% to HK$133.2 million in 2002, mainly because of the intensive competition.

The Group also derived HK$22.5 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.

Expansion of Production Capacity

During the last quarter of 2001, in order to maximize economies 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. At present, the Group has altogether five extrusion facilities with current annual production capacity of 120,000 metric tons, the largest in Asia.

Business Sales

The PRC continues to be the Group's largest and most promising market. Buoyed by a revised GDP growth forecast of 7.8% in 2002, the country's infrastructure and property development activities will gain in momentum. National projections forecast that 40 new airports will be built during the next five years. Aluminum extrusion and panel supply contracts have already been secured for Guangzhou Huadu Airport, five massive residential projects in Shanghai, and Nantong Municipal Government Tower during the year under review and others like The Grand Opera House in Beijing are currently under negotiation.

In Hong Kong, the Group has obtained supply contracts for the Science and Technology Park, the redevelopment project in Mongkok Bird Street and Kowloon Station phase II project.

Examples of the current high-profile construction projects and customers included Nina Tower, Cyberport and IFC Tower Phase II in Hong Kong; as well as Shanghai World Trade International Centre, Jiangsu Mobile Telecom Tower and Shanghai CIMC Reefers Containers in the PRC.

It is the Group's strategy to achieve a well-balanced geographical spread and product portfolio to minimize risk exposure. The two 60/40, 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 and 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$738.2 million and HK$1,323.7 million respectively.

Equal share in the sale of construction/non-construction and paint-coated/anodized products is likely to be accomplished in the next fiscal year. A considerable share of the contracts to Japan and North America is for non-construction products which helps to enhance the Group's gross profit margin.

(c) EMPLOYEES AND REMUNERATION POLICIES

As at 30 June, 2002, 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. A new share option scheme was adopted by the Company in December 2001.

• Major Projects of the Group

(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 acquisitions and organic growth, so as to maximize the benefits derived from economies of scale and to strengthen the position of the Group as a leading player in the industry. Management believes that the two new PRC joint ventures can become major profit contributors for the Group in the near future. To capture the existing demands and maximize sales and profits, the Group has outsourced some of its orders to a few selected extrusion factories, meanwhile continuing the identification and review of acquisition targets to achieve our goal of being a global leader in the industry with a strong operating platform in the PRC.

The Group is also working on developing a system to provide a fully integrated supply chain with our suppliers in the PRC in the direct delivery of aluminum billets to our production facilities to shorten the lead time for inbound raw materials, reduce unnecessary production steps, and achieve more effective control over inventories and logistics costs. Negotiations with a number of smelters and suppliers are currently on-going with the aim of reorganising part of our procurement and production phases to achieve further cost-savings during fiscal year 2003.

The Directors believes that there is market potential for stainless steel products provided the products are cost competitive. In order to enhance the cost-competitiveness of the stainless steel products, the Group has recently installed cold coil steel production lines that will substantially reduce the production costs and increase the price competitiveness. The Directors believe that the sales of stainless steel products will be substantially improved in the coming year.

In order to provide value-added services and total solutions to our customers, the Group has strengthened its product design and development team to provide technical advice to customers, especially in media and advertising, electronics and automobile industries, in the design, development and application of our products in their specific industry. The team is now working on the development of new products such as "brite dip" products and downstream finished goods such as doors and bathroom enclosures for direct distribution to retailers. New production lines for these products are being installed and full scale operations will commence in the first quarter of 2003. The directors believe the team can facilitate the diversification of our product portfolio into new industries and strengthen the relationship with our customers. 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, developing products of higher profit margins, and penetrating markets such as the European and Japanese markets.

• Major Projects of the Group

THE FINANCIAL REVIEW

(a) ATTRIBUTABLE RETURN TO SHAREHOLDERS AND DIVIDEND POLICY

Basic earnings per share for the current year were HK5.78 cents, compared to HK9.02 cents last year.

The Group maintained its position of financial stability and solid cash holdings at the end of 2002. In light of this, the Group has continued its policy of consistent dividend payments to shareholders, with a payout ratio of 45.5% for 2002.

The Directors has recommended a final dividend of HK1.5 cents per share to the shareholders of the Company, together with the interim dividend of HK1.0 cent per share paid in April 2002, making a total dividend of HK2.5 cents per share for the year ended 30 June 2002.

In August 2001, the Group disposed all of its interests in Hamington International Limited ("Hamington") to a third party for a cash consideration of HK$455 million and so the Group has reversed the write off in previous year regarding the goodwill arising on acquisition of Hamington of HK$456.5 million in the capital reserve account.

(b) CAPITAL STRUCTURE AND TREASURY POLICY

The Group maintains a strong and stable financial position. As at 30 June 2002, the Group had total assets of approximately HK$3,635.2 million, comprising non-current assets of approximately HK$831.2 million and current assets of approximately HK$2,804.0 million, which were financed by current liabilities, non-current liabilities, minority interest and shareholders' funds of approximately HK$1,030.1 million, HK$362.3 million, HK$499.8 million and HK$1,743.0 million respectively.

The Group generally finances its operations with internal resources as well as banking and credit facilities granted by banks, financial institutions and leasing companies 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. The bank deposits and borrowings are mainly in Renminbi and United States dollars respectively.

As at the balance sheet date, the Group's cash and bank balances and total borrowings were approximately HK$1,328.5 million and HK$785.3 million respectively. The Group's consolidated net cash as at 30 June 2002, being cash and bank deposits less bank borrowings, amounted to HK$543.2 million as compared to HK$279.8 million as at 30 June 2001.

During the year, Credit Suisse First Boston (Hong Kong) Limited converted US$5.7 million of the 3% convertible bonds due September 2003 ("CBs") into ordinary shares of the Company, which resulted in an increase in the issued share capital and share premium of the Company by a total of HK$44.5 million. As of 30 June 2002, the outstanding balance of the CBs amounted to HK$41.0 million.

It is the Group's policy to lengthen its debt maturity profile by refinancing its matured short-term debts with medium to long-term committed facilities. In May 2002, the amount of the three-year syndicated loan drawn by the Group increased by US$5.0 million to US$40.0 million.

• Major Projects of the Group

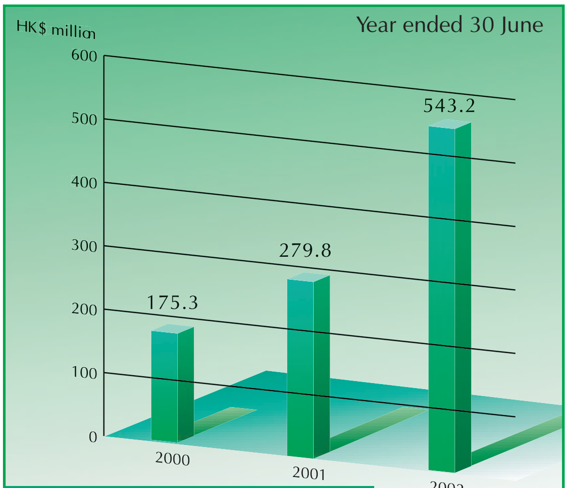
The objective of the Group's overall treasury and funding policy is to manage exposures to fluctuation in foreign currency exchange rates and interest rates on specific transactions. It is our policy not to engage in speculative activities. The Group will closely monitor overall exchange and interest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

As at 30 June 2002, the Group has contingent liabilities of bills discounted with recourse of HK$2.1 million.

(c) LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity position remains strong with available undrawn bank facilities together with bank deposits of HK$447.1 million and HK$1,328.5 million respectively as of 30 June 2002. The ample financial resources available to the Group will provide adequate funding for the Group's operational requirements and also put us in a favourable position to take advantage of potential acquisitions.

As at 30 June 2002, the Group had aggregate banking and credit facilities in respect of overdrafts, short term loans, trade financing and finance leases of approximately HK$879.5 million which were secured by certain of the Group's tangible fixed assets with net book value totaling HK$45.5 million (including assets held under finance leases) and bank deposits of approximately HK$78.0 million. The Company has given corporate guarantees for a total amount of HK$801.8 million, of which a total amount of HK$426.8 million was given during the year, in favour of banks and financial institutions for the aforesaid banking and credit facilities granted to two non-wholly-owned subsidiaries of the Company, namely Asia Aluminum Manufacturing Company Limited and Nanhai Asia Aluminium Factory Limited. As of the same date, the Group had utilized a total of approximately HK$432.4 million of the aforesaid banking and credit facilities.



Net cash position of the Group

The Group's debt-to-equity ratio (debt/shareholders' funds) as at 30 June 2002 was 45.1%, lower than last year's level. The current ratio is 2.7 at as 30 June 2002. As of 30 June 2002, 53.9% of the total borrowings is repayable within one year and 46.1% is repayable within two to five years.

In the last quarter of 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. At the balance sheet date, the Group was committed to make a capital contribution of HK$98.9 million to subsidiaries in the PRC.

As of the date of this report, in accordance with the payment terms of the disposal of the Group's business of environmental protection products (the "Disposal"), a total of HK$300.0 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 requirement 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.

• Major Projects of the Group