Our progressive corporate and business advancement initiatives of the past year will position our Group in an even stronger platform to power a new phase of dynamic and profitable growth.

MANAGEMENT DISCUSSION AND ANALYSIS

THE OPERATING REVIEW

Turnover

The Group had an outstanding year in 2002/03. The growth in the aluminum downstream industry was propelled by the robust demand from the global market. The PRC is currently the second largest country in the world in terms of aluminum consumption and continues to be the Group's largest and the most promising market. The success in our PRC franchise model has positioned the Group well to enjoy benefits from the unrivalled economic growth of the PRC. Turnover of the Group for the year increased 20% to HK$2,358 million.

	Group Turnover by Geographical Segments		**Net change**
	2003	2002	**in 2003**
PRC	**79%**	74%	+28%
Hong Kong	**11%**	14%	-9%
North America	**6%**	3%	+135%
Asia Pacific & others	**4%**	9%	-35%

Operating Results

The Group maintained a stable gross profit margin through persistent cost control and enhancement of product mix. The overall margin during the year was 22.7% and the gross profit amounted to HK$536 million.

The profit before tax for the year increased by 92% to HK$406 million and the net profit attributable to shareholders increased by 83% to HK$241 million which included an additional gain of HK$52 million derived from the disposal by the Company of a 26.2% interest in its major subsidiary, Asia Aluminum Group Limited ("AAG") in June 2001.

Business Components

AAG and its subsidiaries (the "AAG Group") are principally engaged in the manufacturing and sales of aluminum extrusion and stainless steel products. During the year, the AAG Group continued to be a major profit contributor to the Group. It continued to reinforce its leading position in the aluminum business and to spare efforts to further expand production capacity, sales network and market share.

(a) Aluminum Extrusion and Panel

Turnover from manufacturing and sales of aluminum products has recorded a steady increase for the reporting year as a result of uninterrupted growth in domestic demand in the PRC and diversification of the Group's product portfolio into high-end products with complex applications. The turnover during the year amounted to HK$1,981 million, representing an increase of 10% from last year. The margin has been kept relatively stable with an improving outlook.

(b) Stainless Steel

The stainless steel market in the PRC is highly fragmented and is dominated by a few market participants. Though the PRC's continuous investment in infrastructure projects has increased consumption of stainless steel, over-supply in the global market heightened competition and impaired the operating environment for manufacturing and sales of stainless steel. The Group slowed down its stainless steel operation in the first half of the year due to unattractive returns. Sales and profit margin recovered through process integration and product diversification in the second half. Sales of stainless steel products increased 171% to HK$362 million over the previous year with the gross profit margin increased to 11%.

(c) Design and Testing Services

The revenue derived from the provision of design and testing services for aluminum products was steady and amounted to HK$15 million. The Group's testing chamber and facilities have been accredited and qualified to provide the testing services for both the PRC and HK customers in the construction sector. This will further strengthen the Group's position as a one-stop total solution provider.

Growth of Production Capacity

The Group's current annual total production capacity is 140,000 metric tons, representing a 17% growth from the last balance sheet date. This enables the Group to maintain its leadership as the largest aluminum extruder in Asia. Leveraging on the emerging business opportunities in the PRC and North American markets, the Group will cautiously evaluate and actively reinvest the funds generated from operations to enhance its growth.

	Production Capacity (mt)	**Net increase in 2003**
Nanhai Asia Aluminium Factory Co., Ltd.	60,000	9%
Nanhai Xinya Aluminium & Stainless Steel Co., Ltd.	25,000	–
Nanhai Nanhua Aluminum Co. Ltd.	30,000	50%
Nanhai Hongjia Aluminum Co. Ltd.	25,000	25%
Total	**140,000**	

The Group will pursue growth both vertically and horizontally through acquisitions and organic growth. Currently, the Group has abundant orders-on-hand and has outsourced some of its orders to a few selected extrusion factories, which are the potential acquisition targets for us.

Employees and Remuneration Policies

As of 30 June 2003, the Group employed over 4,400 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 packages include medical insurance, pension funds (Mandatory Provident Fund Scheme for the Group's employees in Hong Kong) and bonuses.

Prospect and Future Plans

(a) *PRC Sales*

The outlook for the PRC market continues to be very promising. The strong demand for aluminum products brought by the PRC's rapid urbanization and stable economic growth is further fuelled by the forthcoming 2008 Beijing Olympic Games, the 2010 Shanghai World Expo, the China Go-West Policy and the Housing Reform. The Group has secured aluminum extrusion and panel supply contracts for Beijing Grand Opera House, Hangzhou Opera House, Beijing Friendship Hospital, Tianjin People's Hospital, Shanghai German Centre, Shenzhen People's Square and Shanghai Xintiandi II. Supply contracts for various projects for the Beijing Olympics are in the final negotiation stage.

(b) *International Sales*

In Hong Kong, the Group has obtained supply contracts for AIG Tower, Tsing Yi Hotel, Tsuen Wan Police Headquarter, The Science Park, the Langham Place in Mongkok, Enterprise Square III in Kowloon Bay. The supply contract for The Disneyland Park will be concluded soon.

The contract to supply aluminum extrusion products and panels to Macau Casino Project is confirmed.

Outside Hong Kong and Macau, the Group has obtained supply contracts for Cedars-Sinai Medical Centre and State Office Building in the United States, QV1 in Australia and SK Telecom Building in South Korea.

The Group is expecting seamless sales growth in the North American market in 2004, through increasing outsourcing orders from Indalex and other direct marketing and active order soliciting. Given the cost competitiveness of our products, the Group believes that the North American market shall deliver good performance in the coming years. Despite possible competition, the Group and Indalex keep an open attitude and are now working together to reformulate their strategies so as to strengthen their joint market position in the industry.

Sales to international markets and the PRC domestic market were HK$497 million and HK$1,861 million respectively. It is the Group's strategy to maintain well-balanced geographical and product mix to minimize concentration risks. Despite the strong growth in the PRC market, the Group plans to increase its share in still untapped international markets and is aiming at deriving 50% of its sale from international markets and the remaining 50% from the PRC. With regard to the product mix, the Group will further increase the proportion of consumer household and paint-coated products to enhance its profit margins.

(c) *Asia Aluminum Industrial City*

The Group has recently announced a major investment at the High-Tech Development Zone of Zhaoqing City, Guangdong Province, PRC. The investment is strongly supported by the Zhaoqing Municipal Government. This will comprise establishment of "Asia Aluminum Industrial City" and a pilot project in manufacturing and sales of premium aluminum sheets. The facilities will be set up to produce 400,000 metric tonnes of premium aluminum sheets per annum. The products are widely applied in aluminum can manufacturing, automobile, construction, printing and aerospace industries.

While the new aluminum sheet facilities will only occupy a quarter of the site area of the industrial city, the Group is cautiously planning to centralize and move its existing five factories in Foshan City to a single production complex within the same industrial city. The Group believes that the move can further enhance its cost control and operating efficiency.

Shareholders' Value

It has been the Group's corporate policy to maximize return to its shareholders. In the medium term, the Group will focus on sales in the premium sectors with higher margin in construction, transportation and consumer market to recognize our superior production quality and ability. In the long run, the Group will look for a healthy bilateral growth in the production capacity and the global market penetration.

THE FINANCIAL REVIEW

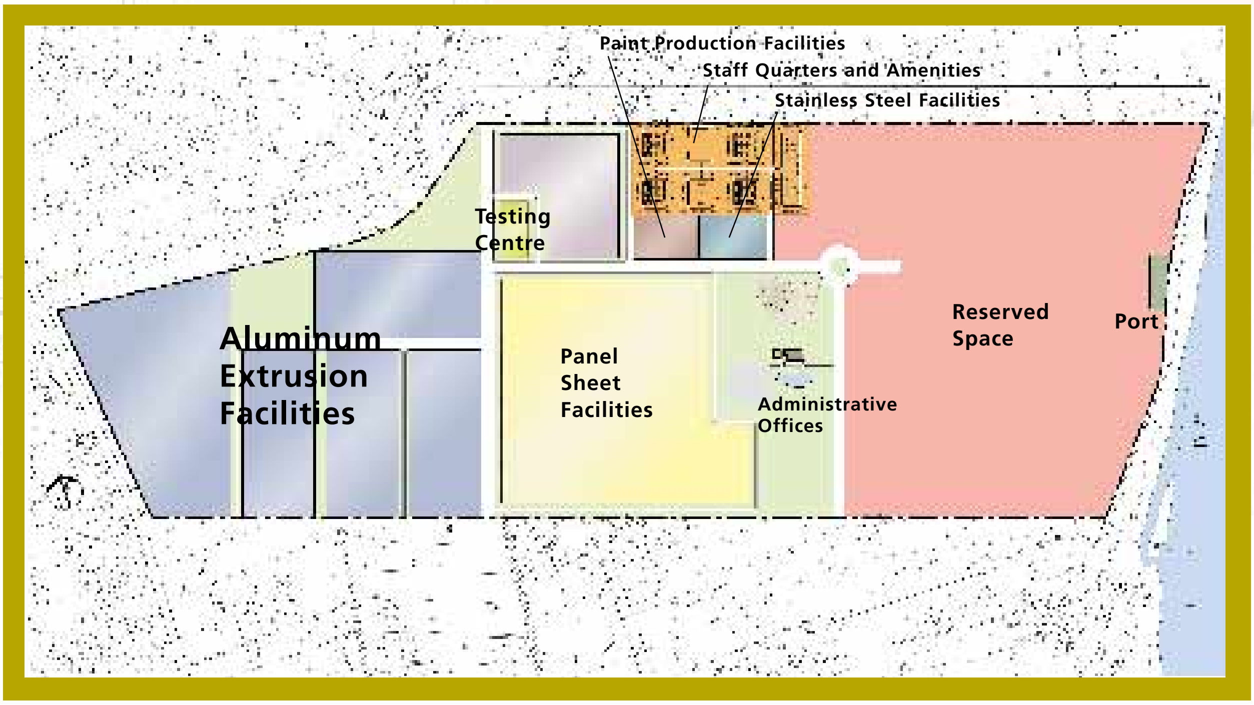
Attributable Return to Shareholders and Dividend Policy

Basic earnings per share ("EPS") for the year were HK 9.83 cents, compared to HK 5.78 cents in the last year. In order to maintain a growth and avoid possible dilution in the EPS as a result of issue of new shares arising from exercise of share options, as revealed earlier during the interim period, the Board of Directors had decided not to issue any new share options in a 12-month period.

The Group adopts a consistent dividend payment policy. The payout ratio has been more than 40% since 2001. The Board has recommended payment of a final dividend of HK 1.8 cents per share to the shareholders of the Company whose names appear on the Register of Members of the Company on 9 December 2003. The dividend warrants will be dispatched on or before 29 December 2003.

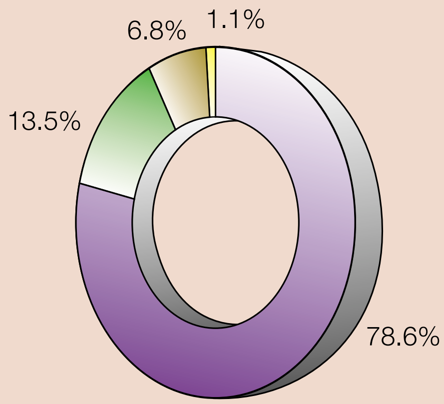
Capital Structure and Treasury Policy

The Group has maintained a strong and stable financial position. As on 30 June 2003, the Group had total assets of approximately HK$4,139 million, comprising non-current assets of approximately HK$1,021 million and current assets of approximately HK$3,118 million, which were financed by current/non-current liabilities, minority interest and shareholders' funds of approximately HK$1,585 million, HK$554 million and HK$2,000 million respectively.

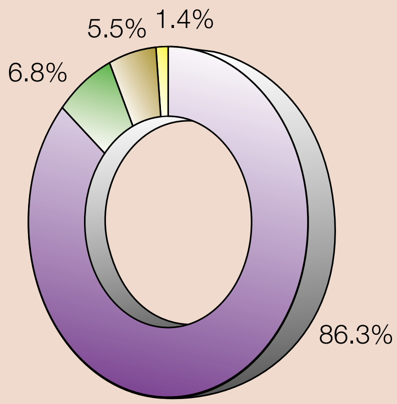


Sketch Map of Asia Aluminum Industrial City

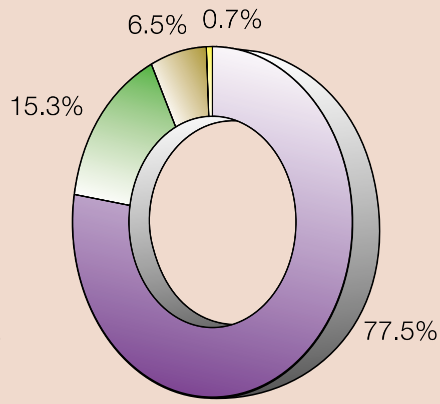
Turnover by Products



HK$2,062 Million
2001

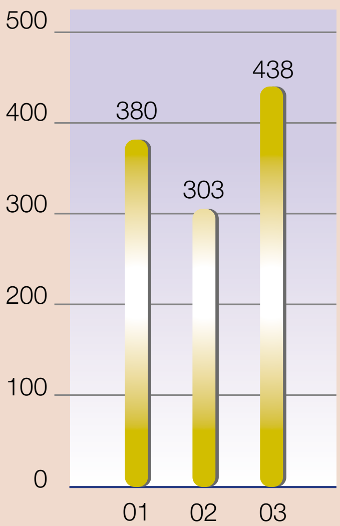


HK$1,966 Million
2002

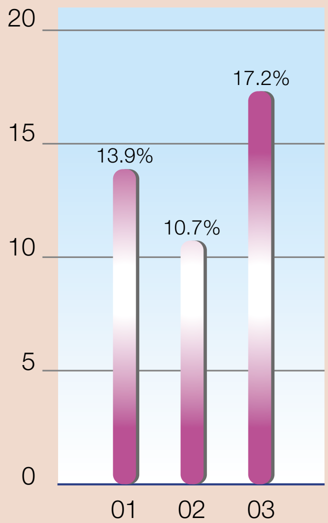


HK$2,358 Million
2003

	2001	2002	**2003**
Manufacture and sale of:	%	%	**%**
aluminum extrusion products	78.6	86.3	**77.5**
stainless steel products	13.5	6.8	**15.3**
aluminum panels	6.8	5.5	**6.5**
Others including:			
provision of design and testing services for aluminum products	1.1	1.4	**0.7**



EBITDA*



Operating Profit Margin

* *EBITDA – Earnings before interest, tax and depreciation*

The Group generally finances its operations with internal resources as well as banking and credit facilities granted by banks and financial institutions in Hong Kong and the PRC. The majority of the banking and credit facilities are trade finance facilities and are denominated in US dollars. Interest rates are fixed by reference to the London Interbank Offered Rate.

In July 2003, the Group has arranged a new 3-year syndicated loan, which received overwhelming responses from the banking community. With participation from 13 financial institutions, the loan was increased to US$75 million from the original target of US$60 million. Of the total proceeds raised, an amount of US$40 million has been used to refinance the previous syndicated loan maturing in January 2004. The balance of US$35 million will be used as the Group's general working capital. The management believes that the lower financing cost will benefit the Group's future development plan.

As at 30 June 2003, the Group's cash and bank balances and total borrowings were approximately HK$1,987 million and HK$998 million respectively. The Group's consolidated net cash as at 30 June 2003, being cash and bank deposits less bank borrowings, amounted to HK$989 million as compared to HK$543 million as at 30 June, 2002. Most of the bank deposits are denominated in Renminbi.

As at 30 June 2003, the Group has contingent liabilities of bills discounted with recourse of approximately HK$13.1 million and guarantee for certain banking facilities of approximately HK$10.9 million respectively.

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.

Commodity Risks

The Group adopts a cost plus approach to price its products to the effect that the price is quoted according to the London Metal Exchange ingot spot or forward price plus processing fee. Such pricing policy protects the Group from the risk exposure associated with the fluctuations in aluminum ingot prices.

Liquidity and Financial Resources

The Group's liquidity position remains strong with available undrawn bank facilities together with bank deposits of HK$1,162 million and HK$1,987 million respectively as of 30 June 2003. 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 for further expansion, including potential acquisitions.

As at 30 June 2003, the Group had aggregate banking and credit facilities in respect of overdrafts, short term loans, trade financing and finance leases of approximately HK$1,893 million and were secured by the Group's certain tangible fixed assets with net book value totaling HK$15 million and bank deposits of approximately HK$116 million. In addition, the Company has provided corporate guarantees for a total amount of HK$1,670 million. The Group had utilized a total of approximately HK$686 million of the aforesaid banking and credit facilities and HK$586 million of the corporate guarantees as on the same day.

The debt to equity ratio (debt/shareholders' funds) of the Group as at 30 June 2003 was 50%, slightly increased from last year. The current ratio was 2.0 at as 30 June 2003, and was increased to 2.5 after the refinancing arrangement of the above-mentioned new syndicated loan. Of total borrowings as of 30 June 2003, all are repayable within one year.

The Group services its debts primarily through strong recurrent cash flow generated from its stable base of operation. 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 a conservative and prudent policy in financial and treasury management.