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The Operating Review

(a) Overview

For the six months period ended 31 December 2003, the Group achieved record half-year sales of HK$1,449 million, an increase of 31% over the comparable period in 2002 mainly due to high demand in infrastructure and government projects in the PRC.

Turnover contribution based on geographical areas stood at Hong Kong 5% (2002: 14%), Mainland China 83% (2002: 77%), North America 8% (2002: 2%), Asia Pacific (excluding Mainland China and Hong Kong) and others 4% (2002: 7%).

Business segment turnover contribution showed aluminum extrusion and panels at 80% (2002: 95%), stainless steel at 19% (2002:4%), design and testing services at 1% (2002: 1%).

The Group's overall gross profit margin during the period was 19% amounting to HK$272 million.

The operating profit during the period decreased by 27% to HK$214 million and the net profit attributable to shareholders decreased by 53% to HK$83 million. Excluding the additional gain on partial disposal of interests in subsidiaries of the Company in 2002 of HK$52.4 million, the net profit attributable to shareholders decreased by 33%.

(b) Divisional Operating Performance

Aluminum Extrusion and Panels

Turnover during the period amounted to HK$1,159 million and represented an increase of 11% from the last corresponding period attributed from the growing domestic demand in the PRC and the strong exports to North America.

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The gross profit margin during the period decreased from 27% to 20% whilst the aluminum ingot prices increased considerably by about 14% during the period. 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 and that protects the Group from the risk exposure associated with the fluctuations in aluminum ingot prices. In order to strengthen client relationship and further penetration for defined market segment, we had taken the strategy to absorb part of the increased costs in materials in the first half of financial year 2004.

Stainless Steel

Although the operating environment for the manufacturing and sales of stainless steel was very competitive, the sales increase through process integration and product diversification. Sales of stainless steel products increased 4.8 times to HK$273 million over the period and the gross profit margin was 9%.

Design and Testing Services

The revenue derived from this division was steady and amounted to HK$17 million. The Group's testing chamber and facilities have been accredited and qualified to provide value added services for customers in the construction sector.

(c) Human Resources

As at 31 December 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. The remuneration package adopted by the Group includes share options and discretionary bonuses being granted to eligible staff based on the Group's performance and individual contribution. The Group's staff costs (including directors' emoluments) for the six months ended 31 December 2003 amounted to approximately HK$54 million (2002: HK$50 million).

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(d) Future plans and Prospect

Future Plans

Aluminum extrusion

In order to capture the continued growing demand of aluminum extrusion products and to achieve further cost savings and economy of scale, the Group decided to accelerate the aluminum extrusion expansion plan to increase the Group's total aluminum extrusion production capacities in phases from the existing 140,000 tonnes to 300,000 tonnes before the end of 2005. The new aluminum extrusion plant is established in the Asia Aluminum Industrial City ("Industry City") in the High-Tech Development Zone of Zhaoqing, Guangdong Province, the PRC. The overall design of the extrusion plant has just been approved and the construction work of the plant will commence forthwith.

After the completion and smooth running of the new plant, the Group will gradually centralize its five factories from different parts of Foshan City in Guangdong Province, the PRC into the Industrial City. The Group believes that the move can further enhance the cost control and operating efficiency. This enables the Group to maintain its leadership as the largest and one of the most profitable aluminum extruders in Asia.

The total investment for the expansion is estimated to cost approximately HK$1 billion, which is to be partly financed by the proceeds of HK$507 million raised by the Company from a placement of 332,000,000 new shares in January 2004. The remainder of the costs will be mainly funded by internal resources of the Group.

Aluminum Sheets

In September 2003, the Group established a wholly-foreign owned enterprise "Asia Aluminum (China) Company Limited" in Zhaoqing for the purpose of operating a plant for the manufacturing of high-grade rolled products - premium aluminum sheets. The plant will be constructed in the Industrial City and is 60% owned by the Group with an annual production capacity of 400,000 tonnes. The products are widely applied to aluminum cans, automobile, construction, printing and aerospace industries.

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The factory is now under construction and the machinery installation is expected to start in the last quarter of 2004. The facilities are expected to begin trial run in the first half of 2006. This horizontal expansion of the Group can provide a comprehensive aluminum product mix to the Group's existing customers and the Group can also explore new customer bases in various new industries. Since the announcement of the aluminum sheets project in mid 2003, the Group has been approached by several multinational corporations for possible co-operation opportunities such as strategic equity investments and product distributorship for major markets in Asia and Europe. These discussions are still in a preliminary stage.

Other Expansion Plans

The Group is also developing a number of expansion plans which are complimentary to our core aluminum extrusion business.

One of the plans is to expand our manufacturing function to cover metal related finished products processing that initially include anchor channels for pre-casting systems, stainless steel aerial/tower work platform and scaffolding products and other environmental metal fabrication works. The production plant will also be constructed at the Industrial City and is 55% owned by the Group with an annual production capacity of 2,000 tonnes. It is expected that the plant will commence production in October 2004.

In order to secure a steady supply of raw materials for our aluminum extrusion business, the Group has recently entered into a 5-year raw material supply agreement with a major aluminum producer in Henan Province, the PRC. Under the agreement, the Group will be supplied with molten (liquid) aluminum for upto 100,000 tonnes each year starting from October 2004. With this arrangement, the Group is secured with a stable long-term supply of raw materials for the production of aluminum alloy billets that effectively can reduce the production costs by approximately HK$35 million each year.

Prospects

The Directors expect that the coming three years offer a lot of opportunities as well as challenges to the Group in view of our expansion plans and the strong demand in both the PRC and North American markets. Given the solid foundation of the Group in the industry, the Directors are confident that the Group's existing core business will continue to prosper and the Group will continue to create long-term value for its shareholders.

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The Financial Review

(a) Attributable Return to Shareholders and Dividend

Basic earnings per share ("EPS") for the period were HK3.16 cents, compared to HK7.43 cents in the last period. The Board has declared the payment of an interim dividend of HK1.2 cents per share, representing a payout ratio of 45% (31/12/02: 35%), to the shareholders of the Company whose names appear on the Register of Members of the Company on 19 April, 2004. The dividend warrants will be dispatched on or before 26 April 2004.

(b) Capital Resources and Liquidity

The Group has maintained a strong and stable financial position. As at 31 December 2003, the Group's total assets and net current assets amounted to approximately HK$5,024 million and HK$1,916 million respectively. The Group's total shareholders' funds increased 6% to approximately HK$2,124 million as at 31 December 2003 compared to HK$2,000 million as at 30 June 2003.

As at 31 December 2003, the Group's cash and bank balances was approximately HK$2,495 million of which most of the bank deposits are denominated in Renminbi.

In July 2003, the Group has arranged a new 3-year syndicated loan of total amount US$75 million of which an amount of US$40 million has been used to refinance the previous syndicated loan due in January 2004 with the balance of US$35 million used as the Group's general working capital. As at 31 December 2003, total borrowings of the Group amounted to HK$1,676 million (30 June 2003: HK$998 million), of which 65% (30 June 2003: 100%) was due within one year whilst 35% (30 June 2003: Nil) was due in the second to fifth years. Gearing ratio of the Group increased to 79% (30 June 2003: 50%) and after deducting the bank balances and cash on hand, the Group has no net debt. The Group will restructure the maturity of the total borrowings based on its future funding needs and reduce its gearing ratio to less than 55% by repaying the short term loans.

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During the period, the Group continued to maintain most of its borrowings on an unsecured basis. As at 31 December 2003, unsecured debt comprised approximately 76% of the total borrowings and remaining borrowings were secured by certain of the Group's tangible fixed assets with net book value totaling HK$14 million and bank deposits of approximately HK$120 million.

The Group's liquidity position remains strong with available undrawn aggregate banking and credit facilities in respect of overdrafts, short term loans, trade financing and finance leases together with net cash on hand of approximately HK$903 million and HK$818 million respectively as of 31 December 2003. In addition, the Group continues to generate strong recurring cashflows from its core aluminum extrusion business. The ample financial resources available to the Group will provide adequate funding for the Group's operational requirements and also put us in a favorable position for further expansion.

As at 31 December 2003, the Group has contingent liabilities of bills discounted with recourse of HK$6 million. In addition, the Company has provided corporate guarantee to non-wholly owned subsidiaries for a total amount of HK$718 million.

(c) Treasury Policy

The Group's overall treasury and funding policies have remained the same in managing 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.