

Notes to Financial Statements

30 June 2001

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 20 January 1998 and is principally involved in investing holding.

The registered office of the Company is located in Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

During the year, the Group was principally involved in the manufacture and sale of aluminium and stainless steel products, and the provision of design and testing services for aluminium products. During the year, the Group commenced the business of web sites operation and related e-business for the trading of aluminium products on the Internet.

In addition, the Group diversified into the business of the development of designs and technologies for applications in environmental protection products through the acquisition of new subsidiaries. Owing to unforeseen technical difficulties arising during the pilot production stage of this new business, mass production and commercial launching of the products have been postponed. In view of the uncertainties involved and unfavourable changes in market conditions, the directors have concluded that it is not in the interests of the Group to incur further expenditures on the development and commercialisation of this business, which accordingly was terminated subsequent to the balance sheet date through the disposal of the Company's entire equity interests in the subsidiaries undertaking this business. Further details in relation to the cessation of their business and related disposal of subsidiaries are set out in note 31(b) to the financial statements. Other than the foregoing, there were no significant changes in the nature of the Group's principal activities during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Notes to Financial Statements

30 June 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) service income from the rendering of design, testing and e-business services, on an accrual basis when the services are rendered;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholders' right to receive payment is established.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors. Shares in subsidiaries are stated in the Company's balance sheet at cost less any provisions for diminutions in value, other than those considered to be temporary in nature, deemed necessary by the directors.

Associate

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any provisions for diminutions in value, other than that considered to be temporary in nature, deemed necessary by the directors.

Notes to Financial Statements

30 June 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill/Capital reserve

Goodwill arising on consolidation of subsidiaries represents the excess of the purchase consideration paid for the subsidiaries over the fair values ascribed to the net underlying assets acquired, and is eliminated against reserves in the year of acquisition.

Capital reserve arising on the consolidation of subsidiaries represents the excess of the fair values ascribed to the acquired subsidiaries' net underlying assets at the date of acquisition over the purchase consideration for such subsidiaries.

Upon the disposal of an interest in a subsidiary, the attributable amount of purchased goodwill, which had previously been eliminated against reserves and had not previously been charged to the profit and loss account, is included in the calculation of the gain or loss on disposal of the subsidiary and is reflected in the profit and loss account.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of a fixed asset, the expenditure is capitalised as an additional cost of that fixed asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	— 5%
Plant and machinery	— 6.25%
Moulds	— 12.5%
Furniture and fixtures	— 10%
Office equipment	— 16.67%
Motor vehicles	— 16.67%

In prior years, moulds were depreciated at an annual rate of 6.25%. During the year, the depreciation rate for these items has been revised to 12.5% per annum. In the opinion of the directors, the useful lives of these assets are more accurately reflected by the revised estimate. 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.

Notes to Financial Statements

30 June 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

Construction in progress represents the costs incurred in connection with the construction of fixed assets and is not depreciated. Cost comprises direct costs incurred during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to Financial Statements

30 June 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

During each of the financial years ended 30 June 2000 and 2001, the research and development costs incurred by the Group, including those in connection with the Group's newly acquired business of the development of designs and technologies with applications in environmental protection products, were not significant to the Group and had been charged to the profit and loss account in the years when they were incurred.

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the Scheme. The Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are recognised as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully in the employees when contributed into the Scheme in accordance with the rules of the Scheme.

Notes to Financial Statements

30 June 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and an associate are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Notes to Financial Statements

30 June 2001

3. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

The Group had the following transactions with related parties during the year in addition to those disclosed elsewhere in the financial statements:

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
Sales of raw materials and finished goods	(i)	4,241	1,343
Rental expense paid	(ii)	3,801	2,425
Interest income received	(iii)	—	249
		<u> </u>	<u> </u>

In addition to the foregoing, management fees in the amount of HK\$2,041,000 was paid during the year by Asia Aluminum Group Limited and certain of its subsidiaries which are partially owned by the Company to Asia Aluminum Management Limited, a wholly-owned subsidiary of the Company. These management fees were paid on a cost-recovery basis and are eliminated on Group consolidation.

Notes:

- (i) The 2001 sales of finished goods were made during the period from 8 June 2001 to 30 June 2001 to Indalex Aluminum Solutions Group which are companies associated with Indalex UK Limited ("Indalex"), a company which became the minority shareholder of a subsidiary of the Company upon the acquisition of a 26.2% equity interest in this subsidiary on 8 June 2001. The 2000 sales of raw materials and finished goods were made to Nanhai Panasia Metal Spraying Co., Ltd. ("Nanhai Panasia") prior to the Group's acquisition of a controlling interest in this subsidiary during the prior financial year. The directors considered that these transactions were made according to prices similar to those offered to unrelated customers of the Group.
- (ii) The rentals were paid in respect of the Group's leased office premises and staff quarters situated in Hong Kong to Harbour Talent Limited, a company in which Mr. Kwong Wui Chun ("Mr. Kwong"), a director and substantial shareholder of the Company, has a beneficial interest. The directors of the Company confirmed that the monthly rentals were calculated by reference to open market rental value.
- (iii) The interest income was received in respect of an amount which bears interest at 1% per month and was due from Nanhai Panasia prior to the Group's acquisition of a controlling interest in this subsidiary during last financial year.

Notes to Financial Statements

30 June 2001

3. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS *(continued)*

In addition to the foregoing, the Group had the following transactions of a corporate investment nature with related parties during the year as detailed below:

- (a) On 5 July 2000, the Group completed the acquisition of a 65% equity interest in Hamington International Limited ("Hamington"), a company which, through its subsidiaries, is engaged in the business of the development of designs and technologies for applications in environmental protection products and Mr. Kwong is one of the vendors selling his entire 28% interest in Hamington to the Company. The consideration of HK\$455 million payable for the acquisition was satisfied by way of a cash payment of HK\$188.5 million and the allotment and issue of 94,500,001 new shares in the Company at a subscription price of HK\$2.82 each, credited as fully paid. Under the terms of the acquisition, the Group was granted the rights ("Rights") to adjust the consideration downward and receive a refund attributable to such adjustments from the vendors if the audited consolidated net profits of Hamington for the period from 1 March 2000 to 30 June 2001 fall short of HK\$100 million. Further details of the acquisition are set out in the Company's circular of 18 May 2000 to its shareholders.
- (b) On 13 July 2000, the Company, through its subsidiary, entered into an agreement for the acquisition from Mr. Zhong Jianqiu ("Mr. Zhong"), who was appointed as a director of the Company on 14 June 2001, of the remaining 9% equity interest in Pavillion Services Limited ("Pavillion"), a subsidiary in which the Company already held a 91% equity interest prior to the acquisition, at a cash consideration of HK\$23 million. The particulars of Pavillion and its wholly-owned subsidiary, Nanhai Xinya Aluminium & Stainless Steel Co., Ltd., are set out in note 13 to the financial statements. Mr. Zhong was a substantial shareholder and director of Pavillion at the time of acquisition. The acquisition was completed on 9 November 2000. Further details of the acquisition are also set out in the Company's circular of 3 August 2000 to the shareholders.
- (c) On 13 July 2000, the Group entered into another agreement for the acquisition from Delion Holdings Limited ("Delion") of the remaining 45% equity interests in Majestic Holdings Limited ("Majestic"), a subsidiary in which the Company already held a 55% equity interest prior to the acquisition, at a cash consideration of HK\$81 million. The particulars of Majestic and its wholly-owned subsidiary, Nanhai Panasia, are set out in note 13 to the financial statements. Delion is a company wholly-owned by Mr. Zhong at the time of acquisition. The acquisition was completed on 9 November 2000. Further details of the acquisition are also set out in the Company's circular of 3 August 2000 to the shareholders.

Notes to Financial Statements

30 June 2001

3. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(d) Prior to the Company's acquisition of Hamington, certain Hamington group companies had made advances in the aggregate amount of HK\$13,541,000 to certain shareholders of Hamington (whom at the same time are some of the vendors of the Hamington shares). As part of the consideration payable for the Hamington acquisition was satisfied by the allotment and issue of new shares in the Company credited as fully paid to these vendors of the Hamington shares, these parties had become shareholders of the Company upon the completion of the Hamington acquisition and, accordingly, the amounts due from these parties became related party advances to the Company's shareholders. In addition, as explained more fully in notes 1 and 31(b) to the financial statements, owing to unforeseen technical difficulties arising during the pilot production stage of this business, the Group disposed of its entire 65% equity interest in Hamington subsequent to the balance sheet date and these shareholders' advances were also fully provided for in view of the uncertainties involved in the recovery of the amounts involved.

4. TURNOVER AND REVENUE

Turnover represents the aggregate of net invoiced amounts, after allowances for returns and trade discounts, from the sale of goods, the provision of design and testing services for aluminium products, and the operation of web sites and related e-commerce business. An analysis of the Group's turnover by principal activity and geographical area pursuant to the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") is as follows:

	2001 HK\$'000	2000 HK\$'000
By principal activity		
Manufacture and sale of aluminium extrusion products	1,620,300	1,462,040
Manufacture and sale of stainless steel products	278,460	177,359
Manufacture and sale of aluminium panels	140,258	76,525
Provision of design and testing services for aluminium products	17,712	32,002
E-commerce business operation	5,199	189
	<u>2,061,929</u>	<u>1,748,115</u>
By geographical area		
People's Republic of China (the "PRC"), excluding Hong Kong	1,526,365	1,102,597
Asia Pacific, excluding the PRC and Hong Kong	310,887	337,887
North America	60,842	194,319
Hong Kong	151,869	86,404
Others	11,966	26,908
	<u>2,061,929</u>	<u>1,748,115</u>

Notes to Financial Statements

30 June 2001

5. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging/(crediting) the following:

	2001	2000
	HK\$'000	HK\$'000
Cost of inventories sold	1,623,510	1,369,456
Cost of services provided	4,327	3,105
Depreciation of		
Owned fixed assets	52,645	42,773
Leased fixed assets	3,173	1,453
	55,818	44,226
Write-off of deferred development costs	263	—
Write-off of advances to shareholders	13,541	—
Write-off of amounts due from minority shareholders	1,170	—
Staff cost (excluding directors' emoluments, note 6)		
Salaries and wages	59,350	43,470
Pension scheme contributions	259	—
	59,609	43,470
Auditors' remuneration	1,600	1,400
Provision for bad and doubtful debts	24,620	19,180
Operating lease rentals on land and buildings	11,325	6,874
(Gain)/loss on trading of forward contracts		
Realised (gain)/loss	(9,236)	3,665
Unrealised holding gain	(5,900)	—
	(15,136)	3,665
Loss on disposal of fixed assets	25	4,441
Write-off of fixed assets	7,925	3,541
Interest income	(7,868)	(2,315)
Gain on partial disposal of interests in subsidiaries (<i>Note</i>)	(120,739)	—

Of the total depreciation charge of HK\$55,818,000 (2000: HK\$44,226,000), an amount of HK\$40,516,000 (2000: HK\$23,947,000) has been included in the cost of inventories sold.

Note: In accordance with contractual agreement underlying the disposal, the disposal consideration entitled to by the Company will be adjusted based on the involved subsidiaries' net debt position as at the date of completion of the disposal and the attainment of certain financial thresholds in their future years of operations. At the date of these financial statements, negotiation is still on-going regarding certain elements of these adjustments. The above gain on partial disposal of interests in subsidiaries was ascertained based on the directors' best estimate of the disposal consideration which the Company would eventually be entitled to, having regard to the current status of negotiation and a legal opinion issued by the Company's legal counsel which confirmed that good arguments certain elements claimed by the Company.

Notes to Financial Statements

30 June 2001

5. PROFIT FROM OPERATING ACTIVITIES (continued)

An analysis of the Group's profit from operating activities by principal activity and geographical area pursuant to the requirements of the Listing Rules is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
By principal activity		
Manufacture and sale of aluminium extrusion products	265,404	191,239
Manufacture and sale of stainless steel products	33,710	10,641
Manufacture and sale of aluminium panels	73,071	22,172
Provision of design and testing services for aluminium products	15,741	26,561
E-commerce business operation	(16,219)	(6,276)
Other (Mainly development of designs and technologies for applications in environmental protection products)	(19,874)	—
	351,833	244,337
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
By geographical area		
The People's Republic of China (the "PRC"), excluding Hong Kong	280,725	209,110
Asia Pacific, excluding the PRC and Hong Kong	40,496	31,458
North America	14,490	14,739
Hong Kong	13,472	(13,011)
Others	2,650	2,041
	351,833	244,337

Notes to Financial Statements

30 June 2001

6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Details of the aggregate directors' remuneration are as follows:

	2001	2000
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	461	640
Other emoluments paid and payable to executive directors:		
Basic salaries, allowances and benefits in kind	9,555	8,944
Pension scheme contributions	12	—
	<u>10,028</u>	<u>9,584</u>

The number of directors whose remuneration fell within the bands set out below is as follows:

	2001	2000
Nil — HK\$1,000,000	6	5
HK\$1,500,001 — HK\$2,000,000	—	1
HK\$2,000,001 — HK\$2,500,000	—	1
HK\$2,500,001 — HK\$3,000,000	2	—
HK\$3,000,001 — HK\$3,500,000	1	1
	<u>9</u>	<u>8</u>

No value is included in the directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors during the year are set out in the section "Directors' rights to acquire shares or debentures" in the Report of the Directors.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year. During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

Notes to Financial Statements

30 June 2001

6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Five highest paid employees

The five highest paid individuals for the current year included three (2000: three) directors, details of whose remuneration are set out above. The remuneration of the remaining two (2000: two) non-director, highest paid individuals was analysed as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Basic salaries, allowances and benefits in kind	1,808	1,645
Pension scheme contributions	12	—
	<u>1,820</u>	<u>1,645</u>

The remuneration paid to each of the non-director, highest paid individuals fell within the band of nil to HK\$1,000,000 for each of the years ended 30 June 2000 and 2001.

7. FINANCE COSTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans wholly repayable within five years	61,589	29,473
Interest on finance leases	3,805	270
	<u>65,394</u>	<u>29,743</u>

Notes to Financial Statements

30 June 2001

8. TAX

	2001	2000
	HK\$'000	HK\$'000
Current year provision		
Hong Kong	683	—
Elsewhere	71,544	37,759
Deferred tax	(650)	(1,830)
	<u>71,577</u>	<u>35,929</u>

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising from its operations in Hong Kong during the year. No provision for Hong Kong profits tax was made for the year ended 30 June 2000 as the Group did not generate any assessable profits arising from its operation in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the appropriate rates of tax in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the relevant laws and regulations in the PRC, certain subsidiaries (the "PRC Subsidiaries") of the Company operating in the PRC are exempted from income tax for two years from their respective first profit-making year and are eligible for a 50% reduction in income tax for the following three years. During the year, provisions for income tax for these subsidiaries have been made at the applicable reduced rate for the PRC Subsidiaries.

Movements in the deferred tax liabilities for the year are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
At beginning of year	650	—
Arising on acquisition of interests in subsidiaries	—	2,480
Deferred tax credit for the year	(650)	(1,830)
At end of year	<u>—</u>	<u>650</u>

Notes to Financial Statements

30 June 2001

8. TAX (continued)

The principal components of the Group's deferred tax liabilities/(assets) provided and amounts not provided at the balance sheet date were as follows:

	Group			
	Provided		Not provided	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accelerated depreciation allowances	—	7,942	679	—
Tax losses carried forward	—	(7,292)	(6,309)	—
	—	650	(5,630)	—

The Company had no significant unprovided deferred tax asset or liability at 30 June 2001.

9. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company is HK\$139,462,000 (2000: net loss of HK\$1,143,000).

10. DIVIDENDS

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim: HK1.0 cent per ordinary share	11,120	—
Proposed final: HK1.0 cent per ordinary share	22,340	—
Proposed special: HK3.5 cents per ordinary share	78,170	—
	111,630	—

In addition to the foregoing, a bonus issue of 1,112,047,280 shares was distributed among the shareholders whose names were in the Company's Register of Members on 20 April 2001, on the basis of one share for every share then held by them, by way of capitalisation of amount outstanding in the Company's contributed surplus account (note 27).

Notes to Financial Statements

30 June 2001

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$195,450,000 (2000: HK\$162,221,000) and the weighted average number of 2,166,223,638 (2000: 1,589,501,448 as adjusted) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$197,209,000 (2000: HK\$162,221,000) and on 2,343,644,203 (2000: 1,623,922,578 as adjusted) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

A reconciliation of the earnings for the year and the weighted average number of shares used in calculating the basic and diluted earnings per share is as follows:

	2001	2000
	HK\$'000	HK\$'000
Earnings for the year		
Earnings for the purpose of basic earnings per share (net profit for the year) calculation	195,450	162,221
Effect of dilutive convertible bonds	1,759	—
	<hr/>	<hr/>
Earnings for the purpose of diluted earnings per share calculation	197,209	162,221
	<hr/> <hr/>	<hr/> <hr/>

Notes to Financial Statements

30 June 2001

11. EARNINGS PER SHARE (continued)

	2001	2000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	2,166,223,638	1,589,501,448
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	17,868,382	29,797,898
Assumed issued at no consideration on deemed exercise of all warrants outstanding during the year	9,466,809	4,623,232
Assumed issued at no consideration on deemed exercise of all convertible bonds outstanding during the year (Note)	150,085,374	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share calculation	<u>2,343,644,203</u>	<u>1,623,922,578</u>

Note: As explained more fully in note 23 to the financial statements, the convertible bonds are exercisable at a conversion price which varies with the share price of the Company prior to the exercise of the conversion rights. In the above calculation of diluted earnings per share, it was assumed that the convertible bonds would be converted at the most advantageous share price prevailing during the year.

The weighted average number of ordinary shares in issue during the year used in the above earnings per share for each of the years ended 30 June 2000 and 2001 has been adjusted to reflect the bonus share issue during the year.

Notes to Financial Statements

30 June 2001

12. FIXED ASSETS

Group

	Buildings in the PRC HK\$'000	Construction in progress HK\$'000	Plant, machinery and moulds HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:							
At 1 July 2000	135,458	13,267	545,234	17,214	23,933	30,086	765,192
Additions	548	41,191	84,315	1,372	1,348	1,689	130,463
Arising on acquisition of subsidiaries	—	—	536	—	456	1,362	2,354
Disposals	—	—	(10)	(29)	(238)	(762)	(1,039)
Write-off	—	—	(9,058)	—	—	—	(9,058)
Transfers from construction in progress	8,542	(34,480)	23,507	729	1,697	5	—
At 30 June 2001	144,548	19,978	644,524	19,286	27,196	32,380	887,912
Accumulated depreciation:							
At 1 July 2000	30,622	—	160,285	5,976	12,882	20,502	230,267
Provided during the year	6,985	—	40,606	1,932	2,790	3,505	55,818
Written back on disposals	—	—	(10)	(4)	(148)	(189)	(351)
Written back on write-off	—	—	(1,133)	—	—	—	(1,133)
At 30 June 2001	37,607	—	199,748	7,904	15,524	23,818	284,601
Net book value:							
At 30 June 2001	106,941	19,978	444,776	11,382	11,672	8,562	603,311
At 30 June 2000	104,836	13,267	384,949	11,238	11,051	9,584	534,925

The buildings are situated on land under operating leases which expire between the years 2011 and 2016.

At 30 June 2001, certain fixed assets, mainly buildings in the PRC and plant and machinery, with a net book value of HK\$17,436,000 (2000: HK\$19,017,000), were pledged as security for certain banking facilities granted to the Group as set out in note 24 to the financial statements.

The net book value of assets held under finance leases included in the total amount of fixed assets at 30 June 2001 amounted to HK\$53,962,000 (2000: HK\$25,394,000). The depreciation charge for the year in respect of all such assets held under finance leases amounted to HK\$3,173,000 (2000: HK\$1,453,000).

Notes to Financial Statements

30 June 2001

13. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	545,426	449,678

The balances with subsidiaries are unsecured, interest-free and are repayable on demand.

Details of principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Asia Aluminum Group Limited (Formerly China Aluminum Group Holdings (BVI) Limited)	British Virgin Islands	US\$20,684	73.8% <i>(note 1)</i>	Investment holding
Asia Aluminum Management Limited (formerly Global Applied Technologies Limited)	Hong Kong	HK\$10,000	100%	Provision of management services to Group companies
Indirectly held				
Asia Aluminum Manufacturing Company Limited	Hong Kong	HK\$2	73.8% <i>(note 2)</i>	Investment holding and trading of aluminium and stainless steel products
Long Hing Profits Limited	British Virgin Islands	US\$1	73.8% <i>(note 2)</i>	Investment holding and trading of aluminium panels and high grade aluminium extrusion products

Notes to Financial Statements

30 June 2001

13. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Majestic Holdings Limited	Hong Kong	HK\$60,000,000	73.8% (note 2)	Investment holding and trading of aluminium products
Nanhai Asia Aluminium Factory Co., Ltd.	PRC	US\$34,790,000	73.8% (note 2)	Manufacture and trading of aluminium products
Hamington International Limited	British Virgin Islands/ PRC	US\$1,000	65% (note 3)	Investment holding
Nanhai Pansia Metal Spraying Co., Ltd.	PRC	US\$2,900,000	73.8% (note 2)	Subcontracting of aluminium panels and high grade aluminium extrusion products processing
Nanhai Xinya Aluminium & Stainless Steel Co., Ltd.	PRC	US\$13,390,000	73.8% (note 2)	Subcontracting of aluminium and stainless steel products processing
Pavillion Services Limited	British Virgin Islands	US\$200	73.8% (note 2)	Trading of aluminium and stainless steel products
i-Metal.com Limited	Hong Kong	HK\$10,000	85%	Operation of e-commerce portal

Notes to Financial Statements

30 June 2001

13. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Prime Hill Technology Limited	Hong Kong/ PRC	HK\$1,000,000	65% (note 3)	Development of designs and technologies with applications in environmental protection products
Nanhai Prime Hill Technology Limited	PRC	US\$2,000,000	65% (note 3)	Manufacture of environmental protection products

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The results attributable to shareholders contributed by the subsidiaries acquired during the year amount to a net loss of HK\$19,898,000. Since these subsidiaries have not commenced active commercial operations, they have not attributed any contribution to the Group's turnover for the current year.

Notes:

- (1) An option (the "Call Option") was granted by the Company to the minority shareholder of Asia Aluminum Group Limited ("AAG") pursuant to which the minority shareholder of AAG has (i) the perpetuity right to acquire from the Company its entire equity interest in AAG upon the failure by the Company to stop and/or remedy any material breach of the shareholders agreement entered into between the parties; and (ii) the right to acquire from the Company its entire equity interest in AAG upon occurrence of certain triggering events during a period of three years commencing from 8 June 2001. These triggering events include, inter alia, the Company ceasing to hold a 60% effective equity interest in AAG and Mr. Kwong ceasing to hold a 35% effective equity interest in the Company. Further details of the Call Option are set out in the Company's circular of 18 May 2001 to its shareholders.

In addition to the foregoing, the Company has also granted a Put Option to the minority shareholder of AAG under which the Company will be obliged at the request of that minority shareholder to purchase its entire equity interests in AAG under certain circumstances. Details of the Put Option are set out in note 30 to the financial statements.

Notes to Financial Statements

30 June 2001

13. INTERESTS IN SUBSIDIARIES *(continued)*

- (2) These companies are wholly-owned subsidiaries of AAG and, accordingly, the Company's effective equity interests in these companies will also be fully disposed of upon the exercise of the Call Option in full.
- (3) The Company's equity interests in Hamington and its subsidiaries were fully disposed of by the Group subsequent to the balance sheet date on 23 August 2001. Further details of the disposal are set out in note 31(b) to the financial statements.

14. INTEREST IN AN ASSOCIATE

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	—	—
Due from an associate	—	7,671
	<u>—</u>	<u>7,671</u>
	<u>—</u>	<u>7,671</u>

The associate, Asia Aluminum (Australia) Pty Limited, is a company incorporated in Australia with issued and fully paid-up ordinary share capital of A\$100 and engaged in the trading of aluminium extrusion products. The Group previously held a 49% equity interest in the associate and the entire interest in this associate was disposed of during the year.

The amount due from an associate has been re-classified to and included in the Group's amounts due from related companies (note 17) upon the disposal.

Notes to Financial Statements

30 June 2001

15. TRADE AND BILLS RECEIVABLE

The ageing of the Group's trade and bills receivable at the respective balance sheet dates is analysed as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within 3 months	321,166	326,743
4 to 6 months	81,983	32,244
7 to 12 months	31,154	40,081
More than 1 year	47,190	30,181
	<u>481,493</u>	<u>429,249</u>
Provision for bad and doubtful debts	<u>(51,543)</u>	<u>(28,947)</u>
	<u>429,950</u>	<u>400,302</u>

It is the general policy of the Group to allow a credit period of two to three months. In addition, for certain customers with long established relationships and good repayment histories, a longer credit period may be granted.

16. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	131,719	133,390
Work in progress	40,926	42,105
Finished goods	80,427	81,785
	<u>253,072</u>	<u>257,280</u>

As at the balance sheet date, there were no inventories carried at net realisable value (2000: Nil).

Notes to Financial Statements

30 June 2001

17. DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Group	Note	At 30 June 2001 HK\$'000	Maximum	At
			amount outstanding during the year HK\$'000	1 July 2000 HK\$'000
Delion Holdings Limited	(i)	—	9,085	9,085
Asia Aluminum (Australia) Pty Ltd.	(ii)	6,248	9,166	—
Indalex Aluminum Solutions Group	(iii)	5,255	5,255	—
		11,503		9,085

Notes:

- (i) The basis of the related party relationship with Delion Holdings Limited is set out in note 3 to the financial statements.
- (ii) Asia Aluminum (Australia) Pty Ltd. was previously an associate of the Group until the Group's entire equity interest in this Company was disposed of during the year. Subsequent to the disposal, Mr. Kwong remains as a director of this Company.
- (iii) The basis of the related party relationship with Indalex Aluminum Solutions Group is set out in note 3 to the financial statements.

The balances due from related companies are unsecured, interest-free, and have no fixed terms of repayment.

18. DUE FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts due from minority shareholders of subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

Notes to Financial Statements

30 June 2001

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash and bank balances	16,243	34,754	772	48
Deposits with financial institutions	420,844	341,142	—	—
Time deposits with banks	545,832	43,412	—	—
	982,919	419,308	772	48

20. TRADE AND BILLS PAYABLES

The ageing of the Group's trade and bills payables at the respective balance sheet dates is analysed as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within 3 months	181,238	216,652
4 to 6 months	3,075	1,819
7 to 12 months	918	3,108
More than 1 year	3,391	1,517
	188,622	223,096

Notes to Financial Statements

30 June 2001

21. BANK AND OTHER LOANS, SECURED

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loans repayable:				
Within one year or on demand	18,927	87,533	—	—
In the second year	—	1,825	—	—
In the third to fifth years, inclusive	273,000	—	273,000	—
	<u>291,927</u>	<u>89,358</u>	<u>273,000</u>	<u>—</u>
Other loans, wholly repayable within one year or on demand	565	—	—	—
	<u>292,492</u>	<u>89,358</u>	<u>273,000</u>	<u>—</u>
Portion classified as current liabilities	(19,492)	(87,533)	—	—
Long term portion	<u>273,000</u>	<u>1,825</u>	<u>273,000</u>	<u>—</u>

The details of assets pledged as securities for these borrowings are set out in note 24 to the financial statements.

22. FINANCE LEASE PAYABLES

The commitments under finance leases at the balance sheet date were as follows:

	Group			
	Minimum payments 2001 HK\$'000	Present value of payments 2001 HK\$'000	Minimum payments 2000 HK\$'000	Present value of payments 2000 HK\$'000
Amounts payable:				
Within one year	21,997	20,694	4,193	3,845
In the second to fifth years, inclusive	30,173	26,103	11,587	9,023
Total minimum finance lease payments	<u>52,170</u>	<u>46,797</u>	<u>15,780</u>	<u>12,868</u>
Future finance charges	(5,373)	—	(2,912)	—
Total net finance lease payables	<u>46,797</u>	<u>46,797</u>	<u>12,868</u>	<u>12,868</u>
Portion classified as current liabilities	(18,811)	(18,811)	(2,923)	(2,923)
Long term portion	<u>27,986</u>	<u>27,986</u>	<u>9,945</u>	<u>9,945</u>

Notes to Financial Statements

30 June 2001

23. CONVERTIBLE BONDS

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
Issued during the year	124,800	—
Conversion into ordinary shares of HK\$0.10 each in the Company during the year	(39,390)	—
At end of year	85,410	—

The convertible bonds are interest-bearing at 3% per annum and due for repayment in September 2003. They carry the rights of conversion at the conversion price set out below into ordinary shares of the Company at any time from 15 October 2000 up to the day falling one week prior to the maturity date of these convertible bonds on 1 September 2003, when any outstanding principal portion of these convertible bonds which have not been redeemed, converted or cancelled will be redeemed by the Company at 108% of the underlying principal amount.

The conversion price (the "Conversion Price") payable for the subscription of shares in the Company is determined, at the option of the relevant bondholders, to be either (a) HK\$1.375, as adjusted for the effect of bonus issue of shares in the Company during the year; or (b) 93% of the average of any three closing prices per share of the Company on the Stock Exchange as selected by the bondholders during the thirty business days immediately preceding the date of conversion. In addition, the terms of convertible bonds include various provisions for safeguarding the interests of the bondholders, including the entitlement of bondholders to exchange the convertible bonds for shares in the subsidiaries of the Company in certain circumstances including the spin-off of the Group's aluminium business through separate listing of these subsidiaries.

During the year, the convertible bondholders exercised their rights of conversion and principal portion of the convertible bonds in the amount of US\$5,050,000 (approximately HK\$39,390,000) were converted at conversion prices ranging from HK\$0.6045 to HK\$0.9951 into ordinary shares in the Company. As at the balance sheet date, there were 25,000,000 (2000:Nil) options outstanding under the convertible bonds, and details of these options are set out in note 25 to the financial statements.

24. PLEDGE OF ASSETS

The Group's borrowings at 30 June 2001 were secured by fixed assets, mainly buildings in the PRC and plant and machinery, with a net book value of approximately HK\$17,436,000 (2000: HK\$19,017,000) and by bank deposits of HK\$24,482,000 (2000: HK\$26,134,000).

Notes to Financial Statements

30 June 2001

25. SHARE CAPITAL

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
Authorised:		
6,000,000,000 ordinary shares of HK\$0.10 each (2000: 3,000,000,000 ordinary shares of HK\$0.10 each)	<u>600,000</u>	<u>300,000</u>
Issued and fully paid:		
2,233,514,129 ordinary shares of HK\$0.10 each (2000: 941,326,210 ordinary shares of HK\$0.10 each)	<u>223,351</u>	<u>94,133</u>

During the year, the following changes in the Company's authorised and issued share capital took place:

- (a) On 20 April 2001, pursuant to a resolution passed by the shareholders of the Company, the authorised share capital of the Company was increased from HK\$300,000,000 to HK\$600,000,000 by the creation of an additional 3,000,000,000 new ordinary shares of HK\$0.10 each ranking pari passu in all respects with the then existing issued shares of the Company.
- (b) On 7 July 2000, 94,500,001 new ordinary shares of HK\$0.10 each were issued and credited as fully paid at HK\$2.82 per share as part of the consideration for the acquisition of a 65% equity interest in Hamington International Limited, a company incorporated in the British Virgin Islands which, through its subsidiaries, is engaged in the development of designs and technologies for applications in environmental protection products. The excess of the share consideration over the nominal value of the issued shares of HK\$257,040,000 was credited to the share premium account (note 26).
- (c) During the period from 11 July 2000 to 21 September 2000, 3,674,000 ordinary shares of HK\$0.10 each were issued and allotted as a result of the exercise of warrants to subscribe for new shares in the Company, as set out below.
- (d) During the period from 14 July 2000 to 27 October 2000, 38,250,000 new ordinary shares of HK\$0.10 each in the Company were issued and allotted as a result of the exercise of share options to subscribe for new shares in the Company, as set out below.

Notes to Financial Statements

30 June 2001

25. SHARE CAPITAL (continued)

- (e) During the period from 5 March 2001 to 7 June 2001, 43,716,638 ordinary shares of HK\$0.10 each in the Company were issued and credited as fully paid on the conversion of convertible bonds of US\$5,050,000 (approximately HK\$39,390,000) into ordinary shares in the Company at conversion prices ranging from HK\$0.6045 to HK\$0.9951 per share.
- (f) On 4 May 2001, a bonus issue of 1,112,047,280 new ordinary shares of HK\$0.10 each in the Company were issued and credited as fully paid by capitalising the sum of approximately HK\$111,205,000 from the amount standing to the credit of the contributed surplus account (note 27) of the Company, on the basis of one bonus share for every ordinary share held by the shareholders whose names were on the Register of Members of the Company on 20 April 2001. The new shares from the bonus issue rank pari passu in all respects with the then existing issued shares of the Company.

A summary of the above movement in the issued and fully paid share capital of the Company is as follows:

	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
At 1 July 1999	650,000,000	65,000
Exercise of share options	38,238,000	3,824
Exercise of warrants	88,210	9
Subscription of new shares in the Company by existing shareholders and placement to independent investors	<u>253,000,000</u>	<u>25,300</u>
At 30 June 2000 and 1 July 2000	941,326,210	94,133
Shares issued as consideration for acquisition of equity interest in a new subsidiary (b)	94,500,001	9,450
Exercise of warrants (c)	3,674,000	367
Exercise of shares options (d)	38,250,000	3,825
Conversion of convertible bonds (e)	43,716,638	4,371
Bonus issue of new shares (f)	<u>1,112,047,280</u>	<u>111,205</u>
At 30 June 2001	<u><u>2,233,514,129</u></u>	<u><u>223,351</u></u>

Notes to Financial Statements

30 June 2001

25. SHARE CAPITAL (continued)

Share options

Pursuant to the share option scheme approved and adopted by the shareholders of the Company on 19 February 1998, the directors of the Company may, at their discretion, grant to directors or employees of the Group options to subscribe for shares in the capital of the Company. The subscription price is equal to the higher of the nominal value of the shares of the Company or 80% of the average of the closing prices per share of the Company quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the share option. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company from time to time. A total of 76,488,000 share options in aggregate were granted in the preceding year under the scheme, out of which 38,238,000 share options have already been exercised prior to the current financial year.

During the year, the following movements in the share options under the share option scheme of the Company and share option attaching to the convertible bonds issued by the Group were recorded:

- (i) During the period from 14 July 2000 to 20 July 2000, 30,150,000 share options were exercised at the subscription price of HK\$1.12 per share and resulted in the issue of 30,150,000 new ordinary shares in the Company. The excess of the cash consideration received over the nominal value of the issued share of HK\$30,753,000 was credited to the share premium account (note 26).
- (ii) During the period from 27 July 2000 to 27 October 2000, 8,100,000 share options were exercised at the subscription price of HK\$0.73 per share and resulted in the issue of 8,100,000 new ordinary shares in the Company. The excess of the cash consideration received over the nominal value of the issued shares of HK\$5,103,000 was credited to the share premium account (note 26).
- (iii) On 26 February 2001, options exercisable during the period from 26 February 2001 to 25 February 2004 at a subscription price of HK\$0.861 per share were granted to certain employees of the Company and its subsidiaries for the subscription of a total of 31,000,000 new shares in the Company. The maximum number of shares in the Company which will be issued upon the exercise of these share options and their exercise prices were subsequently adjusted to 62,000,000 ordinary shares and HK\$0.4312, respectively, in consequence of the one-for-one bonus issue of new shares in the Company during the year. None of these options was exercised during the year.
- (iv) On 2 September 2000, options to acquire an aggregate of 12,500,000 new ordinary shares of HK\$0.10 each in the Company were granted to the holders of the Company's convertible bonds. The options are exercisable during the period from 2 September 2000 up to 1 September 2003 at an exercise price of HK\$2.84. The maximum number of shares in the Company which will be issued upon the exercise of these share options and their exercise price were subsequently adjusted to 25,000,000 ordinary shares and HK\$1.42 respectively, in consequence of the one-for-one bonus issue of new shares in the Company during the year. None of these options was exercised during the year.

Notes to Financial Statements

30 June 2001

25. SHARE CAPITAL (continued)

Accordingly, as at the balance sheet date, there were 87,000,000 (2000: 38,250,000) share options outstanding under the share option scheme and convertible bonds (note 23), the exercise in full of which would, under the present capital structure of the Company, result in the issue of 87,000,000 additional ordinary shares of HK\$0.10 each in the Company.

A summary of the above movements in share options of the Company is as follows:

	Number of share options exercisable at the subscription price of			
	HK\$0.73 per share '000	HK\$1.12 per share '000	HK\$0.4312 per share '000	HK\$1.42 per share '000
At beginning of year	8,100	30,150	—	—
New share options granted	—	—	62,000	25,000
Exercise of share options	(8,100)	(30,150)	—	—
At balance sheet date	<u>—</u>	<u>—</u>	<u>62,000</u>	<u>25,000</u>

Warrants

A bonus issue of 86,790,050 warrants to subscribe for ordinary shares in the Company was made by the Company in the preceding year, out of which 88,210 warrants have already been exercised prior to the current financial year. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.10 in the Company at a subscription price of HK\$1.38, payable in cash and subject to adjustment, from the date of issue to 19 March 2002.

During the year, an additional 3,674,000 warrants were exercised for the subscription of 3,674,000 ordinary shares of HK\$0.10 each in the Company. The excess of the cash consideration received over the nominal value of the issued shares, in the amount of HK\$4,703,000, was credited to the share premium account (note 26). The remaining number of warrants and the exercise price per share were subsequently adjusted to 166,055,680 and HK\$0.69 respectively, in consequence of the one-for-one bonus issue of shares made by the Company during the year. Accordingly, as at the balance sheet date, the Company had 166,055,680 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 166,055,680 additional shares of HK\$0.10 each in the Company.

Notes to Financial Statements

30 June 2001

26. SHARE PREMIUM

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
At beginning of year	484,342	103,919
Arising on issue of new shares credited as fully paid as part of the consideration for the acquisition of subsidiaries (<i>note 25(b)</i>)	257,040	—
Arising on exercise of warrants to acquire shares in the Company (<i>note 25(c)</i>)	4,703	113
Arising on exercise of share options to acquire shares in the Company (<i>note 25(d)</i>)	35,856	25,770
Arising on conversion of convertible bonds into ordinary shares in the Company (<i>note 25(e)</i>)	35,019	—
Arising on private placement of new shares	—	367,330
Amount applied on offsetting against share issue expenses	(472)	(12,790)
	816,488	484,342

Notes to Financial Statements

30 June 2001

27. RESERVES

Group

	Contributed surplus HK\$'000	Capital reserve HK\$'000	Statutory surplus reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory public welfare fund HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 1999	115,356	134,913	46,150	(8,000)	12,840	163,066	464,325
Goodwill and statutory surplus reserve arising from acquisition of subsidiaries	—	(33,762)	1,968	—	—	—	(31,794)
Arising on consolidation of overseas subsidiaries	—	—	—	2,787	—	—	2,787
Net profit for the year	—	—	—	—	—	162,221	162,221
Transfer to statutory surplus reserve and public welfare fund	—	—	3,871	—	—	(3,871)	—
At 30 June 2000 and 1 July 2000	115,356	101,151	51,989	(5,213)	12,840	321,416	597,539
Goodwill arising from acquisition of subsidiaries (<i>Note</i>)	—	(456,470)	—	—	—	—	(456,470)
Goodwill and statutory surplus reserve arising from acquisition of additional equity interests in subsidiaries	—	(26,685)	—	—	—	—	(26,685)
Capitalisation of contributed surplus for bonus issue of new shares	(111,205)	—	—	—	—	—	(111,205)
Release/transfer of reserves upon partial disposal of interests in subsidiaries	—	(19,510)	(13,621)	1,365	(3,364)	16,985	(18,145)
Net profit for the year	—	—	—	—	—	195,450	195,450
Dividends	—	—	—	—	—	(111,630)	(111,630)
Transfer to statutory surplus reserve and public welfare fund	—	—	24,362	—	—	(24,362)	—
At 30 June 2001	<u>4,151</u>	<u>(401,514)</u>	<u>62,730</u>	<u>(3,848)</u>	<u>9,476</u>	<u>397,859</u>	<u>68,854</u>

The whole of the Group's reserves as at 30 June 2000 and 2001 is attributable to the Company and its subsidiaries.

Note:

Subsequent to the balance sheet date, the Group disposed of its entire interests in these subsidiaries and gave rise to a reversal of this goodwill eliminated against reserve. Further details are set out in note 31(b) to the financial statements.

Notes to Financial Statements

30 June 2001

27. RESERVES (continued)

Company	Contributed surplus <i>HK\$'000</i>	Retained profits/ (accumulated loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 1999	442,108	680	442,788
Net loss for the year	—	(1,143)	(1,143)
At 30 June 2000 and 1 July 2000	442,108	(463)	441,645
Capitalisation of contributed surplus for the bonus issue of new shares	(111,205)	—	(111,205)
Net profit for the year	—	139,462	139,462
Dividends	—	(111,630)	(111,630)
At 30 June 2001	<u>330,903</u>	<u>27,369</u>	<u>358,272</u>

The statutory surplus reserve and statutory public welfare fund represent appropriation of profits retained by the PRC subsidiaries of the Company. In accordance with the PRC regulations and the respective articles of association of the PRC subsidiaries, these companies are required to appropriate an amount equal to a minimum of 10% of their profit after tax each year to statutory surplus reserve. In addition, a portion of the profit after tax as determined at the discretion of the Company, is transferred to the statutory public welfare fund.

Subject to certain restrictions set out in the PRC Company Law and the respective articles of association of the PRC subsidiaries, the statutory surplus reserve may be distributed to shareholders in the form of a share bonus issue and/or cash dividends.

The contributed surplus of the Group arose as a result of the Group reorganisation on 19 February 1998 and represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company arose as a result of the same Group reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor.

In accordance with the Companies Act 1981 of Bermuda, the Company's contributed surplus is available for cash distribution and/or distribution in specie in certain circumstances.

Notes to Financial Statements

30 June 2001

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit from operating activities	351,833	244,337
Interest income	(7,868)	(2,315)
Depreciation of fixed assets	55,818	44,226
Write-off of deferred development costs	263	—
Provision for bad and doubtful debts	24,620	19,180
Write-off of advance to shareholders	13,541	—
Write-off of amount due from minority shareholders of subsidiaries	1,170	—
Write-off of fixed assets	7,925	3,541
Loss on disposal of fixed assets	25	4,441
Gain on partial disposal of interests in subsidiaries	(120,739)	—
Increase in amount due from related companies	(5,255)	—
Decrease in an amount due to an associate	—	(1,219)
Increase in trade and bills receivable	(54,268)	(156,421)
Decrease/(increase) in inventories	4,241	(100,482)
(Increase)/decrease in prepayments, deposits and other receivables	(80,544)	17,926
(Decrease)/increase in trade and bills payable	(34,474)	66,026
Increase/(decrease) in accrued liabilities and other payables	9,786	(1,014)
Net cash inflow from operating activities	<u>166,074</u>	<u>138,226</u>

Notes to Financial Statements

30 June 2001

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital and share premium <i>HK\$'000</i>	Trust receipt loans with maturity of more than 3 months <i>HK\$'000</i>	Bank and other loans, secured <i>HK\$'000</i>	Finance lease payables <i>HK\$'000</i>	Convertible bonds <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Advance from a minority shareholder of a subsidiary <i>HK\$'000</i>
Balance at 1 July 1999	168,919	32,276	102,231	—	—	17,946	4,707
Inception of finance lease contracts	—	—	—	13,223	—	—	—
Arising on acquisition of interests in subsidiaries	—	—	—	—	—	26,899	—
Share of net profit	—	—	—	—	—	18,893	—
Exchange adjustments	—	—	—	—	—	(1,065)	—
Net cash inflow/(outflow) from financing	409,556	(15,806)	(12,873)	(355)	—	—	(4,707)
Balance at 30 June 2000 and 1 July 2000	578,475	16,470	89,358	12,868	—	62,673	—
Inception of finance lease contracts	—	—	—	47,178	—	—	—
Shares issued and credited as fully paid as consideration for the acquisition of subsidiaries	266,490	—	—	—	—	—	—
Arising on partial disposal of interests in subsidiaries	—	—	—	—	—	266,564	—
Arising on acquisition of additional equity interests in subsidiaries	—	—	—	—	—	(78,113)	—
Arising on conversion of convertible bonds into new ordinary shares	39,390	—	—	—	(39,390)	—	—
Arising on capitalisation of contributed surplus for bonus issue of new shares	111,205	—	—	—	—	—	—
Share of net profit	—	—	—	—	—	19,412	—
Net cash inflow/(outflow) from financing	44,279	93,047	203,134	(13,249)	124,800	—	—
Balance at 30 June 2001	<u>1,039,839</u>	<u>109,517</u>	<u>292,492</u>	<u>46,797</u>	<u>85,410</u>	<u>270,536</u>	<u>—</u>

Notes to Financial Statements

30 June 2001

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Fixed assets	2,354	90,462
Deferred development costs	263	—
Cash and bank balances	275	2,807
Accounts and bills receivable	—	31,454
Inventories	33	15,985
Prepayments, deposits and other receivables	1,123	523
Advance to shareholders	13,541	—
Accrued liabilities and other payables	(11,916)	(45,400)
Due to the Group companies	(6,664)	(27,117)
Tax payable	—	(5,305)
Deferred tax	—	(2,480)
Minority interests	—	(26,899)
	<u>(991)</u>	<u>34,030</u>
Goodwill arising on acquisition	456,470	33,762
	<u>455,479</u>	<u>67,792</u>
Satisfied by:		
Cash consideration	188,989	54,915
Shares issued and credited fully paid as consideration	266,490	—
Reclassification of interest in an associate	—	12,877
	<u>455,479</u>	<u>67,792</u>

Notes to Financial Statements

30 June 2001

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2001	2000
	HK\$'000	HK\$'000
Cash consideration	188,989	54,915
Cash and bank balances of subsidiaries acquired	(275)	(2,807)
	<u>188,714</u>	<u>52,108</u>

(d) Major non-cash transactions

During the year, the following major non-cash transactions took place:

- (i) 94,500,001 new shares in the Company were issued and credited as fully paid as part of the consideration payable for the acquisition of an equity interest in a subsidiary. Further details are set out in note 25(b) to the financial statements.
- (ii) The conversion rights vested in certain convertible bonds have been exercised whereby the principal portion of these bonds in the aggregate amount of US\$5,050,000 (approximately HK\$39,390,000) was converted into ordinary shares of HK\$0.10 each in the Company. Further details are set out in notes 23 and 25(e) to the financial statements.
- (iii) The Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the finance leases of HK\$47,178,000 (2000: HK\$13,223,000).

Notes to Financial Statements

30 June 2001

29. CONTINGENT LIABILITIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bills discounted with recourse	5,760	—	—	—
Guarantees granted to and utilised by certain subsidiaries in respect of:				
Banking facilities	—	—	226,701	145,573
Finance lease payables	—	—	45,012	12,526
	<u>5,760</u>	<u>—</u>	<u>271,713</u>	<u>158,099</u>

30. COMMITMENTS

- (a) At 30 June 2001, the Group had commitments in respect of future minimum rentals under operating leases as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	9,187	7,496
In the second to fifth years, inclusive	29,408	23,873
After five years	43,285	48,936
	<u>81,880</u>	<u>80,305</u>

Notes to Financial Statements

30 June 2001

30. COMMITMENTS (continued)

- (b) At 30 June 2001, the Group had capital commitments not provided for in the financial statements as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Contracted for in respect of acquisition of fixed assets	3,113	1,089
Authorised, but not contracted for in respect of the acquisition of certain business and assets from third parties (Note)	214,000	—
	<u>217,113</u>	<u>1,089</u>

Note:

These principally represent capital commitments in relation to the Group's proposed acquisition of certain business and assets of each of Nanhai Hongjia Aluminium Materials & Stainless Steel Co., Ltd. ("Hongjia") and Guangdong Nanhua Aluminium Factory Co., Ltd. ("Nanhua"), in the amount of HK\$141 million, and additional considerations of HK\$73 million to be paid by the Group to Hongjia and Nanhua for entering into the aforementioned assets transfer arrangement and for the procurement from Hongjia and Nanhua of a profit guarantee executed in favour of the Group. Both of Hongjia and Nanhua are companies established in the PRC and engaged in the manufacture and sale of aluminium extrusion products. These considerations payable have been tentatively stipulated at the above set out amounts, which have not yet been finalised and are still subject to negotiation.

- (c) At the balance sheet date, the Group had a commitment in respect of a forward contract for the delivery of raw materials of aluminium ingots in the amount of HK\$172,507,000 (2000: HK\$12,234,000).

Notes to Financial Statements

30 June 2001

30. COMMITMENTS *(continued)*

The Company has granted an option (the "Put Option") to the minority shareholder owning a 26.2% equity interest in AAG, under which the Company will be obliged at the option of the minority shareholder to purchase its entire equity interest in AAG upon the occurrence of certain triggering events which include, inter alia, the Company ceasing to hold a 60% effective equity interest in AAG and Mr. Kwong ceasing to hold a 35% effective equity interest in the Company. The Put Option has no expiry date and will subsist in perpetuity from 8 June 2001. The consideration payable by the minority shareholder of AAG for AAG shares upon the exercise of the Put Option ranges from HK\$524 million (adjustable for certain deferred consideration payable not exceeding HK\$100 million) to the open market value of these AAG shares at the time of exercise of the Put Option, or, depending on the circumstances giving rise to the triggering events and its occurrence timing, the 110% of these amounts. Further details of the Put Option are set out in the Company's circular of 18 May 2001 to its shareholders.

31. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (a) On 9 August 2001, two joint venture entities, in which 60% of their respective equity interests is held by a non-wholly owned subsidiary of the Company, were established in the PRC. As the Group is able to exercise unilateral control over the operational and financial policies of these joint venture entities, they will be accounted for as subsidiaries of the Company. The purpose of the establishment of these joint venture entities is to execute the investment in business and assets of each of Hongjia and Nanhua as set out in note 30(b) to the financial statements and, at the date of these financial statements the Group has contracted for the capital contributions in cash of approximately HK\$141 million into these joint venture entities.
- (b) Owing to the unforeseen technical difficulties arisen during the pilot production stage of the Group's new business of the development of designs and technologies for applications in environmental protection products, undertaken by Hamington and its subsidiaries, on 23 August 2001, the Group entered into an agreement for the disposal of its entire equity interest in Hamington and the assignment of the Rights (note 3(a)) to an independent third party not connected with the directors, chief executive, substantial shareholder of the Company or their respective associates. The disposal consideration of HK\$455 million would be receivable by the Group in four instalments which comprised an initial instalment of HK\$100 million, due upon the signing of the agreement, followed by two consecutive instalments each of HK\$100 million (due 23 February 2002 and 23 August 2002) and a final instalment of HK\$155 million (due 23 February 2003). At the date of these financial statements, the first instalment receivable of HK\$100 million has been duly settled. Further details of the disposal were set out in the Company's circular of 14 September 2001 to its shareholders.

Notes to Financial Statements

30 June 2001

32. CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the Company's shareholders at a special general meeting held on 12 June 2001, in order to reflect the Company's core business as described in "Corporate information" (note 1) above, the name of the Company was changed to Asia Aluminum Holdings Limited with effect from 12 June 2001.

33. COMPARATIVE AMOUNTS

Certain comparative amounts have been re-classified to conform with the current year's presentation. These include principally the inclusion of revenue from the Group's business of provision of design and testing services for aluminium products, previously classified as other revenue, as part of the Group's turnover since the Group anticipates that these business undertakings will be continued in the future as part of the principal activities of the Group.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 October 2001.