

NOTES TO FINANCIAL STATEMENTS

30 June 2003

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 20 January 1998 and is principally engaged in investment holding. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principal activity of the Company is investment holding. 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.

These were no significant changes in the nature of the Group's principal activities during the year.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 33 : "Discontinuing operations"
- SSAP 34 : "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision to this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling as at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Cont'd)

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates as at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates as at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in notes 3 and 34(a) to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies". The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinued operations are now included in the consolidated profit and loss account, consolidated cash flow statement and note 5 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company's share option schemes, as detailed in note 31 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the adoption of this SSAP.

3. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2003. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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;
- (d) dividend income, when the shareholders' right to receive payment is established; and
- (e) net gains or losses on forward contracts, in respect of all open contracts existing at the balance sheet date by translating the contract amounts at the prices ruling at the balance sheet date, and on all closed positions on the trade date basis.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

SSAP 30 "Business combinations" was adopted as at 1 July 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 July 2001 is accounted for in accordance with the SSAP 30 goodwill accounting policy above and the amount remained is disclosed in note 17 to the financial statements.

On the disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal and is reflected in the consolidated profit and loss account.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of assets (Cont'd)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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 the fixed asset, the expenditure is capitalised as an additional cost of that 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% to 20%
Furniture and fixtures	– 10%
Office equipment	– 16.67%
Motor vehicles	– 16.67%

Construction in progress represents the costs incurred in connection with the construction of fixed assets less any impairment losses and is not depreciated. Cost comprises direct costs incurred during the period of construction, installation and testing. Construction in progress is re-classified 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 are 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. Where the Group is the lessee, rentals payable under 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 estimated selling prices less any estimated costs to be incurred to completion and disposal.

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 for 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's Bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

Retirement benefits scheme

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

The employees of the Group's subsidiaries which operate in Mainland China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government, the assets of which are held separately from those of the Group. These PRC subsidiaries are required to contribute certain percentage of their respective payroll costs to the central pension scheme, which are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits (Cont'd)

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Intangible assets

All research costs or expenditure on intangible items that did not meet the asset recognition criteria in SSAP 29 "Intangible assets" 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 available for use.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, but has had no material effect on the amounts of the previously-reported cash flows of the prior years.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 34(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

4. 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:

	Notes	2003 HK\$'000	2002 HK\$'000
Rental expense paid	(i)	3,346	3,555
Rental expense paid	(ii)	54	–
Sale of raw materials and finished goods to minority equity/shareholders of subsidiaries:			
Indalex Aluminum Solutions Group (“IASG”)	(iii)	65,247	57,576
Guangdong Nanhua Aluminium Factory Co., Ltd. (“Nanhua”)	(iv)	–	606
Nanhai Hongjia Aluminium Materials and Stainless Steel Co., Ltd. (“Hongjia”)	(v)	–	129
Sub-contracting fee paid to minority equity holders of subsidiaries:			
Nanhua	(iv)	–	2,654
Hongjia	(v)	–	387
Purchases from minority shareholder of a subsidiary:			
Hongjia	(v)	–	987

In addition to the foregoing, management fees in the amount of HK\$16,330,000 (2002: HK\$16,330,000) were paid during the year by Asia Aluminum Group Limited (“AAG”) and certain of its subsidiaries, which are non-wholly-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 consolidation.

4. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (Cont'd)

Notes:

- (i) 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 have confirmed that the monthly rentals were calculated by reference to the then prevailing open market rental values.
- (ii) The rentals were paid in respect of the Group's leased staff quarter situated in Hong Kong to Dr. Chan Yiu Tsuan, Benby, a director of the Company. The directors of the Company have confirmed that the monthly rental was calculated by reference to the then prevailing open market rental value.
- (iii) The sale of raw materials and finished goods to IASG which comprises 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 directors consider that these transactions were made according to prices and other terms similar to those offered to unrelated customers of the Group.
- (iv) The sale of raw materials and finished goods and sub-contracting fee paid for the year ended 30 June 2002 were made during the period from 3 September 2001 to 30 June 2002 to Nanhua, a company established in the PRC and became a minority equityholder of a subsidiary of the Company upon the establishment of this subsidiary on 3 September 2001. The directors consider that these transactions were made according to prices and other terms similar to those offered to unrelated customers of the Group.
- (v) The sale of raw materials and finished goods, sub-contracting fee paid and purchases for the year ended 30 June 2002 were made during the period from 20 November 2001 to 30 June 2002 to/from Hongjia, a company established in the PRC, became a minority equityholder of a subsidiary of the Company upon the establishment of this subsidiary on 20 November 2001. The directors consider that these transactions were made according to prices and other terms similar to those offered to unrelated customers of the Group.

Each of Nanhua and Hongjia has granted the Group the right to use the underlying parcels of land and buildings on a rent-free basis. Based on the legal advice, the directors of the Company consider that the above arrangement is valid and legally binding under the prevailing PRC applicable law and regulations.

The above related party transactions also constitute connected transactions under the Listing Rules on the Stock Exchange. In the opinion of the directors, the Company has complied with all the necessary disclosure requirements under the Listing Rules.

5. DISCONTINUED OPERATIONS

On 23 August 2001, the Group entered into an agreement for the disposal of its 65% equity interest in Hamington International Limited ("Hamington"), a company which, through its subsidiaries, is engaged in the business of design and development of technologies for applications in environmental protection products (the "Disposed Subsidiaries").

The gain on disposal of the Disposed Subsidiaries amounted to approximately HK\$8,740,000, which represented the sale proceeds (being the consideration of HK\$455,000,000) less the consolidated net liabilities disposed of and the attributable amount of goodwill arising from the acquisition of the Disposed Subsidiaries previously eliminated against consolidated reserves in respect of the Disposed Subsidiaries up to the effective date of disposal on 23 August 2001, net of the expenses incurred for the disposal amounting to HK\$111,000. The disposal consideration of HK\$200,000,000 was received by the Group in the prior year, and the remaining balance of HK\$255,000,000 had been settled in the current year.

The Disposed Subsidiaries did not contribute to the turnover in the prior year. The loss attributable to operating activities from the Disposed Subsidiaries for the period from 1 July 2001 to the effective date of disposal on 23 August 2001 recognised by the Group amounted to HK\$250,000.

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	–	–
Cost of sales	–	–
Gross profit	–	–
Other revenue	–	28
Selling and distribution costs	–	–
Administrative expenses	–	(278)
Loss from operating activities	–	(250)
Finance costs	–	–
Loss before tax	–	(250)
Tax	–	–
Net loss from ordinary activities attributable to shareholders	–	(250)

6. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

Continuing operations:

- the aluminium extrusion products segment engages in the manufacture and sale of aluminum extrusion products;
- the stainless steel products segment comprises the manufacture and sale of stainless steel products;
- the aluminum panels segment refers to the manufacture and sale of aluminum panels;
- the design and testing services segment represents the Group's provision of design and testing services for aluminum products; and
- the others segment comprises the Group's business of web-sites operation and related e-business of trading of non-ferrous metal products on the Internet.

Discontinued operations:

- the environmental protection products segment represents the manufacture and sale of environmental protection products which was discontinued by the Group in the prior year as detailed in note 5.

6. SEGMENT INFORMATION (Cont'd)

In determining the Group's geographical segments, revenues and profit from operating activities are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Continuing operations								Discontinued operations				Consolidated	
	Aluminum extrusion products		Stainless steel products		Aluminum panels		Design and testing services		Others		Environmental protection products			
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	1,828,000	1,698,222	361,562	133,204	153,069	108,608	15,395	21,370	-	4,292	-	-	2,358,026	1,965,696
Other revenue	3,992	6,216	-	-	-	-	-	-	-	-	-	-	3,992	6,216
Total	1,831,992	1,704,438	361,562	133,204	153,069	108,608	15,395	21,370	-	4,292	-	-	2,362,018	1,971,912
Segment results	245,819	162,171	23,733	2,657	79,544	51,747	12,778	17,738	(4,609)	(4,038)	-	(250)	357,265	230,025
Interest and unallocated gains													106,988	53,823
Unallocated expenses													(17,542)	(30,412)
Profit from operating activities													446,711	253,436
Finance costs													(40,734)	(42,372)
Profit before tax													405,977	211,064
Tax													(86,309)	(72,755)
Profit before minority interests													319,668	138,309
Minority interests													(79,149)	(6,900)
Net profit from ordinary activities attributable to shareholders													240,519	131,409

6. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Group	Continuing operations										Discontinued operations		Consolidated	
	Aluminum extrusion products		Stainless steel products		Aluminum panels		Design and testing services		Others		Environmental protection products			
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Segment assets	1,734,675	1,730,656	80,607	54,606	124,091	125,856	25,416	25,778	-	10,391	-	-	1,964,789	1,947,287
Unallocated assets													2,174,103	1,687,882
Total assets													4,138,892	3,635,169
Segment liabilities	987,188	887,321	759	333	17,899	21,573	72	81	-	117	-	-	1,005,918	909,425
Unallocated liabilities													578,832	483,023
Total liabilities													1,584,750	1,392,448
Other segment information:														
Depreciation	74,404	65,316	7,181	3,617	6,726	2,981	-	-	1,881	1,881	-	62	90,192	73,857
Provision for bad and doubtful debts	11,886	31,110	-	-	1,000	-	-	-	1,464	-	-	-	14,350	31,110
Loss on disposal/write-off of fixed assets	11,384	15,429	-	-	17	-	-	-	-	-	-	-	11,401	15,429
Capital expenditure	149,084	318,508	20,442	121	6,513	448	-	-	-	-	-	-	176,039	319,077

6. SEGMENT INFORMATION (Cont'd)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Mainland China		North America		Asia Pacific, excluding Mainland China and Hong Kong		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue: Sales to external customers	249,078	274,646	1,860,621	1,456,746	133,017	56,535	104,755	162,383	10,555	15,386	2,358,026	1,965,696

Other segment information:	Hong Kong		Mainland China		North America		Asia Pacific, excluding Mainland China and Hong Kong		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	110,902	644,279	3,722,061	2,746,648	205,397	11,751	8,956	50,883	91,576	181,608	4,138,892	3,635,169
Capital expenditure	389	1,208	175,650	317,869	-	-	-	-	-	-	176,039	319,077

7. TURNOVER, OTHER REVENUE AND GAINS

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 aluminum products and other business.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover:		
Manufacture and sale of aluminum extrusion products	1,828,000	1,698,222
Manufacture and sale of stainless steel products	361,562	133,204
Manufacture and sale of aluminum panels	153,069	108,608
Provision of design and testing services for aluminum products	15,395	21,370
Others	–	4,292
	2,358,026	1,965,696
Other revenue and gains:		
Interest income	19,959	17,075
Gains, net, on forward contracts:		
Realised gains	30,145	3,007
Unrealised gains	1,788	–
Sales of scrap materials	2,786	4,068
Exchange gains, net	–	2,985
Sundry income	3,902	4,203
	58,580	31,338
Gain on disposal of discontinued operations	–	8,740
Gain on partial disposal of interests in subsidiaries	52,400	19,961
	2,469,006	2,025,735

8. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting) the following:

	2003	2002
	HK\$'000	HK\$'000
Cost of inventories sold*	1,819,149	1,510,063
Cost of services provided	2,617	5,383
Depreciation*	90,192	73,857
Staff costs (excluding directors' emoluments, <i>note 9</i>):		
Salaries and wages	95,621	67,123
Pension scheme contributions	383	383
	96,004	67,506
Auditors' remuneration	1,680	1,880
Provision for bad and doubtful debts	13,113	19,806
Provision for other bad and doubtful debts	1,237	7,330
Minimum lease payments under operating lease on land and buildings	10,082	17,904
Loss on disposal/write-off of fixed assets*	11,401	15,429
Exchange losses/(gains), net	457	(2,985)
Write-off of amounts due from a related company	–	3,974

* Out of the total depreciation charge of HK\$90,192,000 (2002: HK\$73,857,000), an amount of HK\$72,880,000 (2002: HK\$56,162,000) has been included in the cost of inventories sold. The cost of inventories sold also included the loss on disposal/write-off of fixed assets.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration disclosed pursuant to the Listing Rules and section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	470	440
Other emoluments paid and payable to executive directors:		
Basic salaries, allowances and benefits in kind	6,061	7,299
Pension scheme contributions	33	20
	6,564	7,759

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

	Group	
	2003 Number of directors	2002 Number of directors
Nil – HK\$1,000,000	4	3
HK\$1,000,001 – HK\$1,500,000	1	1
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	1	–
HK\$3,000,001 – HK\$3,500,000	–	1
	7	6

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Cont'd)

Five highest paid individuals

The five highest paid individuals for the current year included three (2002: three) directors, details of whose remuneration are set out above. The remuneration of the remaining two (2002: two) non-director, highest paid individuals was analysed as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Basic salaries, allowances and benefits in kind	1,599	1,411
Pension scheme contributions	16	24
	1,615	1,435

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 2002 and 2003.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2002: Nil). During the year, no emoluments were paid by the Group to the directors or the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

10. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	39,195	37,490
Interest on finance leases	1,392	2,743
Interest on convertible bonds	147	2,139
	40,734	42,372

11. TAX

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong	–	–
Elsewhere	86,328	72,641
Under/(over) provision in prior years	(19)	114
	86,309	72,755

No Hong Kong profits tax has been provided as there were no estimated assessable profits arising from the Group's operations in Hong Kong during the year (2002: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable 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.

The principal components of the Group's net deferred tax asset not recognised at the balance sheet date were as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Accelerated depreciation allowances	1,381	1,173
Tax losses carried forward	(7,996)	(13,329)
Others	(1,379)	–
	(7,994)	(12,156)

The net deferred tax asset has not been recognised as at the balance sheet date because the directors consider it appropriate not to recognise the benefit of any future tax relief until it is assured beyond reasonable doubt.

There were no significant timing differences which would give rise to a deferred tax liability at the balance sheet date.

12. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 30 June 2003 dealt with in the financial statements of the Company was HK\$75,121,000 (2002: HK\$43,993,000).

13. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Paid:		
– Interim: HK1.5 (2002: HK1.0) cents per ordinary share	37,672	23,050
– Special: HK1.0 (2002: Nil) cent per ordinary share	25,114	–
– Underaccrual of final dividend for 2002 (2002: underaccrual of final and special dividends for 2001) due to conversion of convertible bonds and exercise of share options before dividend record date	1,073	1,050
Proposed:		
– Final: HK1.8 (2002: HK1.5) cents per ordinary share	47,878	35,666
	111,737	59,766

The proposed final dividend for the year ended 30 June 2003 are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$240,519,000 (2002: HK\$131,409,000) and the weighted average number of 2,446,290,127 (2002: 2,273,832,402) 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\$241,191,000 (2002: HK\$133,213,000) and on 2,547,615,290 (2002: 2,508,071,214) 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.

14. EARNINGS PER SHARE (Cont'd)

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

	2003 HK\$'000	2002 HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share (net profit for the year) calculation	240,519	131,409
Effect of dilutive convertible bonds	672	1,804
	<u>241,191</u>	<u>133,213</u>
Earnings for the purpose of diluted earnings per share calculation	<u>241,191</u>	<u>133,213</u>
	2003	2002
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	2,446,290,127	2,273,832,402
Weighted average number of ordinary shares:		
Assuming issued at no consideration on deemed exercise of all share options outstanding during the year	47,055,780	54,028,765
Assuming issued at no consideration on deemed exercise of all warrants outstanding during the year	–	9,141,357
Assuming issued at no consideration on deemed exercise of all convertible bonds outstanding during the year (<i>note</i>)	54,269,383	171,068,690
	<u>2,547,615,290</u>	<u>2,508,071,214</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	<u>2,547,615,290</u>	<u>2,508,071,214</u>

Note: As explained more fully in note 28 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.

15. FIXED ASSETS

Group

	Buildings in the PRC <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Plant, machinery and moulds <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:							
At 1 July 2002	170,599	43,465	888,311	17,425	28,411	36,822	1,185,033
Additions	1,650	58,260	105,058	7,664	951	2,456	176,039
Disposals	–	–	(969)	(46)	(82)	(33)	(1,130)
Write-off	–	–	(16,075)	–	–	–	(16,075)
Transfer from construction in progress	–	(74,203)	59,356	14,592	255	–	–
At 30 June 2003	<u>172,249</u>	<u>27,522</u>	<u>1,035,681</u>	<u>39,635</u>	<u>29,535</u>	<u>39,245</u>	<u>1,343,867</u>
Accumulated depreciation:							
At 1 July 2002	46,015	–	253,885	8,002	19,399	26,525	353,826
Provided during the year	9,118	–	72,880	2,230	2,702	3,262	90,192
Write-back on disposals	–	–	(184)	(27)	(22)	(5)	(238)
Write-off	–	–	(4,447)	–	–	–	(4,447)
At 30 June 2003	<u>55,133</u>	<u>–</u>	<u>322,134</u>	<u>10,205</u>	<u>22,079</u>	<u>29,782</u>	<u>439,333</u>
Net book value:							
At 30 June 2003	<u>117,116</u>	<u>27,522</u>	<u>713,547</u>	<u>29,430</u>	<u>7,456</u>	<u>9,463</u>	<u>904,534</u>
At 30 June 2002	<u>124,584</u>	<u>43,465</u>	<u>634,426</u>	<u>9,423</u>	<u>9,012</u>	<u>10,297</u>	<u>831,207</u>

15. FIXED ASSETS (Cont'd)

Company

	Office equipment <i>HK\$'000</i>
Cost:	
At beginning of year and at 30 June 2003	23
Accumulated depreciation:	
At 1 July 2002	4
Provided during the year	4
At 30 June 2003	8
Net book value:	
At 30 June 2003	15
At 30 June 2002	19

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

At 30 June 2003, certain fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK\$5,765,000 (2002: HK\$6,202,000) and HK\$8,892,000 (2002: Nil) respectively, were pledged as security for certain banking facilities granted to the Group as set out in notes 26 and 29 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 2003 amounted to HK\$42,594,000 (2002: HK\$39,313,000).

16. DEPOSITS PAID

The balance represented deposits paid in respect of acquisition of an aluminum rolling mill and its associated auxiliary equipment in connection with the Group's investments in jointly-controlled entities established subsequent to the balance sheet date, further details of which are set out in note 38(ii) to the financial statements. These amounts are intended to be capitalised in the Group's interests in the jointly-controlled entities.

17. GOODWILL

The amount of goodwill remaining in consolidated reserves as at 30 June 2003, arising from the acquisition of subsidiaries prior to 1 July 2001, is as follows:

	Group HK\$'000
Cost:	
At beginning of year and at 30 June 2003	119,878
Accumulated impairment:	
At beginning of year and at 30 June 2003	—
Net amount:	
At 30 June 2002 and 2003	<u>119,878</u>

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	<u>664,881</u>	<u>664,881</u>

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

Details of principal subsidiaries are as follows:

Name	Place of incorporation/ registration/ and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Directly held					
Asia Aluminum Group Limited	British Virgin Islands	US\$23,609	69.05 (note a)	69.05	Investment holding
Asia Aluminum Management Limited	Hong Kong	HK\$10,000	100	100	Provision of management services to Group companies

18. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Indirectly held					
Asia Aluminum Manufacturing Company Limited	Hong Kong	HK\$2	69.05	69.05	Investment holding and trading of aluminum and stainless steel products
Long Hing Profits Limited	British Virgin Islands/Hong Kong	US\$1	69.05	69.05	Investment holding and trading of aluminum panels and high grade aluminum extrusion products
Majestic Holdings Limited	Hong Kong	HK\$60,000,000	69.05	69.05	Investment holding and trading of aluminum products
Nanghai Asia Aluminium Factory Co., Ltd.	Mainland China	US\$34,790,000	69.05 (note b)	69.05	Manufacture and trading of aluminum products
Nanghai Panasia Metal Spraying Co., Ltd.	Mainland China	US\$2,900,000	69.05 (note b)	69.05	Subcontracting of aluminum panels and high grade aluminum extrusion products processing

18. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Indirectly held (cont'd)					
Nanhai Xinya Aluminium & Stainless Steel Co., Ltd.	Mainland China	US\$13,390,000	69.05 (note b)	69.05	Subcontracting of aluminum and stainless steel products processing
Pavillion Services Limited	British Virgin Islands/Hong Kong	US\$200	69.05	69.05	Trading of aluminum and stainless steel
Huge Spot Holdings Limited	British Virgin Islands/Mainland China	US\$1	69.05	69.05	Investment holding
i-Metal.com Limited	Hong Kong	HK\$10,000	85	85	Dormant
Kar Yip Holdings Limited	British Virgin Islands/Mainland China	US\$1	69.05	69.05	Investment holding
Nanhai Hongjia Aluminum Company Limited ("Nanhai Hongjia")	Mainland China	US\$8,320,000	41.43 (note c)	41.43	Manufacture and trading of aluminum products
Nanhai Nanhua Aluminum Company Limited ("Nanhai Nanhua")	Mainland China	US\$9,800,000	41.43 (note c)	41.43	Manufacture and trading of aluminum products
Sino Advance Investments Limited ("Sino Advance")	British Virgin Islands	US\$1	100	–	Investment holding
China Steel Development Company Limited ("CSD")	Samoa	US\$1	100 (note d)	–	Investment holding

18. INVESTMENTS IN SUBSIDIARIES (Cont'd)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for 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.

Notes:

- (a) In accordance with contractual arrangement underlying the disposal of a 26.2% of equity interest in AAG, the disposal consideration entitled to by the Company will be adjusted based on the involved subsidiaries' attainment of certain financial thresholds in the years of operations from 2001 to 2003.

During the year, Indalex has agreed that the AAG Group has attained the financial thresholds for the financial year ended 30 June 2002 and an additional consideration of HK\$52,400,000 has been paid to the Company accordingly.

At the date of these financial statements, negotiation with Indalex is still ongoing regarding certain elements of these adjustments for the year ended 30 June 2003. In view of the uncertainties involved, the directors consider that the adjustments on the initial consideration cannot be readily available and reasonably determinable at this stage and accordingly, the amount of this additional consideration has not been accounted for in the financial statements.

An option (the "Call Option") was granted by the Company to Indalex, a minority shareholder of AAG, pursuant to which the minority shareholder has (i) the right in perpetuity to acquire from the Company its entire equity interest in AAG upon the failure of 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 the 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 Wui Chun ceasing to hold a 35% effective equity interest in the Company.

In addition to the foregoing, the Company has also granted a put option ("Put Option I") to Indalex, under which the Company is obliged at the request of Indalex to purchase its entire equity interest in AAG under certain circumstances.

Neither the Call option nor the Put Option I were exercised during the year ended 30 June 2003.

On 21 August 2002, the Company entered into a deed of termination (the "Deeds of Termination") with each of the two existing shareholders of AAG ("Third Parties") pursuant to which the Third Parties agreed to terminate a put option granted by the Company on 14 March 2002 to each of the Third Parties (together the "Put Options II") with immediate effect at no cost. Upon the execution of the Deeds of Termination, the obligations of the Company under the Option Agreements shall cease. As the Put Options II cannot be exercised within three years of the date of the Option Agreements, none of the Put Options II has been exercised. Further details of the above transactions were set out in the Company's announcements dated 21 August 2002.

- (b) These companies are registered as wholly foreign owned enterprises under the PRC law.

18. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Notes: (Cont'd)

- (c) These companies were established in the PRC with independent third parties in the prior year, in each of which a 60% equity interest was held by a subsidiary of the Group. As the Group is able to exercise unilateral control over the operational and financial policies of these joint venture companies, they have been accounted for as subsidiaries in accordance with the Group's accounting policies. The purpose of the establishment of these subsidiaries is to execute the investment in assets of each of Nanhua and Hongjia as set out in note 37(a) to the financial statements and the Group has contracted for capital contributions in cash of approximately RMB150,000,000 (approximately HK\$141,804,000) into these subsidiaries.

In addition, the Group acquired certain business database of Nanhua and Hongjia at an aggregate consideration of HK\$73,558,000. As at the balance sheet date, the unsettled consideration in respect of HK\$14,548,000 was classified as part of "due to minority equity/shareholders" under current liabilities.

Pursuant to contractual arrangements, each of the owners of Nanhua and the owners of Hongjia warranted and guaranteed the financial performance of the respective joint ventures (the "Guaranteed Financial Performance"). Based on the preliminary evaluation on the operating results of Nanhua and Hongjia, the directors of the Company determine that the Guaranteed Financial Performance have been met and, accordingly, they consider that there is no potential financial effect to the Group.

- (d) This company was incorporated during the year. CSD will establish Asia Aluminum (China) Company Limited, a wholly foreign owned enterprise in Zhaoqing, Guangdong Province, the PRC, subsequent to the balance sheet date as set out in note 38(ii) to the financial statements. Pursuant to a subscription agreement of 11 July 2003, upon completion of the subscription of shares in CSD, the Company has no power to cast the majority of votes at meetings of board of directors of CSD and therefore it is not regarded as a subsidiary of the Company upon the completion of the transaction subsequent to the balance sheet date.

19. TRADE RECEIVABLES

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 3 months	295,362	335,999
4 to 6 months	77,888	100,578
7 to 12 months	66,081	75,983
More than 1 year	78,312	53,219
	517,643	565,779
Provision for bad and doubtful debts	(66,078)	(60,933)
	451,565	504,846

It is the general policy of the Group to allow a credit period of 20 days to three months. In addition, for certain customers with long established relationships and good repayment history, a longer credit period may be granted.

20. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	126,527	111,691
Work in progress	67,737	54,770
Finished goods	95,062	96,419
	289,326	262,880

As at the balance sheet date, there were no inventories carried at net realisable value (2002: Nil).

21. 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

	At 30 June 2003 HK\$'000	Maximum amount outstanding during the year HK\$'000	At 1 July 2002 HK\$'000
IASG (note)	21,832	21,832	11,751

Note: The basis of the related party relationship with IASG is set out in note 4 to the financial statements.

The amounts due from related companies, which are trade in nature, are unsecured, interest-free and have no fixed terms of repayment.

22. DUE FROM MINORITY EQUITY/SHAREHOLDERS

The amounts due from minority equity/shareholders of subsidiaries of approximately HK\$67,910,000 (2002: HK\$70,978,000) represents the accounts receivable arising from the sale of raw materials to the minority equityholders. The remaining balance as at 30 June 2002 of approximately HK\$107,403,000 represented consideration receivable from the minority shareholders in relation to the partial disposal of the Group's equity interest in AAG, which was fully settled in cash in the current year. The balances are unsecured, interest-free and repayable on demand.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	941,099	557,833	9,140	5,486
Deposits with financial institutions	229,637	224,055	–	–
Time deposits with banks	815,952	546,647	–	–
	1,986,688	1,328,535	9,140	5,486
Less: Pledged time deposits (note 29)	(115,664)	(78,000)	–	–
	1,871,024	1,250,535	9,140	5,486

At 30 June 2003, the cash and cash equivalents of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$1,825,239,000 (2002: HK\$1,171,520,000). RMB is not freely convertible into foreign currencies. Subject to Mainland China Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

24. TRADE PAYABLES

An aged analysis of the Group's trade payables at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 3 months	204,501	180,379
4 to 6 months	6,551	9,866
7 to 12 months	16,598	6,041
More than 1 year	5,094	3,763
	232,744	200,049

25. DUE TO MINORITY EQUITY/SHAREHOLDERS

A portion of the amounts due to the minority equity/shareholders of approximately HK\$72,692,000 (2002: HK\$147,855,000) represents the amounts due to minority shareholders for the transfer of business database and purchases of fixed assets on behalf of the two non-wholly-owned subsidiaries. The remaining balance of approximately HK\$6,637,000 (2002: Nil) represents dividend payables to minority shareholders and cash advance from minority equityholder.

26. INTEREST-BEARING BANK AND OTHER LOANS, SECURED

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans repayable:				
Within one year or on demand	464,165	11,111	312,000	–
In the second year	–	312,000	–	312,000
	<u>464,165</u>	<u>323,111</u>	<u>312,000</u>	<u>312,000</u>
Other loans, wholly repayable within one year or on demand	3,230	499	–	–
	<u>467,395</u>	<u>323,610</u>	<u>312,000</u>	<u>312,000</u>
Portion classified as current liabilities	(467,395)	(11,610)	(312,000)	–
Non-current portion	–	312,000	–	312,000

The details of assets pledged as security for these borrowings are set out in note 29 to the financial statements.

27. FINANCE LEASE PAYABLES

The Group leases certain plant and machinery and motor vehicles for its business use. These leases are classified as finance leases and have remaining lease terms ranging from one to four years. The total future minimum lease payments under finance leases and their present values at the balance sheet date were as follows:

			Group	
	Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2003 HK\$'000	Minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2002 HK\$'000
Amounts payable:				
Within one year	11,593	11,330	16,334	15,705
In the second year	258	221	9,274	8,367
In the third to fifth years, inclusive	172	135	430	347
Total minimum finance lease payments	12,023	11,686	26,038	24,419
Future finance charges	(337)		(1,619)	
Total net finance lease payables	11,686		24,419	
Portion classified as current liabilities	(11,311)		(15,075)	
Non-current portion	375		9,344	

28. CONVERTIBLE BONDS

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
At beginning of year	40,950	85,410
Converted into ordinary shares of the Company during the year	(40,950)	(44,460)
At end of year	–	40,950

The convertible bonds were interest-bearing at 3% per annum and due for repayment on 1 September 2003. They carried 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 on 1 September 2003. Any outstanding principal portion of these convertible bonds which otherwise had not been redeemed, converted or cancelled upon maturity would be redeemed by the Company at 108% of the underlying outstanding principal amount.

The conversion price (the "Conversion Price") payable for the subscription of ordinary shares of the Company was 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 in May 2001; 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 30 business days immediately preceding the date of conversion provided that the conversion price shall not be less than the par value of the shares of the Company on the conversion date (currently at HK\$0.10). In addition, the terms of convertible bonds included various provisions for safeguarding the interests of the bondholders, including the entitlement of bondholders to exchange the convertible bonds for ordinary 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 a principal portion of the convertible bonds in the amount of US\$5,250,000 (approximately HK\$40,950,000) (2002: US\$5,700,000 (approximately HK\$44,460,000)) was converted into ordinary shares of the Company at conversion prices ranging from HK\$0.5146 to HK\$0.6324 per share.

29. BORROWING FACILITIES

The Group's borrowings at 30 June 2003 were secured by fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK\$5,765,000 (2002: HK\$6,202,000) and HK\$8,892,000 (2002: Nil), respectively, and by bank deposits of HK\$115,664,000 (2002: HK\$78,000,000).

The Company has guaranteed certain of the Group's bank loans up to HK\$608,594,000 (2002: HK\$395,761,000). In addition, certain of the Group's bank loans are secured by corporate guarantee granted by a non-wholly-owned subsidiary and joint and several guarantee by Mr. Hung Pann Yi, a director of the Company, up to HK\$28,249,000 (2002: Nil).

30. SHARE CAPITAL

Shares

	2003 HK\$'000	2002 HK\$'000
Authorised:		
6,000,000,000 ordinary shares of HK\$0.10 each	600,000	600,000
Issued and fully paid:		
2,567,677,831 (2002: 2,371,726,484) ordinary shares of HK\$0.10 each	256,768	237,173

A summary of the movements in the Company's issued share capital is as follows:

	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
	<i>Notes</i>	
At 1 July 2001	2,233,514,129	223,351
Exercise of shares options	37,800,000	3,780
Exercise of warrants	14,653,108	1,466
Conversion of convertible bonds	85,759,247	8,576
At 30 June 2002 and 1 July 2002	2,371,726,484	237,173
Exercise of share options	(a) 68,400,000	6,840
Exercise of warrants	(b) 50,052,800	5,005
Conversion of convertible bonds	(c) 77,498,547	7,750
At 30 June 2003	2,567,677,831	256,768

30. SHARE CAPITAL (Cont'd)

Shares (Cont'd)

Notes:

- (a) A total of 12,400,000 and 56,000,000 ordinary shares of HK\$0.10 each were issued upon exercise of share options granted to certain directors and employees at an exercise price of HK\$0.4312 and HK\$0.56 per share, respectively, for a total cash consideration before related issue expenses of approximately HK\$36,707,000.
- (b) A total of 50,052,800 ordinary shares of HK\$0.10 each in the Company were issued at a subscription price of HK\$0.77 per share pursuant to the exercise of the Company's warrants for a total cash consideration before related issue expenses of approximately HK\$38,541,000.
- (c) A principal portion of the convertible bonds in the total amount of US\$5,250,000 (approximately HK\$40,950,000) before related expenses was converted by the convertible bondholders at conversion prices ranging from HK\$0.5146 to HK\$0.6324 into 77,498,547 ordinary shares of HK\$0.10 each in the Company.

Warrants

A bonus issue of 230,495,088 warrants to subscribe for ordinary shares in the Company was made by the Company in April 2002. Each warrant entitled the holder thereof to subscribe in cash for ordinary shares of HK\$0.10 each in the Company at a subscription price of HK\$0.77 each (subject to adjustments) and is exercisable at any time during the period from 10 April 2002 to 9 April 2004 (both dates inclusive).

Prior to the current financial year, 6,400 warrants were exercised for the subscription of 6,400 ordinary shares of HK\$0.10 each in the Company. During the year, 50,052,800 warrants were exercised for the subscription of 50,052,800 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 approximately HK\$33,536,000, was credited to the share premium account (note 32). Accordingly, as at the balance sheet date, the Company had 180,435,888 (2002: 230,488,688) warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 180,435,888 additional shares of HK\$0.10 each in the Company.

Subsequent to the balance sheet date and up to the date of this report, 38,793,775 warrants were exercised for the subscription of 38,793,775 ordinary shares of HK\$0.10 each in the Company.

31. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company’s share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

Pursuant to the share option scheme adopted by the Company on 19 February 1998 (the “Previous Scheme”), the Company has granted certain options to directors and employees of the Group including the executive directors of the Company to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein. In order to comply with the new requirements of Chapter 17 of the Listing Rules on the Stock Exchange on granting options under share option schemes which took effect from 1 September 2001, the Previous Scheme was terminated and a new share option scheme (the “Existing Scheme”) was adopted pursuant to an ordinary resolution passed by the shareholders at the annual general meeting of the Company held on 7 December 2001. Accordingly, no further options can be granted under the Previous Scheme as from 7 December 2001. However, for the outstanding options granted under the Previous Scheme, the existing rights of the grantees are not affected.

Pursuant to the Previous Scheme, the subscription price should be 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 Previous Scheme may not exceed 10% of the issued share capital of the Company from time to time.

Pursuant to the Existing Scheme, the Company may grant options to eligible participants to subscribe for shares in the Company subject to the terms and conditions stipulated therein. A summary of the Existing Scheme is as follows:

Purpose	To enable the Company to grant options to Eligible Participants (as defined below) as incentive and reward for their contribution to the Group.
Eligible Participants	Employees, executives or officers of the Company or any of its subsidiaries (including their respective executive and non-executive directors) and suppliers, consultants and advisers who will or have provided services to the Group.
Total number of shares available for issue under the Existing Scheme	The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Existing Scheme must not exceed 10% of the shares of the Company in issue as at the date of the relevant shareholders’ approval.

31. SHARE OPTION SCHEMES (Cont'd)

Total number of shares available for issue for options granted under the Existing Scheme	At 30 June 2003, the number of shares issuable under share options granted under the Existing Scheme was 132,700,000, which represented approximately 5.2% of the issued share capital of the Company as at that date.
Maximum entitlement of each Eligible Participant	The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the number of shares of the Company in issue at the date of grant.
Period under which the shares must be taken up under an option	The period during which the options may be exercised will be determined by the board of directors of the Company at its absolute discretion, save that no option can be exercised more than 10 years after it has been granted and accepted.
Minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option must be held before it can be exercised.
Basis of determining the exercise price	The exercise price must be at least the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of the grant, which must be a business day; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.
The remaining life of the Existing Scheme	The Existing Scheme remains in force until 6 December 2011 unless otherwise terminated in accordance with the terms stipulated therein.
Period within which payments/calls/loans must be made/repaid	30 days from the date of the offer of the options.
Amount payable on acceptance of the option	HK\$1.0
Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.	

31. SHARE OPTION SCHEMES (Cont'd)

A summary of the movements in the share options granted under the share option schemes of the Company and the share options attaching to the convertible bonds issued by the Company is as follows:

(I) Share option schemes

The Previous Scheme

Type of grantees	At beginning of year	Number of options			At end of year
		Granted during the year	Exercised during the year	Lapsed or cancelled during the year	
Executive director					
Mr. Zhong Jianqiu	17,200,000	–	–	–	17,200,000
Other employees	29,600,000	–	(12,400,000)(ii)	–	17,200,000
	<u>46,800,000(i)</u>	<u>–</u>	<u>(12,400,000)</u>	<u>–</u>	<u>34,400,000</u>

The Existing Scheme

Type of grantees	At beginning of year	Number of options			At end of year
		Granted during the year	Exercised during the year	Lapsed or cancelled during the year	
Executive directors					
Mr. Kwong Wui Chun	8,900,000	–	–	–	8,900,000
Mr. Zhong Jianqiu	5,400,000	–	–	–	5,400,000
Former Executive director					
Mr. Hung Pann Yi	22,600,000	–	–	–	22,600,000
Former non-executive director					
Mr. Gan Ming Hui	8,900,000	–	–	(8,900,000)	–
Other employees	151,800,000	–	(56,000,000)(iv)	–	95,800,000
	<u>197,600,000(iii)</u>	<u>–</u>	<u>(56,000,000)</u>	<u>(8,900,000)</u>	<u>132,700,000</u>

31. SHARE OPTION SCHEMES (Cont'd)

(I) Share option schemes (Cont'd)

Notes:

- (i) These share options were granted on 26 February 2001. The share options are exercisable during the period from 26 February 2001 to 25 February 2004 at an exercise price of HK\$0.8624 per share. The number of share options and their exercise price were subsequently adjusted to 46,800,000 share options and HK\$0.4312 (subject to further adjustments) respectively in consequence of the one-for-one bonus issue of shares in the Company in May 2001.
- (ii) The weighted average closing price of the shares of the Company immediately before the dates on which these share options were exercised during the year was HK\$0.7312.
- (iii) These share options were granted on 25 January 2002. The share options are exercisable during the period from 25 January 2002 to 24 January 2005 at an exercise price of HK\$0.56 per share (subject to adjustments).
- (iv) The weighted average closing price of the shares of the Company immediately before the dates on which these share options were exercised during the year was HK\$0.7472.

(II) Share options attaching to convertible bonds

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 were exercisable during the period from 2 September 2000 up to and including 1 September 2003 at an exercise price of HK\$2.84 per share. The number of options and their exercise price were subsequently adjusted to 25,000,000 options and HK\$1.42, respectively, in consequence of the one-for-one bonus issue of new shares in the Company in May 2001. None of these options were exercised during the year. Subsequent to the balance sheet date, all these options lapsed upon expiry of the exercise period on 1 September 2003.

Subsequent to the balance sheet date, 17,200,000 and 36,200,000 share options were exercised at an exercise price of HK\$0.4312 and HK\$0.56 respectively. Accordingly, a total of 53,400,000 new ordinary shares were issued and allotted by the Company.

31. SHARE OPTION SCHEMES (Cont'd)

(II) Share options attaching to convertible bonds (Cont'd)

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

	Number of share options exercisable at the subscription price of		
	HK\$0.4312 per share <i>(note (i))</i> '000	HK\$0.56 per share <i>(note (ii))</i> '000	HK\$1.42 per share <i>(note (iii))</i> '000
At beginning of year	46,800	197,600	25,000
Lapse of share options	–	(8,900)	–
Exercise of share options	(12,400)	(56,000)	–
At balance sheet date	<u>34,400</u>	<u>132,700</u>	<u>25,000</u>

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

- (i) During the year, 12,400,000 share options were exercised at a subscription price of HK\$0.4312 per share and resulted in the issue of 12,400,000 new ordinary shares in the Company. The excess of the cash consideration received over the nominal value of the issued shares of approximately HK\$4,107,000 was credited to the share premium account (note 32).
- (ii) During the year, 56,000,000 share options were exercised at the subscription price of HK\$0.56 per share and resulted in the issuance of 56,000,000 new ordinary shares in the Company. The excess of the cash consideration received over the nominal value of the issued shares of HK\$25,760,000 was credited to the share premium account (note 32).
- (iii) On 2 September 2000, options to subscribe 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 were exercisable during the period from 2 September 2000 up to and including 1 September 2003 at an exercise price of HK\$2.84 per share. The maximum number of shares in the Company which would 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 in the preceding year. None of these options was exercised during the year.

32. SHARE PREMIUM ACCOUNT

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At beginning of year	876,448	816,488
Arising on exercise of share options	29,867	15,430
Arising on exercise of warrants	33,536	8,646
Arising on conversion of convertible bonds	33,200	35,884
	973,051	876,448

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

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 directors of each of the PRC subsidiaries, 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.

33. RESERVES (Cont'd)

(b) Company

	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2001	330,903	27,369	358,272
Net profit for the year	–	43,993	43,993
Dividends (<i>note 13</i>)	–	(59,766)	(59,766)
	<hr/>	<hr/>	<hr/>
At 30 June 2002 and 1 July 2002	330,903	11,596	342,499
Net profit for the year	–	75,121	75,121
Dividends (<i>note 13</i>)	–	(111,737)	(111,737)
	<hr/>	<hr/>	<hr/>
At 30 June 2003	330,903	(25,020)	305,883

The proposed final dividend account within the capital and reserves section of the balance sheet represents an appropriation from retained profits and therefore forms part of the total of such reserve until the dividends are declared and paid. In addition, any excess of the appropriation over the retained profits reserve will be replenished by dividends declared to the Company by its subsidiaries when they are approved subsequent to the balance sheet date. The directors of the Company anticipate that the approval of such dividends from subsidiaries will be confirmed in due course.

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.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes and interest paid are now included in cash flows from operating activities, interest received is now included in cash flows from investing activities, and dividends paid are now included in cash flow from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(a) Prior year adjustments (Cont'd)

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 30 June 2002 has been adjusted to remove trust receipt loans amounting of HK\$219,943,000, previously included at that date. The year's movement in trust receipt loans is now included in cash flows from operating activities and the comparative cash flow statement has been changed accordingly.

(b) Major non-cash transactions

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

- (i) The conversion rights vested in certain convertible bonds have been exercised whereby the principal portion of these bonds in the aggregate amount of US\$5,250,000 (approximately HK\$40,950,000) (2002: US\$5,700,000 (approximately HK\$44,460,000)) was converted into ordinary shares of HK\$0.10 each in the Company. Further details are set out in notes 28 and 30(c) to the financial statements.
- (ii) 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\$5,000,000 (2002: HK\$900,000).
- (iii) Certain dividends declared by a subsidiary to minority shareholders of HK\$4,786,000 were recorded as part of "due to minority equity/shareholders" under current liabilities.

35. CONTINGENT LIABILITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bills discounted with recourse	13,149	2,059	–	–
Guarantees granted to and utilised by certain non-wholly owned subsidiaries in respect of:				
Banking facilities	–	–	608,594	395,761
Finance lease payables	–	–	12,177	22,559
Purchase of aluminum ingots	–	–	116,128	–
Guarantee granted to and utilised by a minority equity holder in respect of banking facilities	10,829	–	–	–
	23,978	2,059	736,899	418,320

35. CONTINGENT LIABILITIES (Cont'd)

Following the disposal of 26.2% equity interest in AAG to Indalex in the prior year, the Company, Indalex and AAG entered into a deed of tax indemnity on 8 June 2001 pursuant to which the Company has undertaken to indemnify Indalex in respect of any tax (as defined in the deed of tax indemnity) arising from any income, profits or gains earned, accrued or received by AAG and its subsidiaries (the "AAG Group") to the extent that any tax liability was not paid or provided for at the appropriate time as a result of the use by any of the AAG Group of any tax policies or accounting practices that did not comply with any applicable law or published practice in force, save in certain circumstances including where provision has been made for such tax in the audited financial statements of the AAG Group.

Save as aforesaid, the Group and the Company had no other material contingent liabilities.

36. OPERATING LEASE ARRANGEMENTS

The Group leases its manufacturing premises in the PRC under operating lease arrangements. Leases for properties are negotiated for terms which expire between the years 2011 and 2016. In addition, the Group leases its office premises from Mr. Kwong Wui Chun for a term of three years from 1 October 2001, and staff quarters from Dr. Chan Yiu Tsuan, Benby for a term of two years from 1 May 2003.

At 30 June 2003, the Group had total future minimum lease payments under operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	10,912	10,167
In the second to fifth years, inclusive	29,974	31,655
After five years	69,704	72,333
	110,590	114,155

The Company had no significant operating lease arrangements at the balance sheet date.

37. COMMITMENTS

In addition to the operating lease arrangements detailed in note 36 above, the Group had the following commitments at the balance sheet date.

- (a) At 30 June 2003, the Group had capital commitments not provided for in the financial statements as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Contracted for (<i>note</i>)	283,375	119,404

Note: At the balance sheet date, the Group was committed to make a capital injection to three subsidiaries in the PRC of approximately HK\$98,697,000 (2002: HK\$98,904,000). In addition, the Group had contracted capital commitments in respect of the acquisition of fixed assets of HK\$17,343,000 (2002: HK\$20,500,000). In addition, the Group had a contracted capital commitment of HK\$167,335,000 (2002: Nil) relating to the acquisition of an aluminum rolling mill and its associated auxiliary equipment in connection with the Group's investments in jointly-controlled entities established subsequent to the balance sheet date, further details of which are set out in note 38(ii) to the financial statements.

- (b) At the balance sheet date, the Group had a commitment in respect of forward contracts for the purchase and sale of raw materials of aluminum ingots in the amount of HK\$147,506,000 (2002: HK\$112,758,000).
- (c) At the balance sheet date, the Group entered into an agreement with a major supplier of the Group, pursuant to which the Group agreed to purchase 8,000 tonnes of aluminum ingots per month for the period from July 2003 to December 2003.
- (d) In the prior year, the Company granted Put Option I to Indalex, under which the Company is obliged at the option of Indalex to purchase its entire equity interest in AAG upon the occurrence of certain triggering events which include, inter alia, the Company ceasing to hold 60% effective equity interest in AAG and Mr. Kwong ceasing to hold 35% effective equity interest in the Company. The Put Option I has no expiry date and subsists in perpetuity from 8 June 2001. The consideration payable by Indalex for the AAG shares upon the exercise of the Put Option I ranges from HK\$524.0 million (adjustable for certain deferred consideration payable not exceeding HK\$100.0 million) to the open market value of these AAG shares at the time of exercise of the Put Option I, 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 I are set out in the Company's circular dated 18 May 2001 to its shareholders.

38. POST BALANCE SHEET EVENTS

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

- (i) Pursuant to the Company's announcement dated 9 July 2003, the Company has been granted a three-year syndicated term loan facility amounting to US\$75 million (equivalent to HK\$585 million), which requires Mr. Kwong, the Chairman and a substantial shareholder of the Company, (i) to maintain at least 35% of the total issued share capital of the Company, (ii) to continue to be the single largest beneficial shareholder of the Company, and (iii) to have an active and direct involvement in the day-to-day management of the Group throughout the term of the relevant loan agreement. The loan facility will be used to refinance the existing syndicated term loan facility of US\$40 million (equivalent to HK\$312 million and classified as current liabilities) and as general working capital of the Group.

The transaction gave rise to a disclosure obligation for the Company under paragraph 3.7.1 of Practice Note 19 of the Listing Rules.

- (ii) Pursuant to a subscription agreement dated 11 July 2003 (the "Subscription Agreement") entered into among CSD, Sino Advance, Mr. Kwong, Record Break Investments Limited (the "First Subscriber") and Think Success Industries Limited (the "Second Subscriber"), Sino Advance, Mr. Kwong, the First Subscriber and the Second Subscriber have conditionally agreed to subscribe for a total of 999,999 new shares in CSD of US\$1 each in cash. Upon the completion of the Subscription Agreement, the equity interest in CSD attributable to the Group is 60%. The total consideration payable under the Subscription Agreement is US\$999,999 (equivalent to HK\$7,799,992). At date of the Subscription Agreement, both CSD and Sino Advance are wholly-owned subsidiaries of the Company. The First Subscriber and the Second Subscriber are independent investment vehicles wholly-owned by one of the Group's suppliers engaged in the trading of non-ferrous metals and the Group's distributors for the aluminum products of the Group, respectively.

Immediately after the execution of the Subscription Agreement, CSD will proceed to establish a wholly foreign owned enterprise (the "WFOE") in Zhaoqing, Guangdong Province, the PRC for the sole purpose of operating a new manufacturing facility for production of high grade aluminum sheet products with a maximum capacity of 400,000 tonnes per annum.

Under the Subscription Agreement and simultaneously upon completion of the subscription of shares in CSD, each of Sino Advance, Mr. Kwong, the First Subscriber and the Second Subscriber has also agreed to provide shareholders' loans of a total amount of HK\$1,350 million to CSD in proportion to their respective interests in CSD. The aggregate of the subscription moneys and the shareholders' loans of approximately HK\$1,358 million will be used to fund the registered capital of the WFOE. Pursuant to the Subscription Agreement, the maximum amount of the shareholders' loans to be provided by the Group is HK\$810 million.

The Group plans to pay the amounts payable for 999,999 CSD shares and the shareholders' loans by internal resources.

38. POST BALANCE SHEET EVENTS (Cont'd)

(ii) (Cont'd)

The proposed subscription of new CSD shares by Sino Advance for a cash consideration of US\$599,999 together with the commitment of Sino Advance to provide its portion of the shareholders' loans for an amount of HK\$810 million to CSD constitutes a discloseable transaction for the Company under Rule 14.12(1) of the Listing Rules. The subscription by Mr. Kwong of 200,000 CSD shares constitutes a connected transaction for the Company under Rule 14.26(3) of the Listing Rules. The transactions are subject to approval of the Company's independent shareholders which has already been obtained at a special general meeting of the Company held on 18 August 2003. Further details of the transaction are set out in the Company's circular dated 1 August 2003 to its shareholders.

(iii) On 18 August 2003, CSD entered into an agreement with an independent third party to acquire the associated auxiliary equipment and spare parts of an aluminum rolling mill at a total consideration of approximately HK\$284,469,000.

39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 October 2003.