

Notes to the Condensed Financial Statement

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements (“Interim Financial Statements”) have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (the “HKSA”), and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These Interim Financial Statements should be read in conjunction with the 2002/2003 annual financial statements of the Group.

2. PRINCIPAL ACCOUNTING POLICIES AND IMPACT OF REVISED SSAP

The accounting policies and methods of computation adopted for preparing the Interim Financial Statements are consistent with those followed in the Group’s annual financial statements for the year ended 30 June 2003 except that the Group has changed its accounting policy on deferred tax following its adoption of SSAP 12 (Revised), “Income Taxes”, issued by the HKSA which is effective for the first time in the preparation of the Interim Financial Statements and the adoption of the accounting policy on joint venture companies.

In previous years, deferred tax liabilities were provided using the income statement liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallize in the foreseeable future. Deferred tax assets were not recognized unless their realization was assured beyond reasonable doubt.

In order to comply with SSAP 12 (Revised), the Group adopted a new accounting policy for deferred tax. A balance sheet liability method was used to recognize deferred tax in respect of all temporary differences between the carrying amounts of assets and liabilities in the Interim Financial Statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively, but the adoption of the standard has had no material effect on the financial results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Further to the aforesaid, the Group has expanded its accounting policies for its interests in jointly-controlled entities (note 10) as below:

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2. PRINCIPAL ACCOUNTING POLICIES AND IMPACT OF REVISED SSAP (Cont'd)

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the condensed consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the condensed consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

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3. SEGMENT INFORMATION

(a) Business segments

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 other business segments.

Group	Six months ended 31 December 2003 (Unaudited)					Total HK\$'000
	Aluminum extrusion products HK\$'000	Stainless steel products HK\$'000	Aluminum panels HK\$'000	Design and testing services HK\$'000	Others HK\$'000	
Segment revenue						
Sales to external customers	1,104,032	273,453	54,572	16,507	–	1,448,564
Other revenue	2,094	–	–	–	–	2,094
Total	1,106,126	273,453	54,572	16,507	–	1,450,658
Segment results	129,398	17,877	24,594	13,701	(1,034)	184,536
Interest and unallocated gains						41,137
Unallocated expenses						(12,153)
Profit from operating activities						213,520
Finance costs						(33,334)
Share of losses of jointly-controlled entities						(4,141)
Profit before tax						176,045
Tax						(55,427)
Profit before minority interests						120,618
Minority interests						(37,148)
Net profit from ordinary activities attributable to shareholders						83,470

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3. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Group	Six months ended 31 December 2002 (Unaudited)					Total HK\$'000
	Aluminum extrusion products HK\$'000	Stainless steel products HK\$'000	Aluminum panels HK\$'000	Design and testing services HK\$'000	Others HK\$'000	
Segment revenue						
Sales to external customers	979,903	46,751	67,551	12,523	-	1,106,728
Other revenue	3,301	-	-	-	-	3,301
Total	983,204	46,751	67,551	12,523	-	1,110,029
Segment results	170,405	440	34,374	10,395	(3,124)	212,490
Interest and unallocated gains						88,498
Unallocated expenses						(8,980)
Profit from operating activities						292,008
Finance costs						(20,920)
Share of losses of jointly-controlled entities						-
Profit before tax						271,088
Tax						(44,164)
Profit before minority interests						226,924
Minority interests						(49,143)
Net profit from ordinary activities attributable to shareholders						177,781

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3. SEGMENT INFORMATION (Cont'd)

(b) Geographical segments

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.

Group	Six months ended 31 December 2003 (Unaudited)					
	Hong Kong HK\$'000	Mainland China HK\$'000	North America HK\$'000	Asia Pacific, excluding Mainland China and Hong Kong HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue						
Sales to external customers	81,307	1,199,383	117,645	47,009	3,220	1,448,564

Group	Six months ended 31 December 2002 (Unaudited)					
	Hong Kong HK\$'000	Mainland China HK\$'000	North America HK\$'000	Asia Pacific, excluding Mainland China and Hong Kong HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue						
Sales to external customers	149,916	856,753	28,547	66,315	5,197	1,106,728

4. GAIN ON PARTIAL DISPOSAL OF INTERESTS IN SUBSIDIARIES

In accordance with the contractual arrangement underlying the disposal of a 26.2% of equity interest in Asia Aluminum Group Limited ("AAG") to Indalex UK Limited ("Indalex"), the disposal consideration entitled to by the Company will be increased based on the attainment by AAG and its subsidiaries ("AAG Group") of certain financial thresholds in the financial years ended 30 June 2001, 30 June 2002 and 30 June 2003 respectively.

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

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5. PROFIT FROM OPERATING ACTIVITIES

	Six months ended	
	31/12/03 (Unaudited) HK\$'000	31/12/02 (Unaudited) HK\$'000
Profit from operating activities is arrived at after charging the following:		
Depreciation	35,527	37,696

6. FINANCE COSTS

	Six months ended	
	31/12/03 (Unaudited) HK\$'000	31/12/02 (Unaudited) HK\$'000
Interest on:		
Bank and other loans wholly repayable within five years	26,023	19,930
Finance leases	275	472
Convertible bonds	-	518
	26,298	20,920
Arrangement fees on bank and other loans	7,036	-
	33,334	20,920

Notes to the Condensed Financial Statement

7. TAX

	Six months ended	
	31/12/03 (Unaudited) HK\$'000	31/12/02 (Unaudited) HK\$'000
Current period provision outside Hong Kong	55,427	44,164
Deferred tax	-	-
	55,427	44,164

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising from its operations in Hong Kong during the six months period ended 31 December 2003 (2002: Nil). Taxes on profits assessable elsewhere have been calculated at the appropriate rates of taxation in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

During the six months ended 31 December 2003, provisions for the People's Republic of China (the "PRC") income tax have been made at the applicable rate for subsidiaries operating in the PRC.

8. DIVIDENDS

The directors have declared an interim dividend of HK 1.2 cents (2002: HK 1.5 cents) per share be paid to the shareholders of the Company whose names appear on the Company's Register of Members on 19 April 2004.

	Six months ended	
	31/12/03 (Unaudited) HK\$'000	31/12/02 (Unaudited) HK\$'000
Proposed interim dividend of HK 1.2 cents (2002: HK1.5 cents) per share	37,399	37,566
Special dividend for 2002 of HK 1.0 cent per share	-	25,044
	37,399	62,610
Underaccrual of final dividend for prior year due to exercise of warrants and share options before dividend record date	990	1,073
	38,389	63,683

Notes to the Condensed Financial Statement

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	31/12/03 (Unaudited) HK\$'000	31/12/02 (Unaudited) HK\$'000
Earnings		
Earnings (net profit for the period) for the purpose of basic earnings per share calculation	83,470	177,781
Effect of dilutive convertible bonds	-	347
Earnings for the purpose of diluted earnings per share	83,470	178,128
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	2,640,413,552	2,391,912,092
Effect of dilutive share options	49,800,000	44,118,651
Effect of dilutive convertible bonds	56,124,477	69,048,361
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,746,338,029	2,505,079,104

10. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

The interests in jointly-controlled entities prepared in accordance with accounting principles generally accepted in Hong Kong, are as follows:

	31/12/03 (Unaudited) HK\$'000	30/06/03 (Audited) HK\$'000
Share of net assets	520	-
Advances to jointly-controlled entities	421,294	-
	421,814	-

Notes to the Condensed Financial Statement

10. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Cont'd)

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting rights	Profit sharing	
China Steel Development Co. Ltd.	Corporate	Samoa/Mainland China	60%	40%	60%	Investment holding
Asia Aluminum (China) Co. Ltd.	Corporate	Mainland China	60%	40%	60%	Manufacture and trading of aluminum sheets products

11. TRADE RECEIVABLES

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

	31/12/03 (Unaudited) HK\$'000	30/06/03 (Audited) HK\$'000
Within 3 months	333,941	295,362
4 to 6 months	95,183	77,888
7 to 12 months	46,814	66,081
More than 1 year	71,336	78,312
	547,274	517,643
Provision for bad and doubtful debts	(60,647)	(66,078)
	486,627	451,565

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.

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12. TRADE PAYABLES

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

	31/12/03 (Unaudited) HK\$'000	30/06/03 (Audited) HK\$'000
Within 3 months	223,566	204,501
4 to 6 months	10,170	6,551
7 to 12 months	10,203	16,598
More than 1 year	9,590	5,094
	253,529	232,744

13. SHARE CAPITAL

	31/12/03 (Unaudited) HK\$'000	30/06/03 (Audited) HK\$'000
Authorised: 6,000,000,000 ordinary shares of HK\$0.10 each	600,000	600,000
Issued and fully paid: 2,714,886,263 (30/06/03: 2,567,677,831) ordinary shares of HK\$0.10 each	271,489	256,768

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

	Notes	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
At 1 July 2003 (Audited)		2,567,677,831	256,768
Exercise of share options	(a)	92,600,000	9,260
Exercise of warrants	(b)	54,608,432	5,461
At 31 December 2003 (Unaudited)		2,714,886,263	271,489

Notes to the Condensed Financial Statement

13. SHARE CAPITAL (Cont'd)

- (a) A total of 34,400,000 and 58,200,000 ordinary shares of HK\$0.10 each were issued upon exercise of share options granted to certain 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\$47,425,000.
- (b) A total of 54,608,432 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\$42,049,000.

Subsequent to the end of the period and up to the date of this report, the following changes in the Company's issued share capital took place:

- (i) A total of 2,000,000 ordinary shares of HK\$0.10 each were issued upon exercise of share options granted to certain employees at an exercise price of HK\$0.56 per share, for a total cash consideration before related issue expenses of HK\$1,120,000.
- (ii) A total of 67,720,657 ordinary shares 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 expenses of approximately HK\$52,145,000.
- (iii) A total of 332,000,000 new ordinary shares of HK\$0.10 each in the Company were issued for a net consideration of approximately HK\$506,520,000 (Note 20).

14. SHARE PREMIUM ACCOUNT

	31/12/03 (Unaudited) HK\$'000	30/06/03 (Audited) HK\$'000
At beginning of period	973,051	876,448
Arising on exercise of share options	38,165	29,867
Arising on exercise of warrants	36,588	33,536
Arising on conversion of convertible bonds	–	33,200
At end of period	1,047,804	973,051

15. CONTINGENT LIABILITIES

As at 31 December 2003, the Group has contingent liabilities related to the bills discounted with recourse of HK\$5,953,000 (30 June 2003: HK\$13,149,000).

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16. OPERATING LEASE ARRANGEMENTS

As at 31 December 2003, the Group had total future minimum lease payments under operating leases falling due as follows:

	31/12/03 (Unaudited) HK\$'000	30/06/03 (Audited) HK\$'000
Within one year	10,356	10,912
In the second to fifth years, inclusive	30,613	29,974
After five years	67,816	69,704
	108,785	110,590

17. COMMITMENTS

(a) As at 31 December 2003, the Group had capital commitments not provided for in the Interim Financial Statements as follows:

	31/12/03 (Unaudited) HK\$'000	30/06/03 (Audited) HK\$'000
Contracted for (Note)	496,147	283,375

Note: The Group was committed to make a capital injection to three subsidiaries in the PRC of approximately HK\$98,904,000 (30/06/03: HK\$98,697,000). In addition, the Group was committed to provide a shareholder's loan to a jointly-controlled entity of HK\$810,000,000 (30/06/03: Nil) and the outstanding loan commitment as at 31 December 2003 was HK\$395,206,000 (30/06/03: Nil). As at 31 December 2003, the Group also had contracted capital commitments in respect of the acquisition of fixed assets of approximately HK\$2,037,000 (30/06/03: HK\$184,678,000).

(b) As at 31 December 2003, the Group has a commitment in respect of forward contracts for the purchase and sale of raw materials of aluminum ingots in the amount of HK\$121,554,000 (30/06/03: HK\$147,506,000).

18. BORROWING FACILITIES

Certain of the Group's borrowings at 31 December 2003 were secured by fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK\$5,547,000 (30/06/03: HK\$5,765,000) and HK\$8,614,000 (30/06/03: HK\$8,892,000), respectively, and by bank deposits of HK\$120,373,000 (30/06/03: HK\$115,664,000).

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19. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the period:

	Notes	31/12/03 (Unaudited) HK\$'000	31/12/02 (Unaudited) HK\$'000
Sales of finished goods	(a)	39,019	28,818
Rental expenses paid	(b)	1,175	1,673

- (a) The sale of finished goods to Indalex Aluminum Solution Group which are companies associated with Indalex, a minority shareholder of AAG. The directors considered that these transactions were made according to prices similar to those offered to unrelated customers of the Group.
- (b) 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, 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 value.

20. POST BALANCE SHEET EVENTS

Subsequent to the interim reporting date, on 29 January 2004, the Company completed a placing, underwriting and subscription agreement with Viewlink Assets Limited ("Viewlink"), a substantial shareholder of the Company, under which a placement of 332,000,000 of the then existing shares of the Company held by Viewlink were made to independent third parties at a price of HK\$1.56 per share. In return, a subscription of 332,000,000 new shares of HK\$0.10 each in the Company was made by Viewlink at the same price for a total cash consideration, before expenses, of approximately HK\$506,520,000.

21. COMPARATIVE AMOUNTS

Certain of the comparative figures for the six months ended 31 December 2002 have been restated to conform with the current period's presentation.