

## 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 A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

### Measurement and recognition

Deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future.

The adoption of SSAP 12 had no significant impact for the financial statements for the year ended 30 June 2003 on the amounts recorded for income taxes.

### Disclosures

The related note disclosures of deferred tax assets and liabilities are now more extensive than previously required. These disclosures are presented in note 10 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes are included in the accounting policy for deferred tax in notes 3 and 10 to the financial statements.

## 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 (Continued)

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2004. 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 has been 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.

#### 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Joint venture companies (Continued)

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company 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 Company 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 consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the 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.

#### 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 15 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Goodwill (Continued)

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.

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% or over lease terms, whichever is shorter
Plant and machinery	– 6.25%
Moulds	– 12.5% to 20%
Furniture and fixtures	– 10%
Office equipment	– 16.67%
Motor vehicles	– 16.67%

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fixed assets and depreciation (Continued)

Construction in progress represents the costs incurred in connection with the construction of fixed assets 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.

#### 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.

#### 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 (Continued)

#### 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, except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, 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.

##### *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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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.

#### 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 and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities 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.

#### 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 (Continued)

#### 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.

### 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	2004 HK\$'000	2003 HK\$'000
Rental expense paid to a related company	(i)	2,350	3,346
Termination fee in respect of rental paid to a related company	(i)	100	–
Rental expense paid to a director	(ii)	297	54
Sale of finished goods to a minority shareholder of a subsidiary: Indalex Aluminum Solutions Group ("IASG")	(iii)	102,617	65,247
Sale of finished goods to a company of which a director of a non wholly-owned subsidiary is also a director	(iv)	14,241	–
Deposit received from a jointly-controlled entity	(v)	25,424	–
Purchase of fixed assets from IASG	(iii)	778	–
Consultancy fee paid to a former director of the Company	(vi)	1,228	–
Cash maintained with bank accounts in the PRC under the name of associates of two directors held on behalf of the Group		8,378	–

In addition to the foregoing, management fees in the amount of HK\$16,330,000 (2003: 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 were eliminated on consolidation.

#### 4. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (Continued)

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. On 1 July 2003, the rental agreements in respect of the Group's staff quarters were early terminated and, accordingly, a compensation of HK\$100,000 was paid.
- (ii) The rentals were paid in respect of the Group's leased staff quarters 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) IASG 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 of the Company consider that these transactions were made according to prices and other terms similar to those offered to unrelated parties of the Group.
- (iv) The directors of the Company consider that the sale of finished goods to a company, of which director of a non wholly-owned subsidiary is also a director were made according to prices and other terms similar to those offered to unrelated customers of the Group.
- (v) The deposit was received in respect of sale of finished goods to be made. The directors of the Company consider that the sales to be made is according to prices and other terms similar to those offered to unrelated customers of the Group.
- (vi) Pursuant to a service agreement between the Group and a former director of the Company on 8 August 2003, the consultancy fee was charged at a monthly rate of HK\$107,000. The directors of the Company consider that the monthly consultancy fee was based on normal commercial terms.

Each of Guangdong Nanhua Aluminium Factory Co., Ltd ("Guangdong Nanhua") and Foshan Nanhai Hongjia Aluminium Materials and Stainless Steel Co., Ltd ("Hongjia Aluminium") 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. 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:

- the aluminium extrusion products segment engages in the manufacture and sale of aluminium extrusion products;
- the stainless steel products segment comprises the manufacture and sale of stainless steel products;
- the aluminium panels segment refers to the manufacture and sale of aluminium panels;
- the design and testing services segment represents the Group's provision of design and testing services for aluminium 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.

## 5. SEGMENT INFORMATION (Continued)

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	2004					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	2,493,619	353,057	74,867	16,939	–	2,938,482
Other revenue	5,690	–	–	–	–	5,690
Total	<u>2,499,309</u>	<u>353,057</u>	<u>74,867</u>	<u>16,939</u>	<u>–</u>	<u>2,944,172</u>
Segment results	<u>437,589</u>	<u>11,618</u>	<u>30,923</u>	<u>14,059</u>	<u>(2,063)</u>	492,126
Interest and unallocated gains						58,385
Unallocated expenses						<u>(21,634)</u>
Profit from operating activities						528,877
Finance costs						<u>(59,144)</u>
Share of losses of jointly-controlled entities						<u>(6,768)</u>
Profit before tax						462,965
Tax						<u>(143,224)</u>
Profit before minority interests						319,741
Minority interests						<u>(97,218)</u>
Net profit attributable to shareholders						<u>222,523</u>

## 5. SEGMENT INFORMATION (Continued)

## (a) Business segments (Continued)

Group	2003					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	1,828,000	361,562	153,069	15,395	–	2,358,026
Other revenue	3,992	–	–	–	–	3,992
Total	<u>1,831,992</u>	<u>361,562</u>	<u>153,069</u>	<u>15,395</u>	<u>–</u>	<u>2,362,018</u>
Segment results	<u>245,819</u>	<u>23,733</u>	<u>79,544</u>	<u>12,778</u>	<u>(4,609)</u>	357,265
Interest and unallocated gains						106,988
Unallocated expenses						<u>(17,542)</u>
Profit from operating activities						446,711
Finance costs						<u>(40,734)</u>
Profit before tax						405,977
Tax						<u>(86,309)</u>
Profit before minority interests						319,668
Minority interests						<u>(79,149)</u>
Net profit attributable to shareholders						<u>240,519</u>

## 5. SEGMENT INFORMATION (Continued)

## (a) Business segments (Continued)

Group	2004					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 assets	2,026,111	68,751	99,197	20,317	–	2,214,376
Unallocated assets						3,405,477
Total assets						5,619,853
Segment liabilities	968,850	251	13,974	56	–	983,131
Unallocated liabilities						1,188,452
Total liabilities						2,171,583
Other segment information:						
Depreciation	87,242	5,023	3,338	–	1,881	97,484
Provision for bad and doubtful debts, net	22,176	–	1,864	–	–	24,040
Loss on disposal/ write-off of fixed assets, net	14,086	–	6	–	–	14,092
Capital expenditure	155,857	1,456	713	–	–	158,026

## 5. SEGMENT INFORMATION (Continued)

## (a) Business segments (Continued)

Group	2003					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 assets	1,734,675	80,607	124,091	25,416	–	1,964,789
Unallocated assets						2,174,103
Total assets						4,138,892
Segment liabilities	987,188	759	17,899	72	–	1,005,918
Unallocated liabilities						578,832
Total liabilities						1,584,750
Other segment information:						
Depreciation	74,404	7,181	6,726	–	1,881	90,192
Provision for bad and doubtful debts	11,886	–	1,000	–	1,464	14,350
Loss on disposal/ write-off of fixed assets	11,384	–	17	–	–	11,401
Capital expenditure	149,084	20,442	6,513	–	–	176,039

## 5. SEGMENT INFORMATION (Continued)

## (b) Geographical segments

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

2004						
Group	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	<u>142,281</u>	<u>2,362,764</u>	<u>306,651</u>	<u>119,595</u>	<u>7,191</u>	<u>2,938,482</u>
2003						
Group	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	<u>249,078</u>	<u>1,860,621</u>	<u>133,017</u>	<u>104,755</u>	<u>10,555</u>	<u>2,358,026</u>

## 5. SEGMENT INFORMATION (Continued)

## (b) Geographical segments (Continued)

Group	2004					
	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
Other segment information						
Segment assets	<u>349,029</u>	<u>5,075,844</u>	<u>120,774</u>	<u>4,629</u>	<u>69,577</u>	<u>5,619,853</u>
Capital expenditure	<u>1,543</u>	<u>156,483</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>158,026</u>
	2003					
Group	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
Other segment information						
Segment assets	<u>110,902</u>	<u>3,722,061</u>	<u>205,397</u>	<u>8,956</u>	<u>91,576</u>	<u>4,138,892</u>
Capital expenditure	<u>389</u>	<u>175,650</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>176,039</u>

## 6. 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:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover:		
Manufacture and sale of aluminum extrusion products	<b>2,493,619</b>	1,828,000
Manufacture and sale of stainless steel products	<b>353,057</b>	361,562
Manufacture and sale of aluminum panels	<b>74,867</b>	153,069
Provision of design and testing services for aluminum products	<b>16,939</b>	15,395
	<b>2,938,482</b>	2,358,026
Other revenue and gains:		
Interest income	<b>21,393</b>	19,959
Gains, net, on trading of forward contracts:		
Realised gains	<b>38,849</b>	30,145
Unrealised gains/(losses)	<b>(3,266)</b>	1,788
Sales of scrap materials	<b>3,809</b>	2,786
Sundry income	<b>3,290</b>	3,902
	<b>64,075</b>	58,580
Gain on partial disposal of interests in subsidiaries	–	52,400
	<b>3,002,557</b>	2,469,006

**7. PROFIT FROM OPERATING ACTIVITIES**

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

	<b>2004</b> <b>HK\$'000</b>	2003 <b>HK\$'000</b>
Cost of inventories sold*	<b>2,237,284</b>	1,819,149
Cost of services provided	<b>2,880</b>	2,617
Depreciation*	<b>97,484</b>	90,192
Staff costs (excluding directors' emoluments, note 8):		
Salaries and wages	<b>94,264</b>	95,621
Pension scheme contributions	<b>362</b>	383
	<b>94,626</b>	96,004
Auditors' remuneration	<b>2,500</b>	1,680
Provision for bad and doubtful debts	<b>24,608</b>	13,113
Provision/(write-back of provision) for other bad and doubtful debts	<b>(568)</b>	1,237
Minimum lease payments under operating lease on land and buildings	<b>13,350</b>	10,082
Loss on disposal/write-off of fixed assets, net*	<b>14,092</b>	11,401
Exchange losses/(gains), net	<b>(917)</b>	457

\* Out of the total depreciation charge of HK\$97,484,000 (2003: HK\$90,192,000), an amount of HK\$72,494,000 (2003: HK\$72,880,000) 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.

**8. 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:

	<b>Group</b>	
	<b>2004</b> <b>HK\$'000</b>	2003 <b>HK\$'000</b>
Fees:		
Executive directors	–	–
Independent non-executive directors	<b>480</b>	470
Other emoluments paid and payable to executive directors:		
Basic salaries, allowances and benefits in kind	<b>5,411</b>	6,061
Pension scheme contributions	<b>26</b>	33
	<b>5,917</b>	6,564

**8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES** (Continued)

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

	<b>Group</b> <b>2004</b> <b>Number of</b> <b>directors</b>	2003 Number of directors
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	–	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	1
	<b>6</b>	<b>7</b>

**Five highest paid individuals**

The five highest paid individuals for the current year included two (2003: three) directors, details of whose remuneration are set out above. The remuneration of the remaining three (2003: two) non-director, highest paid individuals was analysed as follows:

	<b>Group</b> <b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Basic salaries, allowances and benefits in kind	2,872	1,599
Pension scheme contributions	36	16
	<b>2,908</b>	<b>1,615</b>

The number of non-director, highest paid individuals whose remuneration fell within the bands set out below is as follows:

	<b>Group</b> <b>2004</b> <b>Number of</b> <b>employees</b>	2003 Number of employees
Nil – HK\$1,000,000	2	2
HK\$1,000,001 – HK\$1,500,000	1	–
	<b>3</b>	<b>2</b>

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2003: 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.

## 9. FINANCE COSTS

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans wholly repayable within five years	51,781	39,195
Interest on finance leases	327	1,392
Interest on convertible bonds	–	147
	<u>52,108</u>	<u>40,734</u>
Arrangement fee on bank and other loans	7,036	–
	<u>59,144</u>	<u>40,734</u>

## 10. TAX

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Current – Hong Kong		
Charge for the year	–	–
Overprovision in prior years	–	(19)
Current – Mainland China		
Charge for the year	144,890	86,328
Deferred tax	(1,666)	–
	<u>143,224</u>	<u>86,309</u>
Total tax charge for the year	<u>143,224</u>	<u>86,309</u>

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 (2003: Nil). The statutory tax rate for Hong Kong profits tax is 17.5% (2003: 17.5%). 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.

The statutory tax rate for the Mainland China corporate income tax is 33% (2003: 33%). Under the relevant laws and regulations in the Mainland China, certain subsidiaries (the "PRC Subsidiaries") of the Company operating in the Mainland China 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.

**10. TAX** (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates is as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit before tax	<b>462,965</b>	405,977
Tax at the Mainland China's statutory rate of 33%	<b>152,778</b>	133,972
Lower tax rate for Hong Kong and specific provinces in Mainland China	<b>(28,437)</b>	(55,099)
Adjustments in respect of current tax of previous periods	–	(19)
Income not subject to tax	<b>(1,209)</b>	(9,784)
Expenses not deductible for tax	<b>15,619</b>	13,890
Tax losses utilised from previous periods	<b>(1,054)</b>	(423)
Increase in unutilised tax losses carried forward	<b>5,527</b>	3,772
Tax charge at the effective rate	<b>143,224</b>	86,309

The movements of the principal components of the Group's net deferred tax assets are as follows:

	<b>Accelerated depreciation allowances</b>	<b>Provision for bad and doubtful debts</b>	<b>Unrealised losses of forward contracts</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2002 and 2003	–	–	–	–
Deferred tax credited/(charged) to the profit and loss account during the year	(240)	1,379	527	1,666
<b>At 30 June 2004</b>	<b>(240)</b>	<b>1,379</b>	<b>527</b>	<b>1,666</b>

The Group has unrecognised deferred tax assets from tax losses arising in Hong Kong of HK\$58,298,000 (2003: HK\$53,825,000) that are available indefinitely for offsetting against future taxable profits of companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

SSAP 12 (revised) was adopted during the year as further explained in note 2 to the financial statements. There were no material effects on the Group's deferred tax assets or liabilities as at 30 June 2003. Accordingly, no prior year adjustment is included in the financial statements.

**11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The net profit attributable to shareholders for the year ended 30 June 2004 dealt with in the financial statements of the Company was HK\$51,627,000 (2003: HK\$75,121,000).

**12. DIVIDENDS**

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Paid:		
Interim: HK1.2 (2003: HK1.5) cents per ordinary share	<b>38,102</b>	37,672
Special: Nil (2003: HK1.0) cent per ordinary share	–	25,114
Underaccrual of final dividend for prior year due to exercise of warrants and share options before dividend record date	<b>990</b>	1,073
Proposed:		
Final: HK1.8 (2003: HK1.8) cents per ordinary share	<b>57,154</b>	47,878
	<b>96,246</b>	111,737

The proposed final dividend for the year ended 30 June 2004 are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

**13. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$222,523,000 (2003: HK\$240,519,000) and the weighted average number of 2,861,574,074 (2003: 2,446,290,127) 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\$222,523,000 (2003: HK\$241,191,000) and on 2,957,178,847 (2003: 2,547,615,290) 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.

**13. EARNINGS PER SHARE** (Continued)

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:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share (net profit for the year) calculation	<b>222,523</b>	240,519
Effect of dilutive convertible bonds	–	672
	<b>222,523</b>	241,191
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	<b>2,861,574,074</b>	2,446,290,127
Weighted average number of ordinary shares:		
Assuming issued at no consideration on deemed exercise of all share options outstanding during the year	<b>57,409,881</b>	47,055,780
Assuming issued at no consideration on deemed exercise of all warrants outstanding during the year	<b>38,194,892</b>	–
Assuming issued at no consideration on deemed exercise of all convertible bonds outstanding during the year ( <i>note</i> )	–	54,269,383
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	<b>2,957,178,847</b>	2,547,615,290

*Note:* For the year ended 30 June 2003, the convertible bonds were 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 that year.

## 14. 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 2003	172,249	27,522	1,035,681	39,635	29,535	39,245	1,343,867
Additions	4,645	39,526	105,970	213	2,627	5,045	158,026
Disposals	-	-	(547)	(52)	(2)	(1,414)	(2,015)
Write-off	-	-	(21,061)	-	-	-	(21,061)
Transfer from construction in progress	12,314	(58,680)	46,053	42	262	9	-
<b>At 30 June 2004</b>	<b>189,208</b>	<b>8,368</b>	<b>1,166,096</b>	<b>39,838</b>	<b>32,422</b>	<b>42,885</b>	<b>1,478,817</b>
Accumulated depreciation:							
At 1 July 2003	55,133	-	322,134	10,205	22,079	29,782	439,333
Provided during the year	9,971	-	78,494	2,187	3,966	2,866	97,484
Write-back on disposals	-	-	(76)	(45)	(1)	(1,202)	(1,324)
Write-off	-	-	(7,133)	-	-	-	(7,133)
<b>At 30 June 2004</b>	<b>65,104</b>	<b>-</b>	<b>393,419</b>	<b>12,347</b>	<b>26,044</b>	<b>31,446</b>	<b>528,360</b>
Net book value:							
<b>At 30 June 2004</b>	<b>124,104</b>	<b>8,368</b>	<b>772,677</b>	<b>27,491</b>	<b>6,378</b>	<b>11,439</b>	<b>950,457</b>
At 30 June 2003	117,116	27,522	713,547	29,430	7,456	9,463	904,534

**14. FIXED ASSETS** (Continued)**Company**

	<b>Office equipment</b> <i>HK\$'000</i>
Cost:	
At beginning of year and at 30 June 2004	23
Accumulated depreciation:	
At 1 July 2003	8
Provided during the year	3
At 30 June 2004	11
Net book value:	
<b>At 30 June 2004</b>	<b>12</b>
At 30 June 2003	15

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

At 30 June 2004, certain fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK\$5,329,000 (2003: HK\$5,765,000) and HK\$8,336,000 (2003: HK\$8,892,000) respectively, were pledged as security for certain banking facilities granted to the Group as set out in notes 26 and 28 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 2004 amounted to HK\$1,448,000 (2003: HK\$42,594,000).

**15. GOODWILL**

The amount of goodwill remaining in consolidated reserves as at 30 June 2004, arising from the acquisition of subsidiaries prior to 1 July 2001, is as follows:

	<b>Group</b> <i>HK\$'000</i>
Cost:	
At beginning of year and at 30 June 2004	119,878
Accumulated impairment:	
At beginning of year and at 30 June 2004	—
Net amount:	
At 30 June 2003 and 2004	119,878

## 16. INVESTMENTS IN SUBSIDIARIES

	Company 2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	<b>664,881</b>	664,881

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
			2004	2003	
<b>Directly held</b>					
Asia Aluminum Group Limited	British Virgin Islands	US\$23,609	<b>69.05</b> <i>(note a)</i>	69.05	Investment holding
Asia Aluminum Management Limited	Hong Kong	HK\$10,000	<b>100</b>	100	Provision of management services to Group companies
<b>Indirectly held</b>					
Asia Aluminum Manufacturing Company Limited	Hong Kong	HK\$2	<b>69.05</b>	69.05	Investment holding and trading of aluminum and stainless steel products
Long Hing Profits Limited	British Virgin Islands/Hong Kong	US\$1	<b>69.05</b>	69.05	Investment holding and trading of aluminum panels and high grade aluminum extrusion products
Majestic Holdings Limited	Hong Kong	HK\$60,000,000	<b>69.05</b>	69.05	Investment holding and trading of aluminum products

## 16. INVESTMENTS IN SUBSIDIARIES (Continued)

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
			2004	2003	
<b>Indirectly held</b> (Continued)					
Guangdong Asia Aluminium Factory Co., Ltd. (formerly known as Nanhai Asia Aluminium Factory Co., Ltd.)	Mainland China	US\$34,790,000	<b>69.05</b> (note b)	69.05	Manufacture and trading of aluminum products
Foshan Nanhai Panasia Metal Spraying Co., Ltd. (formerly known as Nanhai Panasia Metal Spraying Co., Ltd.)	Mainland China	US\$2,900,000	<b>69.05</b> (note b)	69.05	Subcontracting of aluminum panels and high grade aluminum extrusion products processing
Foshan Nanhai Xinya Aluminium & Stainless Steel Co., Ltd. (formerly known as Nanhai Xinya Aluminium & Stainless Steel Co., Ltd.)	Mainland China	US\$13,390,000	<b>69.05</b> (note b)	69.05	Subcontracting of aluminum and stainless steel products processing
Pavillion Services Limited	British Virgin Islands/Hong Kong	US\$200	<b>69.05</b>	69.05	Trading of aluminum and stainless steel products
Huge Spot Holdings Limited	British Virgin Islands/Mainland China	US\$1	<b>69.05</b>	69.05	Investment holding
Kar Yip Holdings Limited	British Virgin Islands/Mainland China	US\$1	<b>69.05</b>	69.05	Investment holding
Foshan Nanhai Hongjia Aluminum Company Limited (formerly known as Nanhai Hongjia Aluminum Company Limited) ("Foshan Hongjia")	Mainland China	US\$13,300,000	<b>41.43</b> (note c)	41.43	Manufacture and trading of aluminum products

## 16. INVESTMENTS IN SUBSIDIARIES (Continued)

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
			2004	2003	
<b>Indirectly held</b> (Continued)					
Foshan Nanhua Aluminum Company Limited (formerly known as Nanhua Aluminum Company Limited ("Foshan Nanhua"))	Mainland China	US\$17,000,000	<b>41.43</b> (note c)	41.43	Manufacture and trading of aluminum products
Sino Advance Investments Limited ("Sino Advance")	British Virgin Islands	US\$1	<b>100</b>	–	Investment holding
Asia Advanced Metal Product Co., Ltd.*	Hong Kong/ Mainland China	HK\$10,000	<b>55</b>	–	Design and manufacture of metal products
Zhaoqing Asia Aluminum Factory Co., Ltd.*	Mainland China	US\$15,000,000	<b>69.05</b> (note b)	–	Manufacture and trading of aluminum products
Zhaoqing Asia Innovative Metalworks & Products Co., Ltd.*	Mainland China	US\$5,000,000	<b>55</b> (note b)	–	Design and manufacture of metal products

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.

\* Incorporated during the year

**16. INVESTMENTS IN SUBSIDIARIES (Continued)***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. 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 by Indalex to the Company accordingly.

An option (the "Call Option") was granted by the Company to Indalex UK Limited ("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 ("Mr. Kwong") 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 2004.

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.
- (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 Guangdong Nanhua and Hongjia Aluminium 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 Guangdong Nanhua and Hongjia Aluminium 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 (2003: HK\$14,548,000) was classified as part of "due to minority equity/shareholders" under current liabilities.

Pursuant to the contractual arrangements, each of the owners of Guangdong Nanhua and the owners of Hongjia Aluminium 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 Foshan Nanhua and Foshan 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.

## 17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net liabilities, unlisted	(2,100)	–
Loans to jointly-controlled entities	430,348	–
Due from jointly-controlled entities	7,312	–
Due to jointly-controlled entities	(25,424)	–
	410,136	–

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
				2004	2003	
China Steel Development Company Limited (“CSD”)	Corporate	Samoa/ Mainland China	US\$1,000,000	60	100	Investment holding
Asia Aluminum (China) Limited (“AA China”)	Corporate	Mainland China	US\$30,000,000	60	–	Manufacture of aluminum flat-rolled products

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 aluminium products of the Group, respectively. 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.

Immediately after the execution of the Subscription Agreement, CSD establish AA China, a wholly foreign owned enterprise, in Zhaoqing, Guangdong Province, Mainland China for a period of 50 years commencing from the date of issuance of its business licence of 4 September 2003. The sole purpose of the establishment of AA China is for operating a new manufacturing facility for production of high grade aluminium sheet products with a maximum capacity of 400,000 tonnes per annum.

**17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES** (Continued)

All the above interests in jointly-controlled entities are indirectly held by the Company.

A summary of the results for the period ended 30 June 2004 and the assets and liabilities and commitments at that date of the jointly-controlled entities is set out below:

	<b>For the period from 4 September 2003 (date of incorporation) to 30 June 2004 HK\$'000</b>
OPERATING RESULTS	
Turnover	—
Net loss for the period	(11,280)
	<b>At 30 June 2004 HK\$'000</b>
ASSETS AND LIABILITIES	
Non-current assets	734,807
Current assets	256,533
Current liabilities	(101,165)
Non-current liabilities	(893,675)
COMMITMENTS	462,387

**18. DEPOSITS PAID**

Current year's balance mainly represented deposits paid for the purchase of aluminum extrusion presses and its associated handling systems. Last year's balance represented deposits paid in respect of acquisition of an aluminium rolling mill and its associated auxiliary equipment in connection with the Group's investments in jointly-controlled entities, further details of which are set out in note 17 to the financial statements. These amounts were capitalised in the cost of the Group's investments in the jointly-controlled entities during the current year.

**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:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>487,940</b>	295,362
4 to 6 months	<b>55,475</b>	77,888
7 to 12 months	<b>29,970</b>	66,081
More than 1 year	<b>62,099</b>	78,312
	<b>635,484</b>	517,643
Provision for bad and doubtful debts	<b>(89,975)</b>	(66,078)
	<b>545,509</b>	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.

Included in trade receivables are trade receivables of HK\$6,862,000 (2003: Nil) due from a company, of which a director of a non wholly-owned subsidiary is also a director, which are repayable on similar credit terms to those offered to the major customers of the Group.

**20. INVENTORIES**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>137,565</b>	126,527
Work in progress	<b>98,265</b>	67,737
Finished goods	<b>107,224</b>	95,062
	<b>343,054</b>	289,326

As at the balance sheet date, there were no inventories carried at net realisable value (2003: 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**

	<b>At 30 June 2004 HK\$'000</b>	Maximum amount outstanding during the year HK\$'000	At 1 July 2003 HK\$'000
IASG (note)	<b>28,823</b>	32,406	21,832

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 (2003: HK\$67,910,000) represents the accounts receivable arising from the sale of raw materials to the minority equityholders.

**23. CASH AND BANK BALANCES AND PLEDGED DEPOSITS**

	<b>Group</b>		<b>Company</b>	
	<b>2004 HK\$'000</b>	2003 HK\$'000	<b>2004 HK\$'000</b>	2003 HK\$'000
Cash and bank balances	<b>1,901,835</b>	941,099	<b>25,916</b>	9,140
Time deposits with banks	<b>847,395</b>	815,952	–	–
	<b>2,749,230</b>	1,757,051	<b>25,916</b>	9,140
Less: Pledged time deposits (note 28)	<b>(153,330)</b>	(115,664)	–	–
	<b>2,595,900</b>	1,641,387	<b>25,916</b>	9,140

At 30 June 2004, the cash and bank balances and time deposits with banks of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$2,321,147,000 (2003: HK\$1,595,602,000). 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:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within 3 months	<b>235,357</b>	204,501
4 to 6 months	<b>11,126</b>	6,551
7 to 12 months	<b>12,753</b>	16,598
More than 1 year	<b>4,319</b>	5,094
	<b>263,555</b>	<b>232,744</b>

**25. DUE TO MINORITY EQUITY/SHAREHOLDERS**

A portion of the amounts due to the minority equity/shareholders of approximately HK\$39,063,000 (2003: HK\$72,692,000) 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\$11,008,000 (2003: HK\$6,637,000) represents dividend payables to minority shareholders and cash advance from minority equityholder.

**26. INTEREST-BEARING BANK AND OTHER LOANS**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Bank loans repayable:				
Within one year or on demand	<b>473,446</b>	464,165	–	312,000
In the second year	–	–	–	–
In the third to fifth years, inclusive	<b>583,725</b>	–	<b>583,725</b>	–
	<b>1,057,171</b>	464,165	<b>583,725</b>	312,000
Other loans, wholly repayable within one year or on demand	<b>3,767</b>	3,230	–	–
	<b>1,060,938</b>	467,395	<b>583,725</b>	312,000
Portion classified as current liabilities	<b>(477,213)</b>	(467,395)	–	(312,000)
Non-current portion	<b>583,725</b>	–	<b>583,725</b>	–
Secured	<b>477,213</b>	155,395	–	–
Unsecured	<b>583,725</b>	312,000	<b>583,725</b>	312,000
	<b>1,060,938</b>	467,395	<b>583,725</b>	312,000

The details of assets pledged as security for these borrowings are set out in note 28 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:

	<b>Group</b>		Minimum lease payments 2003 <i>HK\$'000</i>	Present value of minimum lease payments 2003 <i>HK\$'000</i>
	<b>Minimum lease payments 2004 <i>HK\$'000</i></b>	<b>Present value of minimum lease payments 2004 <i>HK\$'000</i></b>		
Amounts payable:				
Within one year	<b>531</b>	<b>501</b>	11,593	11,330
In the second year	<b>445</b>	<b>385</b>	258	221
In the third to fifth years, inclusive	<b>251</b>	<b>213</b>	172	135
Total minimum finance lease payments	<b>1,227</b>	<b>1,099</b>	12,023	11,686
Future finance charges	<b>(128)</b>		(337)	
Total net finance lease payables	<b>1,099</b>		11,686	
Portion classified as current liabilities	<b>(473)</b>		(11,311)	
Non-current portion	<b>626</b>		375	

**28. BORROWING FACILITIES**

The Group's borrowings at 30 June 2004 were secured by fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK\$5,329,000 (2003: HK\$5,765,000) and HK\$8,336,000 (2003: HK\$8,892,000), respectively, and by bank deposits of HK\$153,330,000 (2003: HK\$115,664,000).

The Company has guaranteed certain of the Group's bank loans up to HK\$743,589,000 (2003: HK\$608,594,000). In addition, certain of the Group's bank loans are secured by corporate guarantees granted by three non-wholly-owned subsidiaries and joint and several personal guarantees by certain directors of two non-wholly-owned subsidiaries and one of their respective spouses.

## 29. SHARE CAPITAL

## Shares

	<b>Group and Company</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Authorised:		
6,000,000,000 ordinary shares of HK\$0.10 each	<b>600,000</b>	600,000
Issued and fully paid:		
3,175,232,401 (2003: 2,567,677,831) ordinary shares of HK\$0.10 each	<b>317,523</b>	256,768

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

	<i>Notes</i>	<b>Number of ordinary shares of HK\$0.10 each</b>	<b>Amount HK\$'000</b>
At 1 July 2002		2,371,726,484	237,173
Exercise of share options		68,400,000	6,840
Exercise of warrants		50,052,800	5,005
Conversion of convertible bonds		77,498,547	7,750
At 30 June 2003 and 1 July 2003		2,567,677,831	256,768
Exercise of share options	(a)	96,600,000	9,660
Exercise of warrants	(b)	178,954,570	17,895
Placing of new shares	(c)	332,000,000	33,200
<b>At 30 June 2004</b>		<b>3,175,232,401</b>	<b>317,523</b>

Notes:

- (a) A total of 34,400,000 and 62,200,000 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\$0.5600 per share, respectively, for a total cash consideration before related issue expenses of approximately HK\$49,665,000.
- (b) A total of 178,954,570 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\$137,795,000.
- (c) On 29 January 2004, the Company completed a placement, underwriting and subscription agreement with Viewlink Assets Limited ("Viewlink"), a substantial shareholder of the Company, under which a placement of 332,000,000 shares of then existing shares in the Company held by Viewlink were made to independent third parties at a price of HK\$1.56 per share. At the same time, a subscription of 332,000,000 new shares of HK\$0.1 each in the Company was made by Viewlink at the same share price for a total cash consideration, before issue expenses, of HK\$517.9 million.

**29. SHARE CAPITAL (Continued)****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, 50,059,200 warrants were exercised for the subscription of 50,059,200 ordinary shares of HK\$0.10 each in the Company. From 1 July 2003 to 9 April 2004, 178,954,570 warrants were exercised for the subscription of 178,954,570 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\$119,900,000, was credited to the share premium account (note 31).

As at 9 April 2004, the Company had 1,481,318 warrants outstanding and accordingly these warrants were lapsed consequently on the expiry of the exercise period on 9 April 2004.

**30. SHARE OPTION SCHEMES**

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.

**30. SHARE OPTION SCHEMES** (Continued)

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 relevant shareholders' approval.
Total number of shares available for issue for options granted under the Existing Scheme	At 30 June 2004, the number of shares issuable under share options granted under the Existing Scheme was 70,500,000, which represented approximately 2.2% 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.	

**30. SHARE OPTION SCHEMES (Continued)**

A summary of the movements in 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	Number of options		
	At beginning of year	Exercised during the year	At end of year
<b>Executive director</b>			
Mr. Zhong Jianqiu	17,200,000	(17,200,000)(ii)	–
<b>Other employees</b>	17,200,000	(17,200,000)(iii)	–
	<u>34,400,000(i)</u>	<u>(34,400,000)</u>	<u>–</u>

*The Existing Scheme*

Type of grantees	Number of options		
	At beginning of year	Exercised during the year	At end of year
<b>Executive directors</b>			
Mr. Kwong Wui Chun	8,900,000(iv)	(4,000,000)(vi)	4,900,000
Mr. Zhong Jianqiu	5,400,000	(5,400,000)(vii)	–
<b>Other employees</b>	118,400,000	(52,800,000)(viii)	65,600,000
	<u>132,700,000(v)</u>	<u>(62,200,000)</u>	<u>70,500,000</u>

*Notes:*

- (i) These share options were granted on 26 February 2001. The share options were 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 34,400,000 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\$1.56.
- (iii) 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\$1.47.
- (iv) These share options were granted to Ms. Li Chuk Kuan, the spouse of Mr. Kwong Wui Chun.
- (v) 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).
- (vi) 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\$1.335.
- (vii) 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\$1.56.
- (viii) 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\$1.41.

**30. SHARE OPTION SCHEMES** (Continued)**(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 and all these options lapsed upon expiry of the exercise period on 1 September 2003.

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

	<b>Number of share options exercisable at the subscription price of</b>		
	<b>HK\$0.4312 per share (note (i)) '000</b>	<b>HK\$0.56 per share (note (ii)) '000</b>	<b>HK\$1.42 per share (note (iii)) '000</b>
At beginning of year	34,400	132,700	25,000
Lapse of share options	–	–	(25,000)
Exercise of share options	(34,400)	(62,200)	–
At balance sheet date	<u>–</u>	<u>70,500</u>	<u>–</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, 34,400,000 share options were exercised at a subscription price of HK\$0.4312 per share and resulted in the issue of 34,400,000 new ordinary shares in the Company. The excess of the cash consideration received over the nominal value of the issued shares of approximately HK\$11,393,000 was credited to the share premium account (note 31).
- (ii) During the year, 62,200,000 share options were exercised at the subscription price of HK\$0.56 per share and resulted in the issuance of 62,200,000 new ordinary shares in the Company. The excess of the cash consideration received over the nominal value of the issued shares of HK\$28,612,000 was credited to the share premium account (note 31).
- (iii) 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 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.

Subsequent to the balance sheet date, on 6 July 2004, a total of 60,000,000 share options were granted to a director of the Company, the spouse of a director of the Company, a consultant and certain employees of the Group in respect of their services provided to the Group. These share options are exercisable during the period from 6 July 2004 to 5 July 2007 at an exercise price of HK\$0.81 per share. The market price of the Company's shares at the date of grant was HK\$0.81.

**31. SHARE PREMIUM ACCOUNT**

	<b>Group and Company</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
At beginning of year	<b>973,051</b>	876,448
Arising on exercise of share options	<b>40,005</b>	29,867
Arising on exercise of warrants	<b>119,900</b>	33,536
Arising on placement of shares	<b>473,607</b>	–
Arising on conversion of convertible bonds	–	33,200
	<b>1,606,563</b>	973,051

**32. 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.

**(b) Company**

	<b>Contributed surplus</b>	<b>Retained profits/ (accumulated losses)</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2002	330,903	11,596	342,499
Net profit for the year	–	75,121	75,121
Dividends ( <i>note 12</i> )	–	(111,737)	(111,737)
At 30 June 2003 and 1 July 2003	330,903	(25,020)	305,883
Net profit for the year	–	51,627	51,627
Dividends ( <i>note 12</i> )	–	(96,246)	(96,246)
<b>At 30 June 2004</b>	<b>330,903</b>	<b>(69,639)</b>	<b>261,264</b>

**32. RESERVES** (Continued)**(b) Company** (Continued)

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.

**33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****Major non-cash transactions**

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

- (i) 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\$994,000 (2003: HK\$5,000,000).
- (ii) Certain dividends declared by a subsidiary to minority shareholders of HK\$6,222,000 (2003: HK\$4,786,000) were recorded as part of "due to minority equity/shareholders" under current liabilities.
- (iii) During the year ended 30 June 2003, 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) was converted into ordinary shares of HK\$0.10 each in the Company at conversion prices ranging from HK\$0.5146 to HK\$0.6324 per share.
- (iv) Deposits paid of HK\$116,338,000 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 were capitalised as the loan to the Group's investments in the jointly-controlled entities during the current year. Further details of which are set out in note 18 to the financial statements.

**34. CONTINGENT LIABILITIES**

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	<b>19,312</b>	13,149	–	–
Guarantees granted to and utilised by certain non-wholly owned subsidiaries in respect of:				
Banking facilities	–	–	<b>751,152</b>	608,594
Finance lease payables	–	–	–	12,177
Purchase of aluminium ingots	–	–	<b>114,708</b>	116,128
Guarantee granted to and utilised by a minority equity holder in respect of banking facilities	<b>10,829</b>	10,829	–	–
	<b>30,141</b>	23,978	<b>865,860</b>	736,899

Following the disposal of 26.2% equity interest in AAG to Indalex in the prior years, 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.

**35. 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.

At 30 June 2004, the Group had total future minimum lease payments under operating leases falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	<b>8,237</b>	10,912
In the second to fifth years, inclusive	<b>30,895</b>	29,974
After five years	<b>63,583</b>	69,704
	<b>102,715</b>	110,590

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

### 36. COMMITMENTS

In addition to the operating lease arrangements detailed in note 35 above, the Group and the Company had the following commitments at the balance sheet date.

- (a) At 30 June 2004, the Group and the Company had capital commitments not provided for in the financial statements as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Contracted for (note)	<b>694,577</b>	283,375	<b>5,550</b>	–

*Note:* At the balance sheet date, the Group was committed to make a capital injection to a subsidiary in the PRC of approximately HK\$31,200,000 (2003: HK\$98,697,000). In addition, the Group and the Company had contracted capital commitments in respect of the acquisition of fixed assets of HK\$283,725,000 (2003: HK\$17,343,000) and HK\$5,550,000 (2003: Nil), respectively. In prior year, the Group had a contracted capital commitment of HK\$167,335,000 relating to the acquisition of an aluminum rolling mill and its associated auxiliary equipment in connection with the Group's investments in CSD, further details of which are set out in note 17 to the financial statements. Pursuant to a novation deed entered into amongst the Company, CSD and the vendor of 18 August 2003, the contract relating to the acquisition of the aluminum rolling mill and its associated auxiliary equipment was assigned to CSD. In addition, each of the Group and the other three subscribers has agreed to provide shareholders' loans to CSD in proportion to their respective interest in CSD. The maximum amount of the Group's proportion attributable to the shareholders' loans is HK\$810,000,000. As at 30 June 2004, the Group's outstanding committed loan amount was HK\$379,652,000 (2003: Nil).

- (b) Pursuant to an agreement and a supplementary agreement entered into between the Company and the local bureau of High-Tech Development Zone of Zhaoqing City, Guangdong Province, the PRC during the year, the Company has agreed to acquire 50 years' land use rights to 10,300 市畝 ("mu") (approximately 6,870,100 square meters) of land located in the High-Tech Development Zone at an aggregate consideration of approximately HK\$271,600,000. In return, the local bureau has agreed to refund the whole consideration of HK\$271,600,000 to the Company as compensation for the construction cost of basic infrastructure facilities associated with the land incurred by the Group. Pursuant to an assignment agreement entered into amongst the Company, AA China and the local bureau during the year, the acquisition of land use right for 3,500 mu was assigned to AA China. Accordingly, the Company and the Group had contracted capital commitment in respect of the acquisition of the land use rights for the remaining 6,800 mu of HK\$179,309,000.
- (c) At the balance sheet date, the Group had a commitment in respect of forward contracts for the purchase and sale of raw materials of aluminium ingots in the amount of HK\$79,955,000 (2003: HK\$147,506,000).
- (d) At 30 June 2004, the Group entered into an agreement with a major supplier of the Group, pursuant to which the Group agreed to purchase 6,000 tonnes of aluminum ingots per month for the period from July to December 2004 base on the official London Metal Exchange cash settlement price of high grade aluminum.

**36. COMMITMENTS** (Continued)

- (e) 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.

**37. POST BALANCE SHEET EVENT**

Subsequent to the balance sheet date, on 6 July 2004, 60,000,000 share options were granted to a director of the Company, the spouse of a director of the Company, a consultant and certain employees of the Group, as further detailed in note 30 to the financial statements.

**38. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 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 comparative amounts have been reclassified to conform with the current year's presentation.

**39. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 27 October 2004.