

Notes to Financial Statements

30 June 2005

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.

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

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, hereinafter collectively referred to as the new HKFRSs, which are generally effective for the Company's accounting period beginning on or after 1 July 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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 Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2005. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

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%

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 and installation and capitalised borrowing costs on related borrowed funds during the period of construction. 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 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

Intangible assets

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Other direct costs incurred in connection with arranging borrowings are amortised over the terms of the fixed rate senior notes due 2011 in aggregate principal amount of US\$450,000,000.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

Foreign currencies

Foreign currency transactions are recorded at the applicable 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 and associate are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associate 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.

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:

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Rental expense paid to a related company	<i>(i)</i>	3,141	2,350
Termination fee in respect of rental paid to a related company	<i>(i)</i>	–	100
Rental expense paid to a director	<i>(iii)</i>	628	297
Sale of finished goods to a minority shareholder of a subsidiary: Indalex Aluminum Solutions Group (“IASG”)	<i>(iii)</i>	139,234	102,617
Sale of finished goods to a company of which a director of a non wholly-owned subsidiary is also a director	<i>(iv)</i>	10,805	14,241
Deposit received from a jointly-controlled entity	<i>(v)</i>	–	25,424
Purchase of fixed assets from IASG	<i>(iii)</i>	–	778
Consultancy fee paid to a former director of the Company	<i>(vi)</i>	–	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
Interest income received from minority shareholders of two non wholly-owned subsidiaries	<i>(vii)</i>	6,748	–

In addition to the foregoing, management fees in the amount of HK\$16,330,000 (2004: HK\$16,330,000) were paid during the year by Asia Aluminum Group Limited (“AAG”) and certain of its subsidiaries, which are not 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. Also, interest income of HK\$74,008,000 in aggregate (2004: HK\$10,117,000) was received by the Company from China Steel Development Company Limited, AAG and Asia Aluminum Manufacturing Company Limited, which are not wholly-owned by the Company. This interest income was charged at fixed rates of 8% – 9% (2004: 2.2%) per annum and were eliminated on consolidation.

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.

4. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (Continued)

Notes: (Continued)

- (ii) The rentals were paid in respect of the Group's leased staff quarter situated in Hong Kong to Dr. Chan Yiu Tsuan, Benby, a director of the Company. The directors of the Company have confirmed that the monthly rental was calculated by reference to the then prevailing open market rental value.
- (iii) 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 sales of finished goods to a company, of which a 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 the sales 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.
- (vii) The interest was received in respect of amounts due from equity/shareholders of subsidiaries at a fixed rate of 7.2% per annum.

Each of Guangdong Nanhua Aluminum 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 aluminum extrusion products segment engages in the manufacture and sale of aluminum extrusion products;
- the stainless steel products segment comprises the manufacture and sale of stainless steel products;
- the aluminum panels segment refers to the manufacture and sale of aluminum panels;
- the design and testing services segment represents the Group's provision of design and testing services for aluminum products; and
- the flat-rolled products segment engages in the manufacture and sale of aluminum flat-rolled products.

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	2005					Total HK\$'000
	Aluminum extrusion products HK\$'000	Stainless steel products HK\$'000	Aluminum panels HK\$'000	Design and testing services HK\$'000	Flat-rolled products HK\$'000	
Segment revenue						
Sales to external customers	3,227,952	116,978	59,345	6,693	–	3,410,968
Other revenue	11,395	–	–	–	–	11,395
Total	<u>3,239,347</u>	<u>116,978</u>	<u>59,345</u>	<u>6,693</u>	<u>–</u>	<u>3,422,363</u>
Segment results	<u>559,141</u>	<u>1,166</u>	<u>17,504</u>	<u>5,555</u>	<u>(13,711)</u>	569,655
Interest and unallocated gains						39,158
Unallocated expenses						<u>(19,646)</u>
Profit from operating activities						589,167
Finance costs						<u>(166,684)</u>
Share of losses of jointly-controlled entities	–	–	–	–	(7,195)	<u>(7,195)</u>
Profit before tax						415,288
Tax						<u>(152,695)</u>
Profit before minority interests						262,593
Minority interests						<u>(96,353)</u>
Net profit attributable to shareholders						<u>166,240</u>

Note: Due to the increasing significance of the flat-rolled products segment to the Group, separate disclosure of this business segment has been made in the current year. Besides, due to the relatively insignificance of the other segment to the Group which was included in the financial statements of the Group for the year ended 30 June 2004, this business segment has been reclassified in unallocated expenses in the current year. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

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	Flat-rolled products 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>–</u>	494,189
Interest and unallocated gains						58,385
Unallocated expenses						<u>(23,697)</u>
Profit from operating activities						528,877
Finance costs						<u>(59,144)</u>
Share of losses of jointly-controlled entities	–	–	–	–	(6,768)	<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)

(b) Geographical segments

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

		2005				
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>97,123</u>	<u>2,772,795</u>	<u>348,096</u>	<u>182,137</u>	<u>10,817</u>	<u>3,410,968</u>
		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>
		2005				
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>2,376,176</u>	<u>6,766,802</u>	<u>233,695</u>	<u>38,877</u>	<u>5,493</u>	<u>9,421,043</u>
Capital expenditure	<u>269</u>	<u>1,818,403</u>	<u>131,182</u>	<u>–</u>	<u>–</u>	<u>1,949,854</u>
		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
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>

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:

	2005 HK\$'000	2004 HK\$'000
Turnover:		
Manufacture and sale of aluminum extrusion products	3,227,952	2,493,619
Manufacture and sale of stainless steel products	116,978	353,057
Manufacture and sale of aluminum panels	59,345	74,867
Provision of design and testing services for aluminum products	6,693	16,939
	<u>3,410,968</u>	<u>2,938,482</u>
Other revenue and gains:		
Interest income	27,957	21,393
Net gains/(losses) on trading of forward contracts:		
Realised gains	5,543	38,849
Unrealised gains/(losses)	3,122	(3,266)
Sales of scrap materials	5,748	3,809
Sundry income	8,183	3,290
	<u>50,553</u>	<u>64,075</u>
	<u>3,461,521</u>	<u>3,002,557</u>

7. PROFIT FROM OPERATING ACTIVITIES

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

	2005 HK\$'000	2004 HK\$'000
Cost of inventories sold *	2,622,521	2,237,284
Cost of services provided	1,138	2,880
Depreciation *	130,388	97,484
Staff costs (excluding directors' emoluments, note 8):		
Salaries and wages	107,223	94,264
Pension scheme contributions	354	362
	<u>107,577</u>	<u>94,626</u>
Auditors' remuneration	3,871	2,500
Provision for bad and doubtful debts, net	1,883	24,608
Provision/(write-back of provision) for other bad and doubtful debts	-	(568)
Minimum lease payments under operating leases on land and buildings	12,658	13,350
Loss on disposal/write-off of fixed assets, net *	16,040	14,092
Exchange gains, net	(971)	(917)
	<u>3,461,521</u>	<u>3,002,557</u>

* Out of the total depreciation charge of HK\$130,388,000 (2004: HK\$97,484,000), an amount of HK\$98,215,000 (2004: HK\$72,494,000) 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:

	Group	
	2005 HK\$'000	2004 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	677	480
Other emoluments paid and payable to executive directors:		
Basic salaries, allowances and benefits in kind	5,745	5,411
Pension scheme contributions	24	26
	<u>6,446</u>	<u>5,917</u>

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

	Group	
	2005 Number of directors	2004 Number of directors
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	–	–
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	1	1
	<u>6</u>	<u>6</u>

Five highest paid individuals

The five highest paid individuals for the current year included two (2004: two) directors, details of whose remuneration are set out above. The remuneration of the remaining three (2004: three) non-director, highest paid individuals was analysed as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Basic salaries, allowances and benefits in kind	3,419	2,872
Pension scheme contributions	20	36
	<u>3,439</u>	<u>2,908</u>

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

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

	Group	
	2005 Number of employees	2004 Number of employees
Nil – HK\$1,000,000	1	2
HK\$1,000,001 – HK\$1,500,000	2	1
	3	3

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

No value is included in the directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

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	
	2005 HK\$'000	2004 HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	47,842	51,781
Interest on finance leases	3,840	327
Interest on fixed rate senior notes	147,988	–
Interest income over deposits held in escrow account pledged against the fixed rate senior notes	(23,499)	–
Total interest	176,171	52,108
Less: Interest capitalised	(19,009)	–
	157,162	52,108
Other finance costs		
Amortisation of deferred expenditure (note 22)	9,522	–
Arrangement fees on bank and other loans	–	7,036
	166,684	59,144

10. TAX

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	–	–
Under provision in prior years	73	–
Current – Mainland China		
Charge for the year	153,392	144,890
Deferred tax	(770)	(1,666)
	<u>152,695</u>	<u>143,224</u>
Total tax charge for the year	<u>152,695</u>	<u>143,224</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 (2004: Nil). The statutory tax rate for Hong Kong profits tax is 17.5% (2004: 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% (2004: 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.

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:

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit before tax	<u>415,288</u>	<u>462,965</u>
Tax at the Mainland China's statutory rate of 33%	137,045	152,778
Lower tax rate for Hong Kong and specific provinces in Mainland China	(25,510)	(28,437)
Adjustments in respect of current tax of previous periods	73	–
Income not subject to tax	(2,765)	(1,209)
Expenses not deductible for tax	42,398	15,619
Tax losses utilised from previous periods	(155)	(1,054)
Increase in unutilised losses carried forward	1,609	5,527
	<u>152,695</u>	<u>143,224</u>
Tax charge at the effective rate	<u>152,695</u>	<u>143,224</u>

10. TAX (Continued)

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

	Accelerated depreciation allowances <i>HK\$'000</i>	Provision for bad and doubtful debts <i>HK\$'000</i>	Unrealised losses/ (gains) of forward contracts <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2003	–	–	–	–
Deferred tax credited/(charged) to the profit and loss account during the year	(240)	1,379	527	1,666
At 30 June 2004 and 1 July 2004	(240)	1,379	527	1,666
Deferred tax credited/(charged) to the profit and loss account during the year	101	1,787	(1,118)	770
At 30 June 2005	(139)	3,166	(591)	2,436

The Group has unrecognised tax losses arising in Hong Kong of HK\$66,301,000 (2004: HK\$58,298,000) 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.

11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 30 June 2005 dealt with in the financial statements of the Company was HK\$21,569,000 (2004: HK\$51,627,000).

12. DIVIDENDS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Paid:		
Interim: Nil (2004: HK1.2 cents) per ordinary share	–	38,102
Underaccrual of final dividend for prior year due to exercise of warrants and share options before dividend record date	–	990
Proposed:		
Final: Nil (2004: HK1.8 cents) per ordinary share	–	57,154
	–	96,246

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\$166,240,000 (2004: HK\$222,523,000) and the weighted average number of 3,205,444,456 (2004: 2,861,574,074) 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\$166,240,000 (2004: HK\$222,523,000) and on 3,208,151,384 (2004: 2,957,178,847) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Earnings		
Earnings for the purpose of basic earnings per share (net profit for the year) calculation	166,240	222,523
	2005	2004
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	3,205,444,456	2,861,574,074
Weighted average number of ordinary shares:		
Assuming issued at no consideration on deemed exercise of all share options outstanding during the year	2,706,928	57,409,881
Assuming issued at no consideration on deemed exercise of all warrants outstanding during the year	–	38,194,892
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	3,208,151,384	2,957,178,847

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 2004	189,208	8,368	1,166,096	39,838	32,422	42,885	1,478,817
Additions	10,883	1,833,852	96,600	449	2,651	5,419	1,949,854
Change from jointly- controlled entities to subsidiaries (<i>note 39(iii)</i>)	–	42,099	810	173	682	2,197	45,961
Disposals	–	–	(335)	–	–	–	(335)
Write-off	–	–	(20,803)	–	–	–	(20,803)
Transfer from construction in progress	3,162	(13,234)	10,072	–	–	–	–
At 30 June 2005	203,253	1,871,085	1,252,440	40,460	35,755	50,501	3,453,494
Accumulated depreciation:							
At 1 July 2004	65,104	–	393,419	12,347	26,044	31,446	528,360
Provided during the year	13,842	–	102,903	2,616	3,587	7,440	130,388
Write-back on disposals	–	–	(143)	–	–	–	(143)
Write-off	–	–	(4,946)	–	–	–	(4,946)
At 30 June 2005	78,946	–	491,233	14,963	29,631	38,886	653,659
Net book value:							
At 30 June 2005	124,307	1,871,085	761,207	25,497	6,124	11,615	2,799,835
At 30 June 2004	124,104	8,368	772,677	27,491	6,378	11,439	950,457

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

	Office equipment <i>HK\$'000</i>
	<hr/>
Cost:	
At 1 July 2004 and at 30 June 2005	23
	<hr/>
Accumulated depreciation:	
At 1 July 2004	11
Provided during the year	4
	<hr/>
At 30 June 2005	15
	<hr/>
Net book value:	
At 30 June 2005	8
	<hr/>
At 30 June 2004	12
	<hr/>

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

At 30 June 2005, certain fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK\$7,658,000 (2004: HK\$5,329,000) and HK\$20,265,000 (2004: HK\$8,336,000) were pledged as security for certain banking facilities granted to the Group as set out in notes 30 and 31 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 2005 amounted to HK\$173,961,000 (2004: HK\$1,448,000).

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 ("Zhaoqing City") in prior year, the Company has agreed to acquire 50 years' land use rights of 10,300 市畝 ("mu") (approximately 6,867,000 square metres) of land located in the High-Tech Development Zone at an aggregate consideration of approximately HK\$271,600,000. In turn, the local bureau of Zhaoqing City has agreed to refund the whole consideration of HK\$271,600,000 to the Company as compensation for the construction cost of basic infrastructure incurred by the Group. In the prior year, the Group had paid a consideration of approximately HK\$92,291,000 to obtain 3,500 mu of land use rights and its related certificate. The local bureau of Zhaoqing City had refunded the same amount to the Group. During the year, the Group applied for another 3,000 mu of land use rights and its related certificate at a consideration of approximately HK\$79,096,000. Accordingly, the Company and the Group had contracted capital commitment in respect of the acquisition of the land use rights for the remaining 3,800 mu of approximately HK\$100,213,000 (note 42).

15. GOODWILL

The amount of goodwill remaining in consolidated reserves as at 30 June 2005, arising from the acquisition of subsidiaries prior to 1 July 2001, is as follows:

	Group <i>HK\$'000</i>
Cost:	
At beginning of year and at 30 June 2005	119,878
Accumulated impairment:	
At beginning of year and at 30 June 2005	–
Net amount:	
At 30 June 2004 and 2005	<u>119,878</u>

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, at cost	<u>664,881</u>	<u>664,881</u>

The balances with subsidiaries are unsecured, repayable on demand and interest-free, except for amounts due from certain non wholly-owned subsidiaries of HK\$2,067,847,000 (2004: HK\$437,324,000) which bear interest at rates of 8% – 9% (2004: 2.2%) per annum.

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
			2005	2004	
Directly held					
Asia Aluminum Group Limited ("AAG")	British Virgin Islands	US\$23,609	69.05 <i>(note a)</i>	69.05	Investment holding
Asia Aluminum Management Limited	Hong Kong	HK\$10,000	100	100	Provision of management services to Group companies

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
			2005	2004	
Indirectly held					
Asia Aluminum Manufacturing Company Limited	Hong Kong	HK\$2	69.05	69.05	Investment holding and trading of aluminum and stainless steel products
Asia-RED Testing Consultants Ltd	Hong Kong	HK\$10,000	55	55	Structural testing and consultancy
Long Hing Profits Limited	British Virgin Islands/ Hong Kong	US\$1	69.05	69.05	Investment holding and trading of aluminum panels and high grade aluminum extrusion products
Majestic Holdings Limited	Hong Kong	HK\$60,000,000	69.05	69.05	Investment holding and trading of aluminum products
Guangdong Asia Aluminium Factory Co., Ltd.	Mainland China	US\$34,790,000	69.05 <i>(note b)</i>	69.05	Manufacture and trading of aluminum products
Foshan Nanhai Panasia Metal Spraying Co., Ltd.	Mainland China	US\$2,900,000	69.05 <i>(note b)</i>	69.05	Subcontracting of aluminum panels and high grade aluminum extrusion products processing
Foshan Nanhai Xinya Aluminium & Stainless Steel Co., Ltd.	Mainland China	US\$13,390,000	69.05 <i>(note b)</i>	69.05	Subcontracting of aluminum and stainless steel products processing
Pavillion Services Limited	British Virgin Islands/ Hong Kong	US\$200	69.05	69.05	Trading of aluminium and stainless steel products
Huge Spot Holdings Limited	British Virgin Islands/ Mainland China	US\$1	69.05	69.05	Investment holding

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
			2005	2004	
Indirectly held (Continued)					
Kar Yip Holdings Limited	British Virgin Islands/ Mainland China	US\$1	69.05	69.05	Investment holding
Foshan Nanhai Hongjia Aluminum Company Limited ("Foshan Hongjia")	Mainland China	US\$13,300,000	41.43 (note c)	41.43	Manufacture and trading of aluminum products
Foshan Nanhua Aluminum Company Limited ("Foshan Nanhua")	Mainland China	US\$17,000,000	41.43 (note c)	41.43	Manufacture and trading of aluminum products
Sino Advance Investments Limited ("Sino Advance")	British Virgin Islands	US\$1	100	100	Investment holding
Asia Advanced Metal Products Company Ltd.	Hong Kong/ Mainland China	HK\$10,000	55	55	Design and manufacture of advanced metal products
Zhaoqing Asia Aluminum Factory Co., Ltd.	Mainland China	US\$15,000,000	69.05 (note b)	69.05	Manufacture and trading of aluminum products
Zhaoqing Asia Innovative Metalworks & Products Co., Ltd.	Mainland China	US\$5,000,000	55 (note b)	55	Design and manufacture of advanced metal products
China Steel Development Company Limited ("CSD")	Samoa/ Mainland China	US\$1,000,000	60#	–	Investment holding
Asia Aluminum (China) Company Limited ("AA China")	Mainland China	US\$30,000,000	60# (note b)	–	Manufacture of aluminum flat rolled 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.

Became subsidiaries of the Company during the year, further details of which are set out in note 17 to the financial statements.

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Notes:

- (a) 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 included, 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”) to Indalex, under which the Company is obliged at the request of Indalex to purchase its entire equity interest in AAG under certain circumstances. The Put Option were exercised during the year ended 30 June 2005.

- (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 years, 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 in the current year. The purpose of the establishment of these subsidiaries is to execute the investment in assets of each of Guangdong Nanhua and Hongjia Aluminum and the Group has fully paid its share of 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 Aluminum at an aggregate consideration of HK\$73,558,000 in the prior years. As at the balance sheet date, the unsettled consideration in respect of HK\$14,548,000 (2004: HK\$14,548,000) was classified as part of “due to minority equity/shareholders” under current liabilities.

17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2005	2004
	HK\$’000	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)
	<hr/>	<hr/>
	–	410,136
	<hr/>	<hr/>

The balances with the then jointly-controlled entities, CSD and AA China (as defined in note 16 to the financial statements), were unsecured, interest-free and had no fixed terms of repayment.

Prior to 16 December 2004, the board of directors of CSD comprised of five members. The Group had the right to appoint two directors and each of Mr. Kwong, Record Break Investments Limited (“Record Break”) and Think Success Industries Limited (“Think Success”) had the right to appoint one director. Given such board composition and that certain management issues (such as those relating to the change of board members, application of funds, raise new funds by means of equity capital or change of business strategy) require unanimous approval of all the directors of CSD in accordance with the articles of association of CSD, CSD and its wholly-owned subsidiary, AA China, (the “CSD Group”) were treated as jointly-controlled entities of the Company.

17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Pursuant to a resolution passed by all the shareholders of CSD on 6 December 2004, which filed with the Registrar of Companies of Samoa on 16 December 2004, the composition of the board of directors of CSD has been changed to seven directors. The Group has the right to appoint four directors and each of Mr. Kwong, Record Break and Think Success has the right to appoint one director. The provisions in the articles of association of CSD relating to management issues that require unanimous approval of all the directors have also been changed to a simple majority. Given such changes and that the Group is able to exercise unilateral control over the board of directors of CSD, the CSD Group became subsidiaries of the Company since 16 December 2004. Accordingly, the balances with jointly-controlled entities are re-classified as balances with subsidiaries.

The related accumulated losses in relation to these former jointly-controlled entities of the Group amounted to HK\$13,963,000, including the loss of HK\$7,195,000 for the period from 1 July 2004 to 15 December 2004.

18. INTERESTS IN AN ASSOCIATE

	Group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets other than goodwill	4	–
Due from an associate	87	–
	91	–

The associate remained dormant during the year. Accordingly, no profit/loss of the associate was shared by the Group during the year.

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Nominal value of issued ordinary share	Percentage of equity attributable to the Group	Principal activities
Phoenix Asia Dies Company Limited	Corporate	Hong Kong	US\$1,000	40	Investment holding

19. DEPOSITS PAID

Current year's balance mainly represented deposits paid for the purchase of aluminum extrusion presses and its associated handling systems, aluminum rolling mills and its associated auxiliary equipment and for construction works of plants. The prior year's balance mainly represented deposits paid for the purchase of aluminum extrusion presses and its associated handling systems, and were capitalised as construction in progress under fixed assets upon receipt of those equipment and systems.

20. DEPOSITS HELD IN ESCROW ACCOUNT, PLEDGED

On 23 December 2004, the Company issued 8% fixed rate senior notes (the "Notes") due 2011 in the principal amount of US\$450 million (note 34). After the issue of the Notes (the "Notes Issue"), the net proceeds arising from the Notes Issue is deposited in an interest-bearing escrow account held with a bank as trustee and the escrow agent for the Notes Issue proceeds. At 30 June 2005, the deposits held in escrow account represented the proceeds which have not been withdrawn by the Group and the interest income generated from the deposits up to 30 June 2005.

21. DEPOSITS HELD IN COLLATERAL ACCOUNT

The balance represented the deposits held in collateral account in respect of an interest rate swap agreement with a financial institution. Further details of the interest rate swap agreement are set out in note 34 to the financial statements.

22. DEFERRED EXPENDITURE

The deferred expenditure represented the capitalisation of the underwriting discount and other expenses in connection with the issuance of Notes (the "Issuance Expenses"). The Issuance Expenses are amortised over the terms of the Notes of seven years on the straight-line basis.

	Group <i>HK\$'000</i>
Cost:	
Additions during the year and at 30 June 2005	126,136
Accumulated amortisation:	
Amortisation provided during the year and at 30 June 2005	(9,522)
Net amount:	
At 30 June 2005	116,614

23. TRADE RECEIVABLES

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

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within 3 months	498,978	487,940
4 to 6 months	63,110	55,475
7 to 12 months	19,078	29,970
More than 1 year	66,358	62,099
	647,524	635,484
Provision for bad and doubtful debts	(91,858)	(89,975)
	555,666	545,509

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 is an amount of HK\$7,285,000 (2004: HK\$6,862,000) due from a related company, of which a director of a non wholly-owned subsidiary is also a director, which is repayable on similar credit terms to those offered to the major customers of the Group.

24. INVENTORIES

	Group	
	2005 HK\$'000	2004 HK\$'000
Raw materials	124,118	137,565
Work in progress	115,460	98,265
Finished goods	110,115	107,224
	349,693	343,054

As at the balance sheet date, there were no inventories carried at net realisable value (2004: Nil).

25. DUE FROM RELATED COMPANIES

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

Group	At 30 June 2005 HK\$'000	Maximum amount outstanding during the year HK\$'000	At 1 July 2004 HK\$'000
IASG (<i>note</i>)	35,159	40,491	28,823

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.

26. DUE FROM MINORITY EQUITY/SHAREHOLDERS

The amounts due from minority equity/shareholders of subsidiaries of approximately HK\$69,000 (2004: HK\$67,910,000) represent the accounts receivable arising from the sale of raw materials to the minority equityholders.

27. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash on hand and at banks	2,071,269	1,901,835	12,292	25,916
Time deposits with banks	642,309	847,395	–	–
	2,713,578	2,749,230	12,292	25,916
Less: Pledged time deposits (<i>note 31</i>)	(38,606)	(153,330)	–	–
	2,674,972	2,595,900	12,292	25,916

At 30 June 2005, the cash and bank balances and time deposits with banks of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$2,667,869,000 (2004: HK\$2,321,147,000). The 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.

28. TRADE PAYABLES

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

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within 3 months	149,997	235,357
4 to 6 months	7,989	11,126
7 to 12 months	7,827	12,753
More than 1 year	9,027	4,319
	<u>174,840</u>	<u>263,555</u>

29. DUE TO MINORITY EQUITY/SHAREHOLDERS

A portion of the amounts due to the minority equity/shareholders of approximately HK\$38,703,000 (2004: HK\$39,063,000) 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\$38,825,000 (2004: HK\$11,008,000) represents dividend payables to minority shareholders and cash advance from minority equityholder.

30. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Bank loans repayable:				
Within one year or on demand	373,117	473,446	–	–
In the second year	–	–	–	–
In the third to fifth years, inclusive	–	583,725	–	583,725
	<u>373,117</u>	<u>1,057,171</u>	<u>–</u>	<u>583,725</u>
Other loans, wholly repayable within one year or on demand	–	3,767	–	–
	<u>373,117</u>	<u>1,060,938</u>	<u>–</u>	<u>583,725</u>
Portion classified as current liabilities	<u>(373,117)</u>	<u>(477,213)</u>	<u>–</u>	<u>–</u>
Non-current portion	<u>–</u>	<u>583,725</u>	<u>–</u>	<u>583,725</u>
Secured	<u>373,117</u>	<u>477,213</u>	<u>–</u>	<u>–</u>
Unsecured	<u>–</u>	<u>583,725</u>	<u>–</u>	<u>583,725</u>
	<u>373,117</u>	<u>1,060,938</u>	<u>–</u>	<u>583,725</u>

The details of assets pledged as security for these borrowings are set out in note 31 to the financial statements.

31. BORROWING FACILITIES

The Group's borrowings at 30 June 2005 were secured by fixed assets, mainly buildings in the PRC and plant and machinery, with a total net book value of approximately HK\$7,658,000 (2004: HK\$5,329,000) and HK\$20,265,000 (2004: HK\$8,336,000), respectively, and by bank deposits of HK\$38,606,000 (2004: HK\$153,330,000).

The Company has guaranteed certain of the Group's bank loans up to HK\$529,347,000 (2004: HK\$743,589,000). In addition, certain of the Group's bank loans are secured by certain machineries of minority shareholders of a non wholly-owned subsidiary, corporate guarantees granted by four non wholly-owned subsidiaries and minority shareholders of a non wholly-owned subsidiary and joint and several personal guarantees by certain directors of two non wholly-owned subsidiaries.

32. FINANCE LEASE PAYABLES

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

	Group			
	Minimum lease payments 2005 HK\$'000	Present value of minimum lease payments 2005 HK\$'000	Minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2004 HK\$'000
Amounts payable:				
Within one year	10,737	540	531	501
In the second year	10,542	379	445	385
In the third to fifth years, inclusive	179,098	172,623	251	213
Total minimum finance lease payments	<u>200,377</u>	<u>173,542</u>	1,227	<u>1,099</u>
Future finance charges	<u>(26,835)</u>		<u>(128)</u>	
Total net finance lease payables	173,542		1,099	
Portion classified as current liabilities	<u>(540)</u>		<u>(473)</u>	
Non-current portion	<u>173,002</u>		<u>626</u>	

Certain of the finance leases are secured by corporate guarantees granted by the Company and two non wholly-owned subsidiaries.

33. LOANS FROM MINORITY SHAREHOLDERS

The loans from minority shareholders are unsecured, interest-free and are not repayable within one year.

34. FIXED RATE SENIOR NOTES

Pursuant to an indenture dated 23 December 2004 entered into among the Company, together with certain subsidiaries of the Company, and the Citibank, N.A. as the trustee, the Company issued the Notes in the aggregate principal amount of US\$450 million. The Notes are due on 23 December 2011 with bullet repayment, unless earlier redeemed pursuant to their terms. The Notes bear interest at the rate of 8% per annum, payable semi-annually in arrears on June 23 and December 23 of each year, commencing 23 June 2005.

The principal terms of the Notes and further details of the use of proceeds of the Notes are set out in the Company's announcement dated 16 December 2004 and the Company's circular dated 7 January 2005 to its shareholders.

The obligations of the Company under the Notes are guaranteed by certain subsidiaries of the Company including Topmost Precision Limited, Sino Advance, Asia Cybertech Limited, Asia Advanced Metal Products Company Ltd., CSD and Asia Aluminum Management Limited (the "Subsidiary Guarantors") and further secured by:

- (i) pledge of the escrow account for keeping the net proceeds of the Notes as mentioned in note 20 to the financial statements;
- (ii) pledges of the Company's rights under the advance provided to and to be provided to CSD;
- (iii) pledges of certain amounts due from subsidiaries which are the inter-company loan each of up to US\$100 million from the Company to AAG and Asia Aluminum Manufacturing Company Limited; and
- (iv) pledges of shares of certain Subsidiary Guarantors.

In connection with the Notes, the Group entered into an interest rate swap agreement with a financial institute, under which, the Group makes interest payment semi-annually at a fixed rate of 8% per annum on a notional amount of US\$450 million during the period from 23 December 2004 to 23 December 2011, and receives and makes interest payment semi-annually at a fixed rate of 3% per annum and 2.12% per annum during the periods from 23 December 2004 to 23 June 2007 and from 23 June 2007 to 23 December 2011, respectively. Besides, US\$22.5 million (approximately HK\$174,712,000) is deposited in a collateral account held with the financial institute and will be repaid by six equal instalments semi-annually during the period from 23 December 2009 to 23 December 2011 (note 21).

35. SHARE CAPITAL

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Authorised:		
6,000,000,000 ordinary shares of HK\$0.10 each	<u>600,000</u>	<u>600,000</u>
Issued and fully paid:		
3,245,732,401 (2004: 3,175,232,401) ordinary shares of HK\$0.10 each	<u>324,573</u>	<u>317,523</u>

35. SHARE CAPITAL (Continued)

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

	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
At 1 July 2003	2,567,677,831	256,768
Exercise of share options	96,600,000	9,660
Exercise of warrants	178,954,570	17,895
Placing of new shares	332,000,000	33,200
At 30 June 2004 and 1 July 2004	3,175,232,401	317,523
Exercise of share options (<i>Note</i>)	70,500,000	7,050
At 30 June 2005	3,245,732,401	324,573

Note: A total of 70,500,000 ordinary shares of HK\$0.10 each were issued upon exercise of share options granted to a director and certain employees at an exercise price of HK\$0.56 per share, for a total cash consideration before related issue expenses of approximately HK\$39,480,000.

36. SHARE OPTION SCHEMES

During the year, there were no share options under the previous share option scheme outstanding.

Pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 7 December 2001, the Company adopted a new share option scheme (the "Existing Scheme").

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

Purpose	To enable the Company to grant options to Eligible Participants (as defined below) as incentive and reward for their contribution to the Group.
Eligible Participants	Employees, executives or officers of the Company or any of its subsidiaries (including their respective executive and non-executive directors) and suppliers, consultants and advisers who will or have provided services to the Group.
Total number of shares available for issue under the Existing Scheme	The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Existing Scheme must not exceed 10% of the shares of the Company in issue as at the date of relevant shareholders' approval.
Total number of shares available for issue for options granted under the Existing Scheme	At 30 June 2005, the number of shares issuable under share options granted under the Existing Scheme was 52,000,000, which represented approximately 1.6% of the issued share capital of the Company as at that date.

36. SHARE OPTION SCHEMES (Continued)

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.	

A summary of the movements in share options granted under the Existing Scheme of the Company issued by the Company is as follows:

Type of grantees	Number of options				At end of the year
	At beginning of the year (i)	Granted during the year (ii)	Exercised during the year	Lapsed or cancelled during the year	
Executive directors					
Mr. Kwong Wui Chun	4,900,000(iii)	–	(4,900,000)(iv)	–	–
Dr. Chan Yiu Tsuan, Benby	–	5,000,000	–	–	5,000,000
Mr. Zhong Jianqiu	–	5,000,000(v)	–	–	5,000,000
Other employees	65,600,000	50,000,000	(65,600,000)(vi)	(8,000,000)	42,000,000
	<u>70,500,000</u>	<u>60,000,000</u>	<u>(70,500,000)</u>	<u>(8,000,000)</u>	<u>52,000,000</u>

36. SHARE OPTION SCHEMES (Continued)

Notes:

- (i) These share options were granted on 25 February 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.
- (ii) These share options were granted on 6 July 2004. The 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 (subject to adjustments). The market price of the Company's shares at the date of grant was HK\$0.81.
- (iii) These share options were granted to Ms. Li Chuk Kuan, an employee of the Group and spouse of Mr. Kwong Wui Chun.
- (iv) The weighted average closing price of the shares of the Company immediately before the dates on which these share options were exercised during the year was HK\$0.79 per share.
- (v) These share options were granted to Ms. Kuang Shun Feng, an employee of the Group and spouse of Mr. Zhong Jianqiu.
- (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\$0.79 per share.

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

	Number of share options exercisable at the subscription price of	
	HK\$0.56 per share '000	HK\$0.81 per share '000
At beginning of year	70,500	–
Granted during the year	–	60,000
Lapse of share options	–	(8,000)
Exercise of share options (<i>note</i>)	(70,500)	–
	<hr/>	<hr/>
At balance sheet date	<hr/> –	<hr/> 52,000

Note: During the year, 70,500,000 share options were exercised at the subscription price of HK\$0.56 per share and resulted in the issuance of 70,500,000 new ordinary shares in the Company. The excess of the cash consideration received over the nominal value of the issued shares of HK\$32,430,000 was credited to the share premium account (*note* 37).

37. SHARE PREMIUM ACCOUNT

	2005 HK\$'000	2004 HK\$'000
At beginning of year	1,606,563	973,051
Arising on exercise of share options	32,430	40,005
Arising on exercise of warrants	–	119,900
Arising on placement of shares	–	473,607
	<hr/>	<hr/>
At end of year	<hr/> 1,638,993	<hr/> 1,606,563

38. 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 profits 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

	Contributed surplus <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 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)
At 30 June 2004 and 1 July 2004	330,903	(69,639)	261,264
Net profit for the year	–	21,569	21,569
Dividends (<i>note 12</i>)	–	–	–
At 30 June 2005	330,903	(48,070)	282,833

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.

39. 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\$172,463,000 (2004: HK\$994,000).
- (ii) During the year, deposits paid for the purchase of aluminum flat rolled products equipment and extrusion presses and its auxiliary handling systems of HK\$812,996,000 were capitalised as construction in progress under fixed assets upon receipt of those equipment and systems.

During the year ended 30 June 2004, dividends declared by a subsidiary to minority shareholders of HK\$6,222,000 were recorded as part of “due to minority equity/shareholders” under current liabilities.

(iii) Change from jointly-controlled entities to subsidiaries

As set out in note 17 to financial statements, the CSD Group has been changed from jointly-controlled entities to subsidiaries of the Group.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Details of net liabilities of the CSD Group as at 16 December 2004 shared by the Group:		
Fixed assets	45,961	–
Deposits paid	763,893	–
Prepayments, deposits and other receivables	4,928	–
Due from Group companies	34,475	–
Cash and bank balances acquired	79,533	–
Accrued liabilities and other payables	(4,033)	–
Due to a Group company	(301)	–
Finance lease payables	(520)	–
Loan from a Group company	(475,783)	–
Loan from minority shareholders	(463,320)	–
Minority interests	5,872	–
	<u>(9,295)</u>	<u>–</u>
Reclassification from:		
Share of net liabilities of jointly-controlled entities	<u>(9,295)</u>	<u>–</u>

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)**Major non-cash transactions** (Continued)**(iii) Change from jointly-controlled entities to subsidiaries** (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the change from jointly-controlled entities to subsidiaries is as follows:

	2005 HK\$'000	2004 <i>HK\$'000</i>
Net inflow of cash and cash equivalents:		
Cash and bank balances from the CSD Group	79,533	–

Since the CSD Group changed from jointly-controlled entities to subsidiaries of the Group on 16 December 2004, the CSD Group did not contribute any turnover to the Group but contributed net loss of HK\$8,687,000 to the net profit attributable to shareholders for the year.

If the changes had taken place on 1 July 2004, there would have no effect on the Group's revenue, and the net loss attributable to shareholders of the Group for the year would have been approximately HK\$15,882,000.

40. CONTINGENT LIABILITIES

	Group		Company	
	2005 HK\$'000	2004 <i>HK\$'000</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Bills discounted with recourse	28,060	19,312	–	–
Guarantees granted to and utilised by certain non wholly-owned subsidiaries in respect of:				
Banking facilities	–	–	529,347	751,152
Finance lease payables	–	–	172,463	–
Purchase of aluminium ingots	–	–	–	114,708
Guarantee granted to and utilised by a minority equity holder in respect of banking facilities	10,829	10,829	–	–
	38,889	30,141	701,810	865,860

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 companies in 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.

41. OPERATING LEASE ARRANGEMENTS

The Group leases its manufacturing premises in the PRC and directors' quarter and office premises in Hong Kong under operating lease arrangements. Leases for properties are negotiated for terms which expire between the years 2006 and 2016.

At 30 June 2005, the Group had total future minimum lease payments under operating leases falling due as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within one year	10,707	8,237
In the second to fifth years, inclusive	35,439	30,895
After five years	55,602	63,583
	101,748	102,715

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

42. COMMITMENTS

In addition to the operating lease arrangements detailed in note 41 above, the Group and the Company had the following commitments at the balance sheet date.

- (a) At 30 June 2005, the Group and the Company had capital commitments not provided for in the financial statements as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Contracted for (<i>note</i>)	3,324,548	694,577	32,912	5,550

Note: At the balance sheet date, the Group was committed to make capital injections to three (2004: one) subsidiaries in the PRC of approximately HK\$1,232,337,000 (2004: HK\$31,200,000). In addition, the Group and the Company had contracted capital commitments in respect of the acquisition of fixed assets of HK\$1,807,657,000 (2004: HK\$283,725,000) and HK\$32,912,000 (2004: HK\$5,550,000), respectively.

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 2005, the Group's outstanding committed loan amount was HK\$265,894,000 (2004: HK\$379,652,000). Also, each of the Group and another subscriber has agreed to provide shareholders' loan to Phoenix Asia Dies Company Limited ("Phoenix") in proportion to their respective interest in Phoenix. As at 30 June 2005, the Group's outstanding committed loan amount was HK\$18,660,000 (2004: Nil).

42. COMMITMENTS (Continued)

- (b) At 30 June 2005, the Group and the Company had a contracted capital commitment in respect of the acquisition of the land use rights of approximately HK\$100,213,000 (2004: HK\$179,309,000). However, the local bureau of Zhaoqing City has agreed to refund the same amount of the commitment to the Group and the Company (note 14).
- (c) At 30 June 2005, 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\$39,874,000 (2004: HK\$79,955,000).
- (d) At the balance sheet date, the Group and the Company had a commitment in respect of foreign exchange forward contracts in the amount of HK\$266,540,000 (2004: Nil) and HK\$118,122,000 (2004: Nil), respectively.
- (e) In the prior years, the Company granted Put Option 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 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 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, or, depending on the circumstances giving rise to the triggering events and its occurrence timing, the 110% of these amounts. Further details of the Put Option are set out in the Company's circular dated 18 May 2001 to its shareholders.

43. POST BALANCE SHEET EVENTS

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

- (a) On 9 July 2005, CSD entered into a contract for an aluminum six-high cold rolling mill with independent suppliers pursuant to which CSD agreed to buy certain equipment, parts, engineering, application software, technical services and other materials to CSD to facilitate the manufacturing of aluminium rolled products by AA China. The total consideration payable by CSD under the contract is approximately HK\$188,438,000 of which (a) an amount of US\$9,614,000 (equivalent to HK\$74,654,000) is to be paid to a supplier; and (ii) an amount of Euro11,717,000 (equivalent to HK\$113,784,000) is to be paid to another supplier.
- (b) On 17 August 2005, CSD entered into a contract for an aluminium coil handling system for hot and cold mills with an independent supplier pursuant to which CSD agreed to buy certain equipment, including a high-base storage, parts, engineering, application software, technical services and other materials to CSD to facilitate the manufacturing of aluminium rolled products by AA China. The total consideration payable by CSD under the contract is approximately Euro9,990,000 (equivalent to HK\$97,013,000).
- (c) On 5 September 2005, CSD entered into a contract for an aluminium scalping system for hot and cold mills with an independent supplier pursuant to which CSD agreed to buy certain equipment, parts, engineering, application software, technical services and other materials to CSD to facilitate the manufacturing of aluminium rolled products by AA China. The total consideration payable by CSD under the contract is approximately Euro4,950,000 (equivalent to HK\$48,069,000).

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 October 2005.