Annual Report 2007

CAPRAL

Capral Aluminium Limited
ABN 78 004 213 692

CORPORATE DIRECTORY

Capral's Registered Office & Principal Administration Office

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Bundamba
QLD 4304

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Share Registry

Computershare Investor Services Pty Limited
ABN 48 078 279 277
Level 2, 60 Carrington Street
Sydney
NSW 2000

Telephone: 1800 855 080
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Auditor

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney
NSW 2000

Stock Exchange Listing

Capral's shares and convertible notes are quoted on the Australian Securities Exchange (Code: CAA and CAAG, respectively).

Company Secretary

Mr Richard Rolfe

CAPRAL'S RESOLUTIONS

We consider **SAFETY FIRST.**
We know that no job is so important that it can't be done safely. We accept nothing less than zero injuries...

We recognise our customers as the people who determine our success.
We know who our customers are and the **SERVICE** they expect. And we deliver...

We take **OWNERSHIP** for everything that we do.
We are empowered to make decisions and always think about the business as our own...

We know that **TEAMWORK** will achieve the best overall business outcome.
We share ideas and resources to achieve more for us all. We trust each other to do a good job...

We have a **PASSION** for excellence.
We stretch ourselves to do the very best we can. We work with urgency and share a will to win...

We have **INTEGRITY.**
We are honest and straight-talking and we do the right thing.

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KEY STATISTICS

for the year ended 31 December 2007	**FY 2007**	**FY 2006**	**Variance**
		TONNES ('000)	
Volume Finished – Capral	68.8	67.7	1.1
		$M	
Sales Revenue – External (Excluding Scrap)	507.7	493.5	14.2
EBITDA	(1.8)	2.2	(4.0)
EBIT	(19.7)	(14.7)	(5.0)
NPAT	(33.6)	(25.4)	(8.2)
Cash flow from operations	(15.6)	4.9	(20.5)
Debt (net of cash)	129.5	96.3	33.2
Gearing	39.9%	29.7%	-10.2%

CHAIRMAN'S REPORT

In 2007 Capral recorded a loss after taxation of $33.6 million. It was the fifth consecutive year of loss – it has been a period of frustration and disappointment for everyone involved in the Company.

We knew at the start of 2007 that we were on track to win back market share as a result of our improved customer relationships and better service performance. Yet it took much longer than expected for these changes to bring about the anticipated increase in sales volume. In the final quarter of 2007 we did experience the increase in sales that we had worked for and I am pleased to report that this has continued in 2008. Our manufacturing and distribution businesses have started the new year in a much stronger position than in 2007.

Winning back market share has been our major challenge, and related to this has been the need to lift the operating capability of the Bremer plant, which was commissioned in 2005. Service to customers from Bremer improved markedly through the year. Pleasingly, in the final quarter, Bremer held its customer delivery and product quality measures while lifting output by 25%. Our challenge has now moved to productivity and reducing Bremer's cost per unit of output.

For the first time in many years, our manufacturing businesses increased sales prices late in 2007 – the increases are effective for 2008 sales. This enables us to recover some of the manufacturing cost increase over recent years and has been made possible by improved service and higher sales volume.

The increase in sales volume and price increases give Capral a better platform for 2008. We are looking for a further increase in market share and meaningful cost reductions as Bremer productivity and our distribution supply chain improve.

In the first quarter of 2007, Capral secured its longer term funding until at least September 2009 by the issue of $50 million convertible notes and completion of a $90 million bank bill and overdraft facility with ANZ Bank.

Your Board committed significant time during 2007 in support of the Company: with 16 Board meetings, as well as review meetings at all of Capral's manufacturing plants, most of its distribution warehouses and some of its trade centres. We are determined that Capral will return to profitability and will substantially increase in value. We are confident that the efforts of the Company's management and people to turn the Company around will be rewarded and look forward to a much better result in 2008.

P.J Arnall
Chairman

10 March 2008

MANAGING DIRECTOR'S REPORT

Safety

In 2007 there were 60 workplace injuries at Capral – less than half the number occurring in 2005 and 20% fewer than in 2006. Our focus on risks and the development of safety leadership skills assisted in achieving this better outcome. But it is important to recognise that 60 injured people represents 5% of our workforce and this is an unacceptable outcome that we will strive to change.

Customers

We continue to work at improving customer service. It has proved to be a long road to change customer sentiment but, during 2007, there was an increasing recognition that we are determined to be a good domestic supplier, that we have improved to an acceptable level of service reliability and that we are able to provide a service package for customers which is competitive with imports.

Performance overview

Capral improved in many ways in 2007 but our financial result, an after tax loss of $33.6 million, was worse than we expected and a big disappointment. There were positive developments in the final quarter and I refer to them later but the first 9 months of the year delivered poor results. There were four main factors:

- We didn't get the sales lift that we expected – it took much longer to win confidence and get customers to change existing import supply arrangements than we anticipated. We had seen signs of improvement late in 2006 but it didn't continue at the level expected in 2007 and, for the first 9 months, our sales volume was lower than in the previous year.
- Sales margin was affected by the sharp reduction in the price of aluminium which occurred mid-year. This had a negative effect of over $2 million on the value of aluminium inventory – mostly incurred in the third quarter.
- Selling and distribution costs increased in the first half of 2007. We had employed additional sales people to drive sales growth in the distribution businesses. When the sales growth didn't eventuate, we responded by reducing sales staff and streamlining management and administrative functions.
- Three important programs were undertaken in 2007 – all crucial to Capral's future but all, nonetheless, distracting and costly:
  - We changed the structure of the distribution businesses, completing the integration of Capral and Crane, and aligning the newly formed businesses on a regional basis while retaining a strong focus on end-markets – industrial, residential building, commercial building and security.
  - We rolled out a new version of the SAP computer system – in the process, converting from a number of old systems. Being on one systems platform is fundamental to the effective operation of our supply chain. But this was a substantial systems implementation and caused disruption to our customer service and internal distraction.
  - At Bremer we undertook a major project, called Project Backbone, automating materials handling. This $8 million project was executed on time and on budget. But it involved major physical changes to the plant and a substantial change to the computerised plant operating systems. During this period of change, in August and September, our capacity was limited and our costs increased as we added resources to meet sales demand. By October we were operating the new system effectively and achieved record production.

Sales growth

Our principal objective through 2006 had been to stabilise and improve our service offer to support growth in Capral's distribution businesses and to increase sales to our large third party customers. In the first half of 2007, Capral's distribution businesses didn't increase sales. And whilst our share of the business of the large third party customers increased, our sales volume to them as a group declined. The further weakening in the residential building market was a factor in this, as were the actions taken by some of these large customers to reduce their stockholdings during this period.

Our focus mid-year moved to the sector of the market characterised by customers purchasing from 50 to 500 tonnes of aluminium extrusions a year. Imports have a firm foothold in this market, particularly with customers using extrusions to manufacture products for industrial use, for example customers in the transport industry. We brought together our manufacturing and distribution sales people in teams to target this sector with a service package tailored to the needs of the customer.

In the final quarter we saw a change in outcomes. Sales volume increased 13% over the corresponding final quarter of 2006. Our share of the business of large customers increased and the sales programs implemented mid-year started to have effect. Our manufacturing plants responded to the increased volume and, importantly, maintained delivery performance. The distribution warehouses also handled the increased throughput, notwithstanding the new SAP system, which was being rolled out at the same time.

Manufacturing

The Bremer plant is such a significant part of the Company that it requires special mention. Through 2006, the plant operated at about 60% of its capacity. At this level, it makes substantial losses due to the high fixed costs of the plant. Our objectives have been to increase throughput and productivity at Bremer, spreading fixed costs over a bigger base and reduce variable costs with increased efficiency. Project Backbone was completed during the year removing capacity constraints, reducing the number of people required in materials handling and improving safety. In the final quarter, Bremer responded as well as we could have hoped to the increased sales volume. In the third quarter of 2007, Bremer's average monthly output was 2,250 tonnes. In October, output increased to 2,800 tonnes and then to 3,150 tonnes in November. There is still much to do. We are confident that we can sustain and indeed further increase output. But a significant reduction in operating costs is required and this is a principal area of focus for 2008.

The Angaston (SA) and Canning Vale (WA) manufacturing plants are low cost operations and both continued to perform very effectively during the year. Production increased at the large industrial press at Campbellfield (Victoria), and productivity improved considerably. As planned, one of the two Penrith (NSW) extrusion presses was used sparingly during the year, significantly improving the cost effectiveness of the plant.

Distribution

The implementation of the common SAP system enabled us to merge a number of trade centre operations. In the last half of 2007, we reduced the number of trade centres by 11 to 30, realising meaningful cost reductions. During this period, sales through the trade centre network increased as plans to maintain existing customers and develop new ones were implemented. Sales programs for our system products were also introduced to good effect in our businesses serving the residential building, commercial building and security markets. Our distribution businesses finished the year in much better shape and with sales increasing. I expect they will lift contribution significantly in 2008.

We will be selling and leasing back our property at Campbellfield, Victoria in 2008. It currently accommodates our large industrial press, some extrusion value adding activities and a 6,000 square metre distribution warehouse. We will enter into a long-term lease of the property and the new owner will develop the site for our use. The development will increase the size of the warehouse, enabling us to vacate a warehouse we lease at Somerton, improve materials handling and will upgrade office facilities so that we can bring together people who are currently working at different locations.

Funding

Early in 2007 we put in place a funding package to meet our needs through to the end of 2009. This comprised a $50 million issue of convertible notes and a new $90 million bank bill and overdraft facility with ANZ Bank. We also have trade loan facilities with two European banks on which the outstanding balance was $19 million at 31 December 2007. These loans are being repaid at $10 million a year.

Our continuing losses through 2007 have reduced the headroom in these combined facilities. We are therefore very focussed on working capital management. The value of inventory reduced by $16 million during 2007, partly as a result of the lower cost of aluminium and partly because of a physical reduction in stocks. We continue to work at reducing the amount outstanding from our customers, though this is tough in the current environment of tight liquidity. We must also maximise the credit available from our principal suppliers. In this regard we have recently been affected by developments in key supply arrangements – Alcoa, a supplier of aluminium plate, closed its Australian plate operations and we have changed supply to imported product with longer lead times and larger stock holdings. In late 2007, Rio Tinto acquired Alcan thus combining two of our three aluminium billet suppliers which could have the potential to affect the availability of credit to us.

Outlook

Our agenda to return Capral to profitability is built on our own improvement plans but economic and market developments are still important to us. The key external factors for us are the Australian dollar exchange rate, particularly relative to the Chinese Renmimbi, the level of activity in the Australian building and construction market and movements in the price of aluminium.

Imports are relatively more competitive as the Australian dollar strengthens, so currency movements over the last 12 months have not helped Capral. However, since mid 2005, the Chinese monetary authorities have managed a continuous strengthening of the Renmimbi against the US dollar. As a result, the value of the Australian dollar relative to the Renmimbi has not increased to the extent that it has to the US dollar. Forecasters say that the Renmimbi will continue to strengthen against the US dollar but there is no clear view on the future of the Australian dollar/US dollar rate.

Most of Capral's sales are made to customers in the building and construction market with about 50% of total sales made to the residential building sector. Residential building has been weak in New South Wales and Victoria for some years, depressing national building expenditure. Forecasters say that we can expect little change in the level of residential building activity in 2008.

The aluminium price fluctuated between US$2400 and US$2850 during 2007. When the price is falling, Capral loses as the value of inventory declines. Conversely when the aluminium price increases the value of inventory rises. Market prices for aluminium extrusions are changed frequently to reflect changes in aluminium price, so while the change in aluminium price affects the value of inventory on hand, it does not affect profitability for an extended period.

As we look forward to 2008 our priorities are very clear:

- Continue to realise the benefits of the sales programs introduced last year. Our January 2008 sales figures were strong and continue the trend of the final quarter of 2007.
- Realise the benefits of the manufacturing price increases introduced with effect from 1 January 2008. Again, this has been reflected in increased margins achieved during January 2008.
- Achieve lower operating costs at the Bremer manufacturing plant. Improvement plans have been implemented and we expect significant benefits from improved productivity.
- Improve warehouse efficiencies and lower overhead costs.

Underpinning these major initiatives is our drive to differentiate our customer offer from the import offer. This will be achieved through our short lead time, our reliability and delivery performance, our tailored offer to customer needs and our customer relationships and response.

The results of late 2007 and the improvement we have recorded in the early weeks of 2008 are enough to give me confidence that we will see a much better result this year – one that represents an important stage of our journey to profitability.

R. Freeman
Managing Director

10 March 2008

BOARD OF DIRECTORS

Directors in office at the date of this report:

PHILLIP ARNALL B. Comm

Independent Chairman of Board

Appointed 25 February 2002

Chairman of the Board and Remuneration and Nomination Committee and member of the Audit Committee.

Mr Arnall has extensive experience in the metals and mining services markets, having held senior positions with companies involved in these sectors.

Directorships of other listed companies held in the last 3 years before end of the Financial Year:

- Chairman of Ludowici Limited: 1 January 2003 to Current.
- Non-executive director of Bradken Limited: 13 April 2004 to Current.
- Chairman of Kip McGrath Education Centres Limited: 19 June 2003 to 18 May 2005.

ROBIN FREEMAN BA, FCA

Managing Director (Non-independent)

Appointed 8 August 2005

Mr Freeman was Executive General Manager, OneSteel Distribution between 2001 and 2005 and has previously held the roles of Chief Financial Officer at Email Limited and General Manager Commercial at CSR Limited.

GRAEME CURETON B. Comm, F Fin

Non-executive director (Non-independent)

Appointed 21 August 2001

Member of the Audit Committee and Remuneration and Nomination Committee.

Mr Cureton is an executive director of Guinness Peat Group plc. He has broad experience in the commercial and financial sectors.

Directorships of other listed companies held in the last 3 years before end of the Financial Year:

- Executive director of Guinness Peat Group plc: 2 April 2002 to Current.
- Non-executive director of Australian Wealth Management Limited: 29 May 2006 to 24 April 2007.
- Non-executive director of Supercoat Holdings Australia Limited (formerly Green's Foods Limited, delisted on 12 March 2007): 19 March 2002 to 12 March 2007.
- Non-executive director of Rattoon Holdings Limited: 4 April 2004 to Current (Non-executive Chairman from 15 May 2006).
- Alternate Director of Tooth & Co Ltd: 25 August 1998 to Current.
- Non-executive director of CPI Group Limited: 4 December 2003 to 26 May 2006.

GARY WEISS LLB (Hons), LLM (Dist), J.S.D. (Cornell)

Non-executive director (Non-independent)

Appointed 25 November 2003

Member of the Audit Committee and Remuneration and Nomination Committee.

Dr Weiss is an executive director of Guinness Peat Group plc, Chairman of Coats plc and Ariadne Australia Limited and is a director of Westfield Group Limited and a number of other listed companies in Australia and overseas.

Dr Weiss has considerable international business experience.

Directorships of other listed companies held in the last 3 years before end of the Financial Year:

- Executive director of Guinness Peat Group plc: 1 July 1992 to Current (Non-executive director from 30 November 1990 to 1 July 1992).
- Chairman and non-executive director of Ariadne Australia Limited: 28 November 1989 to Current.
- Non-executive director of Canberra Investment Corporation Limited: 27 September 1995 to Current.
- Non-executive director of Premier Investments Limited: 11 March 1994 to Current.
- Non-executive director of Tag Pacific Limited: 1 October 1988 to Current.
- Non-executive director of Tower Australia Group Limited: 8 August 2006 to Current.
- Non-executive director of Westfield Group Limited: 5 July 2004 to Current.
- Non-executive director of Australian Wealth Management Limited: 15 February 2005 to 29 May 2006.
- Non-executive director of Tower Limited: 27 March 2003 to 19 December 2006.

IAN BLAIR M.MGT, FCA, AO

Non-executive director (Independent)

Appointed 23 May 2006

Chairman of the Audit Committee and member of the Remuneration and Nomination Committee.

Mr Blair is a chartered accountant and a company director. In 1997, he completed a long career with accounting firm Deloitte Touche Tohmatsu, including 5 years as CEO of the firm.

Mr Blair is Chairman of IOOF Holdings Ltd, Chairman of Bisley & Co Pty Ltd and is a board member of SAS Trustees, the trustee of the NSW Government Superannuation Fund. Until 2007, he was a non-executive director of Melbourne Business School and Deputy Chairman of Sisters of Charity Health Service Limited.

Directorships of other listed companies held in the last 3 years before end of the Financial Year:

- Non-executive Chairman of IOOF Holdings Ltd: 3 May 2002 to Current.

ANTHONY EISEN B.Comm, CA

Alternate director of Dr G Weiss and Mr G Cureton (Non-independent)

Appointed 19 October 2006

Mr Eisen has over 14 years experience in commerce and financial advice. He is currently an investment manager at Guinness Peat Group and was previously an investment banker in Australia and the United States.

Directorships of other listed companies held in the last 3 years before end of the Financial Year:

- Alternate Director of Tower Australia Group Limited: 19 December 2006 to Current.
- Alternate Director of Tower Limited: 12 December 2006 to Current.
- Director of MMC Contrarian Limited: 12 November 2007 to Current.

EXECUTIVE MANAGEMENT TEAM

RICHARD STEPHENSON CA, BEc, MBA (Exec)

Chief Financial Officer

Richard joined Capral in August 2005. He spent the previous four years as the General Manager, Commercial of OneSteel Distribution. Prior to that he held various finance positions at Pioneer International Limited, Ernst & Young and other professional firms.

MARTIN HASZARD BSc

Executive General Manager Manufacturing

Martin joined Capral in October 2005, as part of the Crane Aluminium (Extrusion) business acquisition. He spent the previous four years as General Manager Crane Aluminium Extrusions. Prior to that he worked with Capral/Alcan for 19 years, in various general management and technical roles.

ALAN SIMMONDS FAICD

Group Manager Building Systems

Alan joined Capral in November 2005 as part of the Crane Aluminium (Systems) business acquisition. He spent the previous five years as General Manager of Crane Aluminium Systems. Prior to that he held various state, national and corporate positions with Boral Limited in general management and marketing roles.

TIM KENDALL

Group Manager Industrial Products Group

Tim joined Capral in December 2006 as Group Manager Industrial Products Group. Prior to joining Capral he worked for James Hardie Building Products, Toyota Industrial Corporation and Dulux in various sales and marketing roles.

PAUL GREGG B. For.Sc, B.Comm

Executive General Manager Logistics

Paul joined Capral in 2000 as General Manager Information Technology. He was appointed to his current role in May 2005. Prior to joining Capral he worked for Softwood Holdings, CSR Timber and Weyerhaeuser Australia in various management and technical roles.

EMMA POLLARD BA (Hons), PG (Dip)

General Manager Human Resources

Emma joined Capral in 2005 as Manager Human Resources Performance. She was appointed to her current role in January 2006. Prior to joining Capral she held a number of generalist HR positions including the Human Resources Manager role for the Metropolitan division of Rail Infrastructure Corporation.

CORPORATE GOVERNANCE STATEMENT

The Board is responsible for the overall corporate governance of Capral Aluminium Limited and its subsidiaries (referred to in this statement as the **Company**), including setting the Company's strategic direction, policies and practices, establishing goals for management and monitoring the achievement of those goals.

1. The Board Lays Solid Foundations for Management and Oversight

1.1 The Board has adopted a formal charter which sets out responsibilities of the Board and Management (and in particular, the Managing Director). The Board Charter is available on the Company website, www.capral.com.au.

1.2 The Board has at least 12 scheduled meetings per year and may meet at other times to deal with specific issues.

1.3 The Board is assisted by the following 2 formally established Committees:

(a) Audit Committee; and

(b) Remuneration & Nomination Committee.

2. The Board is Structured to Add Value

2.1 The Directors

(a) The Board consists of 5 directors: the non-executive Chairman; the Managing Director; and 3 other non-executive directors.

(b) Details of the directors, their term of office and their qualifications, skills and experiences are detailed on pages 5 and 6.

(c) To facilitate independent judgement in decision-making, each director is entitled to seek independent professional advice, at the expense of the Company, after approval of the Chairman is obtained.

2.2 Independence

(a) Independent directors are those who have the ability to exercise their duties unfettered by any business or other relationship.

(b) The approach and attitude of each non-executive director is critical in determining independence and must be considered in relation to each director while taking into account the Company's materiality thresholds and all other relevant factors, which may include whether the non-executive director:

(i) is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with a substantial shareholder of, the Company (as defined in section 9 of the Corporations Act 2001);

(ii) is not, and has not been, within the last 3 years, employed in an executive capacity by the Company or another group member;

(iii) is not, and has not been, within the last 3 years, a principal or employee of a material professional adviser or a material consultant to the Company or another group member. In this context and as a guide, the relationship with the professional adviser or consultant may be deemed to be material if payments from the Company exceed 5% of the Company's annual expenditure to all professionals and consultants or exceed 5% of the recipient's annual revenue for advisory or consultancy services;

(iv) is not a material supplier or customer of the Company or other group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer. In this context and as a guide, the relationship with the supplier or customer may be deemed to be material if annual payments to or from that supplier or customer exceed 5% of the annual consolidated gross revenue of the Company or of that supplier or customer;

(v) has no material contractual relationship with the Company or another group member other than as a director of the Company;

(vi) has served on the Board for a period or time, the extended duration of which could, in and of itself, materially affect the directors' ability to act in the best interests of the Company; and

(vii) is free from any interest and any business or other relationship which could materially interfere with the director's ability to act in the best interests of the Company.

(c) The directors considered by the Board to be independent directors are Phillip Arnall and Ian Blair. Since Ronald Pitcher's resignation as a director of the Company on 19 April 2007, the Company has been seeking a replacement non-executive, independent director.

2.3 Appointment of Directors

(a) Non-executive directors receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

(b) The Board (through the Remuneration & Nomination Committee) will review the range of expertise of its members on a regular basis and ensure that it has operational and technical expertise relevant to the operation of the Company that will best complement Board effectiveness. The Board recognises that it must be able to consider current and emerging business issues and challenge the performance of management.

(c) In addition, any candidate must confirm that they have the necessary time to devote to their Board position.

(d) With the exception of the Managing Director:

(i) directors appointed by the Board are required by the constitution of the Company to submit themselves for re-election by shareholders at the Annual General Meeting following their appointment; and

(ii) no director shall hold office for a continuous period in excess of 3 years or past the third Annual General Meeting following the director's appointment, whichever is the longer, without submitting for re-election.

3. The Board Promotes Ethical and Responsible Decision-Making

3.1 Code of Conduct

(a) The Board acknowledges the need for and continued maintenance of the highest standard of ethics, and seeks to ensure that all directors, senior management and employees of the Company act honestly, transparently, diligently and with integrity.

(b) The Company has implemented a Code of Conduct for all employees (including directors) which is intended to promote ethical and responsible decision-making in order to maintain confidence in the Company's integrity and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

(c) A copy of the Code of Conduct is available to all employees, contractors and relevant personnel.

3.2 Share Trading

(a) Directors and employees may only trade in the Company shares during prescribed trading windows and only then if they are not in possession of any material non-public information.

(b) Any director or employee intending to deal in the Company shares must send a notice of intent to the relevant Company officer.

(c) The Board is committed to ensuring that directors' transactions in the Company shares are publicly disclosed within 5 business days, in accordance with the ASX Listing Rules.

4. The Board Safeguards the Integrity of Financial Reporting

4.1 The Board has established an Audit Committee to assist it in fulfilling its corporate governance and oversight responsibilities. The Audit Committee monitors and reviews: the integrity of financial statements; the effectiveness of internal financial controls; the independence, objectivity and competency of the external auditors; and the policies on risk oversight and management.

4.2 The Audit Committee:

(a) has 4 members who are all non-executive directors (2 of whom are independent). The members, their Committee meeting attendance and their qualifications and financial expertise are set out in the Directors' Report. Since Mr Pitcher's resignation as a director (on 19 April 2007) there has not been a majority of independent, non-executive directors on this Committee but the Company will address this during 2008;

(b) includes members who are all financially literate;

(c) has a written charter;

(d) is responsible for:

(i) reviewing interim and annual financial statements;

(ii) establishing and maintaining a framework of risk management;

(iii) assessing the adequacy of the Company's control systems, including accounting, financial and operating controls and the appropriateness of its accounting policies and practices and where necessary, establishing internal controls and ethical standards for the management of the Company;

(iv) ensuring accounting records are maintained in accordance with statutory and accounting standards requirements;

(v) reviewing asset values to ensure they are appropriate and meet the requirements of the Corporations Act and relevant accounting standards;

(vi) reviewing the audit process with the external auditor to ensure full and frank discussion of audit issues in the absence of management; and

(vii) reviewing and evaluating the performance, independence and effectiveness of the external auditor and the audit fee arrangements.

4.3 The external auditor and management attend meetings of the Audit Committee by invitation.

5. The Board Makes Timely and Balanced Disclosure

The Company has an established process to ensure that it is in compliance with the ASX Listing Rules disclosure requirements applicable to the Company and this process is reflected in the Company's Continuous Disclosure Policy. This process includes a periodic confirmation by all senior management that the area(s) for which they are responsible has complied with the Policy.

6. The Board Respects the Rights of Shareholders

6.1 The Company has a Shareholder Communications Policy which promotes effective communication with shareholders, including beneficial holders.

6.2 Shareholders can access the Company's share price and all recent ASX announcements, via the Company's website, www.capral.com.au.

6.3 Notices of General Meeting are drafted in accordance with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations.* As required by the Corporations Act, the external auditor attends the Annual General Meeting and can respond to relevant shareholder questions.

7. The Board Recognises and Manages Risk

7.1 The Board recognises that there are strategic, operational and financial risks in the Company's business and has established a sound system of risk oversight and management and internal control to identify, assess, monitor and manage risk.

7.2 The Audit Committee is responsible for monitoring financial risks and ensuring adequate business (non-financial) risk management processes are established by the Company. The Internal Audit function assists with regard to business risk management, providing periodic reports to the Audit Committee.

7.3 The Company has adopted *AS/NZ 4360-Risk Management* as the appropriate standard in managing the business risks.

8. The Board Encourages Enhanced Performance

8.1 The Board has established a Remuneration & Nomination Committee to monitor and review the performance of the Board, its committees, individual directors and senior management.

8.2 The Remuneration & Nomination Committee:

(a) has 4 members who are all non-executive directors (2 of whom are independent). The members, their Committee meeting attendance and their qualifications are set out in the Directors' Report. Since Mr Pitcher's resignation (on 19 April 2007) there has not been a majority of independent, non-executive directors on this Committee but the Company will address this during 2008;

(b) has a written charter;

(c) is responsible for:

(i) reviewing the remuneration of the Company's directors and senior management;

(ii) monitoring and reviewing the Company's human resources policies and making recommendations to the Board;

(iii) assessing the necessary desirable competencies of Board members, reviewing Board succession plans, evaluating the Board's performance and providing recommendations for the appointment and removal of directors.

8.3 Recommendations of the Remuneration & Nomination Committee are given to the Board for their consideration and approval.

8.4 Newly appointed non-executive directors will be given sufficient knowledge, such as via an induction program, to ensure that they have a sound working understanding of the Company and the aluminium industry.

8.5 The directors have access to all relevant information. Directors may meet with, or independent of, management at any time to discuss any areas of interest or concern.

8.6 During the financial year ended 31 December 2007, the Board participated in a self-assessment.

9. The Board Remunerates Fairly and Responsibly

9.1 The Remuneration and Nomination Committee annually reviews the Executive Management Team's remuneration packages and directors' remuneration, with reference to the Company's performance, executive performance, comparable available information from competitors and other listed companies and independent advice.

9.2 The remuneration policies and practices of the Company are designed to attract qualified and experienced candidates and retain and motivate senior management and employees.

9.3 The payment of bonuses and other incentive payments are reviewed annually by the Committee as part of the review of senior management remuneration and recommendations are put to the Board for its approval. All bonuses and incentives are linked to pre-determined performance criteria. The Board can exercise its discretion in relation to approving bonuses and incentives and may recommend changes to the Committee's recommendations. Any changes must be justified by reference to measurable performance criteria.

9.4 Remuneration for senior management is divided into three parts:

(a) a fixed remuneration which is made up of basic salary, superannuation and salary sacrifices;

(b) short term incentives paid in cash, directly earned upon the successful achievement of specific financial and operational targets. Incentives are based on performance hurdles which are set and reviewed by the Committee annually; and

(c) long term incentives for specific senior managers, earned upon the successful achievement of performance hurdles which are set and reviewed by the Committee annually.

9.5 Details of the Managing Director's contract are set out in the Remuneration Report.

9.6 Non-executive directors receive fees (from a pool of funds, the limit of which is approved by shareholders in general meeting). There are no schemes for retirement benefits, other than statutory superannuation, for non-executive directors.

9.7 Further details about the Company's remuneration policies are set out in the Remuneration Report.

10. The Company Recognises the Legitimate Interests of Stakeholders

The Board has a formal Code of Conduct which recognises the Company's obligations to all legitimate stakeholders from time to time, where and to the extent appropriate. The Company also has specific policies to recognise its stakeholders, including:

(a) Health & Safety;

(b) Equal Opportunity;

(c) Environment.

It is the Company's intention to adopt (wherever practicable) the revised ASX Corporate Governance Council's Corporate Governance Principles and Recommendations as part of its continual governance oversight.

The Corporate Governance Statement and related governance materials are available at the Corporate Governance page of the Company's website, www.capral.com.au.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Capral has implemented policies and management systems to deliver beyond compliance requirements in the areas of safety and the environment. Capral has strong links with the communities where it operates.

Safety

Safety is one of Capral's key Resolutions. Capral understands the necessity of providing a safe workplace and is committed to ensuring people return home safely through safe working conditions and behaviours through 'Safety First' and related programs.

During 2007, Capral concentrated on areas of high risk (such as Confined Space and Isolation/Lock Out, Traffic Management, Loading and Unloading of Vehicles, Manual Handling and Contractor Management), worked on development of safety leaders through management training programs and continued to improve ways of working more safely. There were 20% fewer workplace injuries in 2007 than 2006.

National Safety Day: For the second year, Capral held a safety day that was a great success, with participation at every site.

Campbellfield Die Splitter Award: In October 2007, our Campbellfield manufacturing site was awarded a Special Commendation Award for the Best Solution for Sprain and Strain injuries by Victorian Worksafe in relation to the design and introduction of a die splitter into the die maintenance area.

Environment

Capral is committed to minimising the environmental impacts of its extrusion and distribution activities; this involves examining our operations to identify environmental friendly opportunities; minimising adverse consequences of new plant, equipment and processes by assessing implications in the design, purchase and commissioning phases, ensuring prevention measures are taken prior to operation; managing waste materials using the hierarchy of reduce/reuse/recycle, ensuring that any disposal will be to appropriate environmental standards. Capral is also investigating the potential use of recycled materials into a range of products.

Some examples of Capral's activities are detailed below:

Packaging – Penrith: During 2007, our Penrith Extrusion Plant undertook an initiative to reduce the amount of timber, plastic, cardboard, paper and strapping used for packing aluminium extrusions without compromising the quality of the delivered product and reduce the time and costs to our customers in unwrapping and disposing of the packaging materials.

With our highly valued customers, a baseless pack was created, with no spiral wrap, no outer plastic and no paper interleave. We reuse the top and bottom timbers. We are also testing larger packs that will have the additional benefit of re-using the timbers used to deliver our aluminium log.

In addition to the significant cost savings to us and our customers, this initiative has made packing faster and easier, and importantly helped our environment by the re-use of packaging materials. The success of the initiative at Penrith will be rolled out to our other facilities.

Water saving – Bremer: Our Bremer Park site has implemented water consumption reduction controls in light of the level 6 business water restrictions in south east Queensland that require at least a 25% reduction in water usage from November 2006 to November 2008 (equivalent to 257 kL per day). These controls included the installation of inline water meters in order to decrease rinse rates in Anodising and the Paintlines and better control water usage at the four extrusion cooling towers; the replacement of two wet cooling pumps in Anodising; the re-plumbing of a paintline's jig burner cooling water into the rinse water intake; adjusting the water balance on the cooling towers to decrease the rate of water bleeding; and changing the regularity of the purging of the fire hydrant system.

As a result, daily water usage on site for October 2007 averaged 240 kL for a record production month as compared to approximately 342 kL in November 2006.

Sustainable products: Capral is also committed to the development of sustainable products and systems. This encompasses the ongoing development of thermally efficient residential and commercial glazing systems. This development is being further augmented by a life cycle analysis of aluminium as a building material in order to improve the understanding of its environmental impacts and benefits.

Community

Capral contributes in a variety of ways to the communities where its facilities are located including the provision of a range of skilled and unskilled employment opportunities, the positive economic impact on other local businesses and involvement in community based groups including education institutions.

There are also a range of traineeships and apprenticeships that are offered by Capral, including Certificates in Manufacturing, Transport and Distribution (Warehousing and Storage), Engineering (Mechanical and Electrical) and Boilermaking.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Capral Aluminium Limited (**Capral**) and the entities it controlled at the end of, or during, the financial year ended 31 December 2007 (**Financial Year**).

Directors

The following persons were directors of Capral during the Financial Year and, except as indicated below, up to the date of this report:

Name	Period Office Held
P. J. Arnall	25 February 2002 – Date of this report
R. W. Freeman	8 August 2005 – Date of this report
G. H. Weiss	25 November 2003 – Date of this report
G. J. Cureton	21 August 2001 – Date of this report
I. B. Blair	23 May 2006 – Date of this report
R. G. Pitcher	24 December 2001 – 19 April 2007
A. M. Eisen (alternate director of G. H. Weiss and G. J. Cureton)	19 October 2006 – Date of this report

Details of directors, their qualifications, experience, details of listed directorships held and special responsibilities (including company committee memberships) are set out on pages 5 and 6.

Principal activities

During the Financial Year, the principal continuing activities of the consolidated entity consisted of the manufacturing, marketing and distribution of semi-fabricated aluminium products.

Dividends

No dividends or distributions have been declared or paid for the Financial Year.

Review of operations

A review of operations of the consolidated entity are referred to in the Managing Director's Report and the Financial Report.

Significant changes in the state of affairs

During the Financial Year there were no significant changes in the state of affairs of the consolidated entity.

Matters subsequent to the end of the Financial Year

No matter or circumstance has arisen since the end of the Financial Year that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments is detailed in the Managing Director's Report on pages 2 to 4. This report omits information about likely developments and expected future results that would unreasonably prejudice Capral.

Other information for members to make an informed assessment

Other information that members reasonably require to make an informed assessment of the operations, financial position, business strategies and prospects for future financial years of the consolidated entity are referred to in the Managing Director's Report and the Financial Report.

Directors' meetings

The numbers of directors' meetings (including meetings of committees) held, and the number of meetings attended, by each director during the Financial Year, are as follows:

Director	Board Scheduled		Board Unscheduled		Audit Committee		Remuneration & Nomination Committee	
	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended
P.J. Arnall	14	14	2	2	5	5	3	3
R.W. Freeman	14	14	2	2	5	5[4]	3	3[4]
G.J. Cureton	14	14[5]	2	2[5]	5	5	3	3
G.H. Weiss	14	14[6]	2	2[6]	5	5[6]	3	3[6]
I.B. Blair	14	14	2	2	5	5	3	3
R.G. Pitcher[2]	5	5	0	0	1	1	1	1
A.M. Eisen[3,7]	14	14[5,6]	2	1[6]	5	5[5,6]	3	3[6]

1 Reflects the number of meetings held during the time that the director held office during the Financial Year.

2 Resigned on 19 April 2007.

3 Alternate director for Dr Weiss and Mr Cureton.

4 Attended meetings in an ex-officio capacity.

5 Mr Eisen attended 2 Board meetings and 1 Audit Committee meeting as Mr Cureton's alternate.

6 Mr Eisen attended 6 scheduled and 1 unscheduled Board meetings, 5 Audit Committee meetings and 2 Remuneration & Nomination Committee meetings as Dr Weiss' alternate.

7 Mr Eisen attended 7 scheduled and 1 unscheduled Board meetings, 5 Audit Committee meetings and 2 Remuneration & Nomination Committee meetings as alternate for Dr Weiss and/or Mr Cureton and all other meetings as an invitee.

Directors' interests and benefits

Ordinary Shares

Details of holdings of ordinary shares in the Company for the directors at the date of this report are as follows:

Name	Position	Ordinary shares fully paid in the Company		
		Balance at 1.1.2007	Balance at 31.12.2007	Balance at date of this report
P.J. Arnall	Director and Chairman of the Board	38,400	38,400	38,400
R.W. Freeman	Managing Director	250,000	400,000[1]	400,000
G.J. Cureton	Director	144,000	175,000[1]	175,000
G.H. Weiss	Director	93,255	93,255	93,255
I.B. Blair	Director	50,000	120,000[1]	120,000
A.M. Eisen	Alternate Director	–	–	–

1 Shares purchased privately during the Financial Year in accordance with the Capral Share Trading Policy.

In addition to the interests shown above, indirect interests in Company shares held on behalf of Mr Freeman are as follows:

Nature of other interests	Balance at 1.1.2007	Balance at 31.12.2007	Balance at date of this report
Performance Rights[1]	1,200,000	1,200,000	1,200,000

1 Refer to pages 17 and 18 in the Remuneration Report.

Convertible Notes

Details of holdings of convertible notes in the Company for the directors at the date of this report are as follows:

Name	Position	Convertible notes fully paid in the Company		
		Balance at 1.1.2007	Balance at 31.12.2007	Balance at date of this report
P.J. Arnall	Director and Chairman of the Board	–	99	99
R.W. Freeman	Managing Director	–	500	500
G.J. Cureton	Director	–	371	371
G.H. Weiss	Director	–	241	241
I.B. Blair	Director	–	129	129
A.M. Eisen	Alternate Director	–	–	–

Unissued shares or interests under option

At the date of this report, there are 2,220,000 (2006: 1,595,000) unissued shares or interests under option. Refer to sections 1 and 2 of the Remuneration Report.

No shares have been issued during or since the end of the Financial Year as a result of an exercise of an option.

Company Secretary

Mr R. Rolfe – General Counsel & Company Secretary, LLB (Hon) (University of Leicester, UK)

Mr Rolfe was appointed as General Counsel of the Company on 12 June 2006 and to the position of Company Secretary on 23 June 2006.

Mr Rolfe was admitted as a Solicitor of the Supreme Court of England and Wales in 1998 and New South Wales in 2002. Prior to joining the Company, Mr Rolfe was a senior corporate lawyer at Qantas Airways Limited from July 2002 to June 2006.

REMUNERATION REPORT (AUDITED)

This report sets out the philosophy and process of the Company for the remuneration of its directors, Executive Management Team, senior management and other employees. It also details the actual remuneration of its key management personnel (including the directors) during the Financial Year.

Section 1: The Remuneration Philosophy and Process

The remuneration policies and practices of the Company are designed to attract qualified and experienced candidates, and retain and motivate employees.

(a) Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for reviewing and making recommendations to the Board on remuneration policies for the Company including, in particular, those governing the directors (including the Managing Director), Executive Management Team and senior management.

The payment of bonuses and other incentive payments are reviewed annually by the Remuneration & Nomination Committee as part of the review of the remuneration of the Executive Management Team and senior management and recommendations are put to the Board for its approval. All bonuses and incentives are linked to pre-determined performance criteria. The Board can exercise its discretion in relation to approving bonuses and incentives and may recommend changes to the Committee's recommendations. Any changes must be justified by reference to measurable performance criteria.

The Remuneration & Nomination Committee seeks independent advice in setting the structure and levels of remuneration based on the principle that all elements of remuneration should be set at an appropriate level having regard to market practice for roles of similar scope and skill.

The advice of internal resources and independent remuneration consultants is taken to ensure that remuneration arrangements (including directors' fees) are in line with market levels.

(b) Performance Planning and Review

The Company has a process to formally evaluate and discuss performance and development plans bi-annually with all salaried employees including the Executive Management Team and other senior managers. This two way process between the employee and their immediate supervisor is referred to as Performance Planning and Review (PPR).

The PPR is a 4-Step process covering:

Step 1 An agreement of objectives for the year ahead and the setting of Key Performance Measures against which the achievement of those objectives will be assessed.

Step 2 A review of performance against the previously agreed objectives for the period under review and against the achievement of corporate capabilities.

Step 3 Employee comment and feedback on the previous year, their manager and team dynamics.

Step 4 Short and long term training and development needs and career aspirations.

Within the Company, all managers have a responsibility to provide prompt and constructive feedback to staff on performance, behaviour and attitudes. The PPR process ensures that there is better understanding of the Company's objectives thereby increasing the likelihood of their achievement. It also enables managers to evaluate and develop employee skills and performance and identify future development needs. Employees benefit through recognition, performance feedback and career guidance.

Remuneration administration is an integral part of the overall management of the Company's people. Annual remuneration reviews occur with regard to the PPR outcome.

(c) Non-executive directors

The structure of the Company's non-executive director remuneration is distinct from that applicable to the Managing Director and other senior executives.

The Board, in conjunction with the Remuneration & Nomination Committee, seeks to establish remuneration of non-executive directors at a level that enables the Company to attract and retain high quality directors at a reasonable cost. Remuneration of non-executive directors and their terms of office are governed by the Company's constitution and not by contract.

Non-executive directors remuneration is allocated out of the pool of funds the limit of which is approved by shareholders in general meeting and each director is entitled to the payment of an annual fee in cash and superannuation contributions for their services. Additional fees are not paid for sitting on Board committees, however the extra responsibility of the Chairman of the Board and committees is recognised by the payment of a higher fee. Non-executive directors do not receive any shares, options or other securities as part of their remuneration nor are they eligible to participate in any of the Company's equity incentive plans. There are no schemes for retirement benefits (other than statutory superannuation payments).

Details of payments to non-executive directors are set out on pages 19 and 20. Dr Weiss has waived receiving any fees.

(d) Senior Management Remuneration

The remuneration policy for the Managing Director, Executive Management Team and senior management seeks to attract and retain people with the required capabilities to lead the Company in the achievement of planned business objectives and focus on delivering annual safety and financial targets.

Remuneration is reviewed annually in December (for the Managing Director and Executive Management Team) and February (for all other employees) and approved changes applied from 1 January and 1 March respectively.

The Remuneration & Nomination Committee reviews the remuneration arrangements of the Managing Director and Executive Management Team, where as for other members of senior management the General Manager Human Resources makes recommendations to the Managing Director regarding the fixed salary component and the Remuneration & Nomination Committee regarding equity components.

For the Managing Director, Executive Management Team and other senior management, remuneration consists of a fixed annual salary and superannuation plus an at-risk component that comprises STIP and LTIP (see below).

The proportions of fixed and at-risk remuneration are established for the Managing Director, Executive Management Team and other senior management relative to their position in the Company. The policy used as a guide for at-risk remuneration is 25% for the Executive Management Team and 15% for other senior managers.

(e) Base Salary Plus Superannuation = Total Employment Cost

The level of the Total Employment Cost (being base salary plus superannuation) is determined having regard to job responsibilities, skills, experience and performance. Salaries are reviewed annually. An in-house job evaluation system and market remuneration surveys are used to determine broadband salary ranges.

The review process is detailed above (PPR). The policy aims to be consistent across all salaried employees and competitive within the industries in which the Company operates, for the type and level of work each employee is performing.

(f) Short Term Incentive Plan

The Short Term Incentive Plan (**STIP**) was introduced in 2006 and is designed to encourage all participants to assist the Company in achieving continuous improvement by rewarding them when key performance measures are achieved during the Financial Year.

STIP gives employees the opportunity to earn a cash incentive, based on a specified percentage of Total Employment Cost dependent on each individual's level of responsibility. The actual incentive earned is based on the achievement of pre-determined company, business unit and functional targets. For the Executive Management Team, 100% of these targets relate to earnings before interest, tax and amortisation (**EBITDA**), Cash and Safety whereas for other employees it is at least 90%. An amount higher than the specified percentage of Total Employment Cost is paid if stretch targets are achieved.

The Company EBITDA, Cash and Safety performance measures used for STIP are established each year by the Remuneration & Nomination Committee. The Managing Director is responsible for recommending to the Committee the amount of STIP, if any, to be paid. The Executive Management Team then set the targets for senior management and other employees using these parameters.

For the Managing Director, 50% of base salary is payable for the achievement of 'objective' targets and 100% for the achievement of 'stretch' targets. For the Executive Management Team, 25% of Total Employment Cost is payable for the achievement of 'objective' targets and 50% for the achievement of 'stretch' targets.

The Company intends to vary the performance measures for STIP for the financial year ended 31 December 2008 in order to align employees with specific focus areas.

(g) Managing Director – Performance Rights

The Managing Director was granted 1.2 million performance rights under his Employment Contract. Details of these rights are set out below.

The Managing Director does not participate in LTIP (see below) but these rights were designed with similar objectives in mind. Following an independent review during 2007, changes were made to Mr Freeman's employment arrangements in order to align the TSR comparator group, testing dates and testing period with those granted to the Executive Management Team and senior management under LTIP.

Rights were granted in 3 equal tranches of 400,000, each of which may vest subject to the Company's performance measured against the S&P/ASX 200 Industrials Index but excluding those companies who are classified in the Global Industry Classification Standard sector numbers 4010 "Banks" and 4030 "Insurance" (Total Shareholder Return Test) (**TSR**). Testing of tranche 1 was at 31 December 2007 and (to the extent not fully vested) there are 2 further testing dates as at 31 December 2008 and 31 December 2009. Tranche 2 is first tested as at 31 December 2008 and (to the extent not fully vested) re-tested as at 31 December 2009 and 31 December 2010. Tranche 3 is first tested as at 31 December 2009 and (to the extent not fully vested) re-tested as at 31 December 2010 and 31 December 2011. However, testing after July 2009 is contingent on renewal of Mr Freeman's Employment Contract. If it is not renewed then the re-tests as at 31 December 2009 are brought forward to 31 July 2009 and all subsequent re-testing dates are cancelled. Vested rights will convert on a one-for-one basis to ordinary shares.

Vesting at each testing date in relation to the measurement of the relevant tranche is determined in accordance with Table A.

Table A

Percentile of TSR	% Rights Vesting
Less than 50th	None
50th	50
More than 50th less than 75th	Between 50 and 100 (pro rata)
More than 75th	100

None of the tranche 1 rights vested as at the 31 December 2007 testing date.

(h) Long Term Incentive Plan

The Long Term Incentive Plan (**LTIP**) was introduced in 2006 and is restricted to the Executive Management Team and selected members of senior management. LTIP is designed to strengthen the alignment of the interests of senior managers with shareholders and support a culture of share ownership and shareholder wealth. It also aims to provide competitive remuneration for the retention of specifically targeted members of senior management.

The Managing Director and the General Manager Human Resources make recommendations to the Remuneration & Nomination Committee regarding the proposed participants and the amount of the entitlements.

Rights to ordinary shares issued under LTIP are subject to a TSR test. The TSR will be tested over an initial 2 year performance period, and re-tested each year over the subsequent 3 years. Vested rights will convert on a one-for-one basis to ordinary shares. Shares allocated will remain held (subject to a holding lock) under LTIP up to 10 years from the date rights were originally granted. After the third re-test, unvested rights will lapse. The use of a relative TSR test is consistent with market practice as it ensures alignment between comparative shareholder return & remuneration of executives.

Vesting at each testing date is determined in accordance with Table A (described in section 1(g)).

None of the remaining rights granted as part of the 2006 offer (310,000 rights) vested as at the 31 December 2007 testing date.

During the Financial Year, 760,000 rights were granted as part of the 2007 offer, of which 710,000 rights remain outstanding. Details of the rights granted to senior executives under the LTIP during the Financial Year are shown in section 2 of this report.

The Company intends to grant further rights under the LTIP and intends to invite additional selected individuals to participate in the LTIP during the financial year ended 31 December 2008.

(i) Capral Employee Share Ownership Plan

During the Financial Year, the Company offered to all eligible employees (except the Managing Director and participants in LTIP) 500 ordinary shares in the Company under the Capral Employee Share Ownership Plan (**CESOP**). CESOP was designed to reward eligible employees for contribution to the Company, enable them to have greater involvement with, and share in, the future growth and profitability of the Company and give them an opportunity to become a shareholder in the Company. 451,500 ordinary shares in the Company were allotted in May 2007 under CESOP. These shares are held subject to a holding lock until 1 May 2010 (unless the employee ceases employment with the Company for specific reasons) and once the holding lock is released, each participating employee will receive their shares.

(j) Employee Share Plan

The Company had in place an Employee Share Plan (**ESP**) for key employees; this has been replaced by LTIP. As at the date of the report, there is 1 issue of 300,000 shares that remains with one employee. Under ESP, monies were advanced to the participants to enable them to acquire ordinary shares in the Company at a price determined by the Board. No interest or other charge is payable unless otherwise determined by the Board. Participants are required to pay the net amount of dividends received on the shares (after allowing for income tax) as repayment of the loan. On termination of employment the participant is required to repay the loan within 7 days following the repayment date. The obligation to repay the loan is limited to the value of the shares.

Section 2: Remuneration of directors and key management personnel

The following table sets out the remuneration of the key management personnel (including the directors) during the Financial Year.

The key management personnel of the consolidated entity are the Managing Director of the Company and those executives that are part of the Executive Management Team (and report directly to the Managing Director). These people have the authority and responsibility for planning, directing and controlling the day-to-day activities of the Company.

The five company executives who received the highest remuneration and other key management personnel for the year ended 31 December 2006 and the Financial Year are detailed below.

			Short term employee benefits			Post-employment benefits	Other long term benefits	Termination benefits	Share based payments	Total	Total performance related
			Cash salary and fees	Cash bonus[9]	Non-monetary benefits $	Super-annuation			Performance Rights[6]		
Name	Year	Title	$	$	$	$	$	$	$	$	%
Directors											
P.J. Arnall	2007	Chairman	121,061	–	–	10,896	–	–	–	131,957	0%
	2006	Chairman	126,576	–	–	11,392	–	–	–	137,968	0%
G.J. Cureton	2007	Non-executive director	55,000	–	–	–	–	–	–	55,000	0%
	2006	Non-executive director	55,000	–	–	–	–	–	–	55,000	0%
I.B. Blair[2]	2007	Non-executive director	64,237	–	–	8,389	–	–	–	72,626	0%
	2006	Non-executive director	30,435	–	–	2,739	–	–	–	33,174	0%
G.H. Weiss[10]	2007	Non-executive director	–	–	–	–	–	–	–	–	0%
	2006	Non-executive director	–	–	–	–	–	–	–	–	0%
R.W. Freeman[+]	2007	Managing Director	727,287	106,139	–	92,275	–	–	307,034	1,232,735	34%
	2006	Managing Director	700,000	290,500	–	63,000	–	–	299,332	1,352,832	44%
R.G. Pitcher[1]	2007	Non-executive director	58,333	–	–	5,250	–	–	–	63,583	0%
	2006	Non-executive director	70,000	–	–	6,300	–	–	–	76,300	0%
J. Crabb[1]	2006	Non-executive director	15,019	–	–	1,352	–	–	–	16,371	0%
Executives											
R. Stephenson[*+]	2007	Chief Financial Officer	295,818	53,794	–	31,354	–	–	19,992	400,958	18%
	2006	Chief Financial Officer	275,228	62,250	–	24,771	–	–	14,000	376,249	20%
P. Gregg[8+*]	2007	EGM Logistics	263,658	20,876	83,327[7]	28,879	–	–	19,992	416,732	10%
	2006	EGM Logistics	252,292	72,063	71,928[7]	22,532	–	–	14,000	432,815	20%
M. Haszard[3+*]	2007	EGM Manufacturing	316,407	24,173	–	17,656			19,992	378,228	12%
	2006	EGM Manufacturing	401,029	66,400	–	15,358	–	–	14,000	496,787	17%
E. Pollard[*]	2007	GM Human Resources	165,773	13,185	–	17,888	–	–	10,554	207,400	11%
	2006	GM Human Resources	147,877	33,200	–	13,333	–	–	6,903	201,313	20%
A. Simmonds[4*+]	2007	GM Building Systems	255,257	19,997	–	15,591	–	–	8,276	299,121	9%
	2006	GM – Building Systems	237,127	41,998	12,747[12]	14,977	–	–	5,523	312,372	15%
T. Kendall[5*]	2007	GM – Industrial Products	218,268	17,360	–	19,569	–	–	838	256,035	7%
	2006	GM – Industrial Products	12,942	–	–	1,165	–	–	–	14,107	0%
S. Wisniowski[11*]	2007	EGM Sales & Marketing	141,614	–	–	22,982	–	423,807	–	588,403	0%
	2006	EGM Sales & Marketing	275,230	62,250	–	26,835	–	–	14,000	378,315	20%
Total 2007			**2,682,713**	**255,524**	**83,327**	**270,729**	**–**	**423,807**	**386,678**	**4,102,778**	
Total 2006			2,585,813	628,661	84,675	202,589	–	–	367,758	3,869,496	

Notes

[1] Mr Crabb resigned on 10 April 2006 and Mr Pitcher resigned on 19 April 2007.

[2] Mr Blair appointed to the Board on 23 May 2006 and as Chairman of the Audit Committee with effect from 19 April 2007.

[3] Mr Haszard received a retention fee of $96,000 in 2006 under his employment contract in connection with the acquisition of the Crane businesses in 2005.

[4] Mr Simmonds received a retention fee of $76,028 in 2006 under his employment contract in connection with the acquisition of the Crane businesses in 2005.

[5] Mr Kendall commenced employment with Capral on 11 December 2006.

[6] All performance rights listed are rights that have not yet vested. Refer to section 1 of this report.

[7] Mr Gregg's non-monetary benefit relates to applicable notional interest on interest free loans that relate to the 2003 employee share scheme.

[8] Participant in the 2003 employee share scheme.

[9] Executive cash bonuses for the Financial Year include actuals for 2007 STIP but do not include superannuation. Executive cash bonuses for the financial year ended 31 December 2006 contain estimates for 2006 STIP.

[10] Dr G.H. Weiss waived receiving any fees in respect of the 2007 and 2006 financial years.

[11] Mr Wisniowski left employment with Capral in July 2007.

[12] Mr Simmonds' non-monetary benefit in 2006 comprises motor vehicle benefits.

* Capral's Key Management Personnel.

\+ Capral's top 5 remunerated executives.

Refer to section 1 of the Remuneration Report for terms and conditions of compensation for key management personnel.

Section 2: Remuneration of directors and key management personnel (Cont.)

Performance rights provided as compensation – granted and vested

During the Financial Year, performance rights were granted as equity compensation benefits under the Managing Director's employment contract and the LTIP to certain key management personnel as disclosed below. The performance rights were granted at no cost to the participant. None of the rights granted have vested as at the 31 December 2007 testing date. For details of the vesting conditions and further details relating to the performance rights refer to section 1 of this report.

2007		Vested No.	Granted No.	Grant date	Fair value per right at grant date ($)	First test date	Last test date
Executives							
R. Stephenson		–	100,000	16/03/2007	0.30	31/12/2008	31/12/2011
M. Haszard		–	100,000	16/03/2007	0.30	31/12/2008	31/12/2011
P. Gregg		–	100,000	16/03/2007	0.30	31/12/2008	31/12/2011
A. Simmonds		–	50,000	16/03/2007	0.30	31/12/2008	31/12/2011
T. Kendall		–	30,000	16/03/2007	0.30	31/12/2008	31/12/2011
E. Pollard		–	70,000	16/03/2007	0.30	31/12/2008	31/12/2011
S. Wisniowski[1]		–	–	N/A	N/A	N/A	N/A
Total		**–**	**450,000**				
2006							
R. Stephenson		–	50,000	14/03/2006	0.86	31/12/2007	31/12/2010
S. Wisniowski[1]		–	50,000	14/03/2006	0.86	31/12/2007	31/12/2010
M. Haszard		–	50,000	14/03/2006	0.86	31/12/2007	31/12/2010
P. Gregg		–	50,000	14/03/2006	0.86	31/12/2007	31/12/2010
A. Simmonds		–	20,000	14/03/2006	0.86	31/12/2007	31/12/2010
E. Pollard		–	25,000	14/03/2006	0.86	31/12/2007	31/12/2010
Total		**–**	**245,000**				
2005							
R. Freeman	Tranche 1	–	400,000	7/07/2005	0.75	31/12/2007	31/07/2009
R. Freeman	Tranche 2	–	400,000	7/07/2005	0.70	31/12/2008	31/07/2009
R. Freeman	Tranche 3	–	400,000	7/07/2005	0.63	31/07/2009	31/07/2009
Total		**–**	**1,200,000**				

Notes

1 Mr Wisniowski left employment with Capral in July 2007. Under the LTIP Rules, the Board resolved to pay cash equivalent to the value of the rights granted to Mr Wisniowski as part of his termination payment.

Section 3: Relationship between remuneration and company performance

During the Financial Year and the previous 4 financial years (2003–2006), the Company's performance was as follows:

Year Ended 31 Dec	Net Profit/ (Loss) $m	Dividend cents per share	Basic earnings / (loss) cents per share
2007	(33.57)	–	(17.2)
2006	(25.41)	–	(13.1)
2005	(48.56)	–	(38.7)
2004	(73.37)	2	(81.5)
2003	(4.32)	6	(6.0)

Since August 2005, there have been significant changes in the composition of the Company's executive and senior management. Whilst continuing to ensure that the Company attracts and retains qualified, experienced and motivated employees in accordance with the remuneration policy by remunerating employees at a competitive level, the Company has maintained salary levels by ensuring that average annual salary increases are kept below CPI and placing more emphasis on at-risk remuneration in order to align remuneration of the employees to the performance of the Company and shareholder wealth.

For the financial years ended 31 December 2004 and 2005, the Company only made bonus payments as an exception to reward certain senior executives for performance. For the financial year ended 31 December 2006, the Company made a STIP payment based upon the achievement of performance measures. For the Financial Year, the Company will make a STIP payment dependent upon the achievement of performance targets determined at the start of the year.

Section 4: Summary of Key Employment Contracts

Details of the key contract terms for the Managing Director, the 5 executives who received the highest remuneration and other key management personnel for the Financial Year are as follows:

Contract Details	R. Freeman	R. Stephenson	M.Haszard	P. Gregg	T. Kendall	E. Pollard	A. Simmonds
Existing contract end date	7 August 2009	No fixed end date	No fixed end date	No fixed end date	No fixed end date	No fixed end date	No fixed end date
Notice of termination by Company	12 months	12 months	1 month	18 months	12 months	12 months	1 month
Notice of termination by employee	6 months	3 months	6 months	3 months	3 months	3 months	6 months
Termination payments	12 months salary plus accrued but unpaid STIP for previous financial year	12 months salary plus accrued but unpaid STIP for previous financial year	6 months salary plus accrued but unpaid STIP for previous financial year	18 months salary plus accrued but unpaid STIP for previous financial year	12 months salary plus accrued but unpaid STIP for previous financial year	12 months salary plus accrued but unpaid STIP for previous financial year	6 months salary plus accrued but unpaid STIP for previous financial year

Environmental regulation

Manufacturing licences and consents required by laws and regulations are held by the consolidated entity at each relevant site as advised by consulting with relevant environmental authorities. All applications for and renewals of licences have been granted and all consents have been given by all relevant authorities.

Directors' and officers' indemnities and insurance

Under the Company's constitution, the Company is required to indemnify, to the extent permitted by law, each director and secretary of the Company against any liability incurred by that person as an officer of the Company. The directors listed on page 13 and the secretary listed on page 15 have the benefit of this indemnity. During the Financial Year, the Company paid a premium for directors' and officers' liability insurance policies which cover current and former directors, company secretaries and officers of the consolidated entity. Details of the nature of the liabilities covered and the amount of the premium paid in respect of the directors' and officers' insurance policies are not disclosed, as such disclosure is prohibited under the terms of the contracts.

Indemnities to auditors

In respect of non-audit services provided in relation to the issue of convertible notes during the Financial Year, Deloitte Touche Tohmatsu, the Company's auditor, has the benefit of an indemnity (including in respect of legal costs) for any third party claim in connection with the provision of services (except to the extent caused by Deloitte Touche Tohmatsu being grossly negligent or not acting in good faith) or where Deloitte Touche Tohmatsu reasonably relies on information provided by the Company which is false, misleading or incomplete.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit services where the auditor's expertise and experience with the consolidated entity are important. The Board has considered the position and in accordance with the advice received from the Audit Committee, it is satisfied that the provision of these services during the Financial Year by the auditor is compatible with, and did not compromise, the general standard of auditor independence imposed by the Corporations Act for the following reasons:

(1) the non-audit services provided do not involve reviewing or auditing the auditor's own work and have not involved partners or staff acting in a management or decision-making capacity for the Company or in the processing or originating of transactions;

(2) all non-audit services and the related fees have been reviewed by the Audit Committee to ensure complete transparency and that they do not affect the integrity and objectivity of Deloitte Touche Tohmatsu; and

(3) the declaration required by section 307C of the Corporation Act 2001 confirming independence has been received from Deloitte Touche Tohmatsu.

Details of the amounts paid or payable to the Company's auditor (Deloitte Touche Tohmatsu) for audit and non-audit services provided during the Financial Year are set out in Note 37 of the financial statements.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 24.

Rounding of amounts

The Company is a company of the kind referred to in Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the directors

P. J. Arnall	**R. W. Freeman**
Chairman	Managing Director

Sydney
10 March 2008

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Capral Aluminium Limited
Level 9, 280 George Street
Sydney NSW 2000

10 March 2008

Dear Board Members,

Capral Aluminium Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Capral Aluminium Limited.

As lead audit partner for the audit of the financial statements of Capral Aluminium Limited for the financial year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

P Forrester

P G Forrester
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation

Member of
Deloitte Touche Tohmatsu

INCOME STATEMENT

for the financial year ended 31 December 2007

		CONSOLIDATED		COMPANY	
		2007	**2006**	**2007**	**2006**
	Note	$000	$000	$000	$000
Sales revenue		**507,734**	493,494	**421,067**	265,513
Scrap and other revenue		**56,834**	53,363	**56,581**	41,274
Revenue	3	**564,568**	546,857	**477,648**	306,787
Other income	3	**5,219**	3,781	**5,005**	5,018
Changes in inventories of finished goods and work in progress		**(8,529)**	9,797	**(1,651)**	6,615
Raw materials and consumables used		**(376,433)**	(375,141)	**(312,083)**	(207,502)
Employee benefits expense		**(96,994)**	(96,377)	**(96,354)**	(61,948)
Depreciation and amortisation expense	2	**(17,840)**	(16,886)	**(16,223)**	(14,694)
Finance costs	2	**(13,888)**	(10,430)	**(17,306)**	(13,741)
Freight expense		**(15,719)**	(17,289)	**(13,868)**	(10,008)
Share of net profits after tax from associates accounted for using the equity method of accounting	13	**–**	543	**–**	–
Occupancy costs		**(13,122)**	(13,574)	**(11,674)**	(9,824)
Repairs and maintenance		**(7,342)**	(7,359)	**(6,835)**	(5,493)
Other expenses		**(53,487)**	(49,061)	**(50,808)**	(34,462)
Loss before income tax		**(33,567)**	(25,139)	**(44,149)**	(39,252)
Income tax expense	4	**–**	(266)	**–**	–
Loss attributable to members of Capral Aluminium Limited		**(33,567)**	(25,405)	**(44,149)**	(39,252)
Loss per share for loss attributable to members of Capral Aluminium Limited					
Basic and Diluted loss per share (cents per share)	28	**(17.2c)**	(13.1c)		

The weighted average number of ordinary shares on issue used in the calculation of basic and diluted loss per share was 194,631,036 (2006: 194,631,036).

The above income statement should be read in conjunction with the accompanying notes.

BALANCE SHEET

as at 31 December 2007

	Note	CONSOLIDATED 2007 $000	CONSOLIDATED 2006 $000	COMPANY 2007 $000	COMPANY 2006 $000
ASSETS					
Current assets					
Cash and cash equivalents	6	**2,149**	12,623	**2,047**	5,034
Trade and other receivables	7	**94,178**	88,010	**94,092**	188,978
Inventories	8	**79,268**	95,017	**79,268**	61,641
Prepayments	9	**2,151**	1,951	**2,151**	1,401
Financial assets	10	**1,308**	–	**1,308**	–
		179,054	197,601	**178,866**	257,054
Non-current assets classified as held for sale	15	**7,760**	–	**7,760**	–
Total current assets		**186,814**	197,601	**186,626**	257,054
Non current assets					
Other receivables	7	**–**	308	**–**	308
Retirement benefit asset	11	**3,191**	2,370	**–**	–
Investments in subsidiaries	12	**–**	–	**32,185**	32,185
Property, plant and equipment	15	**149,946**	157,429	**138,096**	140,268
Goodwill	16	**83,430**	83,430	**83,430**	2,174
Other intangible assets	16	**19,619**	16,977	**11,322**	7,972
Total non current assets		**256,186**	260,514	**265,033**	182,907
Total assets		**443,000**	458,115	**451,659**	439,961
LIABILITIES					
Current liabilities					
Trade and other payables	18	**96,536**	98,504	**104,379**	69,519
Borrowings	20	**22,303**	106,798	**88,981**	173,476
Provisions	21	**14,476**	10,799	**14,655**	10,251
Financial liabilities	19	**1,133**	–	**1,133**	–
Deferred income	22	**387**	165	**387**	165
Total current liabilities		**134,835**	216,266	**209,535**	253,411
Non current liabilities					
Borrowings	20	**109,301**	2,169	**109,301**	2,169
Deferred tax liabilities	23	**590**	558	**–**	–
Provisions	21	**2,138**	9,702	**2,138**	9,507
Deferred income	24	**930**	1,075	**930**	1,075
Total non current liabilities		**112,959**	13,504	**112,369**	12,751
Total liabilities		**247,794**	229,770	**321,904**	266,162
Net assets		**195,206**	228,345	**129,755**	173,799
EQUITY					
Issued capital	25	**298,562**	298,562	**298,562**	298,562
Reserves	26	**5,755**	5,471	**5,789**	5,828
Accumulated losses	26	**(109,255)**	(75,688)	**(174,740)**	(130,591)
		195,062	228,345	**129,611**	173,799
Amounts recognised directly in equity relating to non-current assets classified as held for sale	26	**144**	–	**144**	–
Total equity		**195,206**	228,345	**129,755**	173,799

The above balance sheet should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

for the financial year ended 31 December 2007

	Note	CONSOLIDATED 2007 $000	CONSOLIDATED 2006 $000	COMPANY 2007 $000	COMPANY 2006 $000
Cash flows from operating activities					
Receipts from customers		**615,608**	601,532	**519,970**	337,436
Payments to suppliers and employees		**(618,744)**	(586,338)	**(519,817)**	(331,644)
		(3,136)	15,194	**153**	5,792
Interest and other finance costs paid		**(12,419)**	(10,430)	**(12,419)**	(10,430)
Other revenue received		**–**	168	**–**	1,439
		(12,419)	(10,262)	**(12,419)**	(8,991)
Net cash (used in) / provided by operating activities	39 (ii)	**(15,555)**	4,932	**(12,266)**	(3,199)
Cash flows from investing activities					
Payments for property, plant and equipment		**(15,661)**	(11,151)	**(15,661)**	(8,912)
Payments for software assets		**(5,061)**	(365)	**(5,061)**	(365)
Payments for product development costs		**(28)**	–	**(28)**	–
Interest expense capitalised		**(369)**	–	**(369)**	–
Interest received		**166**	150	**152**	100
Dividends received		**–**	1,249	**–**	1,249
Proceeds from sale of property, plant and equipment		**261**	127	**261**	127
Proceeds from sale of investments		**–**	10,634	**–**	10,634
Cash transferred from subsidiaries		**–**	–	**4,208**	–
Net cash (used in) / provided by investing activities		**(20,692)**	644	**(16,498)**	2,833
Cash flows from financing activities					
Proceeds in relation to employee share scheme		**–**	455	**–**	455
Proceeds from issue of financial instruments (net of costs)		**47,799**	–	**47,799**	–
Proceeds from borrowings		**139,000**	166,742	**139,000**	166,742
Repayment of borrowings		**(164,120)**	(156,256)	**(164,120)**	(156,256)
Net cash provided by financing activities		**22,679**	10,941	**22,679**	10,941
Net (decrease) / increase in cash and cash equivalents		**(13,568)**	16,517	**(6,085)**	10,575
Cash and cash equivalents at beginning of year		**12,623**	(3,898)	**5,034**	(5,541)
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(4)**	4	**–**	–
Cash and cash equivalents at the end of the financial year	39 (i)	**(949)**	12,623	**(1,051)**	5,034

The above cash flow statement should be read in conjunction with the accompanying notes.

STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the financial year ended 31 December 2007

		CONSOLIDATED		COMPANY	
	Note	**2007** $000	**2006** $000	**2007** $000	**2006** $000
Exchange differences on translation of foreign operations	26	**(965)**	(1,890)	**–**	–
Actuarial gain on defined benefit plan	26	**898**	165	**–**	–
Net income recognised directly in equity		**(67)**	(1,725)	**–**	–
Transfers (net of any related tax):					
Transfer to profit or loss on disposal of foreign associate investment	26	**–**	(110)	**–**	–
Loss for the year		**(33,567)**	(25,405)	**(44,149)**	(39,252)
Total recognised income and expense for the year		**(33,634)**	(27,240)	**(44,149)**	(39,252)

The above statement of recognised income and expense should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007

1a. Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies.

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the consolidated entity's and the Company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2007–7 'Amendments to Australian Accounting Standards'	1 July 2007	31 December 2008
AASB 8 'Operating Segments' and consequential amendments to other accounting standards resulting from its issue	1 January 2009	31 December 2009

Initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the consolidated entity and the Company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB Interpretation 11 'AASB 2 – Group and Treasury Share Transactions'	1 March 2007	31 December 2008
AASB 2007 1 'Amendments to Australian Accounting Standards arising from AASB Interpretation 11'	1 March 2007	31 December 2008
AASB Interpretation 12 'Service Concession Arrangements'	1 January 2008	31 December 2008
AASB 2007–2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	1 January 2008	31 December 2008
AASB 2007–4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments'	1 July 2007	31 December 2008
AASB Interpretation 13 'Customer Loyalty Programmes'	1 July 2008	31 December 2009
AASB Interpretation 14 'AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	31 December 2008
AASB 123 'Borrowing Costs' – revised standard	1 January 2009	31 December 2009
AASB 2007–6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	31 December 2009
IFRS 3 (Revised) 'Business Combination'	1 July 2009	31 December 2010
AASB 101 'Presentation of Financial Statements'	1 January 2009	31 December 2009
IAS 27 'Consolidated and Separate Financial Statements'	1 July 2009	31 December 2010
AASB 2007–10 'Further Amendments to Australian Accounting Standards arising from AASB 101'	1 July 2007	31 December 2008

1b. Significant accounting policies

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A–IFRS'). Compliance with A–IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 10 March 2008.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

Rounding of amounts

The Company is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report.

Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar as indicated.

(a) Going concern

The directors have prepared the accounts on a going concern basis.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(c) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(d) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non current assets that are classified as held for sale in accordance with AASB 5 "Non Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately on profit or loss.

1b. Significant accounting policies (cont.)

(e) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(f) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 35 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

The fair value of hedging derivatives is classified as a non current asset or a non current liability if the remaining maturity of the hedge relationship is more than 12 months, and as a current asset or current liability if the remaining maturity of the hedge relationship is less than 12 months.

The Groups derivatives do not qualify for hedge accounting, and are not designated into an effective hedge relationship and are classified as a current asset and current liability.

Embedded derivatives

Derivatives embedded in other Financial Instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the Financial Instrument, and the Financial Instruments are measured at fair value with changes in fair value recognised in profit or loss.

(g) Employee benefits

(i) Salaries, wages and leave entitlements

A liability is recognised for benefits accruing to employees in respect of wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(ii) Share-based payments

Equity-settled rights granted under the Managing Director's employment contract, and the Long Term Incentive Plan (LTIP), are independently valued at grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

(iii) Defined benefit plan

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date.

Actuarial gain and losses are recognised in full in equity in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The defined benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan (refer Note 32).

(iv) Defined contribution plan

Contributions to defined contribution superannuation plans are expensed when incurred.

(h) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through the profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements.

Other financial assets are classified into the following specified categories: Financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than financial assets 'at fair value through profit or loss'.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

(i) has been acquired principally for the purpose of selling in the near future;

(ii) is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or

(iii) is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 35.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

(i) Financial instruments issued by the Company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities at fair value through profit or loss

Financial Liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 35.

Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument.

This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or upon the instruments reaching maturity. The equity component initially brought to account is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects and is not subsequently remeasured.

1b. Significant accounting policies (cont.)

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 35.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(j) Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Capral, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

(i) exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

(ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks; or

(iii) exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations (including comparatives) are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A–IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at reporting date. Goodwill arising on acquisitions before the date of transition to A–IFRS is treated as an Australian dollar denominated asset.

(k) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Goodwill is subsequently measured at its cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to the Group's single cash-generating unit (CGU), where it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on the basis of the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

(l) Government grants

Government grants are assistance by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors.

Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire long-term assets are recognised as deferred income in the balance sheet and recognised as income on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis.

(m) Impairment of other tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which that asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment losses subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

At the date of these financial statements the directors do not believe that the probability test has been met in relation to the recognition of available tax losses in respect of the Australian operations.

Capral and its wholly-owned Australian entities have implemented the tax consolidation legislation.

1b. Significant accounting policies (cont.)

(o) Intangible assets

Patents, trademarks and licences

Patents, trademarks and licences are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives, which vary from five to 16 years.

The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes being recognised as a change in accounting estimate.

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Software

Software assets including system development costs have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

Amortisation is calculated using the straight-line method to allocate the cost over the assets estimated useful lives, which vary from three to five years.

(p) Inventories

Inventories representing aluminium and other supplies are valued at the lower of cost and net realisable value.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

Aluminium billet and log is valued at moving average of direct purchase cost. Cost of rolled product has been determined principally on moving average of direct purchase costs. Costs for manufacturing product includes moving average metal cost, direct labour, and fixed and variable factory overhead.

(q) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease team, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability.

The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(r) Non current assets held for sale

Non current assets classified as held for sale are measured, with certain exceptions, at the lower of carrying amount and fair value less costs to sell.

Non current assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the assets are available for immediate sale in their present condition subject only to terms that are usual and customary for such a sale and the sale is highly probable. The sale of the asset must be expected to be completed within one year from the date of classification, except in the circumstances where sale is delayed by events or circumstances outside the Group's control and the Group remains committed to the sale.

(s) Property, plant and equipment

Land and buildings are measured at fair value. Fair value is determined on the basis of a periodic, independent valuation by external valuation experts, based on discounted cash flows or capitalisation of net income, as appropriate. Periodic reviews are conducted every three to five years.

The fair values are recognised in the financial statements of the Group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on revaluation of land and buildings are credited to the asset revaluation reserve except to the extent that the increase reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of revalued property, the attributable revaluation surplus remaining in the revaluation reserve, net of any related taxes, is transferred directly to retained earnings.

Plant and equipment, and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

(t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

<u>Onerous contracts</u>

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

<u>Restructurings</u>

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those so affected. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Sales revenue comprises sales of goods and services at net invoice values less returns, trade allowances and applicable rebates.

<u>Sale of goods</u>

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

(i) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

(ii) the Group retains neither continuing managerial involvement to the degree normally associated with ownership nor effective control over the goods sold;

(iii) the amount of revenue can be measured reliably;

(iv) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

<u>Royalties</u>

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying agreement.

<u>Interest Revenue</u>

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

1b. Significant accounting policies (cont.)

(v) Share-based payments

Equity-settled share-based payments with employees are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 that were unvested as of 1 January 2005.

(w) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

1c. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 1b, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

<u>Impairment of goodwill</u>

Determining whether goodwill is impaired requires an estimation of the value in use of the single cash-generating unit to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was $83.430 million.

2 Profit for the year

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
(a) Other expenses				
Loss before income tax includes the following specific net expenses:				
Cost of sales of goods	**458,104**	434,428	**330,876**	250,051
Amortisation of other intellectual property	**1,276**	1,352	**526**	452
Amortisation of software	**3,189**	2,423	**3,143**	2,324
	4,465	3,775	**3,669**	2,776
Depreciation:				
Buildings	**536**	532	**424**	428
Leasehold improvements	**850**	611	**850**	611
Plant and equipment	**11,989**	11,968	**11,280**	10,879
Total depreciation	**13,375**	13,111	**12,554**	11,918
Total depreciation and amortisation	**17,840**	16,886	**16,223**	14,694
Rental expenses relating to operating leases				
Minimum lease payments	**13,122**	13,574	**11,674**	9,824
Other charges against assets				
Impairment of trade receivables	**171**	228	**171**	60
Restructuring costs				
Share-based payments				
– Cash settled share-based payments	**30**	–	**30**	–
Termination benefits	**2,350**	2,460	**2,350**	676
Restructuring costs	**2,380**	2,460	**2,380**	676
Finance costs				
Interest and finance charges paid/payable				
– Controlled entities	**–**	–	**3,418**	3,284
– Other persons	**14,257**	10,430	**14,257**	10,457
	14,257	10,430	**17,675**	13,741
Less: amounts included in the cost of qualifying assets[1]	**(369)**	–	**(369)**	–
Net finance costs are comprised of:	**13,888**	10,430,	**17,306**	13,741
Interest on bank overdrafts and loans	**9,045**	10,234	**12,463**	13,554
Interest on convertible notes	**4,468**	–	**4,468**	–
Other interest expense	**375**	196	**375**	187
Total interest expenses	**13,888**	10,430	**17,306**	13,741
[1] The weighted average capitalisation rate on funds borrowed generally is 8% p.a. (2006: nil)				
(b) Gains and Losses				
Net (loss)/gain on disposal of property, plant and equipment	**(100)**	86	**(100)**	52
Gain/(loss) on foreign exchange	**13**	240	**(18)**	240
Gain on sale of associate investment	**–**	2,278	**–**	2,278

3 Revenue and other income

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
Revenue from continuing operations				
Sales revenue - sale of goods	**507,734**	493,494	**421,067**	265,513
Other revenue				
Scrap revenue	**56,668**	53,213	**56,429**	41,174
Interest - other	**166**	123	**152**	73
Interest from associates	**–**	27	**–**	27
	56,834	53,363	**56,581**	41,274
Other income				
Net gain on disposal of property, plant and equipment	**–**	86	**–**	52
Movement in the fair value of embedded derivatives on convertible notes	**4,592**	–	**4,592**	–
Gain/(loss) on foreign exchange	**13**	240	**(18)**	240
Gain on sale of associate investment	**–**	2,278	**–**	2,278
Other - government grants and dividends	**614**	1,177	**432**	2,448
	5,219	3,781	**5,005**	5,018

4 Income tax expense

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
(a) Income tax expense comprises:				
Decrease in deferred tax balances	**–**	266	**–**	**–**
	–	266	**–**	**–**
(b) Reconciliation of income tax expense to prima facie tax payable				
Loss from continuing operations before income tax expense	**(33,567)**	(25,139)	**(44,149)**	(39,252)
Income tax calculated @ 30% (2006 - 30%)	**(10,070)**	(7,542)	**(13,245)**	(11,776)
Tax effect of non-assessable / non-deductible items:				
Share of net profits of associates	**–**	(163)	**–**	–
Effect of higher rates of tax on overseas income	**28**	16	**–**	–
Deferred tax benefits not recognised in relation to the current year	**10,042**	7,955	**13,245**	11,776
Income tax expense	**–**	266	**–**	–
(c) Tax losses				
Accumulated unused gross tax losses for which no deferred tax asset has been recognised	**243,426**	209,859	**243,426**	209,859
Potential tax benefit @ 30%	**73,028**	62,958	**73,028**	62,958

All unused tax losses were incurred by Australian entities.

5 Segment information

In 2007 and 2006 the consolidated entity operated in one business segment, extrusion and distribution of aluminium products and one geographical segment, Australia. Consequently, a segment report for 2007 and 2006 has not been reported.

6 Current assets – Cash and cash equivalents

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
Cash at bank and in hand	**2,149**	12,623	**2,047**	5,034

7 Current assets – Receivables

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
Trade receivables – at amortised cost (i)	**93,978**	88,883	**93,945**	58,050
Allowance for doubtful debts (ii)	**(821)**	(1,143)	**(821)**	(1,009)
	93,157	87,740	**93,124**	57,041
Non-trade receivable owing by controlled entities – at amortised cost	**–**	–	**–**	131,861
Other receivables – at amortised cost	**1,021**	270	**968**	76
	94,178	88,010	**94,092**	188,978
Non-current assets – Receivables				
Other debtors – at amortised cost	**–**	308	**–**	308

(i) The average credit period on sales of goods is 45 days. No interest is charged on the trade receivables. The Group has provided for a range of 1% to 8% for receivables between 31 days to 90 days. Twenty percent of trade receivables 90 days and over are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience. This is done after deducting specific allowances for doubtful debts.

Included in the Group's and Company's trade receivable balances are debtors with a carrying amount of $2.490 million (2006: $2.490 million) which are past due at the reporting date for which the Group has provided for 20% of the amount. No further amount has been provided for as the Group believes that this past due balance is still considered recoverable. The Group does not hold any collateral over these balances, but does hold trade indemnity insurance for 90% of the amount outstanding of certain receivables. The average age of these receivables is 110 days (2006: 120 days).

(ii) Movement in the allowance for doubtful debts

	CONSOLIDATED 2007	CONSOLIDATED 2006	COMPANY 2007	COMPANY 2006
Balance at beginning of the year	**(1,143)**	(1,038)	**(1,009)**	(784)
Amounts written off during the year	**489**	268	**489**	268
Increase in allowance recognised in profit or loss	**(167)**	(373)	**(301)**	(493)
Balance at end of the year	**(821)**	(1,143)	**(821)**	(1,009)

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Group and Company do not have any significant exposure to any individual customer or counterparty.

Major concentrations of credit risk are in the construction, transport, consumer durable and electrical industries in Australia. Furthermore, the company has credit insurance cover which requires ongoing management of credit accounts with monthly reports provided to the Insurer. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

8 Current assets – Inventories

	CONSOLIDATED 2007	CONSOLIDATED 2006	COMPANY 2007	COMPANY 2006
Raw materials and stores – at cost	**12,554**	24,573	**12,554**	17,754
Work in progress – at cost	**2,454**	2,112	**2,454**	1,419
Finished goods – at net realisable value	**64,260**	68,332	**64,260**	42,468
	79,268	95,017	**79,268**	61,641

No inventories are expected to be recovered after more than 12 months.

9 Current assets – Prepayments

	CONSOLIDATED		COMPANY	
	2007 $000	2006 $000	2007 $000	2006 $000
Prepayments	**2,151**	1,951	**2,151**	1,401

10 Financial Assets – Embedded Derivative

	CONSOLIDATED		COMPANY	
	2007 $000	2006 $000	2007 $000	2006 $000
Convertible note redemption option – at fair value through profit or loss[1]	**1,308**	–	**1,308**	–

[1] This represents the fair value of the redemption option embedded in the Convertible Notes issued by the Company during the year (Note 29). The redemption option is the right of the Company to redeem the Notes at face value from 29 March 2010, if the value of the Company's shares exceeds $1.32 for any 20 Business Days in a period of 30 consecutive Business Days after 29 March 2010. The Monte Carlo simulation model has been used to value the option. Key inputs used are based on observable market data.

11 Non-current assets – Retirement benefit asset

	CONSOLIDATED		COMPANY	
	2007 $000	2006 $000	2007 $000	2006 $000
Defined benefit fund asset	**3,191**	2,370	**–**	–

12 Non-current assets – Investments

	CONSOLIDATED		COMPANY	
	2007 $000	2006 $000	2007 $000	2006 $000
Subsidiaries				
Subsidiaries at cost less impairment	**–**	–	**32,185**	32,185

Details of subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

	EQUITY HOLDING		COUNTRY OF INCORPORATION
	2007	2006	
Entity name	%	%	
Aluminium Extrusion & Distribution Pty Limited[#]	100	100	Australia
Capral Superannuation Pty Limited	100	100	Australia
Capral Wages Superannuation Pty Limited	100	100	Australia
Aluminium Distributors Pty Limited	100	100	Australia
Capral Finance Pty Limited	100	100	Australia
Capral Aluminium NZ Limited	100	100	New Zealand

[#] Subsidiary has been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by ASIC.

13 Investments accounted for using the equity method

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity. Information relating to the associates is set out below:

Name of Company (Incorporated)	Principal Activity	OWNERSHIP INTEREST		CONSOLIDATED		COMPANY	
		2007	2006	2007	2006	2007	2006
Unlisted		$000	$000	$000	$000	$000	$000
Bremer Business Park (C) Pty Limited (Australia)[1]	Property development	–	–	–	–	–	–
National Aluminium Limited (NZ)[2]	Aluminium Extrusion and Distribution	–	–	–	–	–	–
		–	–	–	–	–	–

[1] Deregistered on 28 February 2007.

[2] Disposed of on 30 June 2006.

	CONSOLIDATED	
	2007 $000	**2006** $000
Movements in carrying amounts		
Carrying amount at the beginning of the financial year	–	12,273
Share of profits after income tax	–	543
Dividends received	–	(1,249)
Exchange difference on translation	–	(569)
Non cash dividend	–	(1,960)
Other	–	(682)
Sale of associate investment	–	(8,356)
Carrying amount at end of year	–	–
Share of associates profits		
Profits before income tax	–	810
Income tax expense	–	(267)
Profits after income tax	–	543
Less dividends received	–	(3,209)
	–	(2,666)
Retained profits at the beginning of the financial year		6,349
Retained profits attributable to associates at end of year		3,683
Reserves attributable to associates		
Foreign currency translation reserve		
Balance at the beginning of the financial year	–	679
Exchange difference on translation	–	(569)
Realised on sale of foreign associate investment	–	(110)
Balance at the end of the financial year	–	–
Share of associate's contingent liabilities	–	–
Share of associate's expenditure commitments		
Capital commitments	–	–
Lease commitments	–	–
	–	–
Summary financial information of associates (Capral's share)		
The aggregate profits, assets and liabilities of associates are:		
Revenues[1]	–	16,965
Profits after income tax expense[1]	–	543
Assets	–	–
Liabilities	–	–

[1] Until the time the associate was disposed.

14 Related parties

Parent entities

The ultimate parent entity within the Group is Capral Aluminium Limited. Guinness Peat Group Plc (incorporated in the United Kingdom, and dual listed in the United Kingdom and Australia) which holds approximately 53.08% (2006: 53.08%) of the issued ordinary shares of the Company as at the date of this report, is the ultimate parent entity.

Equity interests in controlled entities

Interests in controlled entities are set out in Note 12.

Equity interests in associated entities

Interests in associates are set out in Note 13.

Transactions with Key Management Personnel

Details of the directors and compensation of each director of Capral Aluminium Limited and Key Management Personnel of the consolidated entity are set out in Note 33 to the financial statements and in the Remuneration Report set out in the Directors' Report.

Transactions with other related parties

As parent entity in the consolidated entity, the Company advanced and was repaid loans and bought and sold goods from/to controlled entities within the consolidated entity. These transactions were conducted on commercial terms and conditions at market rates.

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
Current amounts receivable from related parties				
Controlled entities (Note 7)	–	–	–	131,861
Current amounts payable to related parties				
Current liabilities – Payables (Note 18)	–	–	**7,898**	–
Current borrowings (Note 20)	–	–	**66,678**	66,678
Dividend received or receivable				
Associated entities (Note 13)	–	1,249	–	1,249
Interest expense				
Controlled entities (Note 2)	–	–	**3,418**	3,284
Interest income				
Associated entities (Note 3)	–	27	–	27
Underwriting fee - renounceable rights issue				
GPG Nominees Pty Ltd	**1,500**	–	**1,500**	–
Net assets acquired from subsidiaries				
Non-cash financing and investing activities (Note 40)	–	–	**74,768**	–

15 Property, plant and equipment

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
Land and buildings				
Freehold land and buildings				
At valuation	**13,476**	22,594	**7,740**	16,113
Accumulated depreciation	**(765)**	(943)	**(523)**	(821)
Net book amount	**12,711**	21,651	**7,217**	15,292
Leasehold improvements:				
At cost	**8,687**	7,004	**8,687**	7,004
Accumulated depreciation	**(1,532)**	(1,942)	**(1,532)**	(1,942)
Net book amount	**7,155**	5,062	**7,155**	5,062
Total land and buildings	**19,866**	26,713	**14,372**	20,354
Plant, machinery and equipment				
At cost	**188,402**	184,879	**180,677**	163,133
Accumulated depreciation	**(61,029)**	(62,350)	**(59,564)**	(49,604)
	127,373	122,529	**121,113**	113,529
Construction work in progress at cost	**2,707**	8,187	**2,611**	6,385
Net plant, machinery and equipment	**130,080**	130,716	**123,724**	119,914
Total property, plant and equipment – net book value	**149,946**	157,429	**138,096**	140,268
The following useful lives are used in the calculation of depreciation:				
Buildings	20 – 33 Years			
Leasehold Improvements	5 – 25 Years			
Plant and Equipment	3 – 25 Years			
Non current assets classified as held for sale				
Land held for sale	**3,005**	–	**3,005**	–
Buildings held for sale	**4,755**	–	**4,755**	–
	7,760	–	**7,760**	–

The Group intends to dispose of Land and Buildings during the Financial Year 2008. A search is under way for a buyer. Based on expected sales proceeds, no impairment loss was recognised on reclassification of the land or buildings held for sale or at reporting date. The directors consider the carrying value of the asset to approximate its fair value as at the date of the asset being reclassified to non current assets held for sale.

Valuations of land and buildings

The valuations incorporated in the financial statements were performed as follows:

Valuations of freehold land and buildings as at 31 December 2004 were undertaken by A. Robson AAPI, F. Julier AAPI, N. Satchell AAPI of Rushton Valuers Pty Ltd. The valuations were undertaken on the basis of fair value being the amount for which the assets could be exchanged between willing parties in an arms length transaction. This is not materially different to the fair value at balance date.

Carrying amounts that would have been recognised if land and buildings were stated at cost

Freehold land				
At cost	**4,205**	5,910	**2,455**	5,460
Accumulated depreciation	**–**	–	**–**	–
Net book amount	**4,205**	5,910	**2,455**	5,460
Buildings				
At cost	**9,263**	14,507	**5,285**	10,653
Accumulated depreciation	**(908)**	(1,095)	**(682)**	(981)
Net book amount	**8,355**	13,412	**4,603**	9,672

15 Property, plant and equipment (cont.)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

	Freehold land at fair value $000	Buildings at fair value $000	Leasehold improvements at cost $000	Plant and equipment at cost $000	In course of construction at cost $000	Total $000
Consolidated						
2007						
Opening net book amount	5,910	15,741	5,062	122,529	8,187	157,429
Additions	–	91	1,701	11,013	3,224	16,029
Disposals	–	–	(119)	(218)	(5)	(342)
Classified as held for sale	(3,005)	(4,755)	–	–	–	(7,760)
Transfers[1]	1,300	(2,035)	1,361	6,038	(8,699)	(2,035)
Depreciation charge (Note 2(a))	–	(536)	(850)	(11,989)	–	(13,375)
Net book amount at 31 December 2007	**4,205**	**8,506**	**7,155**	**127,373**	**2,707**	**149,946**
2006						
Opening net book amount	5,910	14,096	4,640	128,734	7,965	161,345
Additions	–	–	1,550	2,679	6,922	11,151
Disposals	–	–	(517)	(451)	–	(968)
Fair value adjustments	–	2,177	–	(3,165)	–	(988)
Transfers	–	–	–	6,700	(6,700)	–
Depreciation charge (Note 2(a))	–	(532)	(611)	(11,968)	–	(13,111)
Net book amount at 31 December 2006	5,910	15,741	5,062	122,529	8,187	157,429
Company						
2007						
Opening net book amount	5,460	9,832	5,062	113,529	6,385	140,268
Additions	–	91	1,701	11,013	3,224	16,029
Disposals	–	–	(119)	(218)	(5)	(342)
Classified as held for sale	(3,005)	(4,755)	–	–	–	(7,760)
Transfers[1]	–	18	1,361	3,665	(6,993)	(1,949)
Acquired from Subsidiary (Note 40)	–	–	–	4,404	–	4,404
Depreciation charge (Note 2(a))	–	(424)	(850)	(11,280)	–	(12,554)
Net book amount at 31 December 2007	**2,455**	**4,762**	**7,155**	**121,113**	**2,611**	**138,096**
2006						
Opening net book amount	5,460	10,260	4,640	117,913	5,918	144,191
Additions	–	–	1,550	2,242	5,120	8,912
Disposals	–	–	(517)	(400)	–	(917)
Transfers	–	–	–	4,653	(4,653)	–
Depreciation charge (Note 2(a))	–	(428)	(611)	(10,879)	–	(11,918)
Net book amount at 31 December 2006	5,460	9,832	5,062	113,529	6,385	140,268

Construction work in progress at cost includes interest capitalised of $369,000 (2006: nil).

Note 2(a) contains details of aggregate depreciation expense.

[1] The balance of transfers of $2,035,000 (2006: $nil) relates to transfers between assets in the course of construction and intangible assets (Note 16).

16 Intangibles

	Goodwill	Other intellectual property	Software	Total
	$000	$000	$000	$000
Consolidated				
2007				
Cost	85,486	15,833	20,568	121,887
Accumulated amortisation and impairment	(2,056)	(4,559)	(12,223)	(18,838)
Net book value	83,430	11,274	8,345	**103,049**
2006				
Cost	85,486	15,687	13,959	115,132
Accumulated amortisation and impairment	(2,056)	(3,305)	(9,364)	(14,725)
Net book value	83,430	12,382	4,595	100,407
Company				
2007				
Cost	85,486	5,834	20,377	111,697
Accumulated amortisation and impairment	(2,056)	(2,760)	(12,129)	(16,945)
Net book value	83,430	3,074	8,248	**94,752**
2006				
Cost	4,230	5,687	13,805	23,722
Accumulated amortisation and impairment	(2,056)	(2,255)	(9,265)	(13,576)
Net book value	2,174	3,432	4,540	10,146

Impairment testing of goodwill

The recoverable value of goodwill and other intangibles has been determined based on a value in use calculation using the cash flow projections based on the forecast approved by the Board. The discount rate applied to cash flow projections is 13.8% (2006: 10.0%) and cash flows beyond the 5 year period are extrapolated. The growth rate used to extrapolate the cash flows beyond the five year period is 3.5% (2006: 3.5%) which corresponds to the projected growth rate based on external economic sources.

Key assumptions used in value in use calculations for 31 December 2007 and 31 December 2006

Management has based its cash flow projections for impairment testing on the following key assumptions:

Market conditions – assumptions on key domestic market activity are consistent with external sources of information.

Planned margins – historical margins achieved were increased for expected efficiency, volume growth and pricing improvements.

Raw materials prices – values used in the cash flow projections are consistent with external sources of information.

Economic factors – assumptions including GDP, CPI and wage and salary increases are consistent with external sources of information.

Allocation of goodwill to cash generating units

Capral operates as one indivisible cash generating unit.

16 Intangibles (cont.)

Reconciliations

Reconciliations of the carrying amounts of goodwill, patents and trademarks, and software at the beginning and end of the current financial year are set out below.

	Goodwill	Other intellectual property	Software	Total
	$000	$000	$000	$000
Consolidated				
2007				
Opening net book amount	83,430	12,382	4,595	100,407
Additions	–	28	5,061	5,089
Disposals	–	(19)	–	(19)
Transfers[1]	–	159	1,878	2,037
Amortisation and impairment	–	(1,276)	(3,189)	(4,465)
Net book amount at 31 December 2007	83,430	11,274	8,345	**103,049**
2006				
Opening net book amount	81,152	13,734	6,653	101,539
Additions	2,278	–	365	2,643
Disposals	–	–	–	–
Transfers	–	–	–	–
Amortisation and impairment	–	(1,352)	(2,423)	(3,775)
Net book amount at 31 December 2006	83,430	12,382	4,595	100,407
Company				
2007				
Opening net book amount	2,174	3,432	4,540	10,146
Additions	–	28	5,061	5,089
Disposals	–	(19)	–	(19)
Transfer from subsidiary	81,256	–	–	81,256
Transfers[1]	–	159	1,790	1,949
Amortisation and impairment	–	(526)	(3,143)	(3,669)
Net book amount at 31 December 2007	83,430	3,074	8,248	**94,752**
2006				
Opening net book amount	2,174	3,884	6,499	12,557
Additions	–	–	365	365
Disposals	–	–	–	–
Transfers	–	–	–	–
Amortisation and impairment	–	(452)	(2,324)	(2,776)
Net book amount at 31 December 2006	2,174	3,432	4,540	10,146

[1] The balance of transfers of $2,037,000 (2006: $nil) relates to transfers from property, plant and equipment (Note 15).

17 Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in Note 20 to the financial statements, all assets of the Group have been pledged as security. The holder of the security does not have the right to sell or repledge the assets other than where the security is enforced.

18 Current liabilities – Payables

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
Trade payables (i)	**87,363**	93,192	**87,363**	65,231
Goods and service tax payable	**83**	–	**83**	–
Amounts owed to controlled entities	**–**	–	**7,898**	–
Other payables	**9,090**	5,312	**9,035**	4,288
	96,536	98,504	**104,379**	69,519

(i) The average credit period on purchases is 30 days from invoice date. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

19 Financial liabilities

Financial liabilities – at fair value through profit or loss				
Convertible note equity conversion option[1]	**1,133**	–	**1,133**	–

[1] This represents the fair value of the equity conversion option embedded in the Convertible Notes issued by the Company during the year (Note 29). The conversion option is the right held by the holders of the Notes to convert the Notes into ordinary shares of the Company at $1.20 per share. The Monte Carlo simulation model has been used to value the option. Key inputs used are based on observable market data. If a holder elects to convert the Notes, the Company may elect either to settle the notes in ordinary shares or redeem for cash, linked to market value.

20 Borrowings

Unsecured – at amortised cost				
Current				
Bank bill payable – Note 29(a)(i)	**–**	79,775	**–**	79,775
Export credit agency facility – Note 29(c)	**–**	26,975	**–**	26,975
Loans from:				
Subsidiaries	**–**	–	**66,678**	66,678
Other Entities	**48**	48	**48**	48
Non-Current				
Export credit agency facility – Note 29(b)	**–**	2,169	**–**	2,169
Convertible notes[1]	**45,318**	–	**45,318**	–
Secured – at amortised cost				
Current				
Bank overdrafts – Note 29(a)(ii)	**3,098**	–	**3,098**	–
Export credit agency facility – Note 29(b)	**1,084**	–	**1,084**	–
Export credit agency facility – Note 29(c)	**18,073**	–	**18,073**	–
Non-Current				
Commercial bills – Note 29(a)(i)	**63,983**	–	**63,983**	–
	131,604	108,967	**198,282**	175,645
Disclosed in the financial statements as:				
Current borrowings	**22,303**	106,798	**88,981**	173,476
Non-Current Borrowings	**109,301**	2,169	**109,301**	2,169
	131,604	108,967	**198,282**	175,645

[1] 500,000 10% convertible notes were issued on 29 March 2007 at an issue price of $100 per note. Each note entitles the holder to request conversion into 83.33 ordinary shares at a cost of $1.20 per ordinary share.
Conversion may occur on any conversion date (being 30 September or 31 March) between 30 September 2007 and maturity date 29 March 2012. Unconverted notes mature at $100 on 29 March 2012.
The net proceeds received from the issue of the convertible notes has been recorded as a liability. The interest charge for the year is calculated by applying an effective interest rate of 14.2% p.a. to the liability component.

21 Provisions

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	$000	$000	$000	$000
Current				
Employee benefits[4]	**13,417**	9,282	**13,417**	8,960
Make good on leased assets[1]	**520**	-	**520**	-
Other[2]	**539**	1,517	**718**	1,291
	14,476	10,799	**14,655**	10,251
Non-current				
Employee benefits	**825**	7,749	**825**	7,554
Make good on leased assets[1]	**1,055**	1,644	**1,055**	1,644
Other[3]	**258**	309	**258**	309
	2,138	9,702	**2,138**	9,507

Consolidated

Movements in carrying amounts	Make good on leased assets[1]	Other	Total
Carrying value at the beginning of the year	1,644	**1,826**	3,470
Additional amounts provided	702	**281**	983
Utilised	(771)	**(1,310)**	(2,081)
Unwinding of discount to present value	–	**–**	–
Carrying value at the end of the year	1,575	**797**	2,372

Company

Movements in carrying amounts	Make good on leased assets[1]	Other	Total
Carrying value at the beginning of the year	1,644	**1,600**	3,244
Additional amounts provided	702	**280**	982
Utilised	(771)	**(904)**	(1,675)
Unwinding of discount to present value	–	**–**	–
Carrying value at the end of the year	1,575	**976**	2,551

1 Provision for make good on leased assets comprises obligations relating to site closure and other costs associated with operating lease rental properties.

2 Other current provisions include provisions for customer claims including metal returns net of scrap and pricing adjustments.

3 Other non-current provisions include amounts relating to the straight lining of fixed rate increases in rental payments.

4 The current provision for employee benefits includes $939,587 of annual leave entitlements accrued but not expected to be taken within 12 months (2006: $2,683,299).

22 Deferred income – Current

Deferred income – other	**232**	–	**232**	–
Deferred government grants	**155**	165	**155**	165
	387	165	**387**	165

23 Non-current liabilities – Deferred tax liabilities

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
Deferred tax liability	**590**	558	**–**	–

24 Deferred income – Non-current

Non-Current				
Deferred government grants	**930**	1,075	**930**	1,075

25 Issued capital

	CONSOLIDATED/COMPANY		CONSOLIDATED/COMPANY	
	2007 No. 000	**2006** No. 000	**2007** $000	**2006** $000
(a) Share capital				
Ordinary shares: fully paid	**194,631**	194,631	**298,562**	298,562

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue Price	$000
January 07	Balance at beginning of financial year	194,631,036	–	298,562
	Movement during the financial year	–	–	–
December 07	Balance at end of financial year	194,631,036	–	298,562

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Ordinary shares granted under employee share ownership plan

During the year, participating employees were each allocated (subject to a holding lock) 500 shares under the new Capral Employee Share Ownership Plan, in aggregate 451,500 ordinary shares were allocated, all purchased on market.

The charge to the income statement for the year in respect of these shares is $624,135 (2006: $nil).

26 Reserves and accumulated losses

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
Asset revaluation reserve	**4,318**	4,462	**4,318**	4,852
Foreign currency translation reserve	**(1,531)**	(566)	**–**	–
Equity-settled compensation reserve	**1,471**	976	**1,471**	976
Actuarial gains on retirement benefit fund	**1,497**	599	**–**	–
	5,755	5,471	**5,789**	5,828
Accumulated losses	**(109,255)**	(75,688)	**(174,740)**	(130,591)
	(103,500)	(70,217)	**(168,951)**	(124,763)

Amounts recognised directly in equity relating to non current assets held for sale

Amounts recognised directly in equity relating to non-current assets held for sale (refer Note 15)	**144**	–	**144**	–
	144	–	**144**	–

26 Reserves and accumulated losses (cont.)

	CONSOLIDATED		COMPANY	
	2007	**2006**	**2007**	**2006**
	$000	$000	$000	$000
Movements in reserves were:				
Asset revaluation reserve				
Balance at beginning of year	**4,462**	4,462	**4,852**	4,852
Other	**–**	–	**(390)**	–
Transfer to equity relating to non-current assets classified as held for sale	**(144)**	–	**(144)**	–
Balance at end of year	**4,318**	4,462	**4,318**	4,852

The asset revaluation reserve arises on the revaluation of land and buildings. Where a revalued land or building is sold that portion of the asset revaluation reserve which relates to that asset, is effectively realised, and is transferred directly to retained earnings.

Foreign currency translation reserve				
Balance at beginning of year	**(566)**	1,434	**–**	**–**
Exchange differences realised on sale of associate	**–**	(110)	**–**	**–**
Currency translation differences arising on translation of overseas subsidiaries and associate during year	**(965)**	(1,890)	**–**	**–**
Balance at end of year	**(1,531)**	(566)	**–**	**–**

Exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

Equity-settled compensation reserve				
Balance at beginning of year	**976**	–	**976**	–
Proceeds received on employee share loan (Note 33(h))	**–**	455	**–**	455
Expense recognised	**495**	521	**495**	521
Balance at end of year	**1,471**	976	**1,471**	976

The equity-settled compensation reserve arises on the grant of shares to employees under the Capral Employee Share Plan. The granting of performance rights to the Managing Director under his employment contract and the executive management team and senior management under the LTIP.

Actuarial gains/(losses) on retirement benefit fund				
Balance at beginning of year	**599**	434	**–**	–
Arising on actuarial reviews, net of income tax	**898**	165	**–**	–
Balance at end of year	**1,497**	599	**–**	–
Accumulated losses				
Balance at beginning of year	**(75,688)**	(50,283)	**(130,591)**	(91,339)
Net loss attributable to members of Capral Aluminium Limited	**(33,567)**	(25,405)	**(44,149)**	(39,252)
Balance at end of year	**(109,255)**	(75,688)	**(174,740)**	(130,591)

27 Dividends

Ordinary shares: Nil (2006: Nil)	**–**	–	**–**	–
Franking Credits				
Franking credits available for subsequent financial years based on a tax rate of 30% (2006 - 30%)	**27,105**	27,105	**27,105**	27,105

28 Earnings/(loss) per share

	2007 Cents per Share	**2006** Cents per Share
Basic and diluted loss per share	**(17.2c)**	(13.1c)

The weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share was 194,631,036 (2006: 194,631,036). Earnings used in the calculation of basic and diluted loss per share for 2007 was $(33,567,000) (2006: $(25,405,000)).

There are 2,220,000 (2006: 1,595,000) performance rights and 41,666,667 (2006: nil) potential shares on exercise of convertible notes with the potential to dilute future earnings at the end of the financial year. As at balance date, these potential and contingently issuable shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share.

29 Standby arrangements and credit facilities

	CONSOLIDATED		COMPANY	
	2007	**2006**	**2007**	**2006**
	$000	$000	$000	$000
Utilised	**87,255**	108,889	**87,255**	108,889
Unutilised	**21,902**	30,211	**21,902**	30,211
Total available facilities	**109,157**	139,100	**109,157**	139,100

Details of the principal facilities are:

On 21 February 2007, the consolidated entity's debt facilities were refinanced through the following new debt arrangements:

(a) Long-term secured Senior Debt comprising a Multi-Option Commercial Bill and Overdraft Facility with ANZ, with a facility limit up to $90 million, maturing 30 September 2009:

(i) At balance date the total amount drawn on commercial bill acceptance/discount facility was $64.0 million (2006: $79.8 million) after offsetting borrowing costs, at interest rate of 7.29% (2006: 6.41%).

(ii) At balance date the total amount drawn on the Overdraft facility was $3.1 million (2006: not utilised) with an interest rate of 10.30% (2006: 7.91%).

(b) The consolidated entity continues to utilise a $1.1 million (2006: $2.2 million) secured trade loan facility with Hermes, which is being administered by ANZ. As at 31 December 2007, Capral had drawn down $1.1 million (2006: $2.2 million) of this facility at an interest rate of 8.12% (2006: 7.205%).

(c) A secured trade loan facility with SACE is also being administered by ANZ. At 31 December 2007, Capral had drawn down $18.1 million (2006: $27.0 million) facility at an interest rate of 7.7433% (2006: 7.0133%).

ANZ has the right to terminate or alter the terms of its facility agreement at any time should the Company fail to comply with specific financial covenants and undertakings.

30 Commitments for expenditure – Capital

Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities payable:				
Within one year	**1,207**	8,144	**1,207**	8,123

31 Commitments for expenditure – Operating lease

Commitments for minimum lease payments in relation to non-cancellable operating leases for office and plant premises are payable as follows:				
Within one year	**12,899**	11,785	**12,899**	8,662
Later than one year but not later than five years	**33,391**	37,101	**33,391**	34,348
Later than five years	**72,750**	70,921	**72,750**	70,921
	119,040	119,807	**119,040**	113,931

Operating leases relate to warehouse facilities with lease terms of between 2 to 5 years, with options to extend for a further 5 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

Non-cancellable operating lease receivable				
Within one year	**206**	–	**206**	–
Later than one year but not later than five years	**189**	–	**189**	–
Later than five years	**–**	–	**–**	–
	395	–	**395**	–

32 Superannuation commitments

During the year, a controlled entity operated the Capral New Zealand superannuation plan providing defined benefits on disability, death or retirement. Employees contribute at various percentages of their wages or salaries whilst companies within the consolidated entity contribute in accordance with recommendations made by actuaries.

The directors believe that at balance date, the assets of the Capral New Zealand superannuation plan were sufficient to satisfy all benefits which would have been vested under the plan in the event of its termination or in the event of the voluntary or compulsory termination of employment of each employee.

The Group has a legal liability to make up a deficit in the plan but no legal right to use any surplus in the plans to further its own interests, other than by way of a contribution holiday.

Details of the plan at the date of the last actuarial assessment as stated, are as follows:

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
(a) Balance sheet amounts				
Fair value of defined benefit plan assets	**6,777**	6,813	–	–
Present value of defined benefit obligation	**(3,586)**	(4,443)	–	–
Net asset in the balance sheet	**3,191**	2,370	–	–
(b) Categories of plan assets				
The major categories of plan assets are as follows:				
Cash	**3,411**	4	–	–
Equity instruments	**3,366**	3,276	–	–
Debt instruments	**–**	3,533	–	–
	6,777	6,813	–	–
(c) Reconciliations				
Reconciliation of the present value of the defined benefit obligation, which is fully funded:				
Balance at beginning of year	**4,443**	8,189	–	–
Current service cost	**61**	124	–	–
Interest cost	**102**	333	–	–
Actuarial (gains) and losses	**(499)**	23	–	–
Benefits paid	**(193)**	(666)	–	–
Settlements	**–**	(3,360)	–	–
Participant's contributions	**1**	–	–	–
Contributions tax	**(273)**	(156)	–	–
Exchange variation	**(56)**	(44)	–	–
Balance at end of year	**3,586**	4,443	–	–
Reconciliation of the fair value of plan assets:				
Balance at beginning of year	**6,813**	10,080	–	–
Expected return on plan assets	**188**	538	–	–
Benefits paid	**(193)**	(666)	–	–
Actuarial gains and (losses)	**62**	193	–	–
Settlements	**–**	(3,091)	–	–
Participant's contributions	**1**	–	–	–
Exchange variation	**(94)**	(241)	–	–
Balance at end of year	**6,777**	6,813	–	–

	CONSOLIDATED		COMPANY	
	2007	**2006**	**2007**	**2006**
	$000	$000	$000	$000
(d) Amounts recognised in profit or loss				
Current service cost	**(61)**	(124)	**–**	–
Interest cost	**(102)**	(333)	**–**	–
Actuarial gains from settlements	**–**	269	**–**	–
Expected return on plan assets	**188**	538	**–**	–
Net losses/(gains) recognised in year	**25**	350	**–**	–
Withholding tax	**12**	172	**–**	–
Total included in employee benefits expense	**37**	522	**–**	–
(e) Amounts recognised in actuarial gains reserve				
Actuarial gains/(losses) recognised in year	**561**	170	**–**	–
Withholding tax	**268**	84	**–**	–
	829	254	**–**	–
(f) Amounts recognised in foreign currency translation reserve				
Actuarial gains/(losses) recognised in year	**(38)**	(197)	**–**	–

(g) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	CONSOLIDATED	
	2007	**2006**
Discount rate	**4.6%**	3.9%
Expected return on plan assets	**5.5%**	5.5%
Salary increase rate	**3.5%**	3.5%
Post-retirement mortality	**PA(90)-4**	PA(90)-4
Pension increase rate	**1.88%**	1.88%

The actual return on plan assets was $215,718 (2006: $729,953)

(h) Employer contributions

In accordance with the Trustee and Actuary's recommendation, no contributions were made in 2007 nor are any contributions anticipated for 2008. Actuarial assessments are made at the end of each financial year.

The last such assessment was made at 31 December 2007.

(i) Net financial position of the plan

In accordance with AAS 25 Financial Reporting by Superannuation Plans the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (31 December 2007), and a surplus of $3,191,000 (2006: $2,370,000) was reported.

(j) Historic summary

	CONSOLIDATED		
	2007	**2006**	**2005**
	$000	$000	$000
Defined benefit plan obligation	**(3,586)**	(4,443)	**(8,189)**
Plan assets	**6,777**	6,813	**10,080**
Surplus	**3,191**	2,370	**1,891**
Experience adjustments arising on plan liabilities	**(211)**	23	**31**
Experience adjustments arising on plan assets	**90**	193	**(31)**

33 Key Management Personnel compensation

(a) Number of employees

	CONSOLIDATED		PARENT	
	2007	**2006**	**2007**	**2006**
Employees at end of year (number)	**1,131**	1,258	**1,131**	834

(b) Long Term Incentive Plan and other security based payments

Refer to the Remuneration Report contained in the Director's Report for details of Capral's Long Term Incentive Plan ("LTIP") and information regarding share-based payments.

The Managing Director's performance rights were valued at an average of $0.69 per right based on the Capral share price at the date of his employment contract, discounted to give recognition to the vesting hurdles. The charge to profit for the period in respect of the Financial Year is $307,034 (2006: $299,332).

The fair value of the performance rights granted under the LTIP is estimated at grant date using a Monte Carlo simulation analysis taking into account the terms and conditions upon which the performance rights were granted.

Outlined below are the inputs to the model used for calculating the fair value of the equity-settled performance rights granted to the Managing Director (2005) and under executive LTIP grants (2006 and 2007):

	2007	2006	**2005**
Grant date	**16/03/2007**	14/03/2006	**7/07/2005**
Dividend yield	**0%**	0%	**0%**
Risk free interest rate	**6.00%**	5.27%	**5.27%**
Expected volatility	**37%**	40%	**40%**
Last testing date	**31/12/2011**	31/12/2010	**31/07/2009**
Exercise price	**n.a.**	n.a.	**n.a.**
Weighted average share price at grant date	**$0.74**	$1.23	**$1.72**
Performance right life	**3.2 years**	2.5 years	**2.8 years**

Expected volatility reflects the assumption that historical volatility is indicative of future trends, which may not be the actual outcome.

The performance rights, prior to vesting, carry neither voting rights nor rights to dividends.

(c) Employee share plan

Refer to the Remuneration Report contained in the Director's Report for details of the previous employee share plan.

No amount was advanced under the scheme during the Financial Year (2006: nil). No shares were purchased under the plan by the one employee participant of the plan during the Financial Year (2006: nil).

At 31 December 2007, loans in respect of the 2003 employee share plan amounted to $666,619 (2006: $666,619) for 300,000 (2006: 300,000) ordinary shares. During the Financial Year repayments in respect of the 2003 employee share plan were $nil (2006: $455,000).

(d) Details of Key Management Personnel

The directors and other members of Key Management Personnel of the Group during the year were:

Directors:

P.J. Arnall (Chairman)

G.H. Weiss (Non-executive director)

G.J. Cureton (Non-executive director)

I.B. Blair (Non-executive director)

R.G. Pitcher (Non-executive director), resigned 19 April 2007

A.M. Eisen[1] (Alternate Director)

R.W. Freeman (Managing Director)

Key Management Personnel:

R. Stephenson (Chief Financial Officer)

M. Haszard (Executive General Manager Manufacturing)

A. Simmonds (Group Manager Building Systems)

T. Kendall (Group Manager Industrial Products Group)

P. Gregg (Executive General Manager Logistics)

E. Pollard (General Manager Human Resources)

S. Wisniowski (Executive General Manager Sales and Marketing), employment ceased July 2007

[1] Alternate director of Dr G.H. Weiss and Mr G.J. Cureton

Details of the compensation of Capral's Key Management Personnel is set out below.

Compensation of Key Management Personnel	CONSOLIDATED/ COMPANY	
	2007 $000	**2006** $000
Short term benefits	**3,021,564**	3,299,149
Post-employment benefits	**270,729**	202,589
Other long-term benefits	**–**	–
Termination benefits	**423,807**	–
Share-based payments	**386,678**	367,758
	4,102,778	3,869,496

33 Key Management Personnel compensation (cont.)

(e) Performance rights holdings of Key Management Personnel

The remuneration policy for the Managing Director, Executive Management Team and senior management is set out in the Remuneration Report.

Details of the performance rights held by Key Management Personnel during the Financial Year are as follows:

2007	Held at start of year	Granted as compensation	Other	Exercised	Held at end of year
Directors					
R. Freeman	1,200,000	–	–	–	1,200,000
Executives					
R. Stephenson	50,000	100,000	–	–	150,000
S. Wisniowski[1]	50,000	–	(50,000)	–	-
M. Haszard	50,000	100,000	–	–	150,000
P. Gregg	50,000	100,000	–	–	150,000
A. Simmonds	20,000	50,000	–	–	70,000
E. Pollard	25,000	70,000	–	–	95,000
T. Kendall	–	30,000	–	–	30,000
	1,445,000	450,000	(50,000)	–	1,845,000

2006	Held at start of year	Granted as compensation	Other	Exercised	Held at end of year
Directors					
R. Freeman	1,200,000	–	–	–	1,200,000
Executives					
R. Stephenson	–	50,000	–	–	50,000
S. Wisniowski	–	50,000	–	–	50,000
M. Haszard	–	50,000	–	–	50,000
P. Gregg	–	50,000	–	–	50,000
A. Simmonds	–	20,000	–	–	20,000
E. Pollard	–	25,000	–	–	25,000
T. Kendall[2]	–	–	–	–	–
	1,200,000	245,000	–	–	1,445,000

1 Mr Wisniowski left employment with Capral in July 2007. Under the LTIP Rules, the Board resolved to pay cash equivalent to the value of the rights granted to Mr Wisniowski as part of his termination payment.

2 Mr Kendall commenced employment with Capral on 11 December 2006.

All performance rights granted as compensation to Key Management Personnel were made in accordance with the provisions of the Managing Director's employment contract (in the case of the Managing Director) or the LTIP (in the case of the Executives).

(f) Shareholdings of Key Management Personnel – fully paid ordinary shares of Capral

Details of the shareholdings of Capral ordinary shares of Key Management Personnel during the Financial Year are as follows:

2007	Held at start of year	Granted as compensation	Recveived on exercise of performance rights	Other changes during year	Held at end of year
Directors					
P. Arnall	38,400	–	–	–	38,400
R. Freeman	250,000	–	–	150,000	400,000
G. Weiss	93,255	–	–	–	93,255
G. Cureton	144,000	–	–	31,000	175,000
I. Blair	50,000	–	–	70,000	120,000
A. Eisen	–	–	–	–	–
Executives					
R. Stephenson	–	–	–	–	–
M. Haszard	–	–	–	–	–
P. Gregg	327,000	–	–	21,000	348,000
A. Simmonds	–	–	–	20,000	20,000
E. Pollard	–	–	–	–	–
T. Kendall	–	–	–	–	–
	902,655	–	–	292,000	1,194,655

2006	Held at start of year	Granted as compensation	Recveived on exercise of performance rights	Other changes during year	Held at end of year
Directors					
P. Arnall	38,400	–	–	–	38,400
R. Freeman	114,000	–	–	136,000	250,000
R. Pitcher	96,000	–	–	–	96,000
G. Weiss	24,000	–	–	69,255	93,255
G. Cureton	144,000	–	–	–	144,000
I. Blair	–	–	–	50,000	50,000
A. Eisen	–	–	–	–	–
Executives					
R. Stephenson	–	–	–	–	–
S. Wisniowski	–	–	–	15,392	15,392
M. Haszard	–	–	–	–	–
P. Gregg	327,000	–	–	–	327,000
A. Simmonds	–	–	–	–	–
E. Pollard	–	–	–	–	–
	743,400	–	–	270,647	1,014,047

33 Key Management Personnel compensation (cont.)

The shareholdings of former Key Management Personnel as at the termination date were as follows:

2007	Held at start of year	Granted as compensation	On exercise of option	Other changes during year	Held at date of termination
Directors					
R. Pitcher	96,000	–	–	–	96,000
Executives					
S. Wisniowski	15,392	–	–	–	15,392

2006	Held at start of year	Granted as compensation	On exercise of option	Other changes during the year	Held at date of termination
Directors					
J. Crabb	14,400	–	–	–	14,400

(g) Equity holdings of Key Management Personnel – convertible notes of Capral

Details of the equity holdings of Capral convertible notes by Key Management Personnel during the Financial Year are as follows:

2007	Held at start of year	Granted as compensation	Exercised	Other changes during year	Held at end of year
Directors					
P. Arnall	–	–	–	99	99
R. Freeman	–	–	–	500	500
G. Weiss	–	–	–	241	241
G. Cureton	–	–	–	371	371
I. Blair	–	–	–	129	129
A. Eisen	–	–	–	–	–
Executives				–	–
R. Stephenson	–	–	–	–	–
M. Haszard	–	–	–	–	–
P. Gregg	–	–	–	–	–
A. Simmonds	–	–	–	–	–
E. Pollard	–	–	–	–	–
T. Kendall	–	–	–	–	–
	–	–	–	1,340	1,340

Details of the holdings of Capral convertible notes by former Key Management Personnel as at the termination date were as follows:

2007	Held at start of year	Granted as compensation	On exercise of option	Other changes during the year	Held at date of termination
Directors					
R. Pitcher	–	–	–	247	247

(h) Transactions with Key Management Personnel of Capral

(i) Loans to Key Management Personnel

The following loan balances are in respect of loans made to Key Management Personnel of the Group entities. These balances do not include loans that are in-substance options and are non-recourse to the employee.

Loans to Key Management Personnel	Balance at begining	Interest charged	Interest not charged	Repayment	Write off	Balance at end	Number in Group
	$	$	$	$	$	$	$
2007	666,619	–	83,327	–	–	666,619	1
2006	1,495,061	–	116,622	455,000	373,442	666,619	2

Key Management Personnel with loans above $100,000 in the reporting period:

	Balance at begining	Interest charged	Interest not charged	Repayment	Write off	Balance at end	Highest in Period
	$	$	$	$	$	$	$
2007							
P. Gregg	666,619	–	83,327	–	–	666,619	666,619
2006							
N. Chalk	828,442	–	44,694	455,000	373,442	–	828,442
P. Gregg	666,619	–	71,928	–	–	666,619	666,619

Under the 2003 employee share scheme ("ESS"), eligible employees as determined by the Board, had the opportunity to participate in the ESS. This plan has been replaced by the Long Term Incentive Plan ("LTIP").

Under the ESS monies were advanced to the participants to enable them to acquire ordinary shares of the parent company at a price determined by the Board. No interest or other charges were payable unless otherwise determined by the Board. During the year no interest was charged (2006: nil). Participants are required to pay the net amount of dividends received on the shares (after allowing for income tax) as repayment of the loan. On termination of employment the participant is required to repay the loan within 7 days following the repayment date, unless otherwise determined by the Board.

At 31 December 2007, loans in respect of the 2003 employee share plan amounted to $666,619 (2006:$666,619) for 300,000 (2006: 300,000) ordinary shares. During the Financial Year repayments in respect of the 2003 ESS were $nil (2006: $455,000).

34 Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418, the wholly owned subsidiary, Aluminium Extrusion and Distribution Pty Limited (AED) is relieved from the Corporations Act 2001 requirement for the preparation, audit and lodgement of financial reports.

It is a condition of that class order that the Company and AED enter into a Deed of Cross Guarantee (Deed). Under the Deed the Company guarantees the payment of all debts of AED in full, in the event of a winding up. AED in turn has guaranteed the payment of the debts of the Company in full in the event that the Company is wound up.

Set out below is a consolidated Income Statement and Balance Sheet for the closed group representing the Company and AED.

	CLOSED GROUP	
	2007 $000	**2006** $000
Consolidated Income Statement		
Loss before income tax	**(37,036)**	(29,019)
Income tax expense	**–**	–
Loss for the year	**(37,036)**	(29,019)
Summary of movements in consolidated retained profits		
Accumulated losses at the beginning of the year	**(121,448)**	(92,429)
Loss for the year	**(37,036)**	(29,019)
Accumulated losses at the end of the year	**(158,484)**	(121,448)
Consolidated Balance Sheet		
Current assets		
Cash and cash equivalents	**2,047**	12,295
Trade and other receivables	**94,092**	88,220
Inventories	**79,268**	94,457
Prepayments	**2,151**	1,951
Financial assets	**1,308**	–
	178,866	196,923
Non current assets classified as held for sale	**7,760**	–
Total current assets	**186,626**	196,923
Non current assets		
Other receivables	**–**	308
Investments in subsidiaries	**32,185**	32,185
Property, plant and equipment	**149,946**	157,429
Goodwill	**83,430**	83,430
Other intangible assets	**19,619**	16,977
Total non current assets	**285,180**	290,329
Total assets	**471,806**	487,252

LIABILITIES		
Current liabilities		
Trade and other payables	**108,269**	177,141
Borrowings	**88,981**	89,823
Provisions	**14,655**	10,004
Financial liability	**1,133**	–
Deferred income	**387**	165
Total current liabilities	**213,425**	277,133
Non current liabilities		
Borrowings	**109,301**	19,144
Provisions	**2,138**	6,958
Deferred income	**930**	1,075
Total non current liabilities	**112,369**	27,177
Total liabilities	**325,794**	304,310
NET ASSETS	**146,012**	182,942
EQUITY		
Issued capital	**298,562**	298,562
Reserves	**5,789**	5,828
Accumulated losses	**(158,484)**	(121,448)
	145,867	182,942
Amounts recognised directly in equity relating to non-current assets classified as held for sale	**144**	–
TOTAL EQUITY	**146,012**	182,942

35 Financial instruments

(a) Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, as disclosed in Note 29, cash and cash equivalents, and equity holders of the parent, comprising issued capital and reserves, as disclosed in Notes 6 and 26 respectively. The Directors review the capital structure on a regular basis, and at least annually. As a part of this review the Directors consider the cost of capital and the risks associated with each class of capital. Based on the determinations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The Group's overall strategy remains unchanged from 2006.

(b) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the financial statements.

35 Financial instruments (cont.)

(c) Categories of Financial Instruments

	CONSOLIDATED		COMPANY	
	2007 $000	2006 $000	2007 $000	2006 $000
Financial Assets				
Loans and receivables (including cash and equivalents)	**96,327**	100,941	**96,139**	194,320
Derivative instruments at fair value through profit or loss	**1,308**	–	**1,308**	–
Financial Liabilities				
Amortised cost	**228,140**	207,471	**302,661**	245,164
Derivative instruments at fair value through profit or loss	**1,133**	–	**1,133**	–
Financial guarantee contracts	**–**	–	**–**	–

(d) Financial risk management objectives

The Group's Treasury function monitors and manages the financial risks relating to the operations of the Group through internal risk reports. These risks include market risk (including currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. These risks are analysed below.

(e) Market Risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer Note 35(f)) and interest rates (refer Note 35(g)), and equity prices (refer Note 35(h)). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

(i) foreign exchange forward contracts to hedge the exchange rate risk arising on the purchase of aluminium rolled product from overseas in US dollars (USD); and

(ii) interest rate swaps and options to mitigate the risk of rising interest rates.

At a Group and Company level, market risk exposures are measured using a sensitivity analysis. There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures the risk during the Financial Year.

(f) Foreign currency risk management

The Group undertakes certain transactions in foreign currencies, resulting in exposures to exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

It is the policy of the Group to enter into forward foreign exchange contracts from time to time to manage the risk associated with anticipated foreign currency sales and purchase transactions.

The carrying amount of the Group's and Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	CONSOLIDATED		COMPANY	
	2007 $000	2006 $000	2007 $000	2006 $000
US dollars (cash)	**608**	1	**608**	1

Foreign currency sensitivity

The Group is mainly exposed to USD.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian Dollar (AUD) against the relevant foreign currency. Ten percent represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only foreign currency denominated monetary items outstanding as at 31 December 2007 and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit.

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
Profit or loss (after tax)				
- AUD strengthens by 10%	**(58)**	(56)	**(58)**	(56)[1]
- AUD weakens by 10%	**68**	56	**68**	56[1]

[1] The Group has entered into overseas contracts to purchase aluminium rolled product in USD. The Group enters into forward foreign exchange contracts (for terms not exceeding 3 months) to hedge the exchange rate risk arising from these anticipated future transactions.

Forward foreign exchange contracts

The following table details the forward foreign currency contracts outstanding as at reporting date:

Name of Company (Incorporated)	Average exchange rate 2007	Average exchange rate 2006	Foreign currency 2007 FC'000	Foreign currency 2006 FC'000	Contract value 2007 $000	Contract value 2006 $000	Fair value 2007 $000	Fair value 2006 $000
Consolidated and Company								
Buy US Dollars Less than 1 year	**0.7805**	0.7597	**172**	627	**220**	826	**(24)**	(32)

The Group has entered into overseas contracts to purchase aluminium rolled product in USD. The Group enters into forward foreign exchange contracts (for terms not exceeding 3 months) to hedge the exchange rate risk arising from these anticipated future transactions.

(g) Interest rate risk management

The Group and Company are exposed to interest rate risk as the Company borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate options and swaps. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

The Company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in Note 35(j).

Interest rate sensitivity

The sensitivity analysis below shows the effect on profit or loss after tax for the financial year if there is a change in interest rates with all other variables held constant. This is determined by applying the change in interest rates to both derivative and non-derivative instruments at the reporting date that have an exposure to interest rate changes. An 80 basis point (0.8%) increase or decrease represents management's assessment of the possible change in interest rates. A positive number indicates an increase in profit.

35 Financial instruments (cont.)

	PROFIT OR LOSS IMPACT			
	CONSOLIDATED		COMPANY	
	2007 $000	2006 $000	2007 $000	2006 $000
Profit or loss (after tax)				
Impact of a 80bp increase in AUD interest rates				
– Cash and cash equivalents (bank overdraft)	**(17)**	–	**(17)**	–
– Floating rate debt[1]	**(466)**	(610)	**(466)**	(610)
– Interest rate derivatives	**302**	162	**302**	162
Impact of a 80bp decrease in AUD interest rates				
– Cash and cash equivalents (bank overdraft)	**17**	–	**17**	–
– Floating rate debt[1]	**466**	610	**466**	610
– Interest rate derivatives	**(203)**	(162)	**(203)**	(162)

1 The Group's and Company's sensitivity to interest rates has decreased during the Financial Year mainly due to the reduction in variable rate debt instruments.

Interest rate option contracts

Under interest rate option contracts, the Group utilises purchased interest rate caps to manage the risk of rising interest rates. The Group pays an upfront premium on purchase of the cap, and will receive quarterly payments when the benchmark interest rate (BBSY) is above the strike rate of the cap. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held. The fair value of the interest rate option at the reporting date is determined by using an option pricing model. All interest rate option contracts are classified as financial assets/liabilities at fair value through profit or loss.

The following table details the notional principal amounts and remaining terms of interest rate option contracts outstanding as at reporting date:

Outstanding interest rate option	Average exchange rate		Foreign currency		Contract value	
	2007 %	2006 %	2007 $000	2006 $000	2007 $000	2006 $000
Consolidated and Company						
1 to 2 years	**6.75%**	–	**35,000**	–	**458**	–

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract. All interest rate swap contracts are classified as financial assets/liabilities at fair value through profit or loss.

The following table summarises the notional principal amounts and terms of interest rate swap contracts outstanding as at reporting date:

Outstanding interest rate option	Average exchange rate		Foreign currency		Contract value	
	2007 %	2006 %	2007 $000	2006 $000	2007 $000	2006 $000
Consolidated and Company						
2 to 5 years	**–**	5.35%	**–**	20,500	**–**	336

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian Bank Bill Swap Rate (BBSW). The Group will settle the difference between the fixed and floating interest rate on a net basis.

(h) Equity price risk

The Group is exposed to equity price risk (equity price of the Company) as a result of the embedded Redemption Option (Note 10) and Conversion Option (Note 19) recognised in relation to the Convertible Notes issued by the Company during the Financial Year. These options are exposed to equity price risk as the share price of the Company is one of the key inputs to the Monte Carlo simulation model used to value the options.

The sensitivity analysis below shows the impact of the change in share price on profit or loss after tax. A 60% increase or decrease represents management's assessment of the possible change in the Company's share price.

	PROFIT OR LOSS IMPACT			
	CONSOLIDATED		COMPANY	
	2007 $000	2006 $000	2007 $000	2006 $000
Profit or loss (before tax)				
– Share price increases by 60%	**(1,312)**	–	**(1,312)**	–
– Share price decreases by 60%	**(75)**	–	**(75)**	–

The increase in share price has a bigger impact on profit or loss as the value of the option is more sensitive to upward share price movements.

(i) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The credit risk on financial assets of the Group and Company which have been recognised on the Balance Sheet, other than investments in shares, is generally the carrying amount, net of any allowances for doubtful debts.

The Group does not have any significant exposure to any individual customer or counterparty. Major concentrations of credit risk are in the construction, transport, consumer durable and electrical industries in Australia. Capral has credit insurance cover which requires ongoing management of credit accounts with monthly reports provided to the Insurer. Experienced credit management and associated internal policies ensure constant monitoring of the credit risk for the Company.

(j) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate banking facilities and reserve borrowing facilities, monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Included in Note 29 is a list of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The following tables detail the Company's and the Group's remaining contractual maturity for its financial liabilities.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cashflows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the balance sheet.

Financial assets are made up cash $2,149,000 (2006: $12,623,000) and trade and other receivables of $94,178,000 (2006: $88,010,000) for the consolidated entity and $2,047,000 (2006: $5,034,000) and $94,092,000 (2006: $188,978,000) respectively for the Company. Cash is liquid and trade other receivables are expected to be realised on average within 45 days. Cash balances earn interest at 6.37% (2006: 5.87%). Trade and other receivables are interest-free.

35 Financial instruments (cont.)

Consolidated	Weighted average effective interest rate %	Less than 1 $000	1 – 5 years $000	5+ years $000	Adjustment $000	Total $000
2007						
Cash and cash equivalents (bank overdraft)	10.3%	3,417	–	–	(319)	**3,098**
Trade and other payables	–	96,536	–	–	–	**96,536**
Floating rate debt	8.2%	25,990	68,943	–	(11,745)	**83,188**
Fixed rate debt (Convertible Notes)[1]	14.2%	6,625	66,250	–	(27,557)	**45,318**
		132,568	135,193	–	(39,621)	**228,140**
2006						
Trade and other payables	–	98,504	–	–	–	**98,504**
Floating rate debt	7.3%	97,777	20,544	–	(9,354)	**108,967**
		196,281	20,544	–	(9,354)	**207,471**
Company						
2007						
Cash and cash equivalents (bank overdraft)	10.3%	3,417	–	–	(319)	**3,098**
Trade and other payables	–	104,379	–	–	–	**104,379**
Floating rate debt	8.2%	25,990	68,943	–	(11,745)	**83,188**
Fixed rate debt (Convertible Notes)[1]	14.2%	6,625	66,250	–	(27,557)	**45,318**
Non-trade debts owing to controlled entities	–	66,678	–	–	–	**66,678**
		207,089	135,193	–	(39,621)	**302,661**
2006						
Trade and other payables	–	69,519	–	–	–	**69,519**
Floating rate debt	7.3%	97,777	20,544	–	(9,354)	**108,967**
Non-trade debts owing to controlled entities	–	66,678	–	–	–	**66,678**
		233,974	20,544	–	(9,354)	**245,164**

[1] Coupon rate = 10% p.a.

(k) Fair value of financial instruments

The fair values of financial assets, financial liabilities and derivative instruments are determined as follows:

(i) the fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on the discounted cash flow analysis using prices from observable market data; and

(ii) the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, the discounted cash flow analysis is employed using observable market data for non-option derivatives. For option derivatives, option pricing models are used with key inputs sourced from observable market data.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

36 Contingent liabilities

Claims and possible claims, indeterminable in amount, have arisen in the ordinary course of business against entities in the consolidated entity. Based on legal advice obtained, the directors of the Company believe that any resulting liability will not materially affect the financial position of the consolidated entity.

The Company's bankers have granted guarantees in respect of rental obligations on lease commitments. These guarantees total $9,669,619 (2006: $7,203,277).

Grants of $2 million received from the Queensland Government are subject to compliance with certain performance criteria, and may be subject to repayment.

37 Remuneration of auditors

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
During the year the auditor of the parent entity and its related practices earned the following remuneration:				
Auditor of the parent entity				
Audit or review of financial reports of the entity or any entity in the consolidated entity	**610,000**	475,000	**610,000**	325,000
Other non-audit services - convertible notes prospectus	**158,100**	–	**158,100**	–
	768,100	475,000	**768,100**	325,000
Taxation	**–**	–	**–**	–
Total remuneration	**768,100**	475,000	**768,100**	325,000

It is the Group's policy to employ Deloitte Touche Tohmatsu on assignments additional to their statutory duties where Deloitte Touche Tohmatsu's expertise and experience is considered invaluable to the assignment. It is the Group's policy to seek tenders for all other work, in particular, due diligence and major consulting projects.

38 Events after balance date

No other events have occurred after balance date that require additional disclosure.

39 Notes to the cash flow statement

(i) Reconciliation of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents includes cash on hand and in banks, net of bank overdrafts. Cash and cash equivalents at the end of the Financial Year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	CONSOLIDATED		COMPANY	
	2007 $000	**2006** $000	**2007** $000	**2006** $000
Cash at bank and in hand (Note 6)	**2,149**	12,623	**2,047**	5,034
Bank overdraft (Note 20)	**(3,098)**	–	**(3,098)**	–
	(949)	12,623	**(1,051)**	5,034

(ii) Reconciliation of loss for the period to net cash flows from operating activities

	CONSOLIDATED 2007	CONSOLIDATED 2006	COMPANY 2007	COMPANY 2006
Loss before income tax	**(33,567)**	(25,139)	**(44,149)**	(39,252)
Depreciation and amortisation of non-current assets	**17,840**	16,886	**16,223**	14,694
Allowance for doubtful trade debts	**(322)**	105	**(188)**	225
Loss/(gain) on sale of property, plant and equipment	**82**	(86)	**82**	(52)
Loss on disposal of intangible assets	**18**	–	**18**	–
Gain on sale of associate investment	**–**	(2,278)	**–**	(2,278)
Share-based payments expense	**495**	519	**495**	519
Share of associate profits	**–**	(584)	**–**	(584)
Gain on revaluation of embedded derivatives	**(4,592)**	–	**(4,592)**	–
Interest expense accrued but not paid	**1,366**	–	**1,366**	–
Interest income reclassified to investing activities	**(166)**	–	**(152)**	–
Non-cash item relating to defined benefit plan	**48**	–	**–**	–
Other	**(89)**	–	**(89)**	–
Change in assets and liabilities:				
(Increase)/Decrease in net deferred taxes	**(5)**	303	**–**	–
(Increase)/Decrease in current receivables	**(5,846)**	677	**95,074**	382
Decrease/(Increase) in inventories	**15,749**	(7,034)	**(17,627)**	(50)
(Increase)/Decrease in prepayments	**(201)**	2,688	**(751)**	1,069
Decrease in non current receivables	**308**	–	**308**	–
(Decrease)/Increase in trade payables	**(2,866)**	21,141	**(55,396)**	25,257
Decrease in employee benefit provisions	**(2,790)**	(4,229)	**(2,273)**	(4,866)
(Decrease)/Increase in other provisions	**(1,094)**	2,118	**(693)**	1,892
Increase/(Decrease) in deferred income	**77**	(155)	**77**	(155)
Net cash from operating activities	**(15,555)**	4,932	**(12,266)**	(3,199)

(iii) Details of finance facilities are included in Note 29 to the financial statements.

40 Non-cash financing and investing activities

During the current Financial Year, the Company acquired certain assets and assumed certain liabilities of the subsidiary AED at a book value of $70.560 million.

41 Share-based payments

Long Term Incentive Plan and other security based payments

Refer to the Remuneration Report contained in the Directors' Report for details of Capral's Long Term Incentive Plan ("LTIP") and information regarding share-based payments.

The fair value of the performance rights granted under the LTIP is estimated at grant date using a Monte Carlo simulation analysis taking into account the terms and conditions upon which the performance rights were granted.

Outlined below are the inputs to the model used for calculating the fair value of the equity-settled performance rights granted to the Managing Director (2005) and under the executive and senior management LTIP grants (2006 and 2007):

	2007	2006	2005
Grant Date	16/03/2007	14/03/2006	07/07/2005
Dividend yield	0%	0%	0%
Risk free interest rate	6.00%	5.27%	5.27%
Expected volatility	37%	40%	40%
Last testing date	31/12/2011	31/12/2010	31/07/2009
Exercise Price	n.a.	n.a.	n.a.
Weighted average share price at grant date	$0.74	$1.23	$1.72
Performance right life	3.2 years	2.5 years	2.8 years

Expected volatility reflects the assumption that historical volatility is indicative of future trends, which may not be the actual outcome.

The performance rights, prior to vesting, carry neither voting rights nor rights to dividends.

The following reconciles the outstanding performance rights granted under the LTIP at the beginning and the end of the Financial Year:

Performance right series	Grant Date	Granted as Compensation	Other	Exercised	Fair Value at grant date $
Issued 1 July 2005[1]	07/07/2005	1,200,000	-	-	0.69
Issued 14 March 2006[2]	14/03/2006	375,000	-	-	0.86
Issued 16 March 2007[3]	16/03/2007	740,000	(95,000)	-	0.30

[1] In accordance with the terms of the LTIP Rules, performance rights issued during the financial year ended 31 December 2006 have average weighted vesting dates between 12 December 2007 and 22 February 2009. The value of $0.69 is the average fair value as at grant date.

[2] In accordance with the terms of the LTIP Rules, performance rights issued during the financial year ended 31 December 2006 have an average weighted vest date of 30 June 2008.

[3] In accordance with the terms of the LTIP Rules, performance rights issued during the financial year ended 31 December 2007 have an average weighted vest date of 22 February 2010.

(i) Exercised during the year

There were no performance rights granted under the LTIP exercised during the Financial Year (2006: nil).

(ii) Balance at the end of the financial year

The performance rights outstanding at the end of the Financial Year were 2,220,000 (2006: 1,575,000).

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the consolidated entity; and

(c) the directors have been given declarations required by section 295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed, guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 34 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

P. J. Arnall
Chairman

R. W. Freeman
Managing Director

Sydney
10 March 2008

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAPRAL ALUMINIUM LIMITED

Report on the Financial Report and AASB 124 Compensation Disclosures in the Directors' Report

We have audited the accompanying financial report of Capral Aluminium Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, cash flow statement and statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 25 to 71.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 Related Party Disclosures ("AASB 124"), under the heading "remuneration report" on pages 16 to 22 of the directors' report, and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report.

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the compensation disclosures contained in the directors' report. In Note 1b, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the compensation disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the compensation disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the compensation disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the compensation disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion on the Financial Report

In our opinion:

(a) the financial report of Capral Aluminium Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1b.

Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report

In our opinion, the compensation disclosures that are contained on pages 16 to 22 under the heading "remuneration report" of the directors' report, comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures.*

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

P G Forrester
Partner
Chartered Accountants
Parramatta, 10 March 2008

MEMBER DETAILS (In accordance with the Listing Rules:)

1 Twenty largest holders

(a) Details of the Company's twenty largest shareholders as at 29 February 2008 were as follows:

No.	Name of Holder	Number of shares held	Issued Capital held (%)
1	GPG Nominees Pty Limited	103,317,055	53.08
2	J P Morgan Nominees Australia Limited	16,794,339	8.63
3	Citicorp Nominees Pty Limited	7,975,074	4.10
4	McNeil Nominees Pty Limited	4,503,600	2.31
5	HSBC Custody Nominees (Australia) Limited	4,304,784	2.21
6	CVC Limited	3,077,820	1.58
7	AMP Life Limited	2,960,451	1.52
8	Merrill Lynch (Australia) Nominees Pty Limited – Berndale Account	2,774,000	1.43
9	Chemical Trustee Limited	2,100,000	1.08
10	Melbourne Corporation of Australia Pty Ltd – Superfund Account	967,000	0.50
11	Pacific Custodians Pty Ltd – CAA Employee Incentive Account	800,000	0.41
12	Rabinov Holdings Pty Ltd	780,573	0.40
13	Mr Orlando Berardino Di Iulio & Ms Catharina Maria Koopman	658,334	0.34
14	Mr Herbert Gregory Greber	650,000	0.33
15	Warbout Nominees Pty Ltd – Unpaid Entrepot Account	539,697	0.28
16	Comalco International Pty Ltd	535,067	0.27
17	Brazil Farming Pty Ltd	530,000	0.27
18	Forbar Custodians Limited – Forsyth Barr Ltd – Nominee Account	519,719	0.27
19	Rekago Pty Limited	501,100	0.26
20	Bridgesun Pty Limited	500,000	0.26
Total		**154,788,613**	**79.53**

(b) Details of the Company's twenty largest holders of Convertible Notes as at 29 February 2008 were as follows:

No.	Name of Holder	Number of shares held	Issued Capital held (%)
1	GPG Nominees Pty Limited	279,185	55.84
2	Walker Corporation Pty Limited	100,000	20.00
3	CVC Limited	50,000	10.00
4	ANZ Nominees Limited – Cash Income Account	12,399	2.48
5	UBS Nominees Pty Ltd	6,000	1.20
6	Lost Ark Nominees Pty Limited – Mya Super Account	5,000	1.00
7	Three Crowns Investments Pty Limited	3,099	0.62
8	Chemical Trustee Limited	2,000	0.40
9	Mr Craig Evan Coleman	2,000	0.40
10	Lost Ark Nominees Pty Ltd – RAS GRSF Account	2,000	0.40
11	Melbourne Corporation of Australia Pty Ltd – Superfund Account	2,000	0.40
12	Di Iulio Homes Pty Limited – Di Iulio Super Fund Account	1,537	0.31
13	Lost Ark Nominees Pty Limited – Blos Account	1,500	0.30
14	Merrill Lynch (Australia) Nominees Pty Limited – Berndale Account	1,500	0.30
15	Citicorp Nominees Pty Limited	1,321	0.26
16	Depofo Pty Ltd – Super Account	1,200	0.24
17	Bell Potter Nominees Ltd – BB Nominees Account	1,105	0.22
18	Chifley Portfolios Pty Limited – D Hannon Retirement Account	1,000	0.20
19	Colowell Pty Ltd – David Dagg Family Account	1,000	0.20
20	Mrs Constanza Maria Hanich	1,000	0.20
Total		474,846	94.97

2 Substantial holders

(a) Substantial shareholders as notified to Capral in accordance with the Corporations Act 2001 as at 29 February 2008:

Name	Number of shares	Percentage of shares held
Guinness Peat Group	103,317,055	53.08
Challenger Financial Services Group	15,842,534	8.14

(b) Substantial holders of Convertible Notes as notified to Capral in accordance with the Corporations Act 2001 as at 29 February 2008:

Name	Number of notes	Percentage of notes held
Guinness Peat Group	279,185	55.84
Walker Corporation Pty Limited	100,000	20.00
CVC Limited	50,000	10.00

3 Number of holders

(a) As at 29 February 2008 there were 3,329 (2006: 3,775) holders of ordinary shares.

(b) As at 29 February 2008 there were 275 (2006: Nil) holders of Convertible Notes.

4 Voting rights

(a) Voting rights attaching to the fully paid ordinary shares are, on a show of hands, one vote per person present as a member proxy, attorney, or representative thereof and on a poll, one vote per share for every member present in person or by proxy or by attorney or by representative.

(b) The Convertible Notes do not carry any voting rights. Ordinary shares issued on conversion of those Convertible Notes carry the same voting rights as all other fully paid ordinary shares of Capral.

5 Distribution of equity securities

(a) As at 29 February 2008 the distribution of ordinary shares was as follows:

Range of shares	Number of holders
1 – 1,000	536
1,001 – 5,000	1,567
5,001 – 10,000	540
10,001 – 100,000	605
100,001 and over	81
TOTAL	**3,329**

(b) As at 29 February 2008, the distribution of Convertible Notes was as follows:

Range of Convertible Notes	Number of holders
1 – 1,000	258
1,001 – 5,000	12
5,001 – 10,000	1
10,001 – 100,000	3
100,001 and over	1
TOTAL	**275**

6 Marketable parcels

As at 29 February 2008, there are 936 shareholders holding less than a marketable parcel* of shares. (* Minimum parcel size 500).

7 On-market buy back

As at 29 February 2008, there is no current on-market buy back.