

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the corporation information to the annual report.

The principal activities of the Group are manufacturing and sales of steel and metal products and construction materials.

The consolidated financial statements are presented in Hong Kong dollars which is the same as the functional currency of the Company.

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company are in the process of assessing the potential impact and so far concluded that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁴
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions ⁷
HK(IFRIC)-Int 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after 1st January, 2007

² Effective for annual periods beginning on or after 1st January, 2009

³ Effective for annual periods beginning on or after 1st March, 2006

⁴ Effective for annual periods beginning on or after 1st May, 2006

⁵ Effective for annual periods beginning on or after 1st June, 2006

⁶ Effective for annual periods beginning on or after 1st November, 2006

⁷ Effective for annual periods beginning on or after 1st March, 2007

⁸ Effective for annual periods beginning on or after 1st January, 2008

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31st December each year. 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 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.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interest in a subsidiary

When the Group increases its interest in an enterprise that is already an entity controlled by the Company, discount on acquisition arising on such acquisition represents the difference between the fair value of the net assets of the subsidiary attributable to the additional interest acquired and the consideration paid for the additional interest is recognised in the consolidated income statement.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on acquisitions of a subsidiary prior to 1st January, 2001 previously recognised in reserves represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition has been transferred to the retained profits as at 1st January, 2005.

Previously capitalised goodwill arising on acquisitions after 1st January, 2001, the goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions prior to 1st January, 2005 *(Continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the associate.

Interests in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which venturers have control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in jointly controlled entities *(Continued)*

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income, including rentals invoiced in advance from properties or assets held under operating leases, is recognised on a straight-line basis over the terms of the relevant leases.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment properties is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Property, plant and equipment, other than land and buildings, assets under installation and construction in progress, are stated at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost or fair value of property, plant and equipment other than assets under installation and construction in progress over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the terms of the leases, or 20 to 50 years
Leasehold improvements	Over the shorter of the terms of the leases or 10 years
Furniture and fixtures	10% – 33 $\frac{1}{3}$ %
Motor vehicles	10% – 33 $\frac{1}{3}$ %
Plant and machinery and equipment	5% – 50%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group or, where shorter, the term of the relevant lease.

Assets under installation and construction in progress are stated at cost less any accumulated impairment losses. No provision for depreciation is made on assets under installation and construction in progress until such time as the relevant assets are completed and ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses – other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revalued decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as revalued increase.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Other than the cost of inventories of concrete products and printing materials which are calculated using the weighted average cost method, the cost of all other products of the Group is calculated using the first-in first-out method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Receivables (including long-term receivables, trade and other receivables, bank deposits and balances, and amounts due from jointly controlled entities and an associate)

Receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities (including trade and other payables, borrowings and amounts due to minority shareholders)

Financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivative financial instruments that do not qualify for hedge accounting are deemed as financial assets or liabilities held for trading and measured at fair value. Changes in the fair value of such derivatives are recognised in profit or loss as they arise.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on 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 arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme for staff in Hong Kong and retirement pension schemes for staff in the PRC are charged as an expense when employees have rendered service entitling them to the contribution.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, if any, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

Taxation

Income taxes represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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, are discussed below.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2006, the carrying amount of goodwill is HK\$6,994,000 (net of accumulated impairment loss of HK\$27,294,000). Details of the recoverable amount calculation are disclosed in note 14.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances.

Business segments

For management purposes, the Group is organised into four operating divisions – manufacturing of steel and metal products, sales of steel and metal products, manufacturing of construction materials and sales of construction materials. These principal operating activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2006

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER							
External sales	1,056,011	88,505	252,423	470,961	185,962	—	2,053,862
Inter-segment sales	11,508	14,832	901	51,158	—	(78,399)	—
Total turnover	<u>1,067,519</u>	<u>103,337</u>	<u>253,324</u>	<u>522,119</u>	<u>185,962</u>	<u>(78,399)</u>	<u>2,053,862</u>
Inter-segment sales are charged at cost or cost plus a percentage profit mark-up.							
SEGMENT RESULT	<u>65,049</u>	<u>5,177</u>	<u>5,268</u>	<u>31,663</u>	<u>6,975</u>	<u>(470)</u>	113,662
Unallocated other income							2,750
Unallocated corporate expenses							(30,603)
Impairment loss on goodwill	—	—	(500)	—	(6,000)	—	(6,500)
Finance costs							(32,208)
Discount on acquisition of additional interest in a subsidiary	5,696	—	—	—	—	—	5,696
Share of results of jointly controlled entities	—	—	—	—	244	—	244
Share of results of associates	1,454	—	—	—	—	—	1,454
Profit before taxation							54,495
Income taxes							(6,236)
Profit for the year							<u>48,259</u>

CONSOLIDATED BALANCE SHEET

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	660,389	79,741	202,645	137,556	115,587	(25,579)	1,170,339
Interests in jointly controlled entities	—	—	—	—	1,603	—	1,603
Interests in associates	6,707	—	—	—	—	—	6,707
Amounts due from jointly controlled entities	—	1,505	—	—	5,457	—	6,962
Amount due from an associate	494	—	—	—	—	—	494
Unallocated corporate assets							71,429
Consolidated total assets							<u>1,257,534</u>
LIABILITIES							
Segment liabilities	116,127	14,271	48,468	29,236	9,674	(24,758)	193,018
Unallocated corporate liabilities							522,379
Consolidated total liabilities							<u>715,397</u>

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

2006 (Continued)

OTHER INFORMATION

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Other operations HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditures	4,073	—	4,245	41	10,783	75	19,217
Depreciation	14,120	1,298	12,552	57	1,872	5,962	35,861
Amortisation of prepaid lease payments	524	—	567	—	—	96	1,187
Allowance for (write back of) bad and doubtful debts	352	47	(610)	3,832	(20)	29	3,630
Write down of inventories	—	—	500	1,200	500	—	2,200
Net exchange loss (gain)	2,606	(1,132)	65	(216)	(1)	200	1,522
Decrease in fair value on investment properties	—	—	—	—	—	500	500
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	(709)	(86)	13	—	(37)	12,725	11,906

2005

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER							
External sales	1,183,827	69,696	272,724	576,520	175,682	—	2,278,449
Inter-segment sales	6,422	754	1,781	56,314	—	(65,271)	—
Total turnover	1,190,249	70,450	274,505	632,834	175,682	(65,271)	2,278,449

Inter-segment sales are charged at cost or cost plus a percentage profit mark-up.

SEGMENT RESULT	85,562	6,996	(8,918)	23,240	7,818	(35)	114,663
Unallocated other income							9,249
Unallocated corporate expenses							(21,377)
Impairment loss on goodwill	—	—	(884)	—	(9,300)	—	(10,184)
Finance costs							(31,066)
Gain (loss) on disposal of subsidiaries	3,299	—	—	(892)	(1)	—	2,406
Share of results of jointly controlled entities	—	—	—	—	60	—	60
Share of results of associates	1,218	—	—	—	—	—	1,218
Profit before taxation							64,969
Income taxes							(8,351)
Profit for the year							56,618

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For the year ended 31st December, 2006

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

2005 (Continued)

CONSOLIDATED BALANCE SHEET

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	668,149	85,301	245,235	129,539	95,580	(26,195)	1,197,609
Interests in jointly controlled entities	—	—	—	—	1,359	—	1,359
Interests in associates	5,253	—	—	—	—	—	5,253
Amounts due from jointly controlled entities	—	1,500	—	—	5,414	—	6,914
Amount due from an associate	682	—	—	—	—	—	682
Unallocated corporate assets							44,061
Consolidated total assets							1,255,878
LIABILITIES							
Segment liabilities	132,289	6,154	49,864	21,580	10,041	(26,326)	193,602
Unallocated corporate liabilities							533,658
Consolidated total liabilities							727,260

OTHER INFORMATION

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Other operations HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditures	8,283	1,436	2,482	31	5,108	105	17,445
Depreciation	13,935	1,174	19,591	134	1,356	568	36,758
Amortisation of prepaid lease payments	520	—	670	—	—	38	1,228
(Write back of) allowance for bad and doubtful debts	(844)	559	(2,438)	2,158	465	—	(100)
Gain on disposal of investment properties	—	—	—	—	—	(199)	(199)
Write down of inventories	43	—	250	200	500	—	993
Net exchange loss (gain)	1,471	(467)	3	424	(32)	149	1,548
Decrease in fair value on investment properties	—	—	—	—	—	970	970
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	(38)	11	4,850	50	(41)	(254)	4,578

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Revenue by geographical market	
	2006 HK\$'000	2005 HK\$'000
Hong Kong	1,401,131	1,548,371
Other regions in the PRC	586,412	646,653
Australia	46,290	36,835
Macau	6,195	31,679
Others	13,834	14,911
	2,053,862	2,278,449

The following is an analysis of the carrying amount of segment assets, and additions to investment properties, property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to investment properties and property, plant and equipment and prepaid lease payments	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong	588,969	618,636	3,130	3,632
Other regions in the PRC	570,798	573,822	16,074	13,792
Australia	10,572	5,151	13	21
	1,170,339	1,197,609	19,217	17,445

6. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000
Included in other income are:		
Gross rental income from investment properties	627	782
Less: direct operating expenses from investment properties that generated rental income during the year	(112)	(132)
Net rental income from investment properties	515	650
Rental income from property, plant and equipment and prepaid lease payments	1,442	1,405
	1,957	2,055

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

7. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	31,629	30,457
Finance leases	455	605
Other borrowings wholly repayable within five years	124	4
	<u>32,208</u>	<u>31,066</u>

8. INCOME TAXES

	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
Current year		
Hong Kong	4,900	3,612
Outside Hong Kong	1,950	3,143
	<u>6,850</u>	<u>6,755</u>
(Over)underprovision in prior years		
Hong Kong	(614)	(156)
Outside Hong Kong	—	1,717
	<u>(614)</u>	<u>1,561</u>
	<u>6,236</u>	<u>8,316</u>
Deferred tax (note 34)	—	35
	<u>6,236</u>	<u>8,351</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

8. INCOME TAXES (Continued)

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's subsidiaries operating in the PRC are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

The taxation for the year can be reconciled from taxation based on profit per the consolidated income statement as follows:

	Hong Kong		PRC and others		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Profit before taxation	51,346	29,194	3,149	35,775	54,495	64,969
Domestic income tax rate	17.5%	17.5%	33%	33%		
Tax at the domestic income tax rate	8,986	5,109	1,039	11,806	10,025	16,915
Tax effect of expenses not deductible for tax purpose	1,349	3,217	50	181	1,399	3,398
Tax effect of income not taxable for tax purpose	(656)	(612)	(1)	(30)	(657)	(642)
Tax effect of offshore manufacturing profits on 50:50 apportionment basis	(5,344)	(4,567)	—	—	(5,344)	(4,567)
Tax effect of tax losses not recognised	4,764	4,766	2,472	1,586	7,236	6,352
Tax effect of utilisation of tax loss previously not recognised	(7,105)	(4,956)	(998)	(546)	(8,103)	(5,502)
Tax effect of other deductible temporary difference not recognised	683	—	324	(2,375)	1,007	(2,375)
Effect of tax exemption granted to PRC subsidiaries	—	—	(357)	(7,349)	(357)	(7,349)
Others	2,223	690	(579)	(130)	1,644	560
(Over)underprovision in prior years	(614)	(156)	—	1,717	(614)	1,561
Income taxes for the year	4,286	3,491	1,950	4,860	6,236	8,351

Details of deferred taxation are set out in note 34.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

9. PROFIT FOR THE YEAR

	2006 HK\$'000	2005 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	1,187	1,228
Auditors' remuneration		
Current year	3,053	2,746
Underprovision in prior years	625	409
Change in fair value of derivative financial instruments	326	(4,146)
Cost of inventories recognised as expense including write down of inventories of HK\$2,200,000 (2005: HK\$993,000)	1,787,956	2,004,502
Depreciation	35,861	36,758
Gain on expiration of derivative financial instruments	(1,330)	(1,194)
Gain on disposal of investment properties	—	(199)
Minimum lease payments for operating leases in respect of		
Land and buildings	14,790	13,421
Plant and machinery	1,440	1,790
	<u>16,230</u>	<u>15,211</u>
Net exchange loss	1,522	1,548
Staff costs including directors' emoluments and contributions to retirement benefits scheme	99,565	87,294
Allowance for (write back of) bad and doubtful debts	3,630	(100)
Share of income tax attributable to an associate	158	92

Minimum lease payments for operating leases in respect of a director's accommodation amounting to HK\$2,381,000 (2005: HK\$1,348,000) are included under staff costs.

Of the consolidation profit for the year of HK\$48,259,000 (2005: HK\$56,618,000), a loss of HK\$13,663,000 (2005: profit of HK\$32,350,000) has been dealt with in the financial statements of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors are as follows:

	Pang Tak Chung HK\$'000	Ho Wai Yu, Sammy HK\$'000	John Cyril Fletcher HK\$'000	Robert Keith Davies HK\$'000	Yu Kwok Kan, Stephen HK\$'000	Chan Yat Yan HK\$'000	Lo Yip Tong HK\$'000	2006 Total HK\$'000
Fees	—	—	—	85	105	105	105	400
Other emoluments								
Salaries and other benefits	3,927	2,288	1,606	—	—	—	—	7,821
Contributions to retirement benefits schemes	153	127	55	—	—	—	—	335
	4,080	2,415	1,661	85	105	105	105	8,556
	Pang Tak Chung HK\$'000	Ho Wai Yu, Sammy HK\$'000	John Cyril Fletcher HK\$'000	Robert Keith Davies HK\$'000	Yu Kwok Kan, Stephen HK\$'000	Chan Yat Yan HK\$'000	Lo Yip Tong HK\$'000	2005 Total HK\$'000
Fees	—	—	—	70	90	90	90	340
Other emoluments								
Salaries and other benefits	3,490	1,972	1,644	—	—	—	—	7,106
Contributions to retirement benefits schemes	145	118	55	—	—	—	—	318
	3,635	2,090	1,699	70	90	90	90	7,764

No director waived any emoluments for the two years ended 31st December, 2006.

11. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included three directors (2005: three directors), details of whose emoluments are set out in note 10 above. The emoluments of the remaining two individuals (2005: two individuals) are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other benefits	4,344	4,299
Contributions to retirement benefits scheme	24	24
	4,368	4,323

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For the year ended 31st December, 2006

11. EMPLOYEES' EMOLUMENTS (Continued)

Their emoluments were within the following bands:

	2006 Number of employees	2005 Number of employees
HK\$1,500,001 — HK\$2,000,000	1	1
HK\$2,500,001 — HK\$3,000,000	1	1
	<u>2</u>	<u>2</u>

12. DIVIDEND

	2006 HK\$'000	2005 HK\$'000
Dividend paid:		
Final dividend in respect of 2005, approved and paid – 2 HK cents per ordinary share	<u>11,347</u>	<u>—</u>
Dividend proposed:		
Final dividend proposed for the year – 2.2 HK cents (2005: 2 HK cents) per ordinary share	<u>12,482</u>	<u>11,347</u>

The directors recommend the payment of a final dividend of 2.2 HK cents per share for the year ended 31st December, 2006 and is subject to approval by the shareholders in the annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the equity holders of the Company for the year and on the 567,362,500 (2005: 567,362,500) ordinary shares in issue.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

14. GOODWILL

	HK\$'000
COST	
At 1st January, 2005 and at 31st December, 2005 and 2006	34,288
IMPAIRMENT	
At 1st January, 2005	10,610
Impairment loss recognised	10,184
At 31st December, 2005	20,794
Impairment loss recognised	6,500
At 31st December, 2006	27,294
CARRYING AMOUNT	
At 31st December, 2006	6,994
At 31st December, 2005	13,494

For the purposes of impairment testing, goodwill is allocated to two individual cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amounts of goodwill had been allocated to a subsidiary of manufacturing of construction materials segment (Unit A) and certain subsidiaries in other operations segment (Unit B) of HK\$1,298,000 and HK\$5,696,000 respectively.

During the year ended 31st December, 2006, the Group recognised an impairment loss of HK\$6,500,000 (2005: HK\$10,184,000) due to increased competition in the business.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

Unit A

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses the estimation of the cash flow projections based on financial budgets approved by management covering a 5-year period by extrapolating the budget using a steady growth rate of 5% for the subsequent 5 years, and a discount rate of 9%. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

Unit B

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 9%. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

15. INVESTMENT PROPERTIES

	2006 HK\$'000	2005 HK\$'000
At beginning of the year	26,400	38,630
Disposals	—	(11,260)
Decrease in fair value	(500)	(970)
At end of the year	25,900	26,400

The Group's investment properties comprise:

	2006 HK\$'000	2005 HK\$'000
Properties held under medium-term leases:		
In Hong Kong	11,900	11,300
Other regions in the PRC	2,500	2,800
Properties held under long leases in Hong Kong	11,500	12,300
	25,900	26,400

The fair value of the Group's investment properties as at 31st December, 2006 have been arrived at on the basis of a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, Chartered Surveyors, independent qualified professional valuers not connected with the Group. LCH (Asia-Pacific) Surveyors Limited, Chartered Surveyors are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The investment properties of the Group which are rented out under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture and fixtures	Motor vehicles	Plant and machinery and equipment	Assets under installation	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST OR VALUATION								
At 1st January, 2005	103,959	23,332	15,914	49,309	285,447	4,373	5,969	488,303
Exchange differences	226	12	44	580	1,789	—	63	2,714
Additions	419	2,117	1,156	3,319	7,651	1,083	1,700	17,445
Disposals	(10,562)	(2,588)	(601)	(1,938)	(6,213)	—	(1,703)	(23,605)
On disposal of subsidiaries	—	—	(595)	(861)	(1,973)	(65)	—	(3,494)
Reclassification	—	—	4	(61)	7,309	(5,379)	(1,873)	—
At 31st December, 2005	94,042	22,873	15,922	50,348	294,010	12	4,156	481,363
Exchange differences	449	37	101	1,141	3,543	1	54	5,326
Additions	225	36	763	6,371	11,333	318	171	19,217
Disposals	—	—	(403)	(1,260)	(18,063)	—	—	(19,726)
Reclassification	—	—	—	—	1,547	(113)	(1,434)	—
At 31st December, 2006	94,716	22,946	16,383	56,600	292,370	218	2,947	486,180
Comprising:								
At cost	644	22,946	16,383	56,600	292,370	218	2,947	392,108
At valuation — 2004	94,072	—	—	—	—	—	—	94,072
	94,716	22,946	16,383	56,600	292,370	218	2,947	486,180
DEPRECIATION AND IMPAIRMENT								
At 1st January, 2005	—	17,585	13,217	26,383	123,105	—	2,638	182,928
Exchange differences	—	2	29	297	621	—	—	949
Provided for the year	7,433	1,252	879	5,198	21,996	—	—	36,758
Eliminated on disposals	(109)	(1,238)	(490)	(1,758)	(1,742)	—	—	(5,337)
Eliminated on disposal of subsidiaries	—	(13)	(247)	(464)	(346)	—	—	(1,070)
Reclassification	—	—	4	(6)	2	—	—	—
At 31st December, 2005	7,324	17,588	13,392	29,650	143,636	—	2,638	214,228
Exchange differences	45	7	68	662	1,501	—	—	2,283
Provided for the year	7,349	1,120	972	5,620	20,800	—	—	35,861
Eliminated on disposals	—	—	(376)	(799)	(4,922)	—	—	(6,097)
At 31st December, 2006	14,718	18,715	14,056	35,133	161,015	—	2,638	246,275
CARRYING VALUES								
At 31st December, 2006	79,998	4,231	2,327	21,467	131,355	218	309	239,905
At 31st December, 2005	86,718	5,285	2,530	20,698	150,374	12	1,518	267,135

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Property, plant and equipment of the Group include assets carried at cost of nil (2005: HK\$4,565,000) with accumulated depreciation of nil (2005: HK\$1,826,000) held for use under operating leases. Depreciation charged in respect of these assets during the year amounted to HK\$114,000 (2005: HK\$228,000).

The carrying values of motor vehicles, plant and machinery and equipment of the Group include an amount of HK\$523,000 (2005: HK\$823,000) and HK\$10,400,000 (2005: HK\$18,558,000) respectively in respect of assets held under finance leases.

Land and buildings were revalued as at 31st December, 2004 by LCH (Asia-Pacific) Surveyors Limited, Chartered Surveyors, an independent firm of professional valuer, on an open market existing use basis. Messrs. LCH (Asia-Pacific) Surveyors Limited are not connected to the Group.

At 31st December, 2006, if land and buildings of the Group had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation and accumulated impairment losses of approximately HK\$70,429,000 (2005: HK\$77,067,000).

17. PREPAID LEASE PAYMENTS

	2006 HK\$'000	2005 HK\$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong under medium-term lease	32,995	33,805
Land use right in the PRC under medium-term lease	16,103	16,374
	<u>49,098</u>	<u>50,179</u>
Analysed for reporting purposes as:		
Current asset	1,187	1,192
Non-current asset	47,911	48,987
	<u>49,098</u>	<u>50,179</u>

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006 HK\$'000	2005 HK\$'000
Cost of investments (unlisted)	1,257	1,257
Share of post-acquisition profits	346	102
	<u>1,603</u>	<u>1,359</u>

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Particulars of the jointly controlled entities as at 31st December, 2006 are as follows:

Name of company	Form of business structure	Place of incorporation/ registration/ operation	Class of shares	Percentage of ownership attributable to the Group	Principal activities
Kunshan Rosathal Printing Ink Limited	Equity joint venture	PRC	Registered capital	33.25%	Manufacturing and sales of printing ink
Hi-Net Business Limited	Incorporated	British Virgin Islands	Ordinary shares	50%	Investment holding

The summarised financial information in respect of the Group's jointly controlled entities is set out below:

	2006 HK\$'000	2005 HK\$'000
Non-current assets	6,094	5,464
Current assets	11,406	11,088
Current liabilities	(10,416)	(10,429)
	7,084	6,123
Income	14,526	9,105
Expenses	(13,797)	(8,926)
Profit for the year	729	179

19. INTERESTS IN ASSOCIATES

	2006 HK\$'000	2005 HK\$'000
Cost of investments (unlisted)	5,449	5,449
Share of net post-acquisition profits	2,672	1,218
Less: Unrealised gain on disposal of a subsidiary (note 35)	(1,414)	(1,414)
	6,707	5,253

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19. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates as at 31st December, 2006 are as follows:

Name of company	Form of business structure	Place of incorporation/ registration/ operation	Proportion of nominal value of issued capital/ registered capital held by the Group	Nature of business
China Rope Holdings Limited	Incorporated	Hong Kong	30%	Investment holding
Bridon Tianjin Rope Ltd.	Equity joint venture	PRC	22.65%	Manufacturing and sales of steel wire ropes for elevators

The summarised financial information in respect of the Group's associates is set out below:

	2006 HK\$'000	2005 HK\$'000
Non-current assets	21,316	4,308
Current assets	53,630	40,263
Current liabilities	(42,202)	(20,913)
Non-current liabilities	(1,750)	—
	30,994	23,658
Income	103,213	61,413
Expenses	(96,082)	(56,622)
Income taxes	(697)	(404)
Profit for the year	6,434	4,387

20. LONG-TERM RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Building mortgage loans (note a)	256	340
Other loans (note b)	2,788	6,541
Trade receivables (note c)	231	223
	3,275	7,104
Less: amounts due within one year shown under trade and other receivables	(3,120)	(6,281)
Amounts due after one year	155	823

Notes:

- The building mortgage loans bear interest at 3% (2005: 3% to 4%) above the Hong Kong Prime Rate per annum and are repayable by monthly instalments up to year 2009. The effective interest rate for the year is 11% (2005: 9%).
- Other loans are unsecured, bear interest at 4% to 6% (2005: 4% to 6%) per annum. All are repayable within one year.
- The amounts are aged over 120 days and are repayable by yearly instalments up to 2007.

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For the year ended 31st December, 2006

21. INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Raw materials	161,027	168,312
Work in progress	10,291	8,468
Finished goods	125,374	131,286
Supplies	1,530	1,302
	<u>298,222</u>	<u>309,368</u>

22. TRADE AND OTHER RECEIVABLES

Other than the cash sales, the Group allows credit periods ranging from 30 to 180 days to its customers.

Included in trade and other receivables are trade receivables with an aged analysis as follows:

	2006 HK\$'000	2005 HK\$'000
0 – 30 days	160,004	135,507
31 – 60 days	115,961	106,692
61 – 90 days	73,042	73,462
91 – 120 days	29,337	28,597
More than 120 days	22,894	22,584
	<u>401,238</u>	<u>366,842</u>

23. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, interest-free and are repayable on demand.

24. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, interest-free and is repayable on demand.

25. DERIVATIVE FINANCIAL INSTRUMENTS

In the current year, the Group has used currency derivatives to hedge significant future foreign currency transactions. The Group is party to a variety of foreign currency forward option contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in United States dollar.

At 31st December, 2006, the total notional amount of outstanding foreign exchange forward options contracts to which the Group is committed ranging from US\$31,300,000 to US\$62,600,000 (2005: US\$24,500,000 to US\$49,000,000).

These arrangements are designed to address certain exchange exposures for 2007.

At 31st December, 2006, the fair value of the Group's foreign currency forward option contracts is estimated to be a financial liability of approximately HK\$322,000 (2005: a financial asset of HK\$4,000). These amounts are based on market prices quoted by banks at the balance sheet date. The change in fair value of the foreign currency forward option contracts amounting to HK\$326,000 (2005: HK\$4,146,000) has been realised in consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

26. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure bank overdrafts, bank loans repayable within one year and import loan facilities. Accordingly, the pledged bank deposits are classified as current assets. The deposits carry fixed interest rate ranging from 1.73% to 2.7% (2005: 1.75% to 2.5%) per annum.

Pledged bank deposits of the Group of approximately HK\$23,707,000 (2005: HK\$23,604,000) were utilised for repayment of bank borrowings subsequent to the balance sheet date.

27. BANK BALANCES AND CASH

The amount included deposits with an original maturity of three months or less which carry fixed interest rate of 3.8% (2005: 4.65%) per annum.

28. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with an aged analysis as follows:

	2006 HK\$'000	2005 HK\$'000
0 – 30 days	75,934	60,573
31 – 60 days	11,652	17,405
61 – 90 days	4,512	8,413
91 – 120 days	1,512	7,435
More than 120 days	26,124	29,358
	119,734	123,184

29. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest-free and are repayable on demand.

30. BANK BORROWINGS

	2006 HK\$'000	2005 HK\$'000
Bank overdrafts	532	2,905
Bank loans	123,359	140,109
Mortgage loans	10,437	4,911
Trust receipt loans	360,967	364,677
	495,295	512,602
Analysed as:		
Secured	85,436	51,593
Unsecured	409,859	461,009
	495,295	512,602
The bank borrowings are repayable as follows:		
On demand or within one year	485,682	503,834
More than one year, but not exceeding two years	3,745	7,378
More than two years, but not exceeding three years	2,507	1,390
More than three years, but not exceeding four years	2,668	—
More than four years, but not exceeding five years	693	—
	495,295	512,602
Less: amounts due within one year shown under current liabilities	(485,682)	(503,834)
Amounts due after one year	9,613	8,768

The average effective borrowing rates are ranging from 5.2% to 8.8% (2005: 3.25% to 8.5%) per annum.

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For the year ended 31st December, 2006

30. BANK BORROWINGS (Continued)

The carrying amounts of the Group's borrowings are analysed as follows:

Denominated in	Interest rate per annum	2006 HK\$'000	2005 HK\$'000
Hong Kong dollars	Hong Kong Interbank Offered Rate plus 1% to 2.5%	360,466	200,348
United States dollars (note)	London Interbank Offered Rate plus 1% to 2.25%	34,585	235,987
Renminbi	5% to 20% mark up from People's Bank of China lending rate	99,592	75,207
Others (note)	Hong Kong Interbank Offered Rate plus 2.5%	652	1,060
		495,295	512,602

Note: These borrowings are denominated in currencies other than the functional currencies of the relevant group entities.

31. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	3,500	5,446	3,110	4,942
In the second to fifth year inclusive	4,370	5,026	4,087	4,612
Less: future finance charges	7,870 (673)	10,472 (918)		
Present value of lease obligations	7,197	9,554	7,197	9,554
Less: amounts due within one year shown under current liabilities			(3,110)	(4,942)
Amounts due after one year			4,087	4,612

It is the Group's policy to lease certain of its motor vehicles and plant and machinery and equipment under finance leases. The average lease terms are ranging from 1 to 5 years. For the year ended 31st December, 2006, the average effective borrowing rates range from 4.65% to 7% (2005: 2.75% to 7%) per annum. All leases are on a fixed repayment basis.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

32. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2005, 31st December, 2005 and 2006	1,800,000,000	180,000
Issued and fully paid:		
At 1st January, 2005, 31st December, 2005 and 2006	567,362,500	56,736

33. SHARE OPTION SCHEME

The share option scheme of the Company was effective on 27th May, 2004 (the "Scheme").

Summary of the Scheme

- a. The primary purpose of the Scheme is to provide incentives or rewards to Participants (see below defined) thereunder for their contribution to the Group and any entity in which the Group holds any equity interest ("Invested Entity") and/or to enable the Group and an Invested Entity to recruit and retain high-calibre employees and attract human resources that are valuable to the Group or any Invested Entity.
- b. The directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants ("Participants"), to take up options to subscribe for shares of HK\$0.10 each in the share capital of the Company ("Shares").
 - (i) any eligible employee;
 - (ii) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
 - (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
 - (iv) any customer of the Group or any Invested Entity;
 - (v) any person or entity acting in their capacities as advisers or consultants that provides research, development or other technological support to the Group or any Invested Entity; and
 - (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity from time to time determined by the directors having contributed or may contribute to the development and growth of the Group and any Invested Entity.
- c. The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme and any other share option scheme of the Company) to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the date of adoption of the Scheme (i.e. 27th May, 2004). The Company can grant options to subscribe up to 56,736,250 Shares which is the 10% of the total issued share capital of the Company as at 31st December, 2006. The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.
- d. The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme of the Company (including both exercised or outstanding options) to each Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.
- e. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors to each grantee, which period may commence on the date on which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

33. SHARE OPTION SCHEME (Continued)

Summary of the Scheme (Continued)

- f. An offer of grant of an option may be accepted by a Participant within 28 days from the date of the offer of grant of the option. A consideration of HK\$1 is payable on acceptance of the offer of grant of an option.
- g. The subscription price per Share under the Scheme shall be a price determined by the directors, but shall not be lower than the highest of:
 - (i) the closing price of the Share as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day;
 - (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant; and
 - (iii) the nominal value of a Share.
- h. The Scheme has a life of 10 years and will expire on 26th May, 2014.

No share option was granted since the adoption of the Scheme.

34. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Accelerated accounting depreciation HK\$'000	Revaluation on properties HK\$'000	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st January, 2005	2,408	(4,336)	(22,018)	12,280	(11,666)
Exchange differences	—	(12)	—	—	(12)
On disposal of subsidiaries	—	—	30	(30)	—
Credit (charge) to income for the year	258	—	1,505	(1,798)	(35)
At 31st December, 2005	2,666	(4,348)	(20,483)	10,452	(11,713)
Exchange differences	—	(22)	—	—	(22)
Credit (charge) to income for the year	256	—	2,821	(3,077)	—
At 31st December, 2006	2,922	(4,370)	(17,662)	7,375	(11,735)

For the purposes of balance sheet presentation, deferred tax assets and liabilities have been offset and shown under non-current liabilities.

At the balance sheet date, the Group has unused tax losses of HK\$701,046,000 (2005: HK\$722,248,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$42,150,000 (2005: HK\$59,736,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$658,896,000 (2005: HK\$662,512,000) due to the unpredictability of future profit streams. Included in unused tax losses is tax loss of HK\$6,710,000 (2005: HK\$8,276,000) which will expire within five years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

34. DEFERRED TAXATION (Continued)

At the balance sheet date, the Group has deductible temporary differences of HK\$30,740,000 (2005: HK\$24,151,000) in respect of accelerated accounting depreciation and allowance for doubtful debts. A deferred tax asset has been recognised in respect of HK\$16,696,000 (2005: HK\$15,234,000) of such deductible temporary differences. No deferred tax asset has been recognised in respect of the remaining HK\$14,044,000 (2005: HK\$8,917,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

35. DISPOSAL OF SUBSIDIARIES

On 21st January, 2005, the Group entered into an agreement with China Rope Holdings Limited ("China Rope") (an associate of which the Group has 30% interest) in relation to the disposal of its entire 51% equity interest in Bridon Tianjin Rope Ltd. to China Rope for a cash consideration of US\$1.3 million (equivalent to approximately HK\$10.4 million). A portion of the gain on disposal of the subsidiary attributable to the Group's interest through China Rope was deferred and offset against the Group's interests in associates as disclosed in note 19.

In addition, the Group disposed of its 67.5% equity interest in Luenik Construction Material Company Limited for a cash consideration of HK\$3 million during the year ended 31st December, 2005.

The subsidiaries disposed of contributed approximately HK\$36 million to the Group's turnover and incurred a loss before taxation of approximately HK\$0.1 million to the Group.

	2005 HK\$'000
Net assets disposed of	
Property, plant and equipment	2,424
Inventories	12,590
Trade and other receivables	22,299
Income tax recoverable	10
Bank balances and cash	8,348
Trade and other payables	(19,148)
Amounts due to minority shareholders	(1,427)
Bank borrowings, other than bank overdrafts	(9,433)
	15,663
Exchange reserve realised	(30)
Minority interests released	(6,099)
Gain on disposal of subsidiaries (below)	3,820
Total consideration	13,354
Net cash inflow arising on disposal:	
Cash consideration	13,354
Bank balances and cash disposed of	(8,348)
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	5,006
Gain on disposal of subsidiaries (above)	3,820
Less: unrealised gain on disposal offset against interests in associates (note 19)	(1,414)
Gain recognised in consolidated income statement	2,406

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

36. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK\$5,031,000 (2005: HK\$5,354,000).

37. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	2006 HK\$'000	2005 HK\$'000
Investment properties	23,400	23,600
Land and buildings and prepaid lease payments	41,605	45,404
Plant and machinery and equipment	13,104	14,495
Bank deposits	23,707	23,604
	101,816	107,103

At 31st December, 2005, the Group had created a floating charge over certain assets of a subsidiary with a carrying value of HK\$26,000 to banks as securities against banking facilities granted to the Group.

38. CONTINGENT LIABILITIES

At the balance sheet date, the Group has provided corporate guarantees to the extent of HK\$4,600,000 (2005: HK\$1,600,000) to a bank to secure the banking facilities granted to its associates. Such guarantee will be released by banks upon the expiry of the banking facilities. In the opinion of directors, the fair value of the financial guarantee contracts at the date of inception is not significant.

39. OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006 HK\$'000	2005 HK\$'000
Land and buildings:		
Within one year	11,851	11,917
In the second to fifth year inclusive	16,680	26,296
After five years	14,475	20,430
	43,006	58,643

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

39. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessee (Continued)

Plant and machinery and equipment:

	2006 HK\$'000	2005 HK\$'000
Within one year	720	1,440
In the second year	—	720
	<u>720</u>	<u>2,160</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises, staff quarters and plant and machinery and equipment. Leases of office premises and staff quarters are negotiated for terms ranging from one to twenty-two years. Leases of plant and machinery and equipment are negotiated for terms ranging from five to ten years.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006 HK\$'000	2005 HK\$'000
Land and buildings:		
Within one year	1,745	909
In the second to fifth year inclusive	2,090	1,722
After five years	493	701
	<u>4,328</u>	<u>3,332</u>

All of the properties held have committed tenants for the next one to five years.

40. CAPITAL COMMITMENTS

	2006 HK\$'000	2005 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>3,134</u>	<u>2,602</u>

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

41. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of independent trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes at 5% of relevant payroll costs or HK\$1,000 per month to the Scheme.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes.

During the year, the Group made retirement benefits scheme contributions of HK\$3,657,000 (2005: HK\$2,857,000) after forfeited contributions utilised in the Group's ORSO Scheme of HK\$94,000 (2005: HK\$77,000).

42. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	Trade sales		Trade purchases		Rental charges		Acquisition of additional interest in a subsidiary		Disposal of subsidiaries to		Payment on behalf of the entities	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
A jointly controlled entity	—	—	4,805	2,307	—	—	—	—	—	—	—	1,000
Associates	842	—	—	—	—	—	—	—	—	10,354	35	16
Minority shareholders of subsidiaries	—	—	—	—	147	634	7,054	—	—	3,000	—	—

Compensation of key management personnel

The Group's key management personnel are all directors, details of their remuneration are disclosed in note 10.

Their remuneration is determined by the remuneration committee having regard to the performance of individuals and market trends.

43. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group has disposed of one of its investment properties at a consideration of HK\$11,500,000, which is equal to the carrying value of the investment property.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

44. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecast transactions (see note 25). The use of financial derivatives is monitored by authorised persons of subsidiaries.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the Group has appropriate monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are banks with creditworthy financial institutions.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Interest rate risk

The Group has exposures to cash flow interest rate risk as its bank borrowings is subject to floating interest rate. Currently, interest rate risk is not hedged. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure. The Group's bank balances and deposits are all short term in nature, any future variations in interest rate will not be a significant impact on the results of the Group.

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For the year ended 31st December, 2006

44. FINANCIAL INSTRUMENTS (Continued)

b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

45. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of company	Form of business structure	Place of incorporation/ registration/ operation	Issued and fully paid share capital/paid up registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
Advance Concord Development Limited	Incorporated	Hong Kong	HK\$1,000,000 Ordinary shares	100%	Property holding
China Metal Technology Holdings Limited	Incorporated	Hong Kong	HK\$1,000,000 Ordinary shares	100%	Investment holding and trading of steel and metal products
Dah Bang Printing Ink Manufactory Limited	Incorporated	Hong Kong	HK\$10,000 Ordinary shares HK\$10,100,000 Non-voting deferred shares**	95%	Investment holding and sales of printing materials, spare parts and machines
Daido Concrete (H.K.) Limited	Incorporated	Hong Kong	HK\$750,000,000 Ordinary shares	100%	Investment and properties holding
Ding Cheong Limited	Incorporated	Hong Kong	HK\$500,000 Ordinary shares	55%	Investment holding and sales of construction materials
Fulwealth Metal Factory Limited *	Incorporated	Hong Kong	HK\$20,000,000 Ordinary shares	77%	Decoiling center
Golik Concrete Limited	Incorporated	Hong Kong	HK\$60,000,000 Ordinary shares	100%	Investment holding and operating a concrete batching plant
Golik Godown Limited	Incorporated	Hong Kong	HK\$2 Ordinary shares	100%	Provision of warehouse services

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

45. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of company	Form of business structure	Place of incorporation/ registration/ operation	Issued and fully paid share capital/paid up registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
Golik Metal Industrial Company Limited*	Incorporated	Hong Kong	HK\$10,000 Ordinary shares HK\$5,135,000 Non-voting deferred shares**	100%	Investment holding and sales of metal products
Golik Metal Manufacturing Co. Limited	Incorporated	Hong Kong	HK\$30,000,000 Ordinary shares	100%	Manufacturing and sales of welded wire mesh and metal products
Golik Properties Limited*	Incorporated	Hong Kong	HK\$2 Ordinary shares	100%	Property investment
Golik Steel Company Limited	Incorporated	Hong Kong	HK\$80,000,000 Ordinary shares	100%	Investment holding and sales of steel bars and metal products
Orient Smart Industrial Limited	Incorporated	Hong Kong	HK\$10,000,000 Ordinary shares	51%	Manufacturing and sales of PVC plastic products
Stahl Trading Pty Limited	Incorporated	Australia	AUS\$100 Ordinary shares	100%	Sales of steel and metal products
The Spacers & Bar Chairs Manufacturer Company Limited	Incorporated	Hong Kong	HK\$800,000 Ordinary shares	80%	Manufacturing and sales of construction materials
Tianjin Golik-The First PC Steel Strand Co., Limited	Equity joint venture	PRC	RMB49,000,000 Registered capital	51%	Manufacturing and sales of pre-stressed steel wires
Worldlight Group Limited *	Incorporated	British Virgin Islands	US\$2 Ordinary shares	100%	Investment holding
鶴山恒基鋼絲制品有限公司	Wholly owned foreign enterprise	PRC	US\$3,880,000 Registered capital	100%	Manufacturing and sales of steel wire products and steel ropes

Notes to the Consolidated Financial Statements

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45. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of company	Form of business structure	Place of incorporation/ registration/ operation	Issued and fully paid share capital/paid up registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
定昌(江門)五金製品有限公司	Wholly owned foreign enterprise	PRC	HK\$3,000,000 Registered capital	55%	Manufacturing and sales of metal products
廣東水利混凝土有限公司	Equity joint venture	PRC	RMB27,800,000 Registered capital	100%	Operating a concrete batching plant
廣州保稅區高力金屬貿易有限公司	Equity joint venture	PRC	HK\$5,000,000 Registered capital	80%	Sales of steel and metal products
鶴山高力金屬製品有限公司	Wholly owned foreign enterprise	PRC	US\$1,973,687 Registered capital	100%	Manufacturing and sales of steel wire products and steel ropes

* Subsidiaries held directly by the Company

** The deferred shares, which are not held by the Group, practically carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the respective company or to participate in any distribution on winding up.

Note:

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt security outstanding at the end of the year or at any time during the year.