Notes to the Financial Statements

For the year ended 31st December, 2006

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information on the annual report.

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

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 36.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("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 adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Standards, amendment or interpretations issued but not yet effective.

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 anticipate 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 HKAS 29 "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 Financial Statements (Continued)

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain leasehold properties and financial instruments, which are measured at revalued amounts or 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. 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 their respective dates of acquisition or up to the dates of disposal, as appropriate.

Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All significant intercompany transactions and balances within the Group have been 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods 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.

Service income is recognised when services are rendered.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rates 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 carrying amount.

Dividend income from investments is recognised when the Group rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment other than leasehold land and buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Leasehold land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent 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 property 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 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 increase is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, as follows:

Leasehold land and building	Over the shorter of the term of leases or 50 years
Plant and machinery	10 years
Other property, plant and equipment	3 to 5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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 assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net sale proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments are amortised on a straight-line basis over the relevant lease terms.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

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 consolidated 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 periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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 finance lease.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated 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.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets comprise of loans and receivable and available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including debtors, deposits placed with an insurer, loan receivables and bank balances 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities are set out below.

Financial liabilities

Financial liabilities including creditors, bank borrowings and bank overdraft are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 removed 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 received or receivable is recognised in profit or loss.

Club debentures

Club debentures are stated at cost less any identified impairment loss.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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 a revalued amount under another HKFRS, in which case the impairment loss is treated as revaluation decrease under that HKFRS.

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 a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling prices less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

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 the respective 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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 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 translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

Taxation represents 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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement 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 the tax expected to be payable or recoverable 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 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 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.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to the defined contribution retirement benefits schemes are charged as an expense as when employees have rendered service entitling them to the contribution.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as below.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. When the actual useful lives of property, plant and equipment due to the change of commercial environment are different from their estimated useful lives, such difference will impact the deprecation charges and the amounts of assets written down for future periods.

Estimated allowance of doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other debtors. Allowances are applied to trade and other debtors where events or change in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the present value of estimated future cash flows discounted at the original effective interest rate is lower than the carrying amount, such difference represents allowance for doubtful debts recognised as expense in the consolidated income statement. When the actual future cash flows are less than the expected, a material impairment loss may arise.

5. FINANCIAL INSTRUMENTS

5a. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, loans receivables, bank balances, bank borrowings, debtors and creditors. Details of these 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.

Currency risk

The Group operates mainly in Hong Kong and the Mainland China. Several subsidiaries of the Company have sales and purchases and the relevant debtors and creditors denominated in currencies other than the functional currency of the relevant group companies, which expose the Group to foreign currency risk. The management manages and monitors the currency risk exposure and would consider the use of forward contract to mitigate the risk.

5. FINANCIAL INSTRUMENTS (Continued)

5a. Financial risk management objectives and policies (Continued)

Interest rate risk

The Group was exposed to interest rate risk through the impact of rate changes on bank balances, loan receivables, bank borrowings and obligations under a finance lease. The management manages and monitors the interest rates exposures and would consider the use of interest rate swap to mitigate the risk. The interest rates and terms of bank balances, loan receivables, obligations under a finance lease and bank loans and overdrafts were disclosed in notes 21, 22, 24 and 25 respectively.

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 management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other 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 trade 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 Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit ratings.

5b. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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.

6. TURNOVER

Turnover represents the amounts received and receivable from the manufacture of abrasive products, polishing compounds and polishing wheels, trading of polishing materials and polishing equipment and provision of technical consultancy service, net of allowances and returns, during the year.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing	–	manufacture of abrasive products, polishing compounds and polishing wheels
Trading	–	trading of polishing materials and polishing equipment
Technical service	–	provision of technical consultancy service

Segment information about these businesses is presented below.

Income statement for the year ended 31st December, 2006

	Manufacturing *HK$'000*	Trading *HK$'000*	Technical service *HK$'000*	Consolidated *HK$'000*
Turnover				
External sales	**122,314**	**106,398**	**6,514**	**235,226**
Result				
Segment result	**5,708**	**3,862**	**891**	**10,461**
Unallocated corporate expenses				**(5,363)**
Other income				**2,597**
Reversal of revaluation decrease on leasehold land and buildings previously charged to the income statement				**320**
Finance costs				**(1,348)**
Profit before taxation				**6,667**
Taxation				**(1,165)**
Profit for the year				**5,502**

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Balance sheet at 31st December, 2006

	Manufacturing HK$'000	Trading HK$'000	Technical service HK$'000	Consolidated HK$'000
Assets				
Segment assets	177,512	55,291	2,393	235,196
Unallocated corporate assets				40,123
Consolidated total assets				275,319
Liabilities				
Segment liabilities	6,299	4,120	252	10,671
Unallocated corporate liabilities				23,814
Consolidated total liabilities				34,485

Other information

	Manufacturing HK$'000	Trading HK$'000	Technical service HK$'000	Consolidated HK$'000
Capital expenditure	6,736	3,661	223	10,620
Depreciation of property, plant and equipment	5,309	1,484	144	6,937
Release of prepaid lease payment	249	–	–	249
Allowance for doubtful debts	522	451	30	1,003

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Income statement for the year ended 31st December, 2005

	Manufacturing *HK$'000*	Trading *HK$'000*	Technical service *HK$'000*	Consolidated *HK$'000*
Turnover				
External sales	98,666	85,689	7,609	191,964
Result				
Segment result	2,918	2,524	2,915	8,357
Unallocated corporate expenses				(5,627)
Other income				4,037
Reversal of revaluation decrease on leasehold land and buildings previously charged to the income statement				895
Finance costs				(750)
Profit before taxation				6,912
Taxation				(1,754)
Profit for the year				5,158

Balance sheet at 31st December, 2005

	Manufacturing *HK$'000*	Trading *HK$'000*	Technical service *HK$'000*	Consolidated *HK$'000*
Assets				
Segment assets	164,888	51,984	3,386	220,258
Unallocated corporate assets				43,773
Consolidated total assets				264,031
Liabilities				
Segment liabilities	5,276	4,463	573	10,312
Unallocated corporate liabilities				17,719
Consolidated total liabilities				28,031

Other information

	Manufacturing *HK$'000*	Trading *HK$'000*	Technical service *HK$'000*	Consolidated *HK$'000*
Capital expenditure	8,155	3,568	317	12,040
Depreciation of property, plant and equipment	4,753	1,219	110	6,082
Release of prepaid lease payment	238	–	–	238
Allowance for doubtful debts	903	785	70	1,758
Allowance for obsolete inventories	546	–	–	546

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The Group's operations are located in Hong Kong and Mainland China. The Group's trading divisions are mainly located in Hong Kong and Mainland China. Manufacturing and technical service are carried out in Mainland China.

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

	Turnover	
	2006	2005
	HK$'000	*HK$'000*
Hong Kong	**97,316**	83,622
Mainland China	**118,367**	95,762
Other Asian region	**15,462**	8,383
North America and Europe	**1,159**	1,400
Other countries	**2,922**	2,797
	235,226	191,964

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**127,622**	115,056	**254**	1,534
Mainland China	**107,574**	105,202	**10,366**	10,506
	235,196	220,258	**10,620**	12,040

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

8. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Other income comprises:		
Discount on acquisition of a subsidiary	**–**	28
Gain on derecognition of available-for-sale investments	**83**	250
Interest income from banks	**35**	322
Other interest income	**544**	364
Imputed interest income on deposits placed with an insurer	**485**	–
Net foreign exchange gains	**558**	2,218
Dividend income from listed investments	**–**	144
Rental income	**127**	–
Sundry income	**765**	711
	2,597	4,037

9. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Finance costs comprise:		
Interests on bank borrowings wholly repayable within five years	**1,340**	733
Finance lease charges	**8**	17
	1,348	750

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the nine (2005: ten) directors were as follows:

Name of Director	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheng Kwok Woo	–	1,071	–	48	1,119
Cheng Kwong Cheong	–	1,055	–	48	1,103
Chow Yin Kwang	–	752	–	35	787
Cheng Wai Ying	–	501	–	24	525
Chan Yim Fan	–	367	–	17	384
Zheng Jin Hong	50	–	–	–	50
Anthony Francis Martin Conway	120	–	–	–	120
Leung Yuen Wing	120	–	–	–	120
Lam Hon Ming, Edward	60	–	–	–	60
Total for the year 2006	350	3,746	–	172	4,268

Name of Director	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheng Kwok Woo	–	1,063	–	84	1,147
Cheng Kwong Cheong	–	1,063	–	84	1,147
Chow Yin Kwang	–	739	–	33	772
Cheng Wai Ying	–	607	–	42	649
Chan Yim Fan	–	358	–	16	374
Chung Kam Fai, Raymond	–	57	–	1	58
Zheng Jin Hong	50	–	–	–	50
Anthony Francis Martin Conway	120	–	–	–	120
Leung Yuen Wing	120	–	–	–	120
Lam Hon Ming, Edward	60	–	–	–	60
Total for the year 2005	350	3,887	–	260	4,497

No directors waived any emoluments in the years ended 31st December, 2006 and 2005.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2005: four) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining one highest paid individual in 2006 were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**420**	401
Retirement benefit scheme contributions	**19**	18
	439	419

12. TAXATION

	2006	2005
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong	**590**	572
Other regions in the PRC	**122**	348
Other jurisdictions	**5**	60
	717	980
Overprovision in prior year		
Hong Kong	**–**	(70)
	717	910
Deferred taxation *(note 26)*		
Current year	**448**	844
	1,165	1,754

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year.

In accordance with the relevant tax laws and regulations of The People's Republic of China ("PRC"), the PRC subsidiary is exempted from Enterprise Income Tax ("EIT") for two years starting from its first profit making year after utilisation of carried forward tax losses and is eligible for a 50% relief on the EIT in the following three years. 2003 is the first profit marking year.

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

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

12. TAXATION (Continued)

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	**6,667**	6,912
Tax at Hong Kong Profits Tax rate of 17.5%	**1,167**	1,210
Tax effect of expenses not deductible for tax purpose	**196**	527
Tax effect of income not taxable for tax purpose	**(82)**	(134)
Tax effect of tax loss not recognised	**1**	155
Tax effect of utilisation of tax losses previously not recognised	**(83)**	–
Tax effect of income tax on concessionary rate granted to the PRC subsidiary	**(36)**	(68)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**42**	116
Overprovision in respect of prior year	**–**	(70)
Others	**(40)**	18
Tax charge for the year	**1,165**	1,754

The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

13. PROFIT FOR THE YEAR

	2006	2005
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**6,937**	6,082
Release of prepaid lease payment	**249**	238
Staff costs, including directors' emoluments	**17,170**	17,603
Auditors' remuneration	**930**	830
Allowance for doubtful debts	**1,003**	1,758
Allowance for obsolete inventories	**–**	546
Loss on disposal of property, plant and equipment	**248**	–
Cost of inventories recognise as expenses	**191,859**	151,113
Rental income	**(127)**	–
Less: Direct expenses that generated rental income	**24**	–
	(103)	–

Contributions to retirement benefits schemes of HK$520,000 (2005: HK$662,000) are included in staff costs.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

14. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Dividends recognised as distributions:		
Interim dividend paid – HK0.033 cent per share (2005: HK0.17 cent)	316	1,629
Final dividend in respect of the year ended 31st December, 2005 – HK$0.1 cent (year ended 31st December, 2004: Nil) per share	958	–
	1,274	1,629
Proposed:		
Final dividend in respect of the year ended 31st December, 2006 – Nil (year ended 31st December, 2005: HK0.1 cent) per share	–	958

The director do not recommend payment of final dividend for the year ended 31st December, 2006.

15. EARNINGS PER SHARE

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

	2006 HK$'000	2005 HK$'000
Earnings attributable to equity holders of the Company for the purposes of basic earnings per share	5,504	5,112

	Number of shares	
	2006 '000	2005 '000
Number of ordinary shares for the purpose of basic earnings per share	958,000	958,000

No diluted earnings per share was presented for both years as the Company has no potential dilutive ordinary shares during both years.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Leasehold improvements, furniture and fixtures	Motor vehicles	Yachts	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
AT COST OR VALUATION						
At 1st January, 2005	88,320	34,343	11,253	4,466	1,317	139,699
Effect on exchange adjustments	1,773	382	57	23	–	2,235
Additions	–	11,265	488	287	–	12,040
Disposals	–	(244)	–	–	–	(244)
Decrease in revaluation	(1,613)	–	–	–	–	(1,613)
At 31st December, 2005	88,480	45,746	11,798	4,776	1,317	152,117
Effect on exchange adjustments	3,415	899	114	56	–	4,484
Additions	–	10,274	224	122	–	10,620
Disposals	–	(1,297)	(49)	(1,064)	–	(2,410)
Decrease in revaluation	(5,405)	–	–	–	–	(5,405)
At 31st December, 2006	**86,490**	**55,622**	**12,087**	**3,890**	**1,317**	**159,406**
Comprising:						
At cost	–	55,622	12,087	3,890	1,317	72,916
At valuation 2006	86,490	–	–	–	–	86,490
	86,490	55,622	12,087	3,890	1,317	159,406
ACCUMULATED DEPRECIATION						
At 1st January, 2005	–	14,299	9,210	4,081	1,317	28,907
Effect on exchanges adjustments	203	180	50	22	–	455
Provided for the year	2,052	3,173	639	218	–	6,082
Eliminated on disposals	–	(244)	–	–	–	(244)
Eliminated on revaluation	(2,255)	–	–	–	–	(2,255)
At 31st December, 2005	–	17,408	9,899	4,321	1,317	32,945
Effect on exchanges adjustments	512	464	106	49	–	1,131
Provided for the year	2,084	3,984	609	260	–	6,937
Eliminated on disposals	–	(423)	(49)	(1,038)	–	(1,510)
Eliminated on revaluation	(2,596)	–	–	–	–	(2,596)
At 31st December, 2006	**–**	**21,433**	**10,565**	**3,592**	**1,317**	**36,907**
CARRYING VALUES						
At 31st December, 2006	**86,490**	**34,189**	**1,522**	**298**	**–**	**122,499**
At 31st December, 2005	88,480	28,338	1,899	455	–	119,172

At 31st December, 2006, leasehold land and buildings of HK$86,490,000 (2005: HK$88,480,000) were held under medium term lease.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The leasehold land and buildings of the Group were revalued by Castores Magi (Hong Kong) Limited, an independent firm of registered professional surveyors, at 31st December, 2006 by reference to market evidence of recent transactions for similar properties. The valuation conforms to International Valuation Standards. The revaluation gave rise to a net revaluation deficit of HK$2,809,000 (2005: surplus of HK$642,000) of which HK$3,129,000 (2005: HK$253,000) has been charged to the property revaluation reserve and HK$320,000 (2005: HK$895,000) has been credited to the consolidated income statement.

If the leasehold land and buildings of the Group had not been revalued, they would have been included on a historical cost basis at the following amounts:

	2006	2005
	HK$'000	*HK$'000*
Cost	**99,678**	94,493
Accumulated depreciation	**(17,322)**	(14,764)
Carrying values	**82,356**	79,729

Motor vehicles include an amount of HK$15,000 (2005: HK$199,000) in respect of asset held under a finance lease.

At 31st December, 2006, buildings with an aggregate carrying value of HK$68,600,000 (2005: HK$73,740,000) was pledged to banks to secure banking facilities granted to the Group.

17. PREPAID LEASE PAYMENTS

The leasehold land outside Hong Kong was held under medium-term lease.

	2006	2005
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Non-current asset	**10,214**	10,012
Current asset	**249**	244
	10,463	10,256

At 31st December, 2005 and 2006, the leasehold land was pledged to a bank to secure a banking facility granted to the Group.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

18. AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
	HK$'000	*HK$'000*
Equity securities:		
Listed in Hong Kong, at market value	**–**	1,379

All available-for-sale investments were stated at fair value and disposed of during the year. Fair value of those investments have been determined by reference to bid prices quoted in active market.

19. DEPOSITS PLACED WITH AN INSURER

The deposits are attached to life insurance policies. Upon initial recognition, the premium relating to the insurance policies are recognised separately. The deposits are carried at amortised cost at the effective interest rate of 5%. The initial premium for the insurance policies are included in debtors, deposits and prepayments and amortised over the insurance period.

The insured persons are the directors of the Company and the Company is the beneficiary of the life insurance policies. The life insurance funds have guaranteed returns over the respective policy periods.

During 2006, deposits were pledged to a bank to secure a banking facility granted to the Group.

20. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Raw materials	**5,678**	5,947
Work in progress	**45**	176
Finished goods	**21,949**	25,463
	27,672	31,586

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

21. OTHER FINANCIAL ASSETS

Debtors, deposits and prepayments

The Group has a policy of allowing average credit period of 60 to 90 days to its trade debtors. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of the trade debtors of HK$64,115,000 (2005: HK$54,587,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**20,797**	20,555
31 to 60 days	**20,802**	15,748
61 to 90 days	**15,181**	11,186
Over 90 days	**7,335**	7,098
	64,115	54,587
Other debtors, deposits and prepayments	**12,617**	10,120
	76,732	64,707

Bank balances and cash

Bank balances carry interest at market rates which range from 2.25% to 2.5% (2005: 0.01% to 2.5%).

22. LOAN RECEIVABLES

The loans were made to independent third parties and were repayable within one year. Interests were charged at prime rate plus 3% to 5% (2005: prime rate plus 3% to 5%) on the outstanding balances of the loans.

The effective interest rates on the Group's loan receivables were ranging from 10.75% to 17.50% (2005: 10.00% to 12.75%).

At 31st December, 2006, loan receivables with an aggregate carrying amount of HK$6,800,000 (2005: HK$4,805,000) were secured by personal guarantees.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

23. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK$5,396,000 (2005: HK$6,780,000) which are included in the Group's creditors and accruals is as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**1,994**	2,686
31 to 60 days	**2,423**	984
61 to 90 days	**777**	1,615
Over 90 days	**202**	1,495
	5,396	6,780
Other creditors and accruals	**5,275**	3,532
	10,671	10,312

24. OBLIGATIONS UNDER A FINANCE LEASE

The lease term of the finance lease was five years. Interest rate is fixed at 2.28% at the contract date. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	**62**	183	**61**	175
More than one year, but not exceeding two years	**–**	61	**–**	60
	62	244	**61**	235
Less: future finance charges	**(1)**	(9)	**–**	–
Present value of lease obligations	**61**	235	**61**	235
Less: Amount due within one year shown under current liabilities			**(61)**	(175)
Amount due after one year			**–**	60

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

25. BANK LOANS AND OVERDRAFT

	2006	2005
	HK$'000	*HK$'000*
Bank loans comprise:		
Trust receipt loans	**6,381**	5,876
Other bank loans	**13,086**	6,356
	19,467	12,232
Analysed as:		
Secured	**8,010**	4,593
Unsecured	**11,457**	7,639
	19,467	12,232
Bank overdraft, unsecured	**–**	185

All bank loans are due for repayment within one year.

Bank loans and overdraft included bank loans of HK$4,800,000 (2005: HK$4,593,000) was fixed-rate loans which carried interest at 5.85% (2005: 5.58%). The remaining bank loans and bank overdraft were variable-rate borrowings and their effective interest rates were ranging from 6.00% to 7.13% (2005: 2.56% to 5.13%).

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

26. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st January, 2005	1,601	2,456	–	(531)	3,526
Charge (credit) to consolidated income statement for the year	733	157	(335)	289	844
Credit to equity for the year	–	(68)	–	–	(68)
At 31st December, 2005	2,334	2,545	(335)	(242)	4,302
Charge (credit) to consolidated income statement for the year	610	56	(250)	32	448
Credit to equity for the year	–	(1,146)	–	–	(1,146)
At 31st December, 2006	**2,944**	**1,455**	**(585)**	**(210)**	**3,604**

At the balance sheet date, the Group has unused tax losses of HK$4,913,000 (2005: HK$3,962,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$3,331,000 (2005: HK$1,914,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,582,000 (2005: HK$2,048,000) due to the unpredictability of future profit streams.

27. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Nominal value	
	2006 **'000**	2005 '000	**2006** **HK$'000**	2005 HK$'000
Authorised: At 31st December, 2005 and 31st December, 2006	**10,000,000**	10,000,000	**100,000**	100,000
Issue and fully paid: At 31st December, 2005 and 31st December, 2006	**958,000**	958,000	**9,580**	9,580

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

28. SHARE OPTIONS

Pursuant to the Company's share options scheme adopted on 23rd October, 2002, the board of directors of the Company may, at its discretion, grant options to full-times employees (including executive directors, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares on the date of grant.

The maximum number of shares which may be in issue upon exercise of options granted and yet to be exercised under the share option scheme and any other scheme of the Company shall not exceed 30% of the total issued share capital of the Company from time to time.

The maximum number of shares issued and to be issued on the exercise of options granted and to be granted (included both exercised and outstanding options) in any 12 months period up to the date of grant to each eligible person shall not exceed 1% of the total issued share capital of the Company in issue, unless (i) a shareholders' circular is dispatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the limit referred to herein; and (iii) the relevant eligible person and its associates abstain from the voting on the resolution.

A nominal consideration of HK$1 is payable on acceptance of each grant.

No share options have been granted under the scheme since its adoption.

29. ACQUISITION OF SUBSIDIARY

On 1st May, 2005, the Group acquired 71% of the issued share capital of Wels International Company Limited for consideration of HK$517,000. This acquisition has been accounted for using the purchase method. The directors of the Company determined that the fair value of the assets and liabilities of the subsidiary acquired approximated to their carrying amounts before combination, accordingly no fair value adjustments have been put through.

The net assets acquired in 2005 were as follows:

	HK$'000
Net assets acquired:	
Inventories	295
Debtors, deposits and prepayments	743
Bank balances and cash	899
Creditors and accruals	(1,130)
Taxation payable	(40)
Net assets acquired	767
Minority interest	(222)
Discount on acquisition	(28)
	517
Satisfied by:	
Cash consideration	517
Net cash inflow arising on acquisition:	
Cash consideration paid	517
Cash and cash equivalents acquired	(899)
	(382)

Wels International Company Limited contributed HK$6,556,000 to the Group's turnover and HK$159,000 to the Group's profit for the period between the date of acquisition and 31st December, 2005.

If the acquisition had been completed on 1st January, 2005, total group revenue for the year ended 31st December, 2005 would have been HK$193,859,000, and profit for the year ended 31st December, 2005 would have been HK$5,206,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

30. DISPOSAL OF A SUBSIDIARY

The Group disposed of a subsidiary in 2005. The net assets of this subsidiary disposed in 2005 were as follows:

	HK$'000
Net assets disposal of:	
Debtors, deposits and prepayments	4,282
Bank balances and cash	1
Creditors and accruals	(3,243)
Taxation payable	(1,032)
	8
Satisfied by:	
Cash consideration	8
Net cash inflow (outflow) arising on disposal:	
Cash consideration	8
Bank balances and cash disposed of	(1)
	7

31. CAPITAL COMMITMENTS

On 29th September, 2006, the Group entered a joint venture agreement with a third party to establish a joint venture in which the Group will invest approximately HK$5,830,000. The Group's commitment for contribution of HK$5,830,000 has not been provided in the consolidated financial statements.

There was no (2005: HK$29,000) capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements.

32. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was HK$127,000 (2005: nil). The property has committed tenants for the next 2 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**382**	–
In the second to fifth years inclusive	**254**	–
	636	–

33. EMPLOYEE RETIREMENT BENEFITS

The operating subsidiaries in Hong Kong joined the mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contribution to the MPF Scheme at rates specified in the rules of the MPF Scheme. The obligation of the Group with respect of MPF Scheme is to make the required contribution under the MPF Scheme. The retirement benefits cost charged to the consolidated income statement represents contributions payable to the MPF Scheme by the Group.

The PRC employees of the subsidiary in the PRC are members of the pension scheme operated by the PRC local government. The subsidiary is required to contribute a certain percentage of the relevant payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contributions under the pension scheme.

34. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	**4,096**	4,237
Post-employment benefits	**172**	260
	4,268	4,497

Details of Directors' emoluments (being the compensation of key management personnel) are set out in note 10.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2006

35. POST BALANCE SHEET EVENT

On 2nd April, 2007, the Company entered into a placing agreement to place 191,600,000 new shares of the Company at HK$0.172 per share. The placing was completed on 16th April, 2007.

On 12th April, 2007, the Company entered into a placing agreement to place 220,000,000 unlisted warrants of the Company at issue price of HK$0.046 per warrant. The placing of the unlisted warrants is not yet completed.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries which are wholly-owned by the Company as at 31st December, 2006 are as follows:

Name of subsidiary	**Place of incorporation/ registration**	**Issued and fully paid share capital/ registered capital** *(notes a and b)*	**Principal activities**
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK$300,000 *(note c)* Ordinary shares HK$10,000	Trading of polishing materials and equipment
PME International (BVI) Company Limited	British Virgin Islands	Ordinary shares US$30,000	Investment holding
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK$19,200,000 *(note c)* Ordinary shares HK$1,000	Investment holding and trading of polishing materials and equipment
Shun Tien (H.K.) Mechanical Co. Limited	Hong Kong	Ordinary shares HK$60,000	Trading of polishing equipment
Dongguan PME Polishing Materials & Equipments Co., Ltd. *(note d)*	PRC	Registered capital HK$40,000,000	Manufacturing and trading of polishing materials

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(a) The Company directly holds the entire interest in PME International (BVI) Company Limited. The interests of all other subsidiaries are indirectly held by the Company.

(b) Except for Dongguan PME Polishing Materials & Equipments Co., Ltd. which operates in the PRC, all the principal subsidiaries operate principally in Hong Kong.

(c) The 5% non-voting deferred shares of HK$1 each are not held by the Group and practically carrying no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the companies. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining asset of the companies only after the distribution of HK$1,000,000 million, as specified in the articles of association, to holders of ordinary shares.

(d) Established as a wholly foreign owned enterprises.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the 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 securities subsisting at 31st December, 2006 or at any time during the year.