

**Simec Lochaber Hydropower 2 Limited**  
**Financial Statements**  
**31 December 2016**

**KING & KING**

Chartered accountant & statutory auditor  
First Floor Roxburghe House  
273-287 Regent Street  
London  
W1B 2HA

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# **Simec Lochaber Hydropower 2 Limited**

## **Financial Statements**

**Year ended 31 December 2016**

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# **Simec Lochaber Hydropower 2 Limited**

## **Strategic Report**

**Year ended 31 December 2016**

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The directors present their Strategic report on Simec Lochaber Hydropower Ltd previously known as Alcan Aluminium UK Limited (the "Company") for the year ended 31st December 2016.

### **Introduction**

The Company became a wholly owned subsidiary of Simec Lochabar Hydropower Ltd and a member of the Simec Group Ltd incorporated in Hong Kong (the "Group") on 16th December 2016. The company is incorporated and domiciled in the United Kingdom and is a company limited by shares. The Company's principal activities up to 16th December 2016 were the smelting of aluminium and the generation of power for use in smelting. On 16th December 2016, the company's aluminium division was sold to Liberty Aluminium Lochaber Ltd. The company was left with two hydro power plants generating electricity and estate assets acquired from British Alcan Aluminium Ltd (BAA) as at 16th December 2016; the previous parent company.

The company also held Marine Ship Chartering operation since 1st February 2015. The business was acquired for a nominal sum and had no assets or liabilities. The business generated revenue of £15,611,000 (2015:£16,496,000). This European Ship chartering operation was transferred out to a fellow subsidiary of Rio Tinto group on 16th December 2016.

### **Business review**

The results for the year ended 31st December 2016 are set out on Page 8 and shows revenue of £83,055,000 (2015:£86,641,000). Further details of revenue by geographical area and market are shown in note 4 to the financial statements.

In January 2016, Rio Tinto group announced a strategic review of the company's business which accounted for most of the operational assets. This review concluded that the business should be sold and the group announced on 23rd November 2016 that the sale of the Company, including all of the smelting and power operational assets, had been agreed. The sale was completed on 16th December 2016. On 24th November 2016, in preparation for the sale, the Company reduced its share capital by £95,000,000. The sale was of the Lochaber business (smelter and two hydro power plants) so prior to closing on 16th December 2016, Land and other assets owned and required for the Lochaber operations were purchased by the company from Rio Tinto's other subsidiaries amounting to £19,000,000. Any assets, provisions and intercompany balances not connected to the Lochaber operations were transferred out from the company to Rio Tinto group.

The Company was then purchased by the Simec Group on 16th December 2016. It was previously owned by Rio Tinto Group under the name of Alcan Aluminium UK Limited. The name was changed to Simec Lochaber Hydropower 2 Ltd upon its purchase by the group through Simec Lochaber Hydropower Ltd, its immediate holding company.

The above restructuring of the company resulted in all its operations for the year, which included Smelter and Marine revenue as discontinued operations as at 16th December 2016.

The company's gross profit for the period was £7,924,000 (2015:£11,851,000) and the operating profit for the period was £5,388,000 (2015:£32,586,000).

# **Simec Lochaber Hydropower 2 Limited**

## **Strategic Report** *(continued)*

### **Year ended 31 December 2016**

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Final dividend of £55,000,000 was paid to Rio Tinto group on 16th December 2016 to distribute most of the reserves of the company at the time of sale as agreed in their share sale agreement dated 16th December 2016.

On 16th December 2016, Aluminium division with all its assets and liabilities including provisions were sold to Liberty Aluminium Lochaber Ltd at a value of £42m. The management then conducted the revaluation exercise on all the remaining assets of the company based on the discounted cash flows of future expected earnings capacity on a debt free, cash free basis for the only activity left in the company being power generation. The resulting revaluation reserve of £494,914,000 is recognised in the comprehensive income statement.

These financial statements have been prepared on a going concern basis as the company will be operating hydro power plants in Lochaber. Fixed quantity power purchase agreements are in place to that effect.

#### **Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks affecting the Company are set out below:

##### **Water continuity risk**

The company's principal asset until 16<sup>th</sup> December 2016 was a continuously operating hydro powered aluminium smelter. A stable and secure supply of water is therefore key to the success of the business and proper controls over its water resources are essential if it is to retain its licence to operate. Risks include an inadequate supply of water, an uncontrolled release of water from storage reservoirs and problems of delivering the water from the reservoirs to the power station through a system that includes a tunnel of more than 85 years old, maintenance of which is at the limit of industry operational experience. These risks and the controls around them are constantly assessed by management and are mitigated by the long experience of staff in water management, the availability of underground working experience within the wider Group and the ability to buy in power from the electricity grid to meet a short term shortfall. After 16<sup>th</sup> December 2016, the principal assets are hydro power stations generating electricity.

##### **Employee risk**

The Company's performance depends largely on its local management and staff. The resignation of key individuals and the inability to recruit people with the right experience and skills from the local community could adversely impact the Company's results. This is mitigated by the Company's ability to recruit expertise from within the larger Group if such a situation arose.

##### **Metal price risk**

The Company's results are affected by global metal prices. The Company recognises this risk but its policy is not to attempt to hedge metal prices. This risk does not apply after 16<sup>th</sup> December 2016.

##### **Financial risks**

The Company has some exposure to credit risk on its debtors but this is actively managed and limited by the fact that most sales are made to fellow Group subsidiaries. The Company also has foreign exchange exposure on its trading that is managed via a hedging strategy where considered necessary by management.

##### **Environmental legislative risk**

The Company's business requires the generation and consumption of large quantities of electricity and the safe control and disposal of air, ground and water pollutants. Environmental legislation has progressively tightened restrictions and this trend seems likely to continue. Both the costs of compliance and the penalties for failing to meet the standards set can be very high. The Company takes its environmental responsibilities very seriously and devotes significant resources to ensuring that its environmental standards and targets are met or exceeded.

# **Simec Lochaber Hydropower 2 Limited**

## **Strategic Report** *(continued)*

**Year ended 31 December 2016**

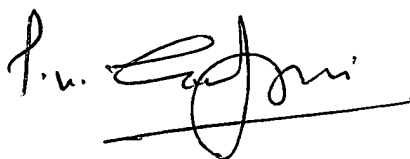
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### **Financial key performance indicators**

The Company's directors are of the opinion that there are no meaningful financial or other key performance indicators that would be necessary or appropriate for an understanding of the development, performance or position of the Company's standalone activities. All of the Company's activities were discontinued on 16th December 2016. Aluminium business KPIs are reported in Liberty Aluminium Lochaber Ltd as the whole of business was transferred out on 16th December 2016.

This report was approved by the board of directors on 6 December 2018 and signed on behalf of the board by:

Mr P K Gupta  
Director

A handwritten signature in black ink, appearing to read 'P. K. Gupta', with a long horizontal stroke extending to the right.

Registered office:  
7 Hertford Street  
London  
England  
W1J 7RH

# **Simec Lochaber Hydropower 2 Limited**

## **Directors' Report**

### **Year ended 31 December 2016**

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The directors present their report and the financial statements of the company for the year ended 31 December 2016.

#### **Directors**

The directors who served the company during the year were as follows:

|                |   |
|----------------|---|
| Mr P K Gupta   | (Appointed 16 December 2016)                      |
| Mr R Gandhi    | (Appointed 16 December 2016)                      |
| Mr B J King    | (Resigned 16 December 2016)                       |
| Mr P Beaulieu  | (Resigned 16 December 2016)                       |
| Mr M J Betts   | (Resigned 16 December 2016)                       |
| Ms H Christine | (Resigned 16 December 2016)                       |
| Mr C W M Flett | (Resigned 15 July 2016)                           |
| Mr D I Jones   | (Resigned 5 January 2016)                         |
| Mr D Lhuissier | (Served from 1 February 2016 to 16 December 2016) |

#### **Dividends**

Particulars of recommended dividends are detailed in note 12 to the financial statements.

#### **Future developments**

It was decided that the Hydro power plant at Kinlochleven is to be sold to Simec Kinlochleven Power Ltd during 2017. The company then holds one Hydro power plant at Lochaber including the estates assets transferred to the company at the time of purchase. It only continues its operation as provider of electricity to Liberty Aluminium Lochaber Ltd from year 2017.

#### **Events after the end of the reporting period**

Particulars of events after the reporting date are detailed in note 25 to the financial statements.

#### **Directors' responsibilities statement**

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

# Simec Lochaber Hydropower 2 Limited

## Directors' Report *(continued)*

**Year ended 31 December 2016**

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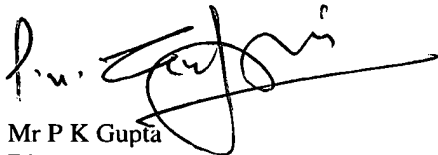
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Auditor**

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the board of directors on 6 December 2018 and signed on behalf of the board by:



Mr P K Gupta  
Director

Registered office:  
7 Hertford Street  
London  
England  
W1J 7RH

# **Simec Lochaber Hydropower 2 Limited**

## **Independent Auditor's Report to the Members of Simec Lochaber Hydropower 2 Limited**

**Year ended 31 December 2016**

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We have audited the financial statements of Simec Lochaber Hydropower 2 Limited for the year ended 31 December 2016 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the strategic report and the directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.



## **Simec Lochaber Hydropower 2 Limited**

### **Independent Auditor's Report to the Members of Simec Lochaber Hydropower 2 Limited (continued)**

**Year ended 31 December 2016**

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#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Milankumar H Patel (Senior Statutory Auditor)

For and on behalf of

King & King

Chartered Accountant & Statutory Auditor

First Floor Roxburghe House

273-287 Regent Street

London

W1B 2HA

6<sup>th</sup> December 2018

# Simec Lochaber Hydropower 2 Limited

## Statement of Comprehensive Income

Year ended 31 December 2016

|  | Note      | 2016<br>£000 | 2015<br>£000 |
|--|-----------|--------------|--------------|
| <b>Turnover</b>                                | <b>4</b>  | 83,055       | 86,641       |
| Cost of sales                                  |           | 75,131       | 74,790       |
| <b>Gross profit</b>                            |           | 7,924        | 11,851       |
| Administrative expenses                        |           | 3,646        | 2,919        |
| Other operating income                         | <b>5</b>  | 1,110        | 23,654       |
| <b>Operating profit</b>                        | <b>6</b>  | 5,388        | 32,586       |
| Other interest receivable and similar income   | <b>9</b>  | 1,010        | 899          |
| Interest payable and similar expenses          | <b>10</b> | 642          | 1,212        |
| <b>Profit before taxation</b>                  |           | 5,756        | 32,273       |
| Tax on profit                                  | <b>11</b> | 4,742        | 4,115        |
| <b>Profit for the financial year</b>           |           | 1,014        | 28,158       |
| Revaluation surplus net of deferred tax        |           | 416,545      | –            |
| Actuarial gain (loss) net of deferred tax      |           | (3,728)      | 532          |
| <b>Other comprehensive income for the year</b> |           | 412,817      | 532          |
| <b>Total comprehensive income for the year</b> |           | 413,831      | 28,690       |

All the trading activities of the company stated above are from discontinuing operations.

The notes on pages 11 to 25 form part of these financial statements.


# Simec Lochaber Hydropower 2 Limited

## Statement of Financial Position

31 December 2016

|  | Note | 2016<br>£000   | 2015<br>£000   |
|--|------|----------------|----------------|
| <b>Fixed assets</b>  |      |                |                |
| Intangible assets  | 13   | –              | 260            |
| Tangible assets  | 14   | 565,542        | 87,026         |
|  |      | <u>565,542</u> | <u>87,286</u>  |
| <b>Current assets</b>  |      |                |                |
| Stocks   | 15   | –              | 7,282          |
| Debtors  | 16   | 47,536         | 146,970        |
| Cash at bank and in hand                                       |      | 2,743          | 149            |
|  |      | <u>50,279</u>  | <u>154,401</u> |
| <b>Creditors: amounts falling due within one year</b>          | 17   | 3,804          | 53,650         |
| <b>Net current assets</b>                                      |      | <u>46,475</u>  | <u>100,751</u> |
| <b>Total assets less current liabilities</b>                   |      | 612,017        | 188,037        |
| <b>Provisions</b>  | 18   | 78,587         | 16,570         |
| <b>Net assets excluding defined benefit pension plan asset</b> |      | <u>533,430</u> | <u>171,467</u> |
| Defined benefit pension plan liability                         | 20   | (63,311)       | (49,791)       |
| Defined benefit pension plan asset                             | 20   | 74,805         | 64,417         |
| <b>Net assets including defined benefit pension plan asset</b> |      | <u>544,924</u> | <u>186,093</u> |
| <b>Capital and reserves</b>                                    |      |                |                |
| Called up share capital  | 21   | 105,000        | 200,000        |
| Capital redemption reserve                                     | 22   | 16,000         | 16,000         |
| Profit and loss account  | 22   | 423,924        | (29,907)       |
| <b>Shareholders funds</b>                                      |      | <u>544,924</u> | <u>186,093</u> |

These financial statements were approved by the board of directors and authorised for issue on 6 December 2018, and are signed on behalf of the board by:

  
 Mr P K Gupta  
 Director

Company registration number: 00750143

The notes on pages 11 to 25 form part of these financial statements.

# Simec Lochaber Hydropower 2 Limited

## Statement of Changes in Equity

Year ended 31 December 2016

|   | Called up<br>share capital<br>£000 | Capital<br>redemption<br>reserve<br>£000 | Profit and<br>loss account<br>£000 | Total<br>£000 |
|---|------------------------------------|--|------------------------------------|---------------|
| <b>At 1 January 2015</b>                                | 200,000                            | 16,000                                   | (58,597)                           | 157,403       |
| Profit for the year                                     |                                    |  | 28,158                             | 28,158        |
| Other comprehensive income for the year:                |                                    |  |                                    |               |
| Actuarial gain on pension scheme net of tax             | —                                  | —  | 532                                | 532           |
| <b>Total comprehensive income for the year</b>          | —                                  | —  | 28,690                             | 28,690        |
| <b>At 31 December 2015</b>                              | 200,000                            | 16,000                                   | (29,907)                           | 186,093       |
| Profit for the year                                     |                                    |  | 1,014                              | 1,014         |
| Other comprehensive income for the year:                |                                    |  |                                    |               |
| Revaluation surplus net of deferred tax                 | —                                  | —  | 416,545                            | 416,545       |
| Actuarial loss on pension scheme net of tax             | —                                  | —  | (3,728)                            | (3,728)       |
| <b>Total comprehensive income for the year</b>          | —                                  | —  | 413,831                            | 413,831       |
| Dividends paid and payable                              | 12                                 | —  | (55,000)                           | (55,000)      |
| Cancellation of subscribed capital                      | (95,000)                           | —  | 95,000                             | —             |
| <b>Total investments by and distributions to owners</b> | (95,000)                           | —  | 40,000                             | (55,000)      |
| <b>At 31 December 2016</b>                              | 105,000                            | 16,000                                   | 423,924                            | 544,924       |

The notes on pages 11 to 25 form part of these financial statements.

# **Simec Lochaber Hydropower 2 Limited**

## **Notes to the Financial Statements**

**Year ended 31 December 2016**

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### **1. General information**

The company is a private company limited by shares, registered in England and Wales. The address of the registered office is 7 Hertford Street, London, W1J 7RH, England.

### **2. Statement of compliance**

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'. The company has transitioned from the previously applied Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101") to first time adoption of FRS 102, "The Financial Reporting Standard applicable in the UK and the Republic of Ireland". There were no material measurement or recognition adjustments for the company on the adoption of FRS 102.

### **3. Accounting policies**

#### **Basis of preparation**

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value through profit or loss.

The financial statements are prepared in sterling, which is the functional currency of the entity.

#### **Disclosure exemptions**

The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. Its financial statements are consolidated into the financial statements of Simec Group Ltd which can be obtained from its registered office, Suite 2202-2204, Gloucester Tower, The Landmark Building, 11 Pedder Street, Central Hong Kong.. As such, advantage has been taken of the following disclosure exemptions available under paragraph 1.12 of FRS 102: (b) No cash flow statement has been presented for the company.

#### **Judgements and key sources of estimation uncertainty**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### **Revenue recognition**

Turnover is measured at the fair value of the consideration received or receivable for goods supplied and services rendered, net of discounts and Value Added Tax.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have transferred to the buyer (usually on despatch of the goods); the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the entity; and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

Revenue from the rendering of services is measured by reference to the stage of completion of the service transaction at the end of the reporting period provided that the outcome can be reliably estimated. When the outcome cannot be reliably estimated, revenue is recognised only to the extent that expenses recognised are recoverable.

# **Simec Lochaber Hydropower 2 Limited**

## **Notes to the Financial Statements *(continued)***

**Year ended 31 December 2016**

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### **3. Accounting policies *(continued)***

#### **Income tax**

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

#### **Operating leases**

Lease payments are recognised as an expense over the lease term on a straight-line basis. The aggregate benefit of lease incentives is recognised as a reduction to expense over the lease term, on a straight-line basis.

Lease income is recognised in profit or loss on a straight line basis over the lease term. The aggregate cost of lease incentives are recognised as a reduction to income over the lease term on a straight-line basis. Costs, including depreciation, incurred in earning the lease income are recognised as an expense. Any initial direct costs incurred in negotiating and arranging the operating lease are added to the carrying amount of the lease and recognised as an expense over the lease term on the same basis as the lease income.

#### **Intangible assets**

Intangible assets are initially recorded at cost, and are subsequently stated at cost less any accumulated amortisation and impairment losses. Any intangible assets carried at revalued amounts, are recorded at the fair value at the date of revaluation, as determined by reference to an active market, less any subsequent accumulated amortisation and subsequent accumulated impairment losses.

Intangible assets acquired as part of a business combination are recorded at the fair value at the acquisition date.

#### **Research and development**

Research expenditure is written off in the period in which it is incurred.

# Simec Lochaber Hydropower 2 Limited

## Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

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### 3. Accounting policies *(continued)*

#### Research and development *(continued)*

Development expenditure incurred is capitalised as an intangible asset only when all of the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- There is the intention to complete the intangible asset and use or sell it;
- There is the ability to use or sell the intangible asset;
- The use or sale of the intangible asset will generate probable future economic benefits;
- There are adequate technical, financial and other resources available to complete the development and to use or sell the intangible asset; and
- The expenditure attributable to the intangible asset during its development can be measured reliably.

Expenditure that does not meet the above criteria is expensed as incurred.

#### Tangible assets

Tangible assets are initially recorded at cost, and subsequently stated at cost less any accumulated depreciation and impairment losses. Any tangible assets carried at revalued amounts are recorded at the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation, is recognised in other comprehensive income and accumulated in equity, except to the extent it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A decrease in the carrying amount of an asset as a result of revaluation, is recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity in respect of that asset. Where a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss.

#### Depreciation

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

|                     |                        |
|---------------------|------------------------|
| Freehold property   | - 2% reducing balance  |
| Plant and machinery | - 33% reducing balance |

#### Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

For the purposes of impairment testing, when it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that largely independent of the cash inflows from other assets or groups of assets.

# **Simec Lochaber Hydropower 2 Limited**

## **Notes to the Financial Statements** *(continued)*

**Year ended 31 December 2016**

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### **3. Accounting policies** *(continued)*

#### **Impairment of fixed assets** *(continued)*

For impairment testing of goodwill, the goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the company are assigned to those units.

#### **Stocks**

Stocks are measured at the lower of cost and estimated selling price less costs to complete and sell. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the stock to its present location and condition.

#### **Provisions**

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense.

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

#### **Financial instruments**

A financial asset or a financial liability is recognised only when the company becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Where investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are publicly traded or their fair value can otherwise be measured reliably, the investment is subsequently measured at fair value with changes in fair value recognised in profit or loss. All other such investments are subsequently measured at cost less impairment.

Other financial instruments, including derivatives, are initially recognised at fair value, unless payment for an asset is deferred beyond normal business terms or financed at a rate of interest that is not a market rate, in which case the asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.



# Simec Lochaber Hydropower 2 Limited

## Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

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### 3. Accounting policies *(continued)*

#### Financial instruments *(continued)*

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised.

#### Defined benefit plans

The Company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the balance sheet date less the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ("discount rate").

The fair value of the plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as "Re measurement of net defined benefit liability".

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises: a) the increase in net pension liability arising from employee service during the period; and b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a finance expense.

# Simec Lochaber Hydropower 2 Limited

## Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

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### 3. Accounting policies *(continued)*

#### Defined contribution plans

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payments obligations.

The contributions are recognised as an expense in the income statement when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

### 4. Turnover

Turnover arises from:

|  | 2016<br>£000  | 2015<br>£000  |
|--|---------------|---------------|
| Aluminium production and associated activities | 67,444        | 70,145        |
| Shipping services                              | 15,611        | 16,496        |
|  | <u>83,055</u> | <u>86,641</u> |

The turnover is attributable to the one principal activity of the company. An analysis of turnover by the geographical markets that substantially differ from each other is given below:

|                | 2016<br>£000  | 2015<br>£000  |
|----------------|---------------|---------------|
| United Kingdom | 67,444        | 70,145        |
| Overseas       | 15,611        | 16,496        |
|                | <u>83,055</u> | <u>86,641</u> |

### 5. Other operating income

|                        | 2016<br>£000 | 2015<br>£000  |
|------------------------|--------------|---------------|
| Other operating income | <u>1,110</u> | <u>23,654</u> |

### 6. Operating profit

Operating profit or loss is stated after charging/crediting:

|  | 2016<br>£000 | 2015<br>£000 |
|--|--------------|--------------|
| Depreciation of tangible assets                  | 4,923        | 5,090        |
| Gains on disposal of tangible assets             | (107)        | –            |
| Research and development expenditure written off | <u>200</u>   | <u>228</u>   |

The company commissioned a study to identify what expenditure it incurs that qualifies for enhanced tax relief under the Research and Development Expenditure Credit (RDEC) claim scheme. The RDEC qualifying cost has been disclosed above and the 2015 comparative restated to be on the same basis.

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# Simec Lochaber Hydropower 2 Limited

## Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

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### 7. Auditor's remuneration

|  | 2016<br>£000 | 2015<br>£000 |
|--|--------------|--------------|
| Fees payable for the audit of the financial statements | <u>35</u>    | <u>54</u>    |

### 8. Staff costs

The average number of persons employed by the company during the year, including the directors, amounted to:

|                                      | 2016<br>No. | 2015<br>No. |
|--------------------------------------|-------------|-------------|
| Production and supporting activities | <u>171</u>  | <u>169</u>  |

The aggregate payroll costs incurred during the year, relating to the above, were:

|                       | 2016<br>£000  | 2015<br>£000 |
|-----------------------|---------------|--------------|
| Wages and salaries    | 8,340         | 7,465        |
| Social security costs | 571           | 845          |
| Other pension costs   | 1,299         | 801          |
|                       | <u>10,210</u> | <u>9,111</u> |

### 9. Other interest receivable and similar income

|  | 2016<br>£000 | 2015<br>£000 |
|--|--------------|--------------|
| Interest from group undertakings                               | 428          | 380          |
| Net finance income in respect of defined benefit pension plans | <u>582</u>   | <u>519</u>   |
|  | <u>1,010</u> | <u>899</u>   |

### 10. Interest payable and similar expenses

|   | 2016<br>£000 | 2015<br>£000 |
|---|--------------|--------------|
| Unwinding of discount on long term provisions | <u>642</u>   | <u>1,212</u> |

### 11. Tax on profit

#### Major components of tax expense

|   | 2016<br>£000 | 2015<br>£000 |
|---|--------------|--------------|
| <b>Current tax:</b>                     |              |              |
| UK current tax expense                  | 2,278        | 1,465        |
| Adjustments in respect of prior periods | 3,192        | (448)        |
| Total current tax                       | <u>5,470</u> | <u>1,017</u> |

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# Simec Lochaber Hydropower 2 Limited

## Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

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### 11. Tax on profit *(continued)*

|  | 2016<br>£000 | 2015<br>£000 |
|--|--------------|--------------|
| <b>Deferred tax:</b>                           |              |              |
| Origination and reversal of timing differences | (728)        | 2,752        |
| Impact of change in tax rate                   | –            | 346          |
| Total deferred tax                             | (728)        | 3,098        |
| <b>Tax on profit</b>                           | <u>4,742</u> | <u>4,115</u> |

### Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is higher than (2015: lower than) the standard rate of corporation tax in the UK of 20% (2015: 20.25%).

|  | 2016<br>£000 | 2015<br>£000 |
|--|--------------|--------------|
| Profit on ordinary activities before taxation            | 5,756        | 32,273       |
| Profit on ordinary activities by rate of tax             | 1,151        | 6,535        |
| Adjustment to tax charge in respect of prior periods     | 3,192        | (448)        |
| Effect of expenses not deductible for tax purposes       | –            | 613          |
| Adjustment in research and development tax credit        | –            | (223)        |
| Book profits of chargeable assets                        | –            | (456)        |
| Changes in provision leading to a decrease in tax charge | 399          | (2,207)      |
| Other differences due to change in tax rate              | –            | 276          |
| Group relief(received) for nil value                     | –            | 25           |
| Tax on profit  | <u>4,742</u> | <u>4,115</u> |

### 12. Dividends

|  | 2016<br>£000  | 2015<br>£000 |
|--|---------------|--------------|
| Dividends paid during the year – British Alcan Aluminium Ltd | <u>55,000</u> | <u>–</u>     |

# Simec Lochaber Hydropower 2 Limited

## Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

### 13. Intangible assets

|  | Carbon<br>Quota<br>£000 |
|--|-------------------------|
| <b>Cost</b>                            |                         |
| At 1 January 2016                      | 260                     |
| Additions                              | –                       |
| Disposals                              | (260)                   |
| <b>At 31 December 2016</b>             | <u>–</u>                |
| <b>Amortisation</b>                    |                         |
| At 1 January 2016 and 31 December 2016 | <u>–</u>                |
| <b>Carrying amount</b>                 |                         |
| At 31 December 2016                    | <u>–</u>                |
| At 31 December 2015                    | <u>260</u>              |

### 14. Tangible assets

|                            | Freehold<br>property<br>£000 | Plant and<br>machinery<br>£000 | <b>Total<br/>£000</b> |
|----------------------------|------------------------------|--------------------------------|-----------------------|
| <b>Cost or valuation</b>   |                              |                                |                       |
| At 1 January 2016          | 57,716                       | 137,188                        | 194,904               |
| Additions                  | 19,146                       | 6,479                          | 25,625                |
| Disposals                  | (17,623)                     | (71,022)                       | (88,645)              |
| Revaluations               | 265,337                      | 229,577                        | 494,914               |
| <b>At 31 December 2016</b> | <u>324,576</u>               | <u>302,222</u>                 | <u>626,798</u>        |
| <b>Depreciation</b>        |                              |                                |                       |
| At 1 January 2016          | 46,250                       | 61,628                         | 107,878               |
| Charge for the year        | 870                          | 4,054                          | 4,924                 |
| Disposals                  | (9,480)                      | (42,066)                       | (51,546)              |
| <b>At 31 December 2016</b> | <u>37,640</u>                | <u>23,616</u>                  | <u>61,256</u>         |
| <b>Carrying amount</b>     |                              |                                |                       |
| At 31 December 2016        | <u>286,936</u>               | <u>278,606</u>                 | <u>565,542</u>        |
| At 31 December 2015        | <u>11,466</u>                | <u>75,560</u>                  | <u>87,026</u>         |

Freehold property and plant & machinery related to Kinlochleven and Lochaber hydropower plants were revalued on 16th December 2016. The revaluation was carried out by Grant Thornton UK LLP who have assessed the fair values of both the Hydro power plants by using the discounted cash flow method based on their future expected earnings capacity, as both plants are operational at the time of revaluation. The total revalued amount disclosed in the accounts is £565,000,000. The total carrying amount of the revalued assets at the time of revaluation was £70,086,000. There is no depreciation or impairment provided on the revalued assets as management is of the view that assets are fairly stated at the balance sheet date.

# Simec Lochaber Hydropower 2 Limited

## Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

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### 15. Stocks

|                                     | 2016<br>£000 | 2015<br>£000 |
|-------------------------------------|--------------|--------------|
| Raw materials and consumables       | –            | 5,437        |
| Finished goods and goods for resale | –            | 1,845        |
|                                     | <u>–</u>     | <u>7,282</u> |

### 16. Debtors

|                                    | 2016<br>£000  | 2015<br>£000   |
|------------------------------------|---------------|----------------|
| Trade debtors                      | –             | 356            |
| Amounts owed by group undertakings | –             | 135,898        |
| Deferred tax asset (note 19)       | 1,084         | 1,231          |
| Prepayments and accrued income     | 909           | 1,199          |
| Other debtors                      | 45,543        | 8,286          |
|                                    | <u>47,536</u> | <u>146,970</u> |

### 17. Creditors: amounts falling due within one year

|                                    | 2016<br>£000 | 2015<br>£000  |
|------------------------------------|--------------|---------------|
| Trade creditors                    | 176          | 2,537         |
| Amounts owed to group undertakings | –            | 38,050        |
| Accruals and deferred income       | 808          | –             |
| Corporation tax                    | 2,278        | 1,688         |
| Social security and other taxes    | 542          | 1,771         |
| Other creditors                    | –            | 9,604         |
|                                    | <u>3,804</u> | <u>53,650</u> |

Last year amounts owed to group undertaking were the intercompany balances which were transferred out of the company as at 16th December 2016. These balances were interest free and repayable on demand on normal trading terms.

# Simec Lochaber Hydropower 2 Limited

## Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

### 18. Provisions

|                            | Rationalisation<br>£000 | Deferred tax<br>(note 19)<br>£000 | Asset<br>retirement<br>obligations<br>£000 | Others<br>£000 | Total<br>£000 |
|----------------------------|-------------------------|-----------------------------------|--|----------------|---------------|
| At 1 January 2016          | 14,282                  | –                                 | 2,061                                      | 227            | 16,570        |
| Additions                  | –                       | 78,368                            | –  | –              | 78,368        |
| Charge against provision   | (924)                   | –                                 | (148)                                      | (158)          | (1,230)       |
| Unused amounts reversed    | 512                     | –                                 | 92   | –              | 604           |
| Transfers                  | (13,679)                | –                                 | (1,077)                                    | –              | (14,756)      |
| Other movements 1          | –                       | –                                 | (930)                                      | (39)           | (969)         |
| <b>At 31 December 2016</b> | <b>191</b>              | <b>78,368</b>                     | <b>(2)</b>                                 | <b>30</b>      | <b>78,587</b> |

The rationalisation provision covers ongoing costs of liabilities from plants that have been closed. The principal item included in the provision is the estimated discounted present value of environmental protection and pollution control required at the Company's closed Burntisland alumina plant.

The asset retirement obligations provision is to cover disposal and restitution costs payable when assets cease productive use. The provision is built up over the expected useful lives of the assets. The release in the year is principally due to lower costs arising from the closure of the Lynemouth smelter due to higher than expected scrap metal prices and the sale of the site earlier than anticipated with the purchaser agreeing to complete various dismantling and restoration works that it was expected that the Company would incur before sale.

The other provisions are principally liabilities arising from a period when the Company was self insured for some limited employers' liability risks.

### 19. Deferred tax

The deferred tax included in the statement of financial position is as follows:

|                                  | 2016<br>£000    | 2015<br>£000 |
|----------------------------------|-----------------|--------------|
| Included in debtors (note 16)    | 1,084           | 1,231        |
| Included in provisions (note 18) | (78,368)        | –            |
|                                  | <u>(77,284)</u> | <u>1,231</u> |

The deferred tax account consists of the tax effect of timing differences in respect of:

|  | 2016<br>£000    | 2015<br>£000 |
|--|-----------------|--------------|
| Revaluation of tangible assets (note 18) | <u>(78,368)</u> | <u>–</u>     |

# Simec Lochaber Hydropower 2 Limited

## Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

### 20. Employee benefits *(continued)*

#### Defined benefit plans

The amounts recognised in the statement of financial position are as follows:

|  | <b>2016</b>   | <b>2015</b>   |
|--|---------------|---------------|
|  | <b>£000</b>   | <b>£000</b>   |
| Defined benefit pension plan asset     | 74,805        | 64,417        |
| Defined benefit pension plan liability | (63,311)      | (49,791)      |
| Net defined benefit asset              | <u>11,494</u> | <u>14,626</u> |

The statement of financial position net defined benefit asset is determined as follows:

|  | <b>2016</b>   | <b>2015</b>   |
|--|---------------|---------------|
|  | <b>£000</b>   | <b>£000</b>   |
| Present value of defined benefit obligations | (63,311)      | (49,791)      |
| Fair value of plan assets                    | <u>74,805</u> | <u>64,417</u> |
|  | <u>11,494</u> | <u>14,626</u> |

Changes in the present value of the defined benefit obligations are as follows:

|                                    | <b>2016</b>          |
|------------------------------------|----------------------|
|                                    | <b>£000</b>          |
| At 1 January 2016                  | 49,791               |
| Current service cost               | 1,016                |
| Interest expense                   | 1,826                |
| Benefits paid                      | (2,508)              |
| Contributions by plan participants | 112                  |
| Remeasurements:                    |                      |
| Actuarial gains and losses         | 13,074               |
| <b>At 31 December 2016</b>         | <u><b>63,311</b></u> |

Changes in the fair value of plan assets are as follows:

|                                       | <b>2016</b>          |
|---------------------------------------|----------------------|
|                                       | <b>£000</b>          |
| At 1 January 2016                     | 64,417               |
| Interest income                       | 2,408                |
| Benefits paid                         | (2,508)              |
| Contributions by employer             | 630                  |
| Contributions by plan participants    | 112                  |
| Administration costs paid by the plan | (295)                |
| Remeasurements:                       |                      |
| Actuarial gains and losses            | 10,041               |
| <b>At 31 December 2016</b>            | <u><b>74,805</b></u> |



# Simec Lochaber Hydropower 2 Limited

## Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

### 20. Employee benefits *(continued)*

The total costs for the year in relation to defined benefit plans are as follows:

|                                       | 2016<br>£000 | 2015<br>£000 |
|---------------------------------------|--------------|--------------|
| Recognised in profit or loss:         |              |              |
| Current service credit                | (1,016)      | (1,126)      |
| Net interest expense                  | 582          | 519          |
| Administration costs paid by the plan | (295)        | (339)        |
|                                       | <u>(729)</u> | <u>(946)</u> |

The fair values of the major categories of plan assets are as follows:

|                           | 2016<br>£000  | 2015<br>£000  |
|---------------------------|---------------|---------------|
| Equity instruments        | 14,564        | 12,183        |
| Property                  | 3,662         | 3,737         |
| Cash and cash equivalents | 811           | 877           |
| Gilts                     | 34,453        | 29,469        |
| Corporate bonds           | 21,315        | 18,151        |
|                           | <u>74,805</u> | <u>64,417</u> |

The principal actuarial assumptions as at the statement of financial position date were:

|   | 2016<br>% | 2015<br>% |
|---|-----------|-----------|
| Discount rate   | 2.70      | 3.80      |
| Expected rate of salary increase                                    | 3.30      | 3.10      |
| Inflation assumption  | 3.30      | 3.10      |
| Future pension increases for pensions earned                        | 3.20      | 3.00      |
| Future pension increases for pensions earned pre 1997 and post 2006 | –         | 2.10      |

### 21. Called up share capital

#### Issued, called up and fully paid

|                            | 2016               |                | 2015               |                |
|----------------------------|--------------------|----------------|--------------------|----------------|
|                            | No.                | £000           | No.                | £000           |
| Ordinary shares of £1 each | <u>105,000,000</u> | <u>105,000</u> | <u>200,000,000</u> | <u>200,000</u> |

#### Share movements

|                     | No.                | £000           |
|---------------------|--------------------|----------------|
| Ordinary            |                    |                |
| At 1 January 2016   | 200,000,000        | 200,000        |
| Shares cancelled    | (95,000,000)       | (95,000)       |
| At 31 December 2016 | <u>105,000,000</u> | <u>105,000</u> |

# Simec Lochaber Hydropower 2 Limited

## Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

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### 22. Reserves

The capital redemption reserve arose as a result of the company purchasing its own shares.

The profit and loss account represents the accumulated profits and losses reported by the company in the current and all previous years.

### 23. Capital commitments

Capital expenditure contracted for but not provided for in the financial statements is as follows:

|                 | 2016<br>£000 | 2015<br>£000 |
|-----------------|--------------|--------------|
| Tangible assets | —            | 776          |

### 24. Operating leases

#### As lessee

The total future minimum lease payments under non-cancellable operating leases are as follows:

|  | 2016<br>£000 | 2015<br>£000 |
|--|--------------|--------------|
| Not later than 1 year                        | —            | 1            |
| Later than 1 year and not later than 5 years | —            | 6            |
| Later than 5 years                           | —            | 29           |
|  | —            | 36           |

#### As lessor

The total future minimum lease payments receivable under non-cancellable operating leases are as follows:

|  | 2016<br>£000 | 2015<br>£000 |
|--|--------------|--------------|
| Not later than 1 year                        | —            | 16           |
| Later than 1 year and not later than 5 years | —            | 17           |
|  | —            | 33           |

### 25. Events after the end of the reporting period

On 28th April 2017, the sale of Kinlochleven Hydropower plant was agreed and sold to Simec Kinlochleven Power Ltd. The total sale consideration agreed from the sale of the business and its assets was £151,500,000. After this sale, the company is left with one Hydro power plant situated at Lochaber generating electricity mainly for Liberty Aluminium Lochaber Ltd.

# **Simec Lochaber Hydropower 2 Limited**

## **Notes to the Financial Statements *(continued)***

**Year ended 31 December 2016**

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### **26. Related party transactions**

The company has taken advantage of the exemption contained in FRS 102 and not disclosed transactions entered into with wholly-owned group companies.

At the year end, the company was owed £42,062,283 from Liberty Aluminium Lochaber Ltd.

The related company mentioned above is part of the GFG Alliance, which encompasses entities under the common control of S K Gupta and his father P K Gupta.

### **27. Controlling party**

The immediate parent undertaking as at year end is Simec Lochaber Hydropower Limited. The ultimate parent undertaking and controlling party is Simec Group Ltd incorporated in Hong Kong, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The Group's consolidated financial statements can be obtained from the registered office at Suite 2202-2204, Gloucester Tower, The Landmark Building, 11 Pedder Street, Central Hong Kong. The ultimate controlling party is Mr P K Gupta by virtue of 100% share holdings in the ultimate parent company.