

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law and registered thereunder as an exempted company. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its principal subsidiaries are engaged in the design, manufacture and marketing of PVC and fabric household products, PVC pipes and fittings and property investment.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (therein after collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of the new HKFRSs but is not yet in a position to determine whether the new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. The new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and trading securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) made up to 31 December each year.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Investment in subsidiaries

Investment in subsidiaries is included in the Company’s balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income derived therefrom being negotiated at arm's length.

Investment properties are stated at their open market values based on professional valuations at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance in the reserve is insufficient to cover a revaluation deficit, in which case the excess of the revaluation deficit over the balance in the investment property revaluation reserve is charged to the income statement. Where a revaluation deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this revaluation surplus is credited to the income statement to the extent of the revaluation deficit previously charged.

On disposal of an investment property, any balance in the investment property revaluation reserve which is attributable to the disposed property is credited to the income statement.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than 20 years. Where the investment properties are held on leases with unexpired term of 20 years or less, depreciation is provided on the carrying amount over the remaining term of the lease.

Property, plant and equipment

Property, plant and equipment other than buildings under construction are stated at cost less accumulated depreciation and impairment losses.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

The cost of leasehold land and buildings situated in the People's Republic of China (the "PRC"), including Hong Kong, is depreciated over twenty to fifty years on a straight line basis.

Buildings under construction, comprising all direct costs incurred in construction, are stated at cost. No depreciation is provided until construction is complete and the buildings are ready for their intended use.

Depreciation is provided to write off the cost of property, plant and equipment other than buildings under construction over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Furniture, fixtures and equipment	18 — 20%
Leasehold improvements	20%
Motor vehicles	20%
Plant and machinery	9 — 20%

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For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost, which comprises direct purchase cost and other incidental expenses that have been incurred in bringing such properties to their present location and condition. Net realisable value represents the estimated selling price less all related marketing and selling expenses.

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.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Trading securities

Investment in trading securities are recognised on a trade-date basis and are initially measured at cost.

Investments in trading securities are carried at fair value at the balance sheet date. All unrealised gains and losses are dealt with in the income statement for the year.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the 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 taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation 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 negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Revenue recognition

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

Income from properties held for sale is recognised on the execution of a legally binding, unconditional and irrecoverable sales contracts.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the duration of the leases.

Dividends from trading securities are recognised when the Group's right to receive payment is established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable rate of interest.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalisation of borrowing costs

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

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

Retirement benefit costs

The Group's contributions to the Mandatory Provident Fund Scheme in Hong Kong and retirement benefit schemes in the PRC are charged to the income statement as they fall due.

Quota

Temporary quota charges are charged to the income statement on shipment of goods or expiry of the quota, whichever is the earlier.

Operating leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group or lessees.

All other leases are classified as operating leases and the annual rental receipts or payments are credited or charged to the income statement on a straight line basis over the term of the relevant leases.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Notes to the Financial Statements

For the year ended 31 December 2004

4. TURNOVER AND SEGMENT INFORMATION

Business segment

For management purposes, the Group is organised into three divisions: household products, PVC pipes and fittings and property investment.

Segment information about these businesses is presented below as primary segment information:

Year ended 31 December 2004

	Household products <i>HK\$'000</i>	PVC pipes and fittings <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover					
Sales of goods					
External sales	493,011	377,034	—	—	870,045
Inter-segment sales	6,258	1,695	—	(7,953)	—
Rental income	—	—	891	—	891
Total	499,269	378,729	891	(7,953)	870,936
Result					
Segment result	(4,896)	21,824	4,139	—	21,067
Unallocated corporate income					7,062
Profit from operations					28,129
Finance costs					(5,372)
Profit before taxation					22,757
Taxation					(2,899)
Net profit for the year					19,858

Inter-segment sales are charged at cost plus certain markup.

	Household products <i>HK\$'000</i>	PVC pipes and fittings <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Year ended 31 December 2004					
Other information					
Capital additions	52,978	63,015	4,902	2,572	123,467
Depreciation	24,149	26,608	—	1,817	52,574
Allowance for bad and doubtful debts	9,427	1,000	—	—	10,427

Notes to the Financial Statements

For the year ended 31 December 2004

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segment (Continued)

	Household products <i>HK\$'000</i>	PVC pipes and fittings <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
At 31 December 2004				
Assets				
Segment assets	468,215	554,829	114,024	1,137,068
Unallocated corporate assets				177,291
Consolidated total assets				1,314,359
Liabilities				
Segment liabilities	84,005	77,035	105	161,145
Bank borrowings	—	—	52,874	52,874
Unallocated corporate liabilities				312,988
Consolidated total liabilities				527,007

Year ended 31 December 2003

	Household products <i>HK\$'000</i>	PVC pipes and fittings <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover					
Sales of goods					
External sales	424,406	312,209	—	—	736,615
Inter-segment sales	43,758	1,068	—	(44,826)	—
Rental income	—	—	926	—	926
Total	468,164	313,277	926	(44,826)	737,541
Result					
Segment result	18,001	27,477	796	—	46,274
Unallocated corporate expenses					(2,829)
Profit from operations					43,445
Finance costs					(3,485)
Profit before taxation					39,960
Taxation					(2,932)
Net profit for the year					37,028

Inter-segment sales are charged at cost plus certain markup.

Notes to the Financial Statements

For the year ended 31 December 2004

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segment (Continued)

	Household products <i>HK\$'000</i>	PVC pipes and fittings <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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Year ended 31 December 2003

Other information

Capital additions	16,363	45,147	—	844	62,354
Depreciation	24,144	22,898	—	937	47,979

	Household products <i>HK\$'000</i>	PVC pipes and fittings <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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At 31 December 2003

Assets

Segment assets	431,276	469,685	27,852	928,813
Unallocated corporate assets				186,549
Consolidated total assets				1,115,362

Liabilities

Segment liabilities	59,785	83,457	92	143,334
Bank borrowings	—	—	6,825	6,825
Unallocated corporate liabilities				190,945
Consolidated total liabilities				341,104

Notes to the Financial Statements

For the year ended 31 December 2004

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Geographical segment

Substantially all of the sales of the Group's PVC pipes and fittings and rental income of the Group's property investment were made to customers in the PRC, including Hong Kong. An analysis of the Group's sales of household products by geographical market is as follows:

	Turnover	
	2004 HK\$'000	2003 HK\$'000
United States of America	367,736	314,107
Asia	72,393	56,984
Europe	19,984	16,398
Canada	19,578	19,450
Latin America	9,859	13,937
Australia	2,100	3,024
Other areas	1,361	506
Total sales of household products	493,011	424,406

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 has not been presented as they are substantially located in the PRC, including Hong Kong.

Notes to the Financial Statements

For the year ended 31 December 2004

5. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (<i>note 7</i>)	15,813	14,233
Other staff's retirement benefit scheme contributions	3,187	3,370
Other staff costs	81,634	75,242
Total staff costs	100,634	92,845
Auditors' remuneration	1,595	1,509
Cost of inventories recognised as an expense	475,802	432,975
Depreciation	52,574	47,979
Loss on disposal of property, plant and equipment other than leasehold land and buildings	59	695
Operating lease rentals in respect of rented premises	2,675	4,528
Temporary quota charges	82	197
and after crediting:		
Dividend income from trading securities	53	176
Gain on disposal of trading securities	—	517
Gross rental income before deduction of outgoings of HK\$187,000 (2003: HK\$163,000)	891	926
Interest income	479	461
Realised gain on forward contracts	1,066	—
Unrealised gain on forward contracts	153	2,294
Unrealised holding gain on trading securities	694	972

6. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank borrowings:		
— wholly repayable within five years	(5,024)	(3,485)
— not wholly repayable within five years	(348)	—
	(5,372)	(3,485)

Notes to the Financial Statements

For the year ended 31 December 2004

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Information regarding directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Executive	—	—
Non-executive	180	—
Independent non-executive	360	360
	540	360
Other emoluments paid to executive directors:		
Salaries	13,965	11,919
Performance related incentive payments	1,252	1,883
Retirement benefit scheme contributions	56	71
	15,273	13,873
Total directors' emoluments	15,813	14,233

In addition to the amount disclosed above, during the year, the Group also provided one of its leasehold properties in Hong Kong as quarters for two (2003: two) executive directors. The estimated monetary value of such accommodation, using the rateable value as an approximation, is HK\$376,000 (2003: HK\$553,000).

The emoluments of the directors fall within the following bands:

	Number of directors	
	2004	2003
Up to HK\$1,000,000	7	5
HK\$2,000,001 to HK\$2,500,000	—	2
HK\$2,500,001 to HK\$3,000,000	2	—
HK\$7,500,001 to HK\$8,000,000	1	1
	10	8

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(ii) Information regarding employees' emoluments

The five highest paid employees of the Group in both years included three (2003: three) executive directors whose emoluments are included in (i) above. The emoluments of the other two (2003: two) highest paid employees, not being directors, are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries	2,486	2,055
Retirement benefit scheme contributions	24	12
	2,510	2,067

The emoluments of these two employees fall within the following bands:

	Number of employees	
	2004	2003
Up to HK\$1,000,000	—	1
HK\$1,000,001 to HK\$1,500,000	2	1

8. TAXATION

	2004	2003
	HK\$'000	HK\$'000
Hong Kong Profits Tax calculated at 17.5% (2003: 17.5%)		
on the estimated assessable profits of the year		
— charge for the year	—	(393)
— (under)overprovision in prior years	(79)	25
	(79)	(368)
Non Hong Kong taxation		
— charge for the year	(1,720)	(968)
	(1,799)	(1,336)
Deferred taxation charge (note 21)	(1,100)	(1,596)
Net taxation charge	(2,899)	(2,932)

No provision for Hong Kong Profits Tax has been made in the financial statements in the current year as the Group has no assessable income for the year.

Non Hong Kong taxation represents enterprise income tax of 15% on income derived from other parts of the PRC outside Hong Kong. Certain subsidiaries in the PRC are eligible for tax concessions.

Notes to the Financial Statements

For the year ended 31 December 2004

8. TAXATION (Continued)

The net taxation charge for the year can be reconciled to the profit before taxation in the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	22,757	39,960
Tax at the domestic income tax rate of 15% (2003: 15%)	(3,413)	(5,994)
Tax effect of expenses not deductible for tax purpose	(352)	(920)
Tax effect of income not taxable for tax purpose	782	1,046
(Under)overprovision in respect of prior year	(68)	21
Tax effect of deferred taxation assets not recognised	(4,399)	(1,122)
Utilisation of tax losses previously not recognised	771	580
Income tax on concessionary rate	3,684	3,589
Increase in opening deferred taxation liability resulting from an increase in applicable tax rate	—	(26)
Effect of different tax rates of subsidiaries operating in other jurisdictions	96	(106)
Net taxation charge for the year	(2,899)	(2,932)

The PRC Enterprise Income Tax rate of 15% is the domestic tax rate in the jurisdiction where the operation of the Group is substantially based.

9. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim paid: 0.5 cent per share (2003: 0.5 cent per share)	3,382	3,382
Final proposed: 0.5 cent per share (2003: 0.5 cent per share)	3,382	3,382
	6,764	6,764

The final dividend proposed of 0.5 cent (2003: 0.5 cent) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

The final dividend for 2003 was paid in June 2004.

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10. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share are as follows:

	2004 HK\$'000	2003 HK\$'000
Earnings for the purpose of calculating basic and diluted earnings per share	19,858	37,028
	Number of shares	
	2004	2003
Number of shares for the purpose of calculating basic earnings per share	676,417,401	676,417,401
Effect of dilutive potential shares:		
Share options		152,954
Weighted average number of shares for the purpose of calculating diluted earnings per share		676,570,355
Basic earnings per share	2.9 cents	5.5 cents
Diluted earnings per share	N/A	5.5 cents

In 2004, no diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price of the Company's shares.

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11. INVESTMENT PROPERTIES

	2004 HK\$'000	2003 HK\$'000
THE GROUP		
VALUATION		
At 1 January	15,220	15,200
Additions	4,902	—
Surplus arising on valuation	3,548	20
At 31 December	23,670	15,220

The net book values of investment properties at the balance sheet date comprise:

	2004 HK\$'000	2003 HK\$'000
Properties situated in Hong Kong	18,060	15,220
Properties situated in the PRC, other than Hong Kong	5,610	—
At 31 December	23,670	15,220

The investment properties are held under medium-term leases and rented out to third parties under operating leases.

The Group's investment properties were valued as at 31 December 2004 on an open market value basis by Knight Frank, an independent firm of professional property valuers. The surplus resulting on the revaluation is credited to the income statement.

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12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Buildings under construction <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP							
COST							
At 1 January 2004	327,970	84,321	71,526	61,016	18,440	557,463	1,120,736
Additions	55,510	16,128	2,211	4,743	1,229	38,744	118,565
Reclassifications	81,473	(84,207)	—	2,734	—	—	—
Disposals	(39,774)	—	—	(1,092)	(1,434)	—	(42,300)
At 31 December 2004	425,179	16,242	73,737	67,401	18,235	596,207	1,197,001
DEPRECIATION							
At 1 January 2004	64,063	—	53,207	45,142	12,113	274,095	448,620
Provided for the year	13,250	—	3,676	2,628	1,543	31,477	52,574
Eliminated on disposals	(3,918)	—	—	(712)	(1,157)	—	(5,787)
At 31 December 2004	73,395	—	56,883	47,058	12,499	305,572	495,407
NET BOOK VALUES							
At 31 December 2004	351,784	16,242	16,854	20,343	5,736	290,635	701,594
At 31 December 2003	263,907	84,321	18,319	15,874	6,327	283,368	672,116

The net book values of the Group's leasehold land and buildings comprise:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Leasehold land and buildings in Hong Kong under medium-term leases	79,246	40,368
Land and buildings in the PRC other than Hong Kong on land for which the Group has been granted land use rights and the land is under medium-term	272,538	223,539
	351,784	263,907

The buildings under construction are located in the PRC other than Hong Kong (2003: located in Hong Kong and other parts of the PRC). The balance shown includes capitalised interest of HK\$Nil (2003: HK\$4,897,000).

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13. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	32,917	32,917

The details of the Company's principal subsidiaries at 31 December 2004 are as follows:

Name of subsidiary	Place and nature of incorporation/registration	Nominal value of issued ordinary share/registered capital*	Attributable equity interest of the Group	Principal activities
Action Land Limited	Hong Kong — limited liability company	HK\$6,000,000	100%	Provision of transportation services
Asian Fabulous Enterprise (Shenzhen) Co., Ltd.	PRC — wholly owned foreign enterprise	HK\$100,000,000	100%	Manufacturing of household products
Fundbor Industries Limited	Hong Kong — limited liability company	HK\$7,000,000	100%	Trading of polyester fibres
Fundbor Textiles (Zhongshan) Company Limited	PRC — wholly owned foreign enterprise	**	100%	Manufacture and operate recycling and reborn resources related business
Gold Earn (Hong Kong) Limited	Hong Kong — limited liability company	HK\$2	100%	Property holding
Good Quality Holdings Limited	Hong Kong — limited liability company	HK\$2	100%	Property holding
Greatflow Investments Limited	British Virgin Islands ("BVI") — limited liability company	US\$1	100%	Property holding

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13. INVESTMENT IN SUBSIDIARIES (Continued)

Name of subsidiary	Place and nature of incorporation/registration	Nominal value of issued ordinary share/registered capital*	Attributable equity interest of the Group	Principal activities
Hopemain Industries Limited	Hong Kong — limited liability company	HK\$5,000,000	100%	Investment holding
Hopemain Industries (Shenzhen) Limited	PRC — wholly owned foreign enterprise	HK\$10,000,000	100%	Manufacturing of PVC products
Nam Sok Building Material & Plastic Products (Changshu) Co., Ltd.	PRC — wholly owned foreign enterprise	US\$10,000,000	100%	Manufacturing of PVC pipes and fittings and moulds
Nam Sok Building Material & Plastic Products (Shenzhen) Co., Ltd.	PRC — wholly owned foreign enterprise	HK\$230,000,000	100%	Manufacturing of PVC pipes and fittings and moulds
Nam Sok Houseware Producing (Changshu) Co., Ltd.	PRC — wholly owned foreign enterprise	***	100%	Manufacturing of household products
South China Plastic Building Material Manufacturing Limited	Hong Kong — limited liability company	HK\$2	100%	Trading in building materials and supplies
South China Reborn Resources (Zhongshan) Company Limited	PRC — wholly owned foreign enterprise	****	100%	Manufacture and operate recycling and reborn resources related business
Welidy Limited	Hong Kong — limited liability company	HK\$10,000	100%	Property holding
World Home Linen Manufacturing Company Limited	Hong Kong — limited liability company	HK\$200 Deferred non-voting shares HK\$10,000	100% *****	Property holding

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13. INVESTMENT IN SUBSIDIARIES (Continued)

Name of subsidiary	Place and nature of incorporation/ registration	Nominal value of issued ordinary share/ registered capital*	Attributable equity interest of the Group	Principal activities
World Houseware (B.V.I.) Limited	BVI — limited liability company	HK\$50,000	100%	Investment holding
World Houseware Producing (China) Company Limited	Hong Kong — limited liability company	HK\$1,500,000 Deferred non-voting shares HK\$500,000	100% *****	Subcontracting and manufacturing of household products
World Houseware Producing Company Limited	Hong Kong — limited liability company	HK\$200 Deferred non-voting shares HK\$160,500	100% *****	Trading in household products
World Plastic Mat (Baoan) Company Limited	PRC — wholly owned foreign enterprise	*****	100%	Manufacturing of household products
World Plastic-ware Manufacturing Limited	Hong Kong — limited liability company	HK\$32,500,000	100%	Investment holding

* All are ordinary shares/registered capital unless otherwise stated.

** The registered capital of Fundbor Textiles (Zhongshan) Company Limited is US\$4,900,000. As at 31 December 2004, US\$1,667,647 had been contributed to this company.

*** The registered capital of Nam Sok Houseware Producing (Changshu) Co., Ltd. is US\$10,000,000. As at 31 December 2004, US\$5,805,553 had been contributed to this company.

**** The registered capital of South China Reborn Resources (Zhongshan) Company Limited is US\$5,000,000. As at 31 December 2004, US\$1,666,917 had been contributed to this company.

***** The registered capital of World Plastic Mat (Baoan) Company Limited is HK\$360,000,000. As at 31 December 2004, HK\$350,000,000 had been contributed to this company.

***** None of the deferred non-voting shares are held by the Group.

13. INVESTMENT IN SUBSIDIARIES (Continued)

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

Only World Houseware (B.V.I.) Limited is directly held by the Company.

All the subsidiaries operate in their respective places of incorporation/registration except World Houseware Producing (China) Company Limited which operates in the PRC, Good Quality Holdings Limited which holds properties in the PRC excluding Hong Kong and Greatflow Investments Limited which holds properties in Hong Kong.

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

14. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	100,522	78,464
Work in progress	33,346	31,528
Finished goods	40,560	27,539
	174,428	137,531

Finished goods of approximately HK\$620,000 (2003: HK\$975,000) included above are carried at net realisable value.

15. TRADE AND OTHER RECEIVABLES

The Group allows credit periods of up to 180 days, depending on the product sold, to its trade customers.

The following is an aged analysis of the Group's trade receivables at the balance sheet date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0-30 days	57,725	54,950
31-60 days	40,892	24,884
61-90 days	20,234	14,290
91-180 days	25,663	20,796
Over 180 days	24,879	10,670
Total trade receivables	169,393	125,590
Less: Allowance for bad and doubtful debts	(14,780)	(4,353)
Other receivables	45,720	82,209
Total trade and other receivables	200,333	203,446

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For the year ended 31 December 2004

16. PROPERTIES HELD FOR SALE

At 31 December 2004, all the properties held for sale were carried at cost, situated in Hong Kong and are held under medium-term leases.

17. TRADING SECURITIES

Trading securities comprise equity shares listed on The Stock Exchange of Hong Kong Limited and were carried at market value at the balance sheet date.

18. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0-30 days	60,477	53,243
31-60 days	27,737	37,922
61-90 days	22,505	16,864
Over 90 days	26,810	12,943
Total trade payables	137,529	120,972
Other payables	24,862	25,018
Total trade and other payables	162,391	145,990

19. BANK BORROWINGS — AMOUNT DUE WITHIN ONE YEAR

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Bank overdrafts	2,638	6,567
Trust receipts and import loans	7,215	6,165
Short term loans	143,200	133,899
Portion of non-current loans due within one year (<i>note 20</i>)	62,924	26,558
	215,977	173,189
Analysed as:		
Secured	74,260	114,722
Unsecured	141,717	58,467
	215,977	173,189

Notes to the Financial Statements

For the year ended 31 December 2004

20. BANK BORROWINGS — AMOUNT DUE AFTER ONE YEAR

The Group has bank loans which have repayment periods in excess of one year. These loans bear interest at market rates and are repayable as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	62,924	26,558
In the second year	62,977	15,892
In the third to fifth year	61,135	—
After five years	17,438	—
	204,474	42,450
Less: Amount due within one year and shown under current liabilities (<i>note 19</i>)	(62,924)	(26,558)
Amount due after one year shown as non-current	141,550	15,892
Analysed as:		
Secured	38,057	15,892
Unsecured	103,493	—
	141,550	15,892

21. DEFERRED TAXATION

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
THE GROUP			
At 1 January 2003	(4,768)	357	(4,411)
Currency realignment	26	—	26
Effect of change in tax rate	(64)	33	(31)
Charge to consolidated income statement for the year	(1,175)	(390)	(1,565)
At 31 December 2003	(5,981)	—	(5,981)
Charge to consolidated income statement for the year	(1,100)	—	(1,100)
At 31 December 2004	(7,081)	—	(7,081)

Notes to the Financial Statements

For the year ended 31 December 2004

21. DEFERRED TAXATION (Continued)

At the balance sheet date, the Group had tax losses of approximately HK\$83,646,000 (2003: HK\$60,657,000) available to offset future assessable profits. No deferred taxation asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely. The Group had no other significant unprovided deferred taxation at the balance sheet date.

At the balance sheet date, the Company had unrecognised tax losses of HK\$17,489,000 (2003: HK\$14,129,000) available for offset future profits. No deferred taxation asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

22. SHARE CAPITAL

	2004 & 2003 HK\$'000
Authorised:	
1,500,000,000 shares of HK\$0.10 each	150,000
	Nominal value
	2004 & 2003 HK\$'000
Issued and fully paid:	
676,417,401 shares of HK\$0.10 each	67,642

There were no changes in the authorised, issued and fully paid share capital in both years.

23. SHARE OPTION SCHEME

The Company has a share option scheme under which options may be granted as incentives to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company at any time during the ten year period following the adoption of the scheme. The scheme was adopted at an extraordinary general meeting of the Company held on 11 March 1993. Under the scheme, the subscription price will not be less than 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the offer of the option provided that in no circumstances shall the subscription price be less than the nominal value of the Company's share.

The maximum number of shares in respect of which options may be granted under this scheme may not exceed 10% of the issued share capital of the Company from time to time. An option can be exercised six months after the date of acceptance but not later than five years from the date of the offer.

23. SHARE OPTION SCHEME (Continued)

Options granted must be taken up within 30 days from the date of grant, upon payment of HK\$1 as the nominal consideration. On 19 February 2000, options to subscribe for 4,460,000 shares in the Company were granted to certain directors and employees of the Group at an exercise price of HK\$0.32 per share. Consideration received by the Company for options granted during that year amounted to HK\$7.

No charge is recognised in the income statement in respect of the value of options granted.

The following options were granted to the directors of the Company and employees of the Group to subscribe for shares in the Company.

	Date of grant	Exercisable period	Exercise price HK\$	Number of share options outstanding
Directors	19.2.2000	19.8.2000 — 18.2.2005	0.32	2,960,000
Employees	19.2.2000	19.8.2000 — 18.2.2005	0.32	1,500,000
				4,460,000

No share options were granted to directors or employees during the two years ended 31 December 2004 and none of the above share options were exercised, cancelled or lapsed in the same period.

Notes to the Financial Statements

For the year ended 31 December 2004

24. RESERVES

	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1 January 2003	313,127	8,917	3,382	1,748	327,174
Net profit for the year	—	—	—	6,654	6,654
2002 final dividend paid in cash	—	—	(3,382)	—	(3,382)
2003 interim dividend paid in cash	—	—	—	(3,382)	(3,382)
2003 final dividend declared	—	—	3,382	(3,382)	—
At 31 December 2003	313,127	8,917	3,382	1,638	327,064
Net profit for the year	—	—	—	6,641	6,641
2003 final dividend paid in cash	—	—	(3,382)	—	(3,382)
2004 interim dividend paid in cash	—	—	—	(3,382)	(3,382)
2004 final dividend declared	—	—	3,382	(3,382)	—
At 31 December 2004	313,127	8,917	3,382	1,515	326,941

The special reserve of the Company arose as a result of the group reorganisation in 1993. It represents the excess of the consolidated net assets of World Houseware (B.V.I.) Limited at the date on which its shares were acquired by the Company over the nominal value of the Company's shares which were issued in the acquisition.

Under the Companies Law in the Cayman Islands and the provisions of the Memorandum and Articles of Association of the Company, all reserves of the Company are available for distribution to shareholders, either by way of dividend or bonus issue of shares, provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid.

25. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
— leasehold land and buildings	7,186	16,050
— plant and equipment	6,648	12,719
— investment in a joint venture	—	390
	13,834	29,159
Capital expenditure authorised but not contracted for in respect of the acquisition of plant and machinery	152,736	152,520

The Company did not have any significant capital commitments at the balance sheet date.

26. OPERATING LEASES

The Group as lessee

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

	2004	2003
	HK\$'000	HK\$'000
Within one year	2,026	3,875
After one year and not later than five years	70	2,273
	2,096	6,148

Under the leases entered into by the Group, the lease payments are fixed and predetermined.

Notes to the Financial Statements

For the year ended 31 December 2004

26. OPERATING LEASES (Continued)

The Group as lessor

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

	2004 HK\$'000	2003 HK\$'000
Within one year	604	1,839
After one year and not later than five years	157	816
	761	2,655

The Group's investment properties are held for rental purposes. The properties held have committed tenants for periods of up to four years.

The Company did not have any significant operating lease commitment at the balance sheet date.

27. PLEDGE OF ASSETS

At the balance sheet date, the Group's borrowings were secured by the following assets:

	2004 HK\$'000	2003 HK\$'000
Leasehold land and buildings	32,151	95,999
Investment properties	18,060	15,220
Properties held for sale	77,053	—
	127,264	111,219

28. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	3,008	8,446	—	—
Banking facilities utilised by subsidiaries which are guaranteed by the Company	—	—	342,772	146,297

29. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Mandatory benefits are provided under the MPF Scheme. The Group contributes the lower of 5% of the relevant payroll costs and HK\$1,000 per employee to the MPF Scheme.

Employees of subsidiaries in the PRC are members of the state-sponsored pension schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the state-sponsored pension schemes is to make the required contributions.

The total contribution to the retirement benefit schemes charged to the income statement is HK\$3,243,000 (2003: HK\$3,441,000).

30. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group:

- a. acquired a property for a consideration of approximately HK\$4,300,000; and
- b. sold a property held for sale for a consideration of approximately HK\$12,300,000.