

Chairman's Statement

BUSINESS REVIEW

During the year under review, the turnover of the Group amounted to HK\$887,153,000, representing slightly decrease of 0.9% or HK\$8,230,000 as compared with HK\$895,383,000 for the same period last year. The Group's gross profit amounted to HK\$95,890,000, representing a decrease of 19.9% or HK\$23,753,000 as compared with HK\$119,643,000 for the same period last year and the gross profit margin was 10.8%, representing a decrease of 2.6% as compared with 13.4% for the same period last year. Loss for the year amounted to HK\$42,695,000, as compared with a profit of HK\$19,988,000 for the same period last year. As explained in the announcement dated 11 December 2006, a senior cashier of World Plastic Mat (Baoan) Company Limited ("World Baoan"), one of the Company's subsidiaries in the People's Republic of China ("PRC"), had embezzled some of the World Baoan's funds (the "Misappropriation of Funds"). Based on an initial assessment made by a forensic accountant and revised assessment by the management of the Company, HK\$28,708,000 had been provided for as a loss arising from Misappropriation of Funds during the year under review. As a consequence, the Group reported a loss of HK\$42,695,000 for the year ended 31 December 2006.

Household products

During the year under review, the turnover of PVC and fabric household products amounted to HK\$423,718,000, representing a decrease of 11.6% or HK\$55,589,000 as compared with HK\$479,307,000 for the same period last year. Gross profit margin narrowed by 1.2% to 14.7% from 15.9% for the same period last year. The gross profit margin was affected by the continuous escalation of international oil prices, the soared up to record high prices of the Group's major raw materials such as PVC powder, PVC pellets, DOP plasticizers and industrial petrol which in turn inevitably pushed up the prices of the relevant downstream materials. The China's rapid economic growth had also led to the continuous increase of the wages in the domestic labour market. Other unfavourable factors such as the RMB appreciation, export tax reduction and increase of bank interest rate have all resulted in a substantial increase of the production costs. In light of such stringent business environment, our competitors adopted aggressive price strategies and throat-cutting competition in order to maintain their market share. Facing such fierce competition, the Group was unable to shift the increasing costs completely to its customers.

PVC pipes and fittings

The turnover of PVC pipes and fittings amounted to HK\$413,934,000 during the year under review, representing an increase of 2.7% or HK\$10,882,000 as compared with HK\$403,052,000 for the same period last year. Gross profit margin narrowed by 3.1% to 6.9% from 10% for the same period last year. The results were lower than expected for reasons similar to the production of the household products. Also the new investment for PE high-end plastic pipes that can be used for coal gas and hot water supply and air-conditioning has commenced but is in its rudimentary stage and cannot contribute noticeable benefits to the Group.

Property investment

During the year under review, the turnover of property investment amounted to HK\$47,500,000, representing an increase of 286% or HK\$35,200,000 as compared with HK\$12,300,000 for the same period last year. Gain arising from fair value changes of investment properties and fair value change investment properties under non-current assets classified as held for sale amounted to HK\$2,618,000 and HK\$1,500,000 respectively.

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PROSPECTS

The China's open-door economic policy has attracted an increasing number of domestic and foreign investors and led to intensified market competition which in turn has adversely affected profitability of labour-intensive industries.

To cope with these challenges, the Group will strive to streamline and enhance its resources allocation. The Group will close or dispose some of its underperforming, labour-intensive and low margin production projects and focus on its environmental protection and reborn resources business, through establishing specialized research and development centres, recruiting professionals and acquiring a range of state-of-the-art equipment and machineries for production.

The South China Reborn Resources (Zhongshan) Company Limited, a wholly-owned subsidiary of the Group located in Shaxi, Zhongshan, the PRC, completed a smooth trial production and has commenced operation. It is expected that this new business will bring encouraging returns upon full operation.

In order to reduce the risks of similar incidents (Misappropriation of Funds) and strengthen the internal controls system in the future, the Company has engaged an internal controls assessment services company, as an external independent expert, to conduct an evaluation of internal controls and risks assessment procedures and to identify and address its key issues so as to enhance the standards of the Company's overall corporate governance.