Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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 "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 37.

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

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

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital disclosures [1]
HKFRS 7	Financial instruments: Disclosures [1]
HKFRS 8	Operating segments [2]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [3]
HK(IFRIC) — INT 8	Scope of HKFRS 2 [4]
HK(IFRIC) — INT 9	Reassessment of embedded derivatives [5]
HK(IFRIC) — INT 10	Interim financial reporting and impairment [6]
HK(IFRIC) — INT 11	HKFRS 2 — Group and treasury share transactions [7]
HK(IFRIC) — INT 12	Service concession arrangements [8]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 March 2006.
4 Effective for annual periods beginning on or after 1 May 2006.
5 Effective for annual periods beginning on or after 1 June 2006.
6 Effective for annual periods beginning on or after 1 November 2006.
7 Effective for annual periods beginning on or after 1 March 2007.
8 Effective for annual periods beginning on or after 1 January 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

Investment properties

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

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

Property, plant and equipment

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

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives, using the reducing balance method.

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

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell, except for non-current assets that are measured in accordance with the fair value model under HKAS 40 "Investment property".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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 direct 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.

Inventories

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, 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.

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. An 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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred 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 the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred 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 profit or loss.

Revenue recognition

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

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

Revenue from sale of properties in the ordinary course of business is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividends from investments held for trading are recognised when the shareholders' right to receive payment is established.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 lessees. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

Leasehold land and building

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets

The Group's financial assets are mainly classified as loans and receivables and held for trading financial assets. The accounting policies adopted is set out below.

Loans and receivables

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

Held for trading financial assets

Financial assets held for trading (including investments held for trading and derivatives not qualified for hedge accounting) are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are included in profit or loss for the period.

Financial liabilities and equity

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

Trade and other payables/amounts due to directors

Trade and other payables and amounts due to directors are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derivative financial instruments

Derivative financial instruments are deemed as held for trading financial assets or financial liabilities. Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

Derecognition

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

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

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme in Hong Kong and retirement benefit schemes in the People's Republic of China ("PRC") are charged as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, investments held for trading, pledged bank deposits, bank balances and cash, derivative financial instruments, trade and other payables, amounts due to directors and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and certain trade receivables of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. In order to mitigate the foreign currency risk, management closely monitors such risks and will consider the application of hedging should significant foreign currency exposure arises.

(ii) Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to bank balances and variable-rate bank loans (see note 26). It is the Group's policy to convert a proportion of its variable-rate debt to fixed-rate debt. In the current year, the Group has been using interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows *(see note 21)*.

(iii) Price risk

The Group's investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to fair value change.

Credit risk

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

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

The credit risk on liquid funds is limited because the majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5. 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 2006

	Household products *HK$'000*	PVC pipes and fittings *HK$'000*	Property investment *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Turnover					
Sales of goods					
External sales	423,718	413,934	47,500	—	885,152
Inter-segment sales	751	682	—	(1,433)	—
Rental income	—	—	2,034	(33)	2,001
Total	424,469	414,616	49,534	(1,466)	887,153
Result					
Segment result	(15,164)	7,401	7,841		78
Loss arising from misappropriation of funds					(28,708)
Compensation for future economic loss related to resumption of land					9,666
Loss arising from fair value changes of derivative financial instruments					(2,451)
Unallocated corporate expenses					(4,405)
Finance costs					(12,207)
Loss before taxation					(38,027)
Taxation					(4,668)
Loss for the year					(42,695)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segment *(Continued)*

Year ended 31 December 2006

	Household products *HK$'000*	PVC pipes and fittings *HK$'000*	Property investment *HK$'000*	Corporate *HK$'000*	Consolidated *HK$'000*
Other information					
Capital additions	**48,916**	**20,462**	**—**	**5,108**	**74,486**
Depreciation	**21,925**	**26,905**	**—**	**1,002**	**49,832**
Amortisation of prepaid lease payments	**1,142**	**1,032**	**—**	**1,108**	**3,282**
Allowance for bad and doubtful debts	**860**	**3,366**	**—**	**—**	**4,226**
Allowance for inventories	**1,589**	**—**	**—**	**—**	**1,589**
Loss (gain) on disposal of property, plant and equipment	**519**	**(134)**	**—**	**—**	**385**

At 31 December 2006

	Household products *HK$'000*	PVC pipes and fittings *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Assets				
Segment assets	**553,692**	**541,338**	**89,662**	**1,184,692**
Unallocated corporate assets				**131,549**
Consolidated total assets				**1,316,241**
Liabilities				
Segment liabilities	**100,127**	**89,939**	**7,050**	**197,116**
Unallocated corporate liabilities				**301,706**
Consolidated total liabilities				**498,822**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segment *(Continued)*

Year ended 31 December 2005

	Household products *HK$'000*	PVC pipes and fittings *HK$'000*	Property investment *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Turnover					
Sales of goods					
External sales	479,307	403,052	12,300	—	894,659
Inter-segment sales	1,582	1,252	—	(2,834)	—
Rental income	—	—	757	(33)	724
Total	480,889	404,304	13,057	(2,867)	895,383
Result					
Segment result	9,348	16,940	8,643		34,931
Gain arising from fair value changes of derivative financial instruments					4,482
Unallocated corporate expenses					(4,732)
Finance costs					(11,839)
Profit before taxation					22,842
Taxation					(2,854)
Profit for the year					19,988

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

Year ended 31 December 2005

	Household products *HK$'000*	PVC pipes and fittings *HK$'000*	Property investment *HK$'000*	Corporate *HK$'000*	Consolidated *HK$'000*
Other information					
Capital additions	24,225	23,638	4,244	15,685	67,792
Depreciation	22,577	26,363	—	1,042	49,982
Amortisation of prepaid lease payments	546	1,357	—	863	2,766
Allowance for bad and doubtful debts	453	1,077	—	—	1,530
Allowance for inventories	—	300	—	—	300
Loss on disposal of property, plant and equipment	1,446	118	—	—	1,564

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segment *(Continued)*

At 31 December 2005

	Household products *HK$'000*	PVC pipes and fittings *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Assets				
Segment assets	519,026	532,868	129,860	1,181,754
Unallocated corporate assets				165,099
Consolidated total assets				1,346,853
Liabilities				
Segment liabilities	51,215	86,057	387	137,659
Unallocated corporate liabilities				387,866
Consolidated total liabilities				525,525

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 and received from tenants in the PRC, including Hong Kong. All properties held for sale disposed of during the year were situated in Hong Kong. An analysis of the Group's sales of household products by geographical market is as follows:

	Turnover	
	2006	2005
	HK$'000	*HK$'000*
United States of America	**337,200**	358,418
Asia	**42,043**	68,909
Canada	**25,592**	23,908
Europe	**12,931**	20,214
Latin America	**3,882**	6,182
Australia	**1,866**	1,341
Other areas	**204**	335
Total sales of household products	**423,718**	479,307

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 more than 90% of the assets and capital additions are located in the PRC, including Hong Kong.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6. LOSS ARISING FROM MISAPPROPRIATIONS OF FUNDS

As set out in the announcement dated 14 September 2006 published by the Company, a senior cashier of World Plastic Mat (Baoan) Company Limited ("World Baoan"), one of the Company's subsidiaries in the PRC, had embezzled some of World Baoan's funds ("Misappropriation of Funds"). The matter was reported to the PRC police and the senior cashier was arrested for criminal investigation; up to the approval date of these consolidated financial statements and to the best of the management's knowledge, the criminal investigation is still on-going and no trial has taken place. The Company's shares have been suspended from trading since 6 September 2006 pending the Stock Exchange's approval of its resumption request.

The Company engaged a forensic accountant to carry out an enquiry into the incident and quantify the financial impact on World Baoan in relation to the Misappropriation of Funds. The forensic accountant's report was issued on 11 December 2006 pursuant to which the estimated financial impact in relation to the Misappropriation of Funds was preliminarily estimated as approximately RMB25,012,000 (approximately HK$24,284,000). On the basis of this forensic accountant's report, the Group has carried out further investigation to ascertain the amount of funds misappropriated and finally determined that the loss arising from the Misappropriation of Funds amounted to approximately RMB27,994,000 (approximately HK$27,311,000) and the legal and professional expenses amounted to HK$1,397,000 incurred which are directly associated with the incident have been charged to the consolidated income statement for the year ended 31 December 2006.

The bank balances and cash and other receivables have been adjusted downwards by approximately RMB14,102,000 and RMB6,658,000, respectively, while trade and other payables has been adjusted upwards by approximately RMB7,234,000 in the books of World Baoan during the year to reflect the loss amounted to approximately RMB27,994,000 arising from the Misappropriation of Funds.

7. COMPENSATION FOR FUTURE ECONOMIC LOSS RELATED TO RESUMPTION OF LAND

On 28 December 2006, the Company entered into an unconditional agreement with Guangshen Railway Company Limited for the resumption of certain land held by the Group by the State Land Bureau of the PRC for use by Guangshen Railway Company Limited. The compensation for future economic loss amounting to approximately RMB9,908,000 (approximately HK$9,666,000) has been recognised in the consolidated income statement accordingly.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank borrowings:		
— wholly repayable within five years	**(16,453)**	(11,420)
— not wholly repayable within five years	**(850)**	(1,155)
	(17,303)	(12,575)
Net interest received on derivative financial instruments *(Note 1)*	**1,637**	736
Less: Amount capitalised in construction in progress *(Note 2)*	**3,459**	—
	(12,207)	(11,839)

Notes:

1. Loss arising from fair value changes of HK$2,451,000 (2005: gain of HK$4,482,000) on the consolidated income statement does not include accrued interest income in derivative financial instruments.

2. Borrowing cost capitalised during the year included an amount of HK$978,000 (2005: Nil) arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.0% (2005: Nil) to expenditure on qualifying assets. The other finance costs capitalised are resulted from specific borrowings.

9. TAXATION

	2006	2005
	HK$'000	*HK$'000*
Other regions in the PRC		
— charge for the year	**(2,884)**	(2,452)
— (under) overprovision in prior years	**(42)**	175
	(2,926)	(2,277)
Deferred taxation charge *(note 27)*	**(1,742)**	(577)
Taxation charge	**(4,668)**	(2,854)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

9. TAXATION *(Continued)*

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries in the PRC are entitled to the exemption from PRC Enterprise Income Tax for two or three years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years.

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

	2006	2005
	HK$'000	*HK$'000*
(Loss) profit before taxation	**(38,027)**	22,842
Tax at the domestic income tax rate of 15% (2005: 15%)	**5,704**	(3,426)
Tax effect of expenses not deductible for tax purpose	**(6,364)**	(370)
Tax effect of income not taxable for tax purpose	**206**	1,759
(Under) overprovision in prior years	**(42)**	175
Tax effect of deferred taxation assets not recognised	**(5,618)**	(2,452)
Utilisation of tax losses previously not recognised	**147**	974
Income tax on concessionary rate	**1,327**	447
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(28)**	39
Tax charge for the year	**(4,668)**	(2,854)

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

10. (LOSS) PROFIT FOR THE YEAR

	2006	2005
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging:		
Directors' emoluments *(note 11)*	**17,192**	17,377
Other staff's retirement benefit scheme contributions	**3,570**	3,238
Other staff costs	**83,423**	83,457
Total staff costs	**104,185**	104,072
Allowance for inventories	**1,589**	300
Amortisation of prepaid lease payments	**3,282**	2,766
Auditors' remuneration	**2,000**	1,780
Cost of inventories recognised as an expense	**575,411**	498,458
Cost of properties held for sale recognised as an expense	**44,160**	8,760
Depreciation	**49,832**	49,982
Exchange loss (gain)	**8,335**	(502)
Loss arising from fair value changes of investments held for trading excluding dividend income	**—**	65
Loss on disposal of property, plant and equipment	**385**	1,564
Operating lease rentals in respect of rented premises	**1,319**	2,627
Shipping and handling expenses (included in selling and distribution costs)	**8,402**	9,122
and after crediting:		
Dividend income from investments held for trading	**78**	62
Gain on disposal of investments held for trading, excluding dividend income	**175**	—
Gross rental income from investment properties	**2,001**	724
Less: Direct operating expenses that generated rental income	**(231)**	(248)
	1,770	476
Interest income	**338**	403

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Details of emoluments paid by the Group to each of the directors are as follows:

For the year ended 31 December 2006

	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Bonus *HK$'000* *(note)*	Retirement benefit scheme contributions *HK$'000*	Total emoluments *HK$'000*
Executive directors:					
Lee Tat Hing	—	7,350	—	—	7,350
Fung Mei Po	—	2,684	—	12	2,696
Lee Chun Sing	—	2,700	—	12	2,712
Lai Lai Wah	—	900	—	12	912
Lee Pak Tung	—	495	—	12	507
Kwong Bau To	—	894	—	12	906
Choi Kwok Keung, Sanvic	—	630	—	12	642
Chan Lai Kuen, Anita	—	720	—	12	732
Non-executive director:					
Cheung Tze Man, Edward	180	—	—	—	180
Independent non-executive directors:					
Wong Kong Chi	60	—	—	—	60
Hui Chi Kuen, Thomas	180	—	—	—	180
Ho Tak Kay	180	—	—	—	180
Tang King Hung	135	—	—	—	135
	735	16,373	—	84	17,192

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(i) Details of emoluments paid by the Group to each of the directors are as follows: *(Continued)*

For the year ended 31 December 2005

	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Bonus *HK$'000* *(note)*	Retirement benefit scheme contributions *HK$'000*	Total emoluments *HK$'000*
Executive directors:					
Lee Tat Hing	—	7,350	1,107	—	8,457
Fung Mei Po	—	2,635	—	12	2,647
Lee Chun Sing	—	2,700	—	12	2,712
Lai Lai Wah	—	900	—	12	912
Lee Pak Tung	—	468	—	12	480
Wat Kwing Cheung, Alexander	—	357	—	—	357
Kwong Bau To	—	450	—	4	454
Choi Kwok Keung, Sanvic	—	294	—	4	298
Chan Lai Kuen, Anita	—	336	—	4	340
Non-executive director:					
Cheung Tze Man, Edward	180	—	—	—	180
Independent non-executive directors:					
Wong Kong Chi	180	—	—	—	180
Hui Chi Kuen, Thomas	180	—	—	—	180
Ho Tak Kay	180	—	—	—	180
	720	15,490	1,107	60	17,377

Note: The bonus is calculated at 5% of the Group's consolidated profit before taxation.

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For the year ended 31 December 2006

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(ii) Information regarding employees' emoluments

The five highest paid employees of the Group in both years included three (2005: three) executive directors whose emoluments are included in (i) above. The emoluments of the other two (2005: two) highest paid employees, not being directors, are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries	**3,156**	2,940
Retirement benefit scheme contributions	**24**	24
	3,180	2,964

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

	Number of employees	
	2006	2005
HK$1,500,001 to HK$2,000,000	**2**	2

No emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during both years.

12. (LOSS) EARNINGS PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
(Loss) earnings for the purpose of calculating basic (loss) earnings per share	**(42,695)**	19,988

	Number of shares	
	2006	2005
Number of shares for the purpose of calculating basic (loss) earnings per share	**676,417,401**	676,417,401

No diluted (loss) earnings per share has been presented for both years because exercise price of the Company's share options was higher than the average market price of the Company's shares and the options expired on 18 February 2005.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

13. INVESTMENT PROPERTIES

	2006	2005
	HK$'000	HK$'000
FAIR VALUE		
At 1 January	**48,842**	23,670
Additions	**—**	4,244
Transfer from properties held for sale	**13,300**	26,722
Reclassified as non-current assets classified as held for sale	**(28,500)**	—
Disposals	**—**	(8,300)
Increase in fair value	**2,618**	2,506
At 31 December	**36,260**	48,842

The carrying amount of investment properties shown above comprises:

	2006	2005
	HK$'000	HK$'000
Properties situated in Hong Kong	**28,750**	41,662
Properties situated in the PRC, other than Hong Kong	**7,510**	7,180
	36,260	48,842

The investment properties are held under medium-term leases.

All of the Group's property interests in land and building held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties as at 31 December 2006 have been arrived at on the basis of a valuation carried out at that date by Knight Frank Hong Kong Limited, an independent firm of professional property valuers not connected with the Group. Knight Frank Hong Kong Limited has appropriate qualification and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors' Valuation Standards on Properties, was arrived at by reference to market evidence of transaction prices for similar properties.

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For the year ended 31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2005	293,082	73,737	67,401	18,235	596,207	16,242	1,064,904
Currency realignment	5,516	1,508	1,406	197	13,220	385	22,232
Additions	12,707	1,991	—	1,192	28,235	19,423	63,548
Reclassifications	3,604	33	—	—	77	(3,714)	—
Disposals	(50)	(3)	(2,061)	—	(883)	(16)	(3,013)
At 31 December 2005	314,859	77,266	66,746	19,624	636,856	32,320	1,147,671
Currency realignment	8,678	2,399	2,099	299	21,321	1,026	35,822
Additions	2,240	2,098	—	618	24,085	45,445	74,486
Reclassifications	—	—	—	—	134	(134)	—
Disposals	(603)	(576)	—	(577)	(13,265)	—	(15,021)
Reclassified as non-current assets classified as held for sale	(11,427)	—	—	—	(69,958)	—	(81,385)
At 31 December 2006	313,747	81,187	68,845	19,964	599,173	78,657	1,161,573
ACCUMULATED DEPRECIATION							
At 1 January 2005	58,483	56,883	47,058	12,499	305,572	—	480,495
Currency realignment	1,380	1,152	980	117	6,751	—	10,380
Provided for the year	10,061	3,416	3,137	1,338	32,030	—	49,982
Eliminated on disposals	(1)	(3)	(795)	—	(650)	—	(1,449)
At 31 December 2005	69,923	61,448	50,380	13,954	343,703	—	539,408
Currency realignment	2,554	2,190	1,644	206	11,089	—	17,683
Provided for the year	11,499	3,121	2,250	1,270	31,692	—	49,832
Eliminated on disposals	(174)	(500)	—	(448)	(11,087)	—	(12,209)
Eliminated on transfer to non-current assets classified as held for sale	—	—	—	—	(57,122)	—	(57,122)
At 31 December 2006	83,802	66,259	54,274	14,982	318,275	—	537,592
CARRYING VALUES							
At 31 December 2006	229,945	14,928	14,571	4,982	280,898	78,657	623,981
At 31 December 2005	244,936	15,818	16,366	5,670	293,153	32,320	608,263

The cost of leasehold land and buildings is depreciated over twenty to fifty years on a straight line basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress 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%

During the year, borrowing cost of HK$3,459,000 had been capitalised in construction in progress.

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

	2006	2005
	HK$'000	*HK$'000*
Leasehold land and buildings in Hong Kong under medium-term leases	**40,389**	41,455
Buildings in the PRC (other than Hong Kong) on medium-term land use rights	**189,556**	203,481
	229,945	244,936

The construction in progress are located in Hong Kong and other parts of the PRC under medium-term lease.

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2006	2005
	HK$'000	*HK$'000*
Leasehold land in Hong Kong:		
Medium-term lease	**35,259**	36,367
Leasehold land in the PRC:		
Medium-term lease	**92,237**	91,916
	127,496	128,283

Analysed for reporting purposes as:

	2006	2005
	HK$'000	*HK$'000*
Current	**3,074**	2,798
Non-current	**124,422**	125,485
	127,496	128,283

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For the year ended 31 December 2006

16. INTANGIBLE ASSETS

During the year, the Group spent approximately HK$3,396,000 on development activities of high value-added environmental and recycling related equipment.

The intangible assets are amortised over its estimated economic life of 10 years using the straight line method. No amortisation has been made for the current year as the assets have not yet been available for use.

17. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Raw materials	**92,471**	87,849
Work in progress	**37,015**	38,723
Finished goods	**47,834**	44,100
	177,320	170,672

18. 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:

	2006	2005
	HK$'000	*HK$'000*
0 — 30 days	**65,558**	82,626
31 — 60 days	**41,561**	33,054
61 — 90 days	**20,278**	20,902
91 — 180 days	**41,017**	23,468
Over 180 days	**18,788**	25,314
Total trade receivables	**187,202**	185,364
Less: Allowance for bad and doubtful debts	**(21,018)**	(16,520)
Other receivables	**37,820**	59,624
Total trade and other receivables	**204,004**	228,468

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

18. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group's trade receivables which are denominated in currencies other than the functional currencies at the relevant group entities are set out below:

	2006 **HK$'000**	2005 HK$'000
United States dollars	**48,106**	53,098

The directors of the Company consider the carrying amount of trade and other receivables approximates its fair value.

19. PROPERTIES HELD FOR SALE

At 31 December 2006, all the properties held for sale were carried at cost, situated in the PRC other than Hong Kong (2005: situated in Hong Kong) and are held under medium-term leases.

20. INVESTMENTS HELD FOR TRADING

The amounts represented investments in equity shares listed on the Stock Exchange. At 31 December 2005, the investments held for trading were stated at fair value. The fair values of these securities were based on the quoted market bid prices at 31 December 2005.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2006		2005	
	Assets **HK$'000**	**Liabilities** **HK$'000**	Assets HK$'000	Liabilities HK$'000
Interest rate swaps	**466**	**—**	2,398	—
Forward foreign exchange contracts	**57**	**(2,235)**	85	(154)
	523	**(2,235)**	2,483	(154)

Major terms of the interest rate swaps are as follows:

Notional amount	Maturity	Swaps
HK$66,600,000	24 May 2007	From Hong Kong Inter-Bank Offer Rate ("HIBOR") to 1.88%
HK$56,780,000	13 November 2007	From HIBOR to 1.88%

Major terms of the foreign currency forward contracts are as follows:

Notional amount	Maturity	Exchange rates
Buy US$2,000,000 to US$4,000,000	26 July 2 007	US$1 to HK$7.723
Buy US$1,000,000 to US$3,000,000	30 October 2007	US$1 to HK$7.720
Buy US$1,000,000 to US$3,000,000	17 April 2008	US$1 to HK$7.708

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the market prices provided by the relevant financial institutions at the balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. The pledged bank deposits carry interest at market rates which range from 3.4% to 3.45% per annum. The pledged deposits will be released upon the settlement of relevant borrowings.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, which carry at market interest rates. Bank balances carry interest at variable rates which range from 1% to 3.24% (2005: 1% to 2.74%) per annum.

The directors of the Company consider that the carrying amounts of pledged bank deposits and bank balances approximate their fair values.

23. NON CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2006	2005
	HK$'000	*HK$'000*
Investment property	**30,000**	—
Leasehold land and building	**11,427**	—
Machinery	**12,836**	—
	54,263	—

On 26 June 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of an investment property with a carrying value of approximately HK$30,000,000 for a consideration of HK$30,000,000. The net cash generated from such disposal which was completed on 2 April 2007, after repayment of the related mortgage loan amounted to approximately HK$6,266,000 upon completion and deducting the selling expenses, is approximately HK$23,734,000 which will be used as general working capital of the Group. Accordingly, the carrying amount of this property has been classified as non-current assets held for sale and the related mortgage loan of approximately HK$7,050,000 as at 31 December 2006 has been classified as liabilities directly associated with non-current assets classified as held for sale.

On 1 June 2006, the directors of the Company resolved to dispose of the Group's certain leasehold land and buildings. Accordingly, the carrying amount of this property of approximately HK$11,427,000 has been classified as non-current assets held for sale. Subsequent to the balance sheet date, the Group disposed of this property for a consideration of approximately RMB22,197,000 (approximately HK$22,286,000). The net cash generated from such disposal, after deducting relevant PRC taxes and selling expenses, is approximately HK$16,381,000 which will be used for the repayment of certain scheduled term loans in the amount of approximately HK$6,555,000 and the remaining balance of approximately HK$9,826,000 will be used as general working capital of the Group.

On 31 December 2006, the directors of the Company resolved to dispose of the Group's certain machinery and thereafter the Group has been actively locating potential buyers. These machinery with total carrying value of approximately RMB12,900,000 (approximately HK$12,836,000), which are expected to be sold within twelve months have been classified as non-current assets held for sale.

Subsequent to the balance sheet date, the Group disposed of certain of the machinery with a carrying value of approximately HK$ 7,595,000 for a consideration of approximately RMB10,500,000 (approximately HK$10,542,000). The net cash generated from such disposal amounting to approximately HK$10,542,000 will be used as general working capital of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

24. TRADE AND OTHER PAYABLES

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

	2006	2005
	HK$'000	*HK$'000*
0 — 30 days	**46,498**	50,680
31 — 60 days	**37,564**	29,485
61 — 90 days	**10,338**	25,017
Over 90 days	**48,833**	30,178
Total trade payables	**143,233**	135,360
Other payables	**42,924**	42,879
Total trade and other payables	**186,157**	178,239

The directors of the Company consider that the carrying amount of trade and other payables approximates its fair value.

25. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, interest-free and repayable on demand. The directors of the Company consider the carrying amount of amounts due to directors approximates its fair value.

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26. BANK BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Bank loans	**261,269**	323,833
Bank overdrafts	**12,569**	9,707
Trust receipts, import loans and others	**12,614**	5,061
	286,452	338,601
Analysed as:		
Secured	**179,902**	164,201
Unsecured	**106,550**	174,400
	286,452	338,601
Carrying amount repayable:		
Within 1 year	**259,232**	229,167
More than 1 year, but not exceeding 2 years	**4,870**	58,196
More than 2 years, but not exceeding 5 years	**19,585**	36,777
More than 5 years	**2,765**	14,461
	286,452	338,601
Less: Amount due within 1 year shown under current liabilities	**(259,232)**	(229,167)
Amount due after 1 year	**27,220**	109,434

The Bank loan of the Group, which was borrowed by a subsidiary, that is denominated in currency other than the functional currency of the relevant subsidiary is set out below:

	HK$	*Renminbi*
	'000	*'000*
As at 31 December 2006	**21,200**	**21,306**
As at 31 December 2005	21,200	22,069

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

26. BANK BORROWINGS *(Continued)*

The ranges of effective interest rates on the Group's borrowings are as follows:

	2006 and 2005
Effective interest rate:	
Variable-rate borrowing	HIBOR + 0.83% to Prime rate + 2%

During the year, in respect of bank loans with carrying amounts of approximately HK$145,090,000 as at 31 December 2006, the Group breached certain of the terms of the bank loans, which are primarily related to the debt service cover and the interest coverage ratio of the Group. According to HKAS 1 "Presentation of financial statements", since the banks have not agreed to waive their rights to demand immediate repayment as at the balance sheet date, the non-current portion of the bank loans amounted to HK$34,980,000 have been classified as current liabilities in the consolidated balance sheet as at 31 December 2006. The Group has subsequently obtained written consent from the banks to waive their rights to demand immediate repayment.

The directors of the Company consider that the carrying amount of bank borrowings approximates its fair value.

27. DEFERRED TAXATION

	Accelerated tax depreciation *HK$'000*	**Fair value changes in investment properties** *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2005	(7,081)	—	—	(7,081)
Exchange difference	(184)	—	—	(184)
(Charge) credit to consolidated income statement for the year	(2,763)	—	2,186	(577)
At 31 December 2005	(10,028)	—	2,186	(7,842)
Exchange difference	(278)	—	—	(278)
(Charge) credit to consolidated income statement for the year	(1,124)	(746)	128	(1,742)
At 31 December 2006	**(11,430)**	**(746)**	**2,314**	**(9,862)**

At the balance sheet date, the Group had unused tax losses of approximately HK$123,076,000 (2005: HK$97,579,000) available to offset against future assessable profits. A deferred taxation asset has been recognised in respect of tax losses of HK$13,223,000 (2005: HK$12,493,000). No deferred taxation asset has been recognised in respect of the remaining tax losses of HK$109,853,000 (2005: HK$85,086,000) 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.

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28. SHARE CAPITAL

	2006 & 2005 *HK$'000*
Authorised:	
1,500,000,000 shares of HK$0.10 each	150,000

	Nominal value 2006 & 2005 *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.

29. 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.

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 consolidated income statement in respect of the value of options granted, in accordance with the transitional provisions of HKFRS 2 "Share based payment".

During the year ended 31 December 2005, the following options granted to the directors of the Company and employees of the Group to subscribe for shares in the Company were expired.

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29. SHARE OPTION SCHEME *(Continued)*

	Date of grant	Exercisable period	Exercise price *HK$*	Number of share options outstanding at 1.1.2005	Number of share options expired during the year	Number of share options outstanding at 31.12.2005
Directors	19.2.2000	19.8.2000 — 18.2.2005	0.32	2,960,000	(2,960,000)	—
Employees	19.2.2000	19.8.2000 — 18.2.2005	0.32	1,500,000	(1,500,000)	—
				4,460,000	(4,460,000)	—

No share options were granted to directors or employees during the two years ended 31 December 2006. In addition, as of 31 December 2006 and 31 December 2005, no share options under the share option scheme were outstanding.

30. CAPITAL COMMITMENTS

	2006 **HK$'000**	2005 *HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
— buildings	**26,860**	28,855
— plant and machinery	**9,469**	10,990
	36,329	39,845
Capital expenditure authorised but not contracted for in respect of		
— buildings	**—**	48,133
— plant and machinery	**—**	156,161
	—	204,294

31. 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:

	2006 **HK$'000**	2005 *HK$'000*
Within one year	**25**	24

Leases are negotiated and rentals are fixed for an average term of one year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

31. 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:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,598**	1,148
After one year and not later than five years	**1,081**	1,320
	2,679	2,468

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

32. CONTINGENT LIABILITIES

On 20 November 2006, an individual filed a claim to a PRC court against World Baoan for the repayment of alleged loans of approximately RMB4,769,000 (approximately HK$4,653,000) based on documentation believed to be forged by the senior cashier who has been arrested for the Misappropriation of Funds. On 19 December 2006, the PRC court notified World Baoan to attend the proceedings held on 25 January 2007. On 23 March 2007, the PRC court decided to suspend the legal proceedings of the case pending for the result of the criminal charge against the senior cashier.

Based on the advice from the PRC lawyer and available evidence, the directors of the Company believe that the claim has been made without valid ground and evidences. Accordingly, no provision for such claim has been made in these consolidated financial statements.

33. PLEDGE OF ASSETS

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

	2006	2005
	HK$'000	*HK$'000*
Leasehold land and buildings	**76,217**	30,355
Investment properties	**15,520**	41,540
Prepaid lease payments	**35,259**	—
Properties held for sale	**—**	44,159
Non-current assets classified as held for sale	**30,000**	—
Bank deposits	**10,058**	—
	167,054	116,054

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34. 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 consolidated income statement is HK$3,654,000 (2005: HK$3,298,000).

35. RELATED PARTIES TRANSACTIONS

(a) During the year, the Group has the following significant transactions with related parties:

Relationship of related parties	**Nature of transactions**	**2006** ***HK$***	2005 *HK$*
Close family members of certain directors	Salaries and other benefits	**3,995**	4,149
	Retirement benefit scheme contributions	**36**	41
		4,031	4,190
Companies in which certain directors have beneficial interests	Rentals paid	**460**	460

(b) The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 11 (i).

36. POST BALANCE SHEET EVENT

In March and April 2007, the Group disposed of certain properties held for sale with a carrying value of RMB7,364,000 (approximately HK$7,327,000) for a consideration of RMB16,818,000 (approximately HK$16,733,000). The net cash generated from such disposal, after deducting relevant PRC taxes and selling expenses, is approximately HK$4,653,000 which will be used as general working capital of the Group.

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37. INVESTMENT IN SUBSIDIARIES

The details of principal subsidiaries at 31 December 2006 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 Scientific and Technologies (Zhongshan) Company Limited	PRC — wholly owned foreign enterprise	**	100%	Manufacture and operate high value added environmental and recycling related equipment
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
Gold 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
Hopemain Industries Limited	Hong Kong — limited liability company	HK$5,000,000	100%	Investment holding
Hopemain Plastic Industrial (Shenzhen) Company 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

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37. 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
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
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

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37. INVESTMENT IN SUBSIDIARIES *(Continued)*

*	All are ordinary shares/registered capital unless otherwise stated.
**	The registered capital of Fundbor Scientific and Technologies (Zhongshan) Company Limited is US$3,600,000. As at 31 December 2006. The Group has not contributed to this Company.
***	The registered capital of Fundbor Textiles (Zhongshan) Company Limited is US$4,900,000. As at 31 December 2006, US$3,621,400 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 2006, US$5,805,553 had been contributed to this company.
*****	The registered capital of South China Reborn Resources (Zhongshan) Company Limited is US$10,000,000. As at 31 December 2006, US$9,562,971 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 2006, HK$350,000,000 had been contributed to this company.
*******	None of the deferred non-voting shares are held by the Group.

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, Gold Earn (Hong Kong) Limited, Welidy Limited which holds properties in the PRC 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.