



世界(集團)有限公司

WORLD HOUSEWARE (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 713)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

The Board of Directors (the "Board") of World Houseware (Holdings) Limited (the "Company") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006 together with the comparative figures for the last corresponding year:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Turnover	3	887,153	895,383
Cost of sales		(791,263)	(775,740)
Gross profit		95,890	119,643
Other income		3,944	2,987
Selling and distribution costs		(10,924)	(12,033)
Administrative expenses		(93,251)	(84,175)
Loss arising from misappropriation of funds	4	(28,708)	—
Allowance for bad and doubtful debts		(4,226)	(1,530)
Compensation for future economic loss related to resumption of land	5	9,666	—
Gain on disposal of investment properties		—	367
Gain on revaluation of properties held for sale		122	2,434
Gain arising from fair value changes of investment properties		2,618	2,506
Gain arising from fair value change of investment properties included under non-current assets classified as held for sale		1,500	—
(Loss) gain arising from fair value changes of derivative financial instruments		(2,451)	4,482
Finance costs	6	(12,207)	(11,839)
(Loss) profit before taxation		(38,027)	22,842
Taxation	7	(4,668)	(2,854)
(Loss) profit for the year	8	(42,695)	19,988
(Loss) earnings per share	9	(6.3) HK cents	3.0 HK cents

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	2006 HK\$'000	2005 HK\$'000
Non-current assets		
Investment properties	36,260	48,842
Property, plant and equipment	623,981	608,263
Prepaid lease payments	124,422	125,485
Deposits paid for acquisition of property, plant and equipment	16,706	15,579
Intangible assets	3,396	—
	804,765	798,169
Current assets		
Inventories	177,320	170,672
Trade and other receivables	204,004	228,468
Properties held for sale	10,038	57,337
Prepaid lease payments	3,074	2,798
Investments held for trading	—	5,078
Taxation prepaid	2,293	394
Derivative financial instruments	523	2,483
Pledged bank deposits	10,058	—
Bank balances and cash	49,903	81,454
	457,213	548,684
Non-current assets classified as held for sale	54,263	—
	511,476	548,684
Current liabilities		
Trade and other payables	186,157	178,239
Amounts due to directors	6,000	—
Taxation payable	1,066	689
Bank borrowings — amount due within one year	259,232	229,167
Derivative financial instruments	2,235	154
	454,690	408,249
Liabilities directly associated with non-current assets classified as held for sale	7,050	—
	461,740	408,249
Net current assets	49,736	140,435
Total assets less current liabilities	854,501	938,604
Non-current liabilities		
Bank borrowings — amount due after one year	27,220	109,434
Deferred taxation liability	9,862	7,842
	37,082	117,276
	817,419	821,328
Capital and reserves		
Share capital	67,642	67,642
Reserves	749,777	753,686
	817,419	821,328

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. Basis of Preparation

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

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.

3. 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.

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	Eliminations 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

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

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 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 HK\$'000	2005 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.

4. 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 People's Republic of China ("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 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 have 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.

5. 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.

6. Finance Costs

	2006 HK\$'000	2005 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)

Note 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.

Note 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.

7. Taxation

	2006 HK\$'000	2005 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	(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.

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 HK\$'000	2005 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 respect of prior year	(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.

8. (Loss) Profit for the Year

	2006 HK\$'000	2005 HK\$'000
(Loss) profit for the year has been arrived at after charging:		
Directors' emoluments	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) and after crediting:	8,402	9,122
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

9. (Loss) Earnings per Share

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

	2006 HK\$'000	2005 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.

10. 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 HK\$'000	2005 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

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.

11. Trade and Other Payables

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

	2006 HK\$'000	2005 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.

FINAL DIVIDEND

The directors resolved not to recommend the payment of final dividend for the year ended 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS**Results**

- The Group recorded a turnover of HK\$887,153,000 for the year ended 31 December 2006, representing a decrease of 0.9% as compared to the same period last year.
- Gross profit and gross profit margin of the Group recorded were HK\$95,890,000 and 10.8%, representing a decrease of HK\$23,753,000 and a decrease of 2.6% respectively as compared to the same period last year.
- Loss for the year was HK\$42,695,000, as compared to a profit of HK\$19,988,000 for the same period last year.
- Basic loss per share was 6.3 HK cents, as compared to earnings per share of 3.0 HK cents for the same period last year.
- The Board of Directors do not propose any payment of dividend for the year.

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.

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.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group finances its operations from internally generated cash flows, term loans and trade finance facilities provided by banks in Hong Kong and the PRC. At 31 December 2006, the Group had bank balances and cash and pledged bank deposits of approximately HK\$59,961,000 (31.12.2005: HK\$81,454,000) and had interest-bearing bank borrowings of approximately HK\$293,502,000 (31.12.2005: HK\$338,601,000). The Group's interest-bearing bank borrowings was mainly computed at Hong Kong Inter-Bank Offering Rate plus a margin. The Group's total banking facilities available as at 31 December 2006 amounted to HK\$739,647,000; of which HK\$347,003,000 of the banking facilities was utilised (utilisation rate was at 46.9%).

The Group continued to conduct its business transactions principally in Hong Kong dollars, US dollars and Renminbi. The Group's exposure to the foreign exchange fluctuations has not experienced any material difficulties in the operations or liquidity as a result of fluctuations in currency exchange.

At 31 December 2006, the Group had current assets of approximately HK\$511,476,000 (31.12.2005: HK\$548,684,000). The Group's current ratio was approximately 1.1 as at 31 December 2006 as compared with approximately 1.34 as at 31 December 2005. Total shareholders' funds of the Group as at 31 December 2006 decreased by 0.48% to HK\$817,419,000 (31.12.2005: HK\$821,328,000). The gearing ratio (measured as total liabilities/total shareholders' funds) of the Group as at 31 December 2006 was 0.61 (31.12.2005: 0.64).

CHARGES ON ASSETS

Certain leasehold land and buildings and investment properties with an aggregate carrying value of HK\$167,054,000 were pledged to banks for general banking facilities granted to the Group.

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 RMB 4,769,000 (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 and on 19 December 2006 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.

STAFF AND EMPLOYMENT

At 31 December 2006, the Group employed a total workforce of about 3,650 (31.12.2005: 4,560) including 280 permanent staff and 3,370 contracted staff in our factories located in the PRC. The total staff remuneration incurred during the year was HK\$86,993,000 (31.12.2005: HK\$86,695,000). It is the Group's policy to review its employee's pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industries. It is the Group's policy to encourage its subsidiaries to send the management and staff to attend training classes or seminars that related to the Group's business. Tailor made internal training program was also provided to staff in our PRC factories.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2006, there were no purchases, sales or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year, the Company has complied with the code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The Directors noted that during the year a senior cashier of one of the Company's subsidiaries in the PRC had embezzled some of the subsidiary's funds. The matter had been reported to the PRC police for investigation.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all the directors, all the directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The Company's 2006 Annual Report containing all the information required by Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange (www.hkex.com.hk) and will be sent to shareholders of the Company as soon as practicable.

By Order of the Board
Lee Tat Hing
 Chairman

Hong Kong, 24 April 2007

As at the date of this announcement, the executive directors of the Company are Mr. Lee Tat Hing, Madam Fung Mei Po, Mr. Lee Chun Sing, Madam Lai Lai Wah, Mr. Lee Pak Tung, Mr. Kwong Bau To, Mr. Choi Kwok Keung Sanvic and Madam Chan Lai Kuen Anita; the non-executive director of the Company is Mr. Cheung Tze Man Edward; the independent non-executive directors of the Company are Mr. Tang King Hung, Mr. Ho Tak Kay and Mr. Hui Chi Kuen Thomas.