EVA Precision Industrial Holdings Limited
億和精密工業控股有限公司
(Stock Code 股份代號：838)

Annual Report 2005
二零零五年年報

To become the Leader in the Precision Metal and Plastic Moulding and Components Manufacturing Industry

成為精密沖壓及注塑工業的領導者

Contents

Group Profile

EVA Precision Industrial Holdings Limited (the "Company") was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies. The Company is an investment holding company and its subsidiaries (together the "Group") are principally engaged in the design and fabrication of precision metal stamping and plastic injection moulds, manufacturing of metal stamping and plastic injection components and the provision of assembly services in the PRC. The Group's customers comprise Hong Kong or PRC affiliates of internationally renowned office automation equipment and consumer electronic product manufacturers which include, among others, Toshiba, Konica Minolta, Kyocera Mita, Canon, Ricoh, Fuji Xerox, Epson and Brother.

The Group is positioned as a vertically-integrated precision metal and plastic mould and component manufacturing service provider based in the PRC. The Group's existing services include mainly i) design and fabrication of precision metal stamping and plastic injection moulds; ii) manufacturing of precision metal stamping and plastic injection components by using tailor-made metal stamping and plastic injection moulds; iii) lathing of metal components, such as rivets and shafts; and iv) where necessary, assembly of precision metal and plastic components manufactured by the Group into semi-finished products. The precision metal stamping and plastic injection components manufactured by the Group are mainly used in the manufacture of office automation equipment including photocopiers, printers and fax machines as well as other products such as home appliances and handle and DVD components for automobiles.

The Group started its business in 1993. With its dedication to product quality and production management, the Group was able to grow steadily and became listed on the Main Board of The Stock Exchange of Hong Kong Limited on 11 May 2005. Looking ahead, the Group will continue to enhance its production capacity with a view to meeting increasing customers' needs while maintaining the Group's persistent excellent product quality.

Year	Event
1993	The Group started its business through the establishment of EVA Limited, a subsidiary of the Group, in Hong Kong. The Group established its first production plant in Shenzhen, the PRC in the same year. The Group started its business as a metal stamping mould manufacturer and its business was later extended to include the manufacture of metal stamping components.
2002	Yihe Precision Hardware (Shenzhen) Co., Ltd., a subsidiary of the Group, was accredited as one of the "300 Enterprises with Highest Growth Potential in Shenzhen" (深圳市300家最具成長性企業) and "Shenzhen Top Ten Industry Practitioner" (深圳行業10強企業) by Shenzhen Industry Evaluation Association (深圳市企業評價協會). The first factory building of the Group's current production complex in Shenzhen was completed. The Group's production lines were moved to the Group's current production complex in Shenzhen thereafter.
2003	The second factory building of the Group's current production complex in Shenzhen was completed. Yihe Precision Hardware (Shenzhen) Co., Ltd. was awarded with the ISO9001:2000 certification in respect of quality management system and ISO14001:1996 certification in respect of environmental management system by the BSI Group. It was also accredited as: – "Hi-Tech Enterprise in Shenzhen" (深圳市高新技術企業) by Shenzhen Hi-Tech Industrial Association (深圳市高新技術產業協會); – "Most Trustworthy Enterprise in Shenzhen" (深圳市重合同守信譽先進單位) by Shenzhen Bureau of Industry and Commerce Administration (深圳市工商行政管理局); – "Quality Assurance Honourable Enterprise in the PRC (Brand)" (中國質量承諾誠信經營企業(品牌) by Quality Assurance Centre for PRC Light Industry Products (中國中輕產品質量保障中心) and Shenzhen Industry Evaluation Association (深圳市企業評價協會)

Corporate Milestone

2004	Yihe Precision Hardware (Shenzhen) Co., Ltd. was granted with the "Excellent Supplier Award" (優秀供應商獎) and "Acclamation Certificate" (表彰狀) by Toshiba, "Very Valuable Vendor (Improvement) Award" (VVV獎 — 進步獎) by Canon and "GMS Certificate of Green Activity" by Ricoh. The Group expanded into plastic mould and component manufacturing business through the establishment of EVA Plastic Mould Products (HK) Limited in Hong Kong and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. in Shenzhen. The first production line of the Group's plastic business was established and located in the second factory building of the Group's production complex in Shenzhen for trial production. Yihe Precision Hardware (Shenzhen) Co., Ltd. was accredited as "Environmental Honourable Grade A Enterprise of Baoan District" (寶安區環保誠信A級企業) by Shenzhen Baoan District Environmental Protection Bureau (深圳市寶安區環境保護局)
2005	EVA Precision Industrial Holdings Limited was listed on the Main Board of The Stock Exchange of Hong Kong Limited Yihe Precision Hardware (Shenzhen) Co., Ltd. received a "Very Valuable Vendor (2004 Best Assistance) Award" (VVV獎 — 2004最佳協力獎) from Canon, "Acclamation Certificate" (表彰狀) from Konica Minolta and an approval certificate for chemical substances management (CMS) standard by Ricoh. The construction of the third factory building of the Group's production complex in Shenzhen was completed and thereafter the Group's plastic production lines were moved to the third factory building of the Group's production complex in Shenzhen and commenced commercial production. The Group started to establish a new production plant in Suzhou through the establishment of EVA Precision Industrial (Suzhou) Limited.

2005

Yihe Precision Hardware (Shenzhen) Co., Ltd. received "Shenzhen Most Respected and Influential Enterprise Award" (「深圳最受尊敬（最具影響力）企業」獎) from Shenzhen Industry Evaluation Association (深圳市企業評價協會), "Enterprise with Highest Growth Potential Award" (「最具成長性企業」獎) from Chinese Enterprise Union (中國企業聯合會), Chinese Entrepreneur Union (中國企業家協會) and the Selection Committee of Ten Most Important News of Chinese Enterprises (中國企業十大新聞評選委員會) and "Enterprise with Highest Growth Potential in Human Resources Award" (「深圳市最具人材成長性企業」獎) by Shenzhen Human Resources Exchange Services Centre (深圳人材交流服務中心) and Shenzhen Industry Evaluation Association (深圳市企業評價協會).

Yihe Precision Hardware (Shenzhen) Co., Ltd. received ISO14001:2004 certification in respect of environmental management by the BSI Group.

Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. was awarded with ISO9001:2000 certification in respect of quality management system and ISO14001:2004 certification in respect of environmental management from the BSI Group.

2006

The construction of the first phase of the Group's new production plant in Suzhou was completed and thereafter the Group's new production plant in Suzhou commenced trial production.

The Group received TS16949:2002 certification in respect of the production of automobile parts by the BSI Group.

Yihe Precision Hardware (Shenzhen) Co., Ltd. received a "Very Valuable Vendor (Remarkable Effort) Award" (VVV獎 — 拼搏獎) from Canon.

Financial Highlights

		2005	2004	2003	2002
OPERATING RESULTS					
Turnover	*HK$'000*	**485,023**	296,860	167,729	122,845
Earnings before interest and taxation (EBIT)	*HK$'000*	**98,974**	75,417	32,948	31,642
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	*HK$'000*	**119,352**	89,320	41,620	37,708
Profit attributable to equity holders of the Company	*HK$'000*	**83,215**	65,763	30,166	23,592
FINANCIAL POSITION					
Net cash generated from operating activities	*HK$'000*	**75,772**	52,356	44,335	35,474
Net current assets (liabilities)	*HK$'000*	**4,673**	(33,040)	(46,277)	(25,613)
Shareholders' equity	*HK$'000*	**306,892**	110,757	77,158	46,992
PER SHARE DATA					
Earnings per share (Basic) *(Note 1)*	*HK cents*	**17.6**	16.9	7.7	6.0
OTHER KEY STATISTICS					
Earnings before interest, taxation, depreciation and amortisation (EBITDA) margin	*(%)*	**24.6**	30.1	24.8	30.7
Net profit margin	*(%)*	**17.2**	22.2	18.0	19.2
Return on shareholders' equity	*(%)*	**27.1**	59.4	39.1	50.2
Net debt-to-equity ratio	*(%)*	**29.3**	138.8	73.1	91.7

Note 1: *Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of (i) 473,699,000 ordinary shares in issue during the year ended 31 December 2005; and (ii) 473,699,000 ordinary shares deemed to be in issue during the years ended 31 December 2002, 2003 and 2004 as if the share capital of the Company outstanding immediate after the share exchanges in connection with the reorganisation and the related subsequent capitalisation issue as described in Note 19 to the consolidated financial statements had financial statements been in existence throughout the years.*

Diluted earnings per share are not presented because there were no dilutive potential ordinary shares in existence during the years ended 31 December 2002, 2003, 2004 and 2005.

Note 2: *Net debt-to-equity ratio is calculated based on the total balance of bank borrowings, finance lease obligations and amount due to related parties less total cash and bank balance divided by shareholders' equity.*

Corporate Information

EXECUTIVE DIRECTORS

Mr. Zhang Hwo Jie *(Chairman)*
Mr. Zhang Jian Hua *(Vice Chairman)*
Mr. Zhang Yaohua *(Chief Executive Officer)*
Mr. Nomo Kenshiro

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Dr. Lui Sun Wing
Mr. Choy Tak Ho
Mr. Chan Wai Dune

REMUNERATION COMMITTEE

Mr. Zhang Hwo Jie
Dr. Lui Sun Wing
Mr. Choy Tak Ho

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wong Hoi Chu, Francis FCCA CPA

AUTHORISED REPRESENTATIVES

Mr. Zhang Hwo Jie
Mr. Wong Hoi Chu, Francis FCCA CPA

HEAD OFFICE

Unit 8, 6th Floor, Greenfield Tower
Concordia Plaza
No.1 Science Museum Road
Kowloon, Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square, Hutchins Drive
P.O. Box 2681 GT, George Town, Grand Cayman
British West Indies

COMPLIANCE ADVISORS

CAF Securities Company Limited
SBI Crosby Limited

PRINCIPAL BANKERS

Hong Kong
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Coporation Limited
The Bank of Tokyo-Mitsubishi UFJ Limited

Mainland China
China Merchant Bank
Agricultural Bank of China
Shenzhen Commercial Bank

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISOR

Jones Day

PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513GT, Strathvale House
North Church Street, George Town
Grand Cayman, Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

INVESTOR AND MEDIA RELATION

Strategic Financial Relations Limited

WEBSITE

www.eva-group.com
www.irasia.com/listco/hk/evaholdings

STOCK CODE

838

On behalf of the Board of Directors (the "Directors"), I am pleased to present to you the first annual report of EVA Precision Industrial Holdings Limited (the "Company") and together with its subsidiaries (collectively known the "Group"), after its listing on the Main Board of The Stock Exchange of Hong Kong Limited on 11 May 2005. During the year under review, the Group's turnover and profit achieved satisfactory growth. Turnover amounted to approximately HK$485,023,000, representing an increase of 63.4% as compared with the previous year. Profit attributable to equity holders of the Company grew by 26.5% over that of the previous year to reach approximately HK$83,215,000. Our continued commitment to offering premium and integrated services that exceed our customers' requirements and expectations was what underlined our success.

To share our satisfactory results with and reward our supportive shareholders, a final dividend of HK2.6 cents per ordinary share will be proposed. The Group pledges to be mindful in striking a balance between meeting investors' expectation for financial returns and the prevailing financial situation of the Group. Together with the payment of an interim dividend of HK1.8 cents per share and a special dividend of HK1.2 cents per share, the full year dividend for 2005 will amount to HK$31,200,000. The overall dividend payout ratio of the Group is approximately 37.5%, which is consistent with the Group's annual dividend policy as promised during listing.

BUSINESS DEVELOPMENT

Year 2005 was a year of achievement and investment for us and a few noteworthy advances were made. The most notable was the listing of the Group. We devoted time and resources into the listing, a distinct achievement in our history, which laid a solid foundation for the Group's future expansion. Two months after listing, the new third factory building of our production complex in Shenzhen commenced commercial operation. This factory building serves as the production base for design and manufacture of plastic injection moulds, and plastic injection components manufacturing and assembly services. The horizontal expansion into plastics injection moulds and component manufacturing business is crucial and meaningful for the Group's transformation into a comprehensive service provider. It will also provide the Group with the momentum to sustain growth in the coming years.

The Group is always actively exploring opportunities to gain market share. Spotting vast potential in the Yangtze Delta region where more and more of the Group's existing customers or targeted customers have established or are about to establish production plants, the Group had started construction of a new plant in Suzhou in 2005 to capture mushrooming business opportunities in the region. This strategic move will enable the Group to strengthen relationships' with existing customers and forge new business relationships. The construction of the first phase of the Suzhou plant was completed in January 2006 and thereafter the Suzhou plant commenced trial production. The Group believes that, supported by its enlarged production capacities in Shenzhen and Suzhou, it will be able to expand business coverage in Southern and Eastern China and achieve greater economies of scale.

PROSPECTS

Positioning itself as a vertically integrated precision metal and plastic moulds and products manufacturing services provider, the Group takes pride in being able to provide its customers with premium one-stop service. The Group will further enhance its capability in offering integrated assembly services.

Looking ahead, taking into account that the demand for moulds is growing in the local market as well as among existing customers and other multi-national manufacturers for use in their factories outside Hong Kong and the PRC, we see rosy prospects for the mould industry. With a view to capturing such business opportunities, a mould research and development centre will be established to expand the production capacity and enhance the technical expertise for the manufacture of moulds. The construction of the mould research and development centre will commence in the second half of 2006 and is expected to be completed in 2007. At the same time, production capacity for the manufacturing of precision metal stamping and plastic injection components will also be enhanced in order to cope with the increasing orders from our customers.

At the same time as we celebrate the Group's achievements during the year, on behalf of the Directors, I also want to take this opportunity to express sincere thanks to all our shareholders, customers, business partners and employees for their unwavering support, which has made the Group's continuous success possible. We promise to dedicate our best to providing customers with services and goods of the highest quality, thereby maximizing returns to our shareholders.

Zhang Hwo Jie
Chairman

Hong Kong, 24 April 2006

BUSINESS REVIEW

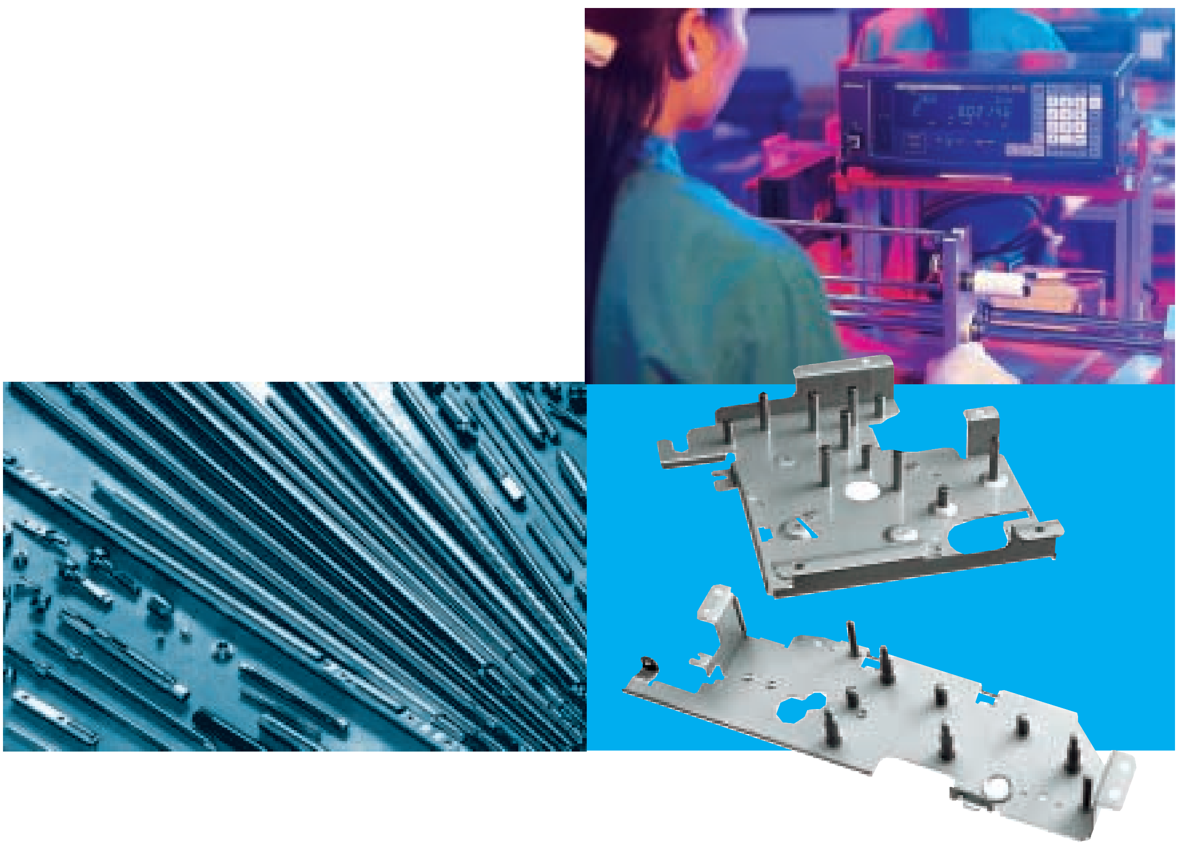
During the year ended 31 December 2005, the Group was principally engaged in (i) the design and fabrication of precision metal stamping and plastic injection moulds; (ii) manufacturing of precision metal stamping and plastic injection products and (iii) lathing of metal components. A review of the Group's operations for the year ended 31 December 2005 by major business segments is as follows:

Metal Division

During the year ended 31 December 2005, the overall turnover of the Group increased by 63% to approximately HK$485,023,000 as compared to that of approximately HK$296,860,000 for the year ended 31 December 2004. The significant rise in the Group's overall turnover for year ended 31 December 2005 was mainly contributed by the continuous growth of the Group's long-established metal division, whose turnover increased by approximately HK$170,385,000, or 57.4% over that for the year ended 31 December 2004. During the year, the Group's metal division continued to focus on serving renowned Japanese office automation equipment manufacturers including Toshiba, Konica Minolta, Canon, Kyocera Mita, Fuji Xerox, Ricoh, Epson and Brother and sales by the metal division to Japanese customers accounted for approximately 80.9% of the Group's total sales for the year ended 31 December 2005 (2004: 77%).

As a service provider to reputable manufacturers with internationally renowned brand names, management believes that the Group's business is strongly influenced by the characteristics of its major customer group. Management believes that the key focus of Japanese manufacturers, which are currently the Group's major customer group, include (i) a strong emphasis on product quality, in particular for office automation equipment such as photocopiers, printers and fax machines whose components require high precision standards to ensure the effective functioning of the equipment; (ii) emphasis on production efficiency to minimise production lead time and just-in-time inventory management and (iii) active involvement in the production process of its suppliers to ensure product quality and frequent mutual communications with a view to improving the production efficiency of its suppliers. To meet the stringent requirements of its customers, the Group has been following the Japanese style of management since the early stage of its establishment, which includes the implementation of the Japanese 7S management framework (Strategy; Structure; Systems; Style; Staff; Super-ordinate goals and Skills). Furthermore, to ensure high precision standards in manufacturing components for its customers, the Group had invested in high quality equipment. A substantial portion of the Group's production machinery is first-tier equipment produced by international renowned brand names such as Aida, Sodick, Agie, Panasonic and Nomura. The Group also maintains a strong quality control team with 176 employees as at 31 December 2005.

Such investment in quality and production management has proven to be beneficial to the Group. During the year ended 31 December 2005, the sales of the Group's metal division to most of its major Japanese customers increased significantly. In addition, Japanese customers who placed sale orders to the Group on a trial basis previously also increased their orders in 2005, resulting in a significant surge in sales of the Group's metal division to these customers during the year ended 31 December 2005.



To maintain its competitive advantage in product quality and management, the Group will continue to invest in first-tier machinery and equipment with a view to coping with the continuing increase in customer orders in 2006. A new production plant has also been established in the Suzhou city of the Yangtze Delta region of the PRC to serve the needs of our existing customers in that region and this new plant is expected to commence commercial production in May 2006, providing the Group with an estimated additional 40% increase in production capacity. In line with the Group's business expansion, experienced engineers and skilful talent were recruited, which included two senior Japanese management members who formerly held management positions with reputable Japanese corporations. Management believes that the Group will continue to benefit from the outsourcing trend of its Japanese customers, provided that the Group is able to improve its product quality and management on a continuing basis.

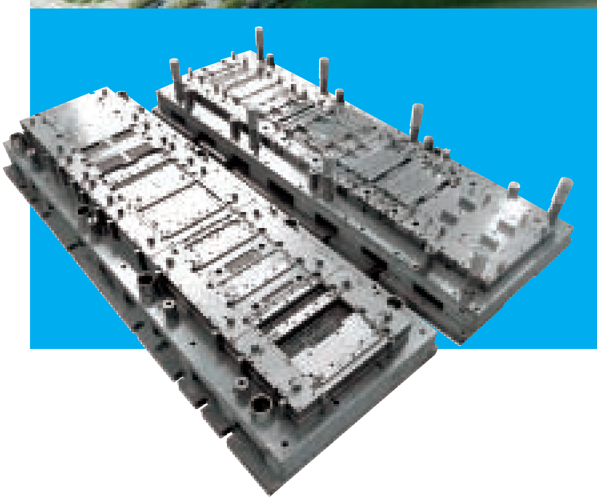
Apart from Japanese customers, the remaining 19.1% of sales of the Group's metal division was derived from reputable Hong Kong or international companies during year ended 31 December 2005. To broaden its customer base, the Group will continue to attract new customers. However, it is the policy of the Group to be selective in choosing new customers and management will take into account a number of factors, including the pricing of products and credibility of the potential customers in making its decision.

Plastic Division

The first production line of the Group's plastic division was established in late 2004. The Group decided to expand into plastic business because, while part of the office automation equipment manufactured by its customers is made of metal parts and components, plastic components account for the remaining portion. Management believes that the expansion into plastic business will not only provide the momentum for the Group's future growth, but also enable the Group to provide a more comprehensive services to its customers and reduce the production costs of its customers in logistic and quality control aspects that arise from their current practices to outsource the production of metal and plastic components to different suppliers.

As reported in our interim report, the plastic production line was operated on a trial basis in the Group's No.2 factory building in Shenzhen during the first half of 2005. It was moved to the Group's No.3 factory building in Shenzhen, which was built to accommodate the Group's plastic division, on 18 July 2005. Prior to the relocation of the plastic production line to No.3 factory building, the Group's plastic division was operated on a trial basis during which small scale orders were accepted for test-running the plastic production line and management members of the Group's plastic division devoted substantial effort in fine-tuning the production process and obtaining feedback from customers. As the plastic division was only operated on a trial basis with a view to test-running its production line, it recorded a loss of approximately HK$3,215,000 during the six months ended 30 June 2005.

In the second half of 2005, the Group's plastic division continued to develop and the Group had experienced an increase in orders from customers for plastic injection moulds and components during the second half of 2005. Turnover of the Group's plastic division increased to approximately HK$17,778,000 during the year ended 31 December 2005, as compared to a turnover approximately of HK$3,173,000 for



the six months ended 30 June 2005. Operating profit of the Group's plastic division for the second half of 2005 was approximately HK$3,884,000 and, after covering the initial loss of approximately HK$3,215,000 which was incurred during the trial production period in the first half of 2005, the Group's plastic division reported an overall operating profit of approximately HK$669,000 during the entire year ended 31 December 2005.

Under the Group's existing business model, the Group's customers normally required the Group to design and manufacture the relevant metal stamping and plastic injection moulds prior to the mass production of metal stamping and plastic components. After the moulds have been accepted by customers and payments for mould production have been received, the completed moulds are consigned in the Group's production plant for the subsequent production of metal stamping and plastic injection components. As the Group's plastic division only commenced commercial operations during the year ended 31 December 2005, a higher portion of its customer orders is related to the production of moulds. As such, the percentages of revenue from production of moulds and components to total turnover of the Group's plastic division were approximately 53% and 47% respectively during the year ended 31 December 2005, as compared to the percentages of 13% and 83% of the metal division during the same year. The plastic injection moulds produced by the Group during the year ended 31 December 2005 have been consigned in the Group's production plant for the manufacture of plastic injection components in subsequent years.

Human Resources

As at 31 December 2005, the total number of employees of the Group was 2,316, representing a growth of 33.8% as compared to 1,731 employees as at 31 December 2004. The increase in headcount was primarily due to the overall expansion of the Group during the year ended 31 December 2005.

The Group considers its employees, in particular the skilled technicians and production management members, as its core assets since the Group's future success relies on the strengthening of its product quality and management on a continuing basis. Apart from the continuing recruitment of domestic talents, seasoned Japanese management with strong production management experience are also recruited. In the second half of 2005, two seasoned Japanese managers with more than 30 years of management experience in reputable Japanese corporations joined the Group as senior management members to assist the Group in strengthening its production management and communications with its customers.

Remuneration policy is reviewed regularly, making reference to the prevailing legal framework, market conditions and performance of the Group and individual staff. However, apart from providing attractive remuneration packages, management believes that the creation of a harmonious working environment suitable for the development of employees' potential is also important for attracting and retaining qualified staff for its future success, in particular in a business environment where shortage of labour exists. Various employee activities were organised to build team spirit among the staff, which includes the organisation of company outings and sport activities in which the Group's employees, top management (including

executive directors) and customers participated. Substantial resources were also devoted to improve the factory and dormitory environment of the Group with a view to providing an attractive working and living environment for the Group's employees and, as a result of which the Group was awarded with an "Green Garden Community Honour Certificate (園林式、花園式(小區)榮譽證書)" granted by the Shenzhen Municipal Government.

Foreign Currency Exposure

A substantial portion of the Group's customers are reputable international manufacturers with worldwide distribution networks. At the same time, a majority of the Group's suppliers are international steel and metal producers designated by the Group's customers. Accordingly, most of the Group's sales and cost of sales are currently in HK dollars and US dollars and only a portion of its sales and purchases are denominated in Renminbi. During the year ended 31 December 2005, approximately 47%, 50% and 3% (2004: 70%, 25% and 5%) of the Group's sales and approximately 36%, 55% and 9% (2004: 41%, 47% and 12%) of the Group's purchases were denominated in Hong Kong dollars, US dollars and Chinese Renminbi, respectively.

Management is aware of the potential foreign currency risk that may arise from the continuous appreciation of Chinese Renminbi. Although only a small portion of the Group's purchases are denominated in Chinese Renminbi currently, the Group had taken actions to manage its foreign currency exposure. During the year ended 31 December 2005, management had refinanced the Group's Renminbi borrowings with Hong Kong dollar loans and accordingly, the percentage of Chinese Renminbi borrowings to the Group's total bank borrowings reduced from approximately 12.6% as at 31 December 2004 to nil as at 31 December 2005. As at 31 December 2005, deposits denominated in Chinese Renminbi amounting to RMB37,600,000 (equivalent to approximately HK$36,131,000) was pledged for obtaining Hong Kong dollar loans of an equivalent amount, which effectively acted as a cover against the appreciation of Chinese Renminbi. Management will evaluate the Group's foreign currency exposure on a continuing basis and take further actions to minimise the Group's exposure whenever necessary.

FINANCIAL REVIEW

An analysis of the Group's turnover and results by segment is as follows:

	Year ended 31 December				Six months ended 30 June *(Note 1)*			
	2005		2004		**2005**		2004	
	HK$'000	**%**	*HK$'000*	%	***HK$'000***	**%**	*HK$'000*	%
Turnover								
Metal division								
Design and fabrication of metal stamping moulds	**62,544**	**12.9%**	55,034	18.5%	**24,806**	**12.4%**	25,906	20.8%
Manufacturing of metal stamping components and lathing products	**390,097**	**80.4%**	228,383	76.9%	**166,055**	**83.1%**	92,969	74.6%
Others *(Note 2)*	**14,604**	**3.0%**	13,443	4.6%	**5,730**	**2.9%**	5,718	4.6%
	467,245		296,860		**196,591**		124,593	
Plastic division								
Design and fabrication of plastic injection moulds	**9,433**	**2.0%**	–	–	**2,548**	**1.3%**	–	
Manufacturing of plastic injection components	**8,345**	**1.7%**	–	–	**625**	**0.3%**	–	
	17,778		–		**3,173**		–	
Total	**485,023**		296,860		**199,764**		124,593	
Segment results								
Metal division	**100,334**		76,588		**41,272**		30,976	
Plastic division	**669**		(802)		**(3,215)**		–	
Operating profit	**101,003**		75,786		**38,057**		30,976	
Unallocated expenses	**(1,438)**		(340)		**–**		–	
Finance costs	**(6,672)**		(4,008)		**(3,661)**		(1,361)	
Income tax expenses	**(9,678)**		(5,445)		**(3,512)**		(2,388)	
Minority interest	**–**		(230)		**–**		(230)	
Profit attributable to equity holders of the Company	**83,215**		65,763		**30,884**		26,997	

Note 1: Financial figures for the six months ended 30 June 2004 and 2005 are extracted from the Group's interim report dated 14 September 2005.

Note 2: Others mainly represented sales of scrap materials

Turnover

Metal division

The increase in turnover of the Group's metal division by 57.4% from approximately HK$296,860,000 for the year ended 31 December 2004 to approximately HK$467,245,000 for the year ended 31 December 2005 was primarily driven by the increase in revenue generated from manufacturing of metal stamping and lathing products. With the continuous development of the Group's production management and its reputation among prominent international manufacturers, the Group experienced an increase in sale orders from its existing customers during the year ended 31 December 2005. Those customers which placed sale orders to the Group on a trial basis previously also started to increase its orders to the Group, which contributed to the significant increase in revenue generated from the manufacture of metal stamping and lathing products during the year ended 31 December 2005.

Plastic division

The Group's plastic division only commenced commercial operations during the year ended 31 December 2005. As a newly established division, revenue generated by the Group's plastic division only constituted approximately 3.7% of the Group's total turnover during the year ended 31 December 2005. Since, a majority of the Group's customers required the Group to design and manufacture the moulds prior to the mass production of components, a majority of customer orders received by the Group's plastic division were related to mould production during its initial stage of operations in 2005. As such, the percentages of revenue from production of moulds and components to total turnover of the Group's plastic division were approximately 53% and 47% respectively during the year ended 31 December 2005, as compared to the percentages of 13% and 83% of the metal division during the same year. The moulds produced by the Group's plastic division during the year ended 31 December 2005 have been consigned in the Group's production plant for the manufacture of plastic injection components in subsequent years.

Gross profit

The Group achieved a gross profit of approximately HK$161,031,000 for the year ended 31 December 2005, representing an increase of 38.7% as compared to that for the year ended 31 December 2004. Gross profit margin for the year ended 31 December 2005 was approximately 33.2%, which decreased as compared to that of 39.1% for the year ended 31 December 2004. The decrease in gross profit margin was primarily because (i) the Group's revenue from the manufacture of metal stamping and plastic injection components and lathing products increased significantly by 74.5% and its proportion to total turnover increased from approximately 76.9% for the year ended 31 December 2004 to approximately 82.1% for the year ended 31 December 2005. At the same time, with the significant increase in revenue from the manufacture of metal stamping and plastic injection components and lathing products, the proportion of revenue from design and fabrication of metal stamping and plastic injection moulds to total turnover was diluted from 18.5% for the year ended 31 December 2004 to 14.9% for the year ended 31 December 2005 although its amount increased by approximately 30.8% from approximately HK$55,034,000 for the year ended 31 December 2004 to approximately HK$71,977,000 for the year ended 31 December 2005. Since the gross profit margin from the manufacture of components and lathing products is generally lower than that from design and fabrication of moulds, the significant increase in revenue from the manufacture of metal stamping and plastic injection components and lathing products had diluted the Group's overall gross profit margin for the year ended 31 December 2005 and (ii) with the continuous development of the Group's production management and its reputation among customers, management believe that the Group is poised to achieve further growth in revenue in the future. To establish a solid foundation for the Group's future growth, the Group has been expanding its scale of operations since the latter half of 2004 which included the establishment of new production lines and the recruitment and training of additional production and management personnel with a view to accommodating the expected surge in sale orders in the coming years. The expansion of the Group's scale of operations had increased the Group's production overhead costs, which are semi-fixed in nature, and consequently lowered the Group's overall gross profit margin during the year ended 31 December 2005. Nevertheless, management considers the expansion of operating scale as a necessary step for achieving future growth and expects the effect of increased production overhead costs to be offset through economy of scale brought by the continuous increase in the Group's turnover in the future.

However, as compared to the six months ended 30 June 2005, the overall gross profit margin of the Group for the year ended 31 December 2005 had increased by approximately 0.7% as compared to that of approximately 32.5% for the six months ended 30 June 2005. The increase in gross profit margin was mainly attributable to (i) the increase in the percentage of revenue from design and fabrication of moulds to total turnover from approximately 13.7% for the six months ended 30 June 2005 to approximately 14.9% for the year ended 31 December 2005 which were primarily caused by the increase in orders for production of moulds from customers in the second half of 2005 in preparation for the production of components in 2006 and (ii) economies of scale brought by the continuous increase in the Group's turnover in the second half of 2005 which partially offset the increased semi-fixed production overhead costs resulting from the expansion of the Group's scale of operations.

Segment results

For the year ended 31 December 2005, the segment result of the Group's metal division amounted to approximately HK$100,334,000, representing a 31.0% increase as compared to that of approximately HK$76,588,000 for the year ended 31 December 2004. This increase was primarily brought by the surge of turnover of the Group's metal division during the year.

The Group's plastic division only commenced commercial operations during the year ended 31 December 2005. In the first half of 2005, the Group's plastic division was operated on a trial basis during which small orders were accepted primarily for test-running the production process. Since the Group's plastic division was not operated on full scale, it recorded an initial loss of approximately HK$3,215,000 during the six months ended 30 June 2005.

In the second half of 2005, the Group's plastic division continued to develop and the Group had experienced an increase in orders from customers for plastic injection moulds and components during the second half of 2005. Segment result of the Group's plastic division for the second half of 2005 was approximately HK$3,884,000 and, after covering the initial loss of approximately HK$3,215,000 which was incurred during the first half of 2005, the Group's plastic division reported an overall operating profit of approximately HK$669,000 for the entire year ended 31 December 2005.

Finance costs

Prior to its initial public offering in May 2005, the Group's had primarily relied on bank loans and finance lease arrangements to finance the expansion of its business. Since the Group has been expanding its scale of operations since the latter half of 2004, the balance of bank loans and finance lease obligations increased during the first half of 2005 which consequently resulted in an increase in the Group's finance costs from approximately HK$1,361,000 for the six months ended 30 June 2004 to approximately HK$3,661,000 for the six months ended 30 June 2005.

Following its initial public offering in May 2005, the Group had been able to utilise a portion of its listing proceeds and cash generated from operating activities to finance its capital expenditure and daily operational requirements and had thereby become less reliant on borrowings. Accordingly, despite (i) the continuous expansion of the Group's Shenzhen production plant; (ii) the commencement of construction of the Group's new Suzhou production plant in the latter half of 2005 and (iii) the increase in market interest rates in the second half of 2005, the finance costs of the Group for the second half of 2005 decreased to approximately HK$3,011,000 as compared to that of approximately HK$3,661,000 for the first half of 2005. The finance costs of the Group for the entire year ended 31 December 2005 totaled HK$6,672,000.

Income tax expense

Yihe Precision Hardware (Shenzhen) Co., Ltd., the Group's principal subsidiary in the PRC, is subject to PRC enterprise income tax at a rate of 15%. However, it is fully exempted from PRC enterprise income tax for two years starting from its first year of profitable operations, followed by a 50% reduction in PRC enterprise income tax for the next three years. The tax exemption period of Yihe Precision Hardware (Shenzhen) Co., Ltd. ended on 31 December 2004 and it was subject to a tax rate of 7.5% during the year ended 31 December 2005. Coupled with the increase in the Group's profit before income tax, the Group experienced an increase in income tax expense for the year ended 31 December 2005 as compared to the previous year.

Profit attributable to equity holders of the Company

Despite an increase in finance and income tax expenses and the decrease in overall gross profit margin which was primarily caused by the change in the respective percentages of revenue from mould and component production to total turnover as mentioned above, the overall profit attributable to equity holders of the Company increased by approximately 26.5% from approximately HK$65,763,000 for the year ended 31 December 2004 to approximately HK$83,215,000 for the year ended 31 December 2005, which was primarily attributable to the continuous increase in the Group's turnover during the year.

LIQUIDITY, FINANCIAL RESOURCES AND RATIOS

Following the Company's initial public offering on 11 May 2005, the Group received net proceeds of approximately HK$125,080,000 which were intended to be used to finance the future expansion of the Group's Shenzhen operations and repayment of loans. For the year ended 31 December 2005, the Group recorded net cash generated from operating activities amounting to approximately HK$75,772,000, representing an increase of approximately 44.7% as compared to that of approximately HK$52,356,000 for the year ended 31 December 2004. The increase in net cash generated from operating activities was in line with increase in the turnover and profit of the Group during the year ended 31 December 2005. Net cash used for investing activities which was primarily related to the purchases of fixed assets and amounted to approximately HK$92,952,000 for the year ended 31 December 2005, increased by approximately 90.3% as compared that of approximately HK$48,854,000 for the year ended 31 December 2004 due to the continuous expansion of the Group's scale of operations. In addition, the Group recorded an increase in net cash generated from financing activities from approximately HK$5,166,000 for the year ended 31 December 2004 to approximately HK$34,222,000 for the year ended 31 December 2005 which was a result of the combination of (i) the receipt of the net proceeds from the Company's initial public offering during the year ended 31 December 2005 and (ii) the increase in repayment of borrowings during the year ended 31 December 2005 as the Group had become less reliant on borrowings for its daily operations and business expansion as mentioned above.

Bank loans as at 31 December were denominated in Hong Kong dollars with fixed or floating interest rates and were used to finance the Group's operation and expansion. Treasury activities are controlled by senior management members with an objective of achieving a balance between the Group's expansion needs and its financial stability. An analysis of the Group's key liquidity and capital adequacy ratios as at 31 December 2005 are as follows:

	2005	2004
Inventory turnover days *(Note 1)*	67	71
Debtors' turnover days *(Note 2)*	73	99
Creditors' turnover days *(Note 3)*	85	126
Current ratio *(Note 4)*	1.02	0.81
Net debt-to-equity ratio *(Note 5)*	0.29	1.39

Note:

1. *Calculation of inventory turnover days is based on the ending inventories divided by cost of goods sold and multiplied by the number of days during the year.*

2. *Calculation of debtors' turnover is based on the ending balance of trade receivables divided by turnover and multiplied by the number of days during the year.*

3. *Calculation of creditors' turnover is based on the ending balance of trade payables divided by cost of goods sold and multiplied by the number of days during the year.*

4. *Current ratio is calculated based on the Group's total current assets divided by total current liabilities.*

5. *Net debt-to-equity ratio is calculated based on the total balance of bank borrowings, finance lease obligations and amount due to related parties less cash and bank balances divided by shareholders' equity.*

Inventory turnover days

Substantially all of the Group's Japanese customers have their own designated raw material suppliers. These Japanese customers generally require the Group to purchase raw materials from their designated suppliers for the manufacture of metal and plastic components and delivery and pricing of raw materials are negotiated based on three-way communications among the Group, its customers and suppliers. This practice enables the Group to manage its inventories in an efficient manner despite a continuous increase in its turnover and business scale. The Group's inventory turnover days for the year ended 31 December 2005 was approximately 67 days, which decreased by 4 days as compared to that for the year ended 31 December 2004 owing to a continuous improvement of the Group's inventory management.

Debtors' and creditors' turnover days

During the year ended 31 December 2005, the Group's debtors' and creditors' turnover days decreased from approximately 99 days and 126 days for the year ended 31 December 2004 to approximately 73 days and 85 days respectively owing to the continuous improvement of the Group's cash flow management during the year.

Current ratio and net debt-to-equity ratio

During the year ended 31 December 2005, the Group received net proceeds from initial public offering amounting to approximately HK$125,080,000. Consequently the Group had become less reliant on borrowings for its daily operations and business expansion. Coupled with the continuous inflow of cash from operations, the Group's current ratio and net debt-to-equity ratio improved and changed from approximately 0.81 and 1.39 as at 31 December 2004 to approximately 1.02 and 0.29 as at 31 December 2005.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2005, the charges on the Group's assets included (i) pledge of bank deposits of approximately HK$111,131,000; (ii) pledge of leasehold land and buildings located in Hong Kong with net book value of approximately HK$7,163,000 and HK$1,874,000, respectively, and (iii) mortgage of equipment under finance lease obligations with net book value of HK$106,116,000. Such charges are used for securing the Group's bank borrowings and finance lease obligations.

CONTINGENT LIABILITIES

As at 31 December 2005, the Company has given guarantees in respect of the banking facilities of its subsidiaries of HK$103,067,000 (2004: HK$27,265,000), and guarantees in respect of finance lease liabilities of its subsidiaries of HK$9,527,000 (2004: HK$13,921,000). Save for the above, the Group had no other contingent liabilities as at 31 December 2005.

DIVIDEND

An interim dividend and special dividend of HK1.8 cents and HK1.2 cents per ordinary share, totaling HK$15,600,000 was paid on 20 October 2005. The Directors recommend the payment of a final dividend of HK2.6 cents per ordinary share in respect of the year ended 31 December 2005.

Subject to the approval of the Directors' recommendation by the shareholders at the annual general meeting to be held on 24 May 2006, the final dividend will be paid on or about 30 May 2006 to the shareholders whose names appear on the registers of members of the Company on 24 May 2006. The registers of members of the Company will be closed from Friday, 19 May 2006 to Wednesday, 24 May 2006 (both days inclusive). In order to qualify for the above mentioned proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Service Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. Thursday, 18 May 2006.

OUTLOOK

Management sees great potential in both the global and regional markets taking into account that (i) the global and the PRC mould markets grew by 7.2% and 20.3% in 2004, respectively; (ii) in 2004, only 50% of the demand for high quality and high precision mould products in the PRC had been met by domestic production, with the remaining portion being satisfied by imported moulds, indicating a strong potential for the growth in demand for domestically-produced high precision moulds in the PRC; (iii) the PRC is expected to become a more visible and key electronics production base in Asia Pacific, sharing 42% of the region's electronic equipment production by 2007; and (iv) outsourcing by Japanese manufacturers to non-Japanese suppliers is still fairly new with a majority of the components used by the Group's customers still being manufactured by suppliers with Japanese background, whose operating costs are generally higher than those of the domestic companies. Taking into account the above factors, management believes that the Group is poised to achieve future growth as a result of the expansion in mould and electronic equipment markets in the PRC as well as market share gains.

Management considers 2005 and 2006 to be years of investment. During the year ended 31 December 2005, the Group made investments to transform itself from a metal mould and component suppliers to a comprehensive service provider covering metal and plastic moulds and components and related assembly services with a view to reducing the costs of the Group's customers in logistic and quality control aspects that arise from their current practices of outsourcing the production of metal and plastic components and related assembly services to different suppliers. As part of the Group's expansion plan, a new third factory building within the Group's existing production complex in Shenzhen commenced commercial operations on 18 July 2005. The new third factory building serves as the Group's production base for design and fabrication of plastic injection moulds, plastic injection components and assembly services currently with a monthly production capacity of approximately 55 sets of plastic moulds and 2,700,000 units of plastic components. Management believes that the horizontal expansion into the plastic injection mould and component manufacturing business is critical to the Group's transformation into a comprehensive service provider and will also provide the Group with the momentum for growth in the coming years.

The Group's Shenzhen plant is currently serving the production factories of its customers, which primarily comprises top-tier Japanese brand names for office automation equipment and consumer electronic products, located within the Pearl Delta Region. During the year ended 31 December 2005, Konica Minolta (one of the major customers of the Group) had indicated to the Group that it was constructing a new production plant in the Wuxi city of the Yangtze Delta region which would be in addition to production base in the Pearl Delta Region. This new plant of Konica Minolta, which had commenced production in October 2005, would also require the same type of products and services currently provided by the Group in Shenzhen. Further, a number of other existing customers of the Group have established production bases in the Yangtze Delta Region which include Canon in Suzhou and Fuji-Xerox and Ricoh in Shanghai. In addition, the Yangtze Delta Region has become a production hub for various other multi-national manufacturers which are also target customers of the Group taking into account (i) the credibility of these multi-national manufacturers; (ii) the potential scale of their future sale orders and (iii) the higher profitability which is likely to be obtained by serving multi-national manufacturers than small scale local manufacturers owing to more stringent quality and production requirements of multi-national manufacturers. As such, with a view to capturing the business opportunities that have arisen from the expansion of business of its existing and target customers in the Yangtze Delta Region and deepening the Group's relationship with its existing customers, management resolved to establish a new production plant in Suzhou, during the year ended 31 December 2005. Supported by the Group's Shenzhen and Suzhou factories, management believes that the Group will be able to enlarge its coverage of customers in Southern and Eastern China, whilst maximising economies of scale.

The construction of the Group's new production plant in Suzhou was completed in January 2006. Currently the Group's new production plant in Suzhou is under trial production stage and management members of the Group's new production plant in Suzhou are currently working with certain of the Group's existing customers which include Konica Minolta, Canon and Ricoh for fine-tuning the production process. The Group's new production plant in Suzhou will commence commercial production in May 2006. At its initial stage of operations, the Group's new production plant in Suzhou will focus on tapping potential business from the Group's existing customers located in the Yangtze Delta Region but at the same time it will also strive to expand and obtain business from other reputable multi-national manufacturers at the later stage.

Apart from the new production plant in Suzhou, management also plans to expand the production capacity of the Group's existing production plant located in Shenzhen during the year ending 31 December 2006 in order to handle the continuous increase in future customer orders. With a view to financing the expansion of production capacity, a top-up placement was executed in March 2006 for the placement of 80,000,000 shares to institutional investors. Net proceeds of approximately HK$107,462,000 was obtained from the placement and management intends to apply the proceeds to expand the production capacity of the Group as to approximately HK$92,000,000 for the acquisition of new machineries and as to approximately HK$15,462,000 for general working capital of the Group.

Under the current business model of the Group, the metal stamping and plastic injection moulds produced by the Group are primarily consigned in the Group's production plant and used for the subsequent production of metal stamping and plastic injection components. This business model provides a stable income stream for the Group since the production cycles of moulds normally last for three to four years. However, at the same time, management also sees the potential in manufacturing and selling the moulds on a stand-alone basis taking into account (i) the growing demand for moulds in the PRC market and (ii) the demand for high precision moulds from the Group's existing customers and other multi-national manufacturers for use in their factories located outside Hong Kong and the PRC. Accordingly, as mentioned in the Prospectus dated 29 April 2005, the Group intends to establish a mould research and development centre in Shenzhen. The purpose of establishing the mould research and development centre is to expand the production capacity and enhance the technical expertise for the manufacture of moulds with a view to (i) capturing the potential businesses from the selling of moulds on a stand-alone basis and (ii) supporting the continuous expansion of component production under the existing business model.

As described above, one of the key characteristics of the Group's existing Japanese customers is their strong emphasis on quality and production management. Accordingly, apart from the expansion of production capacity, the Group also devoted substantial resources in strengthening its product quality and management and, in return, the Group received accreditations from its customers which included (i) "Very Valuable Vendor Award" granted by Canon; (ii) "Acclamation Ceritificate (表彰狀)" granted by Konica Minolta; (iii) an approval certificate for chemical substances management (CMS) standard and "GMS Certificate of Green Activity" granted by Ricoh and (iv) "Excellent Supplier Award" granted by Toshiba. Management believes that the Group's commitment to product quality and management, coupled with the investments made for providing more comprehensive services to its customers, will deepen its customer relationships which will in turn transform into economic benefits for the Group.

Currently the Group is primarily serving as a mould and component supplier to reputable Japanese manufacturers engaging in the production of office automation equipment which includes photocopiers, fax machines and printers. Taking into account that (i) currently the Group's revenue is primarily derived from the production of metal stamping moulds and components with other business opportunities relating to the office automation equipment market which include the manufacture of relevant plastic injection moulds and components and the provision of assembly services remain unexplored and (ii) outsourcing by Japanese manufacturers to non-Japanese suppliers is still fairly new with a majority of the components used by the Group's customers still being manufactured by suppliers with Japanese background, management believes that there are still ample opportunities for the continuous expansion of the Group in the office automation equipment market. However, at the same time, the Group continuously searches for other growth opportunities and, as part of such exploration, the Group successfully passed the TS16949:2002 accreditation, an international quality accreditation for the manufacture of automobile parts, in January 2006 and the Group had started to obtain small scale orders for the production of automobile parts on a trial basis. However, taking into consideration that (i) there are still ample opportunities for the expansion of the Group in the existing office automation equipment market and (ii) the substantial time that may be required for the successful establishment of solid business relationship with reputable automobile manufacturers, management will continue to focus a majority of its resources in the office automation equipment market and expects a substantial portion of its customer orders continues to come from office automation equipment manufacturers in near future.

APPLICATION OF LISTING PROCEEDS

The Company's shares were listed on The Stock Exchange of Hong Kong Limited on 11 May 2005. The net proceeds from listing amounted to approximately HK$125,080,000 and as at 24 April 2006, the Group had applied the listing proceeds as follows:

	Planned as per prospectus dated 29 April 2005	**Actual application as at 24 April 2006**
	HK$	*HK$*
Purchases of machinery and equipment for the manufacture of plastic injection moulds and plastic injection components	32 million	32 million
Purchases of additional stamping machines for the manufacture of metal stamping moulds and metal stamping components	25 million	25 million
Establishment of a mould development centre	35 million	6 million
Repayment of bank loans	30 million	30 million
General working capital of the Group	3 million	3 million
	125 million	96 million

The unutilised proceeds from listing of approximately HK$29 million are related to the setting up of a mould research and development centre. The Company will continue to use the remaining HK$29 million for the setting up of a mould research and development centre as stated in the Prospectus. Such remaining proceeds are currently placed on short-term bank deposits.

DIRECTORS

EXECUTIVE DIRECTORS

Mr. ZHANG Hwo Jie (**張傑先生**), aged 43, is the chairman of the Group. He is responsible for the overall strategic planning and marketing development of the Group. Prior to the establishment of the Group, Mr. Zhang had worked for a PRC joint venture company engaging in civil engineering projects. He started his first business in 1983 by acting as a contractor for civil engineering projects of the local government. In 1993, Mr. Zhang established EVA Limited and thereafter Mr. Zhang acquired extensive experience in customer relationship development and corporate management. He has over 10 years of experience in marketing, strategic planning and corporate management of the metal and moulding industry. He is also the vice-president of the Shenzhen Baoan Shiyan Association of Commerce (深圳市寶安區石岩商會). Mr. Zhang Hwo Jie is one of the founders of the Group in 1993. Mr. Zhang was appointed as a director on 27 July 2004.

Mr. ZHANG Jian Hua (張建華先生), aged 32, is the vice-chairman of the Group. He is responsible for the overall supervision of day-to-day operations of the Group. Mr. Zhang graduated from the University of Shenzhen (深圳大學) with a diploma in finance and taxation. Prior to joining the Group, he operated his own business in the civil engineering industry where he obtained substantial experience in business development and management. He is a brother of Mr. Zhang Hwo Jie and Mr. Zhang Yaohua. Mr. Zhang was appointed as a director on 14 September 2005.

Mr. ZHANG Yaohua (**張耀華先生**), aged 33, the chief executive officer of the Group. He is responsible for the operation and management of the Group. He joined the Group in 1993 and was one of the co-founders of the Group. Mr. Zhang has over 10 years of operational management experience in the industry of precision metal mould and parts manufacturing. He is presently the vice president of the Shenzhen Machinery Association (深圳市機械行業協會). Mr. Zhang has obtained the international chief human resource officer qualification from the HK International Enterprise Management Institute in September 2003 and was accredited as one of the outstanding personalities in mechanical industry by the Shenzhen Machinery Association (深圳市機械行業協會) in 2004. He was also accredited as a "Certified International Organisation Planning Consultant" (註冊國際企業規劃專家) by the American Certification Institute (美國認證協會), China Human Resources Expert Science and Economic Consultancy Centre (人事部中國專家科技經濟諮詢中心) and International Professional Qualification Certificate China Examination and Instruction Centre (國際職業資格證書中國考試指導中心). Mr. Zhang is a brother of Mr. Zhang Hwo Jie and Mr. Zhang Jian Hua. Mr. Zhang was appointed as a Director on 11 January 2005.

Mr. NOMO Kenshiro (**野母憲視郎**), aged 64, is the executive director and senior consultant of the Group. Mr. Nomo is responsible for advising on the Group's production and operational management, business development and strategic planning. He is also a director of EVA Precision Industrial (Suzhou) Limited, a subsidiary of the Group. Mr. Nomo has over 40 years of solid experience in manufacturing, sales and marketing, public relationship and corporate management. Prior to joining the Group in June 2003, he held several managerial positions of various departments in 深圳美陽注塑有限公司, a plastic moulding and parts manufacturer in the PRC, from 1991 to 2003. Mr. Nomo obtained a bachelor's degree in mechanical engineering from the Industrial Institution of Japan in 1963. Mr. Nomo was appointed as a director on 11 January 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. LUI Sun Wing (呂新榮博士), aged 55, is an independent non-executive director and the chairman of the Company's audit committee. Dr, Lui was a branch director of the Hong Kong Productivity Council, responsible for overseeing the materials and process branch, for the period from December 1992 to June 2000. He then joined the Hong Kong Polytechnic University as a vice president in 2000, and is now responsible for partnership development. He is also the chief executive officer of the Institute for Enterprise of the Hong Kong Polytechnic University and the chief executive officer and the chairman of the board of directors of PolyU Technology & Consultancy Co., Limited. Dr. Lui is also a director of Advance New Technology Limited, a non-executive director of Eco-Tek Holdings Limited and independent non-executive directors of Leeport (Holdings) Limited and Hang Fung Gold Technology Limited. Dr. Lui was appointed as a Director on 11 January 2005.

Mr. CHOY Tak Ho (蔡德河先生), aged 78, is an independent non-executive director. Mr. Ho. has 40 years of experience in international trading business in Hong Kong. He is the managing director of Union International (HK) Company Limited, the founding chairman of Hong Kong Kwun Tong Industries and Commerce Association Limited and the executive director of the Chinese Manufacturers' Association of Hong Kong Limited respectively. He is also a member of National Committee of the 9th Chinese People's Political Consultation Conference, the honorary director of China Overseas Friendship Association, a member of the 8th executive committee of All China Federation of Industry and Commerce, the 4th honorary president of Guangdong Chamber of Foreign Investors, the honorary vice president of Pui Ching Commercial College, the charter president of Hong Kong and Overseas Chinese Association of Commerce Ltd., the honorary permanent president of Hong Kong Commerce Industrial Associations, and the honorary life chairman of Chinese General Chamber of Commerce Hong Kong. He currently also serves as the independent non-executive director of Sino Golf Holdings Limited, Ocean Grand Holdings Limited, Yanion International Holdings Limited, Oriental Explorer Holdings Limited, Multifield International Holding Limited and Shine Science & Technology (Holdings) Limited. He was appointed as a Director on 11 January 2005.

Mr. CHAN Wai Dune (陳維端先生), aged 53, is an independent non-executive director. Mr. Chan has over 25 years of experience in the finance sector, particularly in auditing and taxation areas. He is a certified public accountant and is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. Mr. Chan is currently a member of CPPCC of Guangzhou Municipal Committee (廣州市政協委員會) and a member of the Executive Council of China Overseas Friendship Association (中華海外聯誼會). He was a member of the Selection Committee for the establishment of the First Government of the Hong Kong Special Administrative Region. Mr. Chan is currently the Managing Director of CCIF CPA Limited. Mr. Chan currently also serves as an independent non-executive director of Hualing Holdings Limited, Chuang's China Investments Limited, Hunan Nonferrous Metals Corporation Limited, Jinheng Automotive Safety Technology Holdings Limited, Mexan Limited, Minmetals Resources Limited, Sam Woo Holdings Limited, Sino Union Petroleum & Chemical International Limited and Zhongda International Holdings Limited. Mr. Chan was appointed as a Director on 11 January 2005.

SENIOR MANAGEMENT

Mr. WONG Hoi Chu (**黃海曙先生**), aged 33, is the chief financial officer and company secretary of the Group. Mr. Wong is responsible for the accounting, taxation and finance affairs of the Group. Mr. Wong has over ten years of experience in the field of auditing, accounting and taxation. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group in September 2004, he served as a senior manager of a major international accounting firm. Mr. Wong holds a bachelor's degree in business management from the Hong Kong University of Science and Technology.

Mr. CHEN Hong Bin (**陳紅斌先生**), aged 38, is the general manager of Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd., a subsidiary of the Group. Mr. Chen is responsible for the general operation and management of Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. Mr. Chen has over 13 years of experience in manufacturing and operational management. Prior to joining the Group in July 2002, he served as the factory manager of the metal and plastic factory of 深圳藝晶五金實業有限公司 (ART Precision Industrial Ltd). Mr. Chen holds a bachelor's degree in business and administration from the University of Shenzhen. Mr. Chen is also a director of Yihe Precision Hardware (Shenzhen) Co., Ltd. and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd., subsidiaries of the Group.

Mr. LI Zheng Liang (**李正良先生**), aged 38, is the general manager of Yihe Precision Hardware (Shenzhen) Co., Ltd., a subsidairy of the Group. Mr. Li is responsible for overall management of Yihe Precision Hardware (Shenzhen) Co., Ltd. Prior to joining the Group in March 2004, he worked as senior management at 上海科特拉公司 (Shanghai Catela Co., Ltd.), 上海儀表工程控制公司 (Shanghai Investment & Engineering Control Co., Ltd.) and Minolta Industries (HK) Limited (Shilong Branch). Mr. Li has over 11 years of extensive experience in system management, overall production and manufacturing management and logistic management. Mr. Li holds a bachelor's degree in automatic control from Beijing University of Aeronautics & Aerospace University (北京航空航天大學).

Mr. LI Te Min (李鐵敏先生), aged 37, is the general manager of EVA Precision Industrial (Suzhou) Limited, a subsidiary of the Group. Mr. Li is responsible for the general operation and management of EVA Precision Industrial (Suzhou) Limited. Mr. Li has over 14 years of experience in production and quality management in the industrial field. Prior to joining the Group in December 2005, Mr. Li held in various technical supervision and senior management positions at Dong Feng Motor Corporation (東風汽車公司), Epson Precision (Shenzhen) Co., Ltd. (愛普生精密(深圳)有限公司), Haier Century (Qingdao) Precision Production Co., Ltd. (海爾世紀(青島)精密制品有限公司) and Sun Wing Hing Painting Industry (Shenzhen) Co., Ltd.

(新永興噴塗製品(深圳)有限公司). Mr. Li holds a master degree in business administration (EMBA) from Zhongshan University (中山大學). Mr. Li was also received "Quality Control System Consultant Certificate" (品質管制體系諮詢師證書) from China Certification Personnel and Training Institute National Accredited Committee (中國認證人員與培訓機構國家認可委員會) and was appointed as an expert advisor by China High-Tech Industrial Corporation Organisation Shenzhen Expert Committee (全國高協組織深圳專業委員會).

Mr. KINOSHITA Keiji (木下敬治先生), aged 54, is a senior consultant of Yihe Precision Hardware (Shenzhen) Co., Ltd., a subsidiary of the Group. Mr. Kinoshita is responsible for the improvement of production management in quality, technical and logistic aspects through training and supervision and is also responsible for the enhancement of customer relationship. He has over 30 years of technical management experience in the stamping industry. Prior to joining the Group in July 2005, Mr. Kinoshita worked for Minolta Co., Ltd. (美能達相機株式會社) from 1972 to 2002 where he obtained substantial experience in technical supervision. Mr. Kinoshita graduated from Aichi Prefectural Toyo Kewa Technical High School (日本立豐川工業高等學校) in 1970 majoring in mechanical engineering.

Mr. TAKAHASHI Yukio (高橋幸雄先生), aged 57, is a senior consultant of Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd., a subsidiary of the Group. Mr. Takahashi is responsible for the improvement of production management in quality, technical and logistic aspects through training and supervision and is also responsible for the enhancement of customer relationship. Mr. Takahashi had over 39 years of technical management experience in the plastic injection industry. Prior to joining the Group in December 2005, Mr. Takahashi held various technical and management positions in Tenma Corporation (天馬株式會社) from 1967 to 2005. Mr. Takahashi graduated from Hukushima Ken Nakoso Industry High School (日本福島縣立勿來工業高等學校) in 1967 majoring in mechanical engineering.

The Group has strong intention to comply with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") since its listing on the Main Board of the Stock Exchange of Hong Kong Limited on 11 May 2005. The Company has its own code of conduct regarding corporate governance which is not less stringent than the provisions of the Code on Corporate Governance Practices of the Listing Rules and the Company also has a policy of seeking to comply with established best practice in the field of corporate governance.

THE BOARD OF DIRECTORS

The Group is controlled by its Board of Directors. Accountable to the shareholders, the Board is collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the implementation of internal control procedures and the ensuring of compliance with relevant statutory requirements and other rules and regulations. The Board of Directors reviews the performance of the operating divisions on a regular basis and also exercises a number of reserved powers, including:

- formulating long-term strategy;
- approving public announcements including the interim and annual financial statements;
- setting dividend policy;
- approving major acquisitions, divestments and capital expenditure;
- reviewing the Group's systems of financial control and risk management;
- approving appointments to the Board of Directors and the company secretary; and
- approving material borrowings and treasury policy.

The Board currently consists of seven directors including four executive directors and three independent non-executive directors:

EXECUTIVE DIRECTORS

Mr. Zhang Hwo Jie *(Chairman)*
Mr. Zhang Jian Hua *(Vice-Chairman)*
Mr. Zhang Yaohua *(Chief Executive Officer)*
Mr. Nomo Kenshiro

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lui Sun Wing
Mr. Choy Tak Ho
Mr. Chan Wai Dune

Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua are brothers. Save as aforesaid, the Board members have no financial, business, family or other material relationships with each other. A balanced board composition is formed to ensure strong independence exists across the Board and currently more than one-third of its members comprises independent non-executive directors. The biographical information of directors are set out on page 27 to page 30 under the section headed "Directors and Senior Management" of the annual report.

The Group has arranged appropriate insurance coverage in respect of relevant actions against its directors with the details and coverage of this insurance being reviewed each year.

Independent non-executive directors

The independent non-executive directors are persons of high caliber, with extensive experience in the field of accounting, financial management and trading and manufacturing businesses. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. The Group had received from each of the independent non-executive directors an annual conformation of his independence as required under the Listing Rules. As such, the Group considers all independent non-executive directors to be independent.

Each of the independent non-executive directors has entered into a service contract with the Company for a term of two years and is also subject to retirement by rotation in the annual general meeting of the Company.

Chairman and Chief Executive Officer

To ensure the a balance of power and authority, the role of the Chairman and Chief Executive Officer is segregated. The Chairman of the Board is Mr. Zhang Hwo Jie and the Chief Executive Officer is Mr. Zhang Yaohua. Mr. Zhang Hwo Jie and Mr. Zhang Yaohua are brothers. However, there is a clear distinction between the Chairman's responsibility for overall strategic planning and management of the Board of Directors and the Chief Executive Officer's responsibility for the management of day-to-day operations of the Group's business.

Directors' responsibilities for the financial statements

The directors acknowledged their responsibilities for the preparation of financial statements of the Group to ensure that these financial statements give a true and fair view of the state of affairs of the Group, its results of operations and cash flows. In preparing the financial statements for the year ended 31 December 2005, the Board had selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The directors are also responsible for ensuring that proper accounting records of the Group which disclose the Group's financial position are kept at all times and taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in the preparation of the financial statements. The Board has also reviewed and discussed the effectiveness of system of internal control of the Group for the year ended 31 December 2005.

BOARD MEETING

During the year ended 31 December 2005 and up to the date of this report, the Board held three meetings.

	Number of attendance	
Name of directors	**During the year ended 31 December 2005**	**From 1 January 2005 and up to the date of this report**
Mr. Zhang Hwo Jie	2/2	3/3
Mr. Zhang Jian Hua *(Note 1)*	1/1	2/2
Mr. Zhang Yaohua	2/2	3/3
Mr. Nomo Kenshiro	2/2	3/3
Dr. Lui Sun Wing	2/2	3/3
Mr. Choy Tak Ho	2/2	3/3
Mr. Chan Wai Dune	0/2	1/3

Note 1: Mr. Zhang Jian Hua was appointed as an executive director on 14 September 2005 and there were only two board meetings held during the period from 14 September 2005 up and to the date of this report.

Due to the fact that the Company was only listed on the Main Board of The Stock Exchange of Hong Kong Limited since 11 May 2005 and the Company had encountered difficulties in arranging meetings of all directors during the year ended 31 December 2005, only two board meetings were held during the year ended 31 December 2005.

In view of the difficulties, the Company planned in advance four scheduled board meetings a year at approximately quarterly intervals in order to make sure all directors could plan in advance their availability to attend the scheduled board meetings. Additional meetings will be held as and when required.

Board minutes are kept by the company secretary and are open for inspection by the directors. Every board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the company secretary and has the liberty to seek external professional advice if so required.

AUDIT COMMITTEE

The Company has set up an audit committee (the "Committee") on 20 April 2005 in accordance with the requirements of the Code of Corporate Governance Practices for the purpose of reviewing and providing supervision on the financial reporting process and internal control system of the Group. The Committee comprises the three independent non-executive directors with Dr. Lui Sun Wing as the chairman.

The audit committee is mainly responsible for making recommendations to the Board of Directors on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of external auditors and other matters relating to the resignation or dismissal of external auditors. The audit committee also reviews the interim and annual financial statements of the Group and oversees the Group's financial report system and internal control procedures.

The terms of reference of the audit committee, which are aligned with the provision set out in the Code of Corporate Governance Practices, are available on the Company's website www.irasia.com/listco/hk/evaholdings.

The audit committee held two meetings during the year ended 31 December 2005 and up to the date of this report and had attended to the following matters:

– discuss with external auditors with respect to the accounting principles and practices adopted by the Group, complaince with the Listing Rules and other financial reporting requirements; and

– discuss the internal controls, risk management and financial reporting matters relating the interim financial statements for the six months ended 30 June 2005 and the annual financial statements for the year ended 31 December 2005 before recommending the financial statements to the Board for approval.

The external auditors of the Group also attended the meeting. Individual attendance of each audit committee member at the meeting is as follows:

	Number of attendance	
Name of audit committee member	**During the year ended 31 December 2005**	**From 1 January 2005 and up to the date of the this report**
Dr. Lui Sun Wing	1/1	2/2
Mr. Choy Tak Ho	1/1	2/2
Mr. Chan Wai Dune	0/1	1/2

The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters with management including a review of the audited consolidated financial statements for the year ended 31 December 2005.

NOMINATION OF DIRECTORS

In considering the nomination of new directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. Furthermore, as the full Board is responsible for the selection and approval of candidate for the appointment of director to the Board, the Group therefore has not established a nomination committee at present. The Board has held two meetings to discuss, among other things, the appointment of the directors during the year ended 31 December 2005. The individual attendance of Board members at these two meetings during the year ended 31 December 2005 is set out in the selection headed "Board Meeting" of the Corporate Governance Report.

REMUNERATION OF DIRECTORS

The Group had established a remuneration committee which comprises two independent non-executive directors, namely Dr. Lui Sun Wing and Mr. Choi Tak Ho and the chairman and executive director Mr. Zhang Hwo Jie on 22 June 2005. Mr. Zhang Hwo Jie is the chairman of the remuneration committee. The remuneration committee has rights and duties consistent with those set out in the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remuneration of the directors and senior management and for providing advice and recommendations to the Board of Directors. The terms of reference of the remuneration committee are available on the Company's website www.irasia.com/listco/hk/evaholdings.

During the year ended 31 December 2005, the remuneration committee held one meeting with all members presented at the meeting. The remuneration committee reviewed and discussed the remuneration package of the directors which is determined by reference to the prevailing market conditions, the business development of the Group and the responsibilities of individual directors. Details of the remuneration to directors for the year ended 31 December 2005 are set out in Note 23 to the consolidated financial statements.

The Company had conditionally adopted a share option scheme on 20 April 2005 which became unconditional on 11 May 2005. The purpose of the share option scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. The eligible participants of the share option scheme include any executive, non-executive and independent non-executive directors of the Company. As at 31 December 2005, no option had been granted or agreed to be granted to any person under the share option scheme.

AUDITORS' REMUNERATION

During the year ended 31 December 2005, the total remuneration for audit services provided by PricewaterhouseCoopers, the external auditors, amounted to HK$1,290,000. The audit fee was approved by the audit committee.

During the year ended 31 December 2005, the total remuneration for permissible non-audit services provided by the external auditors (including any entity under common control, ownership or management with the auditors) amounted to HK$1,259,000. The non-audit services mainly comprised tax compliance and tax advisory services of approximately HK$994,000 and non-audit review of interim consolidated financial statements of approximately HK$265,000. The audit committee was briefed in respect of the non-audit services and related fees and was satisfied that such services did not (in terms of the nature of services and the amount of fees charged) affect the independence of external auditors.

The re-appointment of PricewaterhouseCoopers as auditors of the Company has been recommended by the audit committee and endorsed by the Board and is subject to approval by shareholders at the forthcoming annual general meeting.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company and the directors confirm, to the best of their knowledge, that the Company has compiled with the Corporate of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules since the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited on 11 May 2005, except that the Group has not held board meetings for at least four times during the year ended 31 December 2005 as disclosed in the subsection headed "Board Meeting" of the Corporate Governance Report. With a view to complying with the Code of the Corporate Governance Practices, the Company had planned in advance four scheduled board meetings for the year ending 31 December 2006. Additional meetings will be held as and when required.

By order of the Board
Zhang Hwo Jie
Chairman

Hong Kong, 24 April 2006

The directors of the Company are pleased to present their annual report together with the audited financial statements of the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS

The Company is an investment holding company. Its subsidiaries are principally engaged in the design and fabrication of metal stamping and plastic injection moulds and the manufacture of metal stamping and plastic injection components.

An analysis of the Group's turnover and operating result by business segment for the year ended 31 December 2005 is set out in Note 5 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year ended 31 December 2005 attributable to the Group's major suppliers and customers are as follows:

Purchases	
The largest supplier	35.4%
Five largest suppliers combined	59.0%
Sales	
The largest customer	18.3%
Five largest customers combined	53.3%

None of the Directors, their associates, or any shareholders (which, to the knowledge of the directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's major suppliers or customers noted above.

RESULTS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 51.

DIVIDENDS

The Board recommends the payment of a final dividend of HK2.6 cents per ordinary share, totaling approximately HK$15,600,000. Subject to the approval of the directors' recommendation by the shareholders at the annual general meeting to be held 24 May 2006, the final dividend will be payable on or about 30 May 2006. Including the interim and special dividends paid on 20 October 2005 in respect of the six months ended 30 June 2005, the total dividends declared for the year ended 31 December 2005 will be HK$31,200,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year ended 31 December 2005 are set out in Note 6 to the financial statements.

In preparation for the listing of the Group, certain of the leasehold land, land use right and buildings of the Group with cost of approximately HK$84,736,000 had been valued. The valuation of such leasehold land, land use right and buildings amounted to HK$121,100,000 as at 28 February 2005, the valuation date. The leasehold land, land use right and buildings had not been stated at valuation in the consolidated financial statements of the Group. In the consolidated financial statements of the Group, the up-front prepayments made for the leasehold land and land use right are expensed in the income statement on a straight-line basis over the period of the lease or, where there is impairment, the impairment is expensed in the income statement. Buildings are stated at cost less accumulated depreciation and accumulated impairment losses. Should the leasehold land, land use right and buildings be stated at valuation, the additional depreciation and amortisation that would be charged to the income statement amounted to approximately HK$2,433,000.

BORROWINGS AND INTEREST CAPITALISED

Details of borrowings are set out in Note 17 and Note 18 to the financial statements. Interest and other borrowing costs capitalised by the Group during the year ended 31 December 2005 are set out in Note 24 to the financial statements.

RESERVES

Details of movements in reserves during the year ended 31 December 2005 are set out in Note 20 to the financial statements.

DONATIONS

The donations made by the Group during the year ended 31 December 2005 amounted to HK$1,000,000.

PENSION SCHEMES

Details of the Group's pension schemes are set out in Note 23 to the financial statements.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in Note 19 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2005 amounted to HK$16,825,000 (2004: Nil).

FOUR YEAR FINANCIAL SUMMARY

A four year financial summary of the Group is set out on page 108.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2005.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year ended 31 December 2005 and up to the date of this report were:

EXECUTIVE DIRECTORS

Mr. Zhang Hwo Jie *(Chairman)*	
Mr. Zhang Jian Hua *(Vice-Chairman)*	(appointed on 14 September 2005)
Mr. Zhang Yaohua *(Chief Executive Officer)*	(appointed on 11 January 2005)
Mr. Nomo Kenshiro	(appointed on 11 January 2005)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lui Sun Wing	(appointed on 11 January 2005)
Mr. Choy Tak Ho	(appointed on 11 January 2005)
Mr. Chan Wai Dune	(appointed on 11 January 2005)

In accordance with the Company's Articles of Association, Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua, Mr. Zhang Yaohua and Mr. Nomo Kenshiro shall retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS

Save as the directors' service contracts, no other contracts of significance in relation to the Company's business to which the Company, its subsidiaries or holding companies was a party and in which a director of the Company has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

In order to eliminate competing business with the Group, on 20 April 2005, Mr. Zhang Hwo Jie, Mr. Zhang Yaohua and Mr. Zhang Jian Hua, who are directors and beneficial shareholders of the Company, separately made a non-competition undertaking to the Company. As at the date of this report, none of the directors of the Company are considered to have direct or indirect interests in businesses which compete or are likely to compete with the businesses of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

CONNECTED TRANSACTIONS

Pursuant to the Chapter 14A of the Listing Rules, the following connected transaction requires disclosure in the annual report of the Company. The following connected transaction also constitutes related party transaction which are set out in Note 33 to the financial statements.

Deeds of tax indemnity provided by the directors and shareholders in favour of the Group

As disclosed in the Company's Prospectus dated 29 April 2005, on 28 April 2005, the Company entered into a deed of tax indemnity with Prosper Empire Limited which is a 65% shareholder of the Company and Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua who are directors and beneficial shareholders of the Company (together the "Indemnifiers") under which each of the Indemnifiers has jointly and severally undertaken to indemnify the Group in connection with, inter alia, any taxation and related costs falling on any member of the Group (other than those established subsequent to the listing of the Company) resulting from any income, profits, gains, transactions, events, matters, things or businesses earned, accrued, received, entered into, carried on, or occurring on or before the listing date of the Company. This deed of tax indemnity was approved by the Board of Directors on 20 April 2005.

The Hong Kong Inland Revenue Department ("HKIRD") is currently in the possess of re-examining the tax position of EVA Limited and EVA Holdings Limited, wholly owned subsidiaries of the Company, in respect of the financial years prior to 31 December 2003. Up to date, the result of the re-examination has not been finalised by the HKIRD but, in this connection, a sum of HK$1,000,000 had been placed by EVA Limited to the Commissioner of Inland Revenue deposit account of the HKIRD during the year ended 31 December 2005 as deposits for any possible tax charge that may be imposed by the HKIRD in respect of the financial years prior to 31 December 2003. In addition, a service fee of approximately HK$671,000 was also paid in connection with the related tax advisory services. The total sum of HK$1,671,000 had been indemnified and reimbursed by the Indemnifiers to EVA Limited in accordance with the above-mentioned deed of tax indemnity during the year ended 31 December 2005.

The above transaction constitute a connected transaction in accordance with the Chapter 14A of the Listing Rules which requires disclosure in the annual report of the Company.

SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDERS

No specific performance obligations of the controlling shareholders are required to be disclosed under paragraph 13.18 of Chapter 13 of the Listing Rules.

SHARE OPTIONS

The Company conditionally adopted a share option scheme (the "Share Option Scheme") on 20 April 2005 which became unconditional on 11 May 2005. No options have been granted under the Share Option Scheme since its adoption.

The following is a summary of the Share Option Scheme disclosed in accordance with the Listing Rules:

1. Purpose of the Scheme

   The purpose of the Share Option Scheme is to provide the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group.

2. Participants of the Scheme

   a. full-time or part-time employees of the Group;
   b. directors (including any executive, non-executive and independent non-executive directors) of the Group;
   c. substantial shareholders of each member of the Group;
   d. associates of directors or substantial shareholders of each member of the Group; and
   e. trustees of any trust pre-approved by the Board, the beneficiary of which includes any of the above-mentioned persons.

3. Total number of shares available for issue under the Share Option Scheme and the percentage of issued share capital as at the date of this report

   The total number of shares available for issue under the Share Option Scheme must not exceed 52,000,000 shares, representing 8.67% of the issued share capital of the Company as at the date of this report, unless the Company obtains further approval from the shareholders. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

4. Maximum entitlement of each participant under the Share Option Scheme:

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Scheme and any other share option schemes of the Group to each participant (including both exercised and outstanding options) in any twelve month period must not exceed 1% of the total number of the Company's shares in issue. Any further grant of options in excess of this limit must be subject to shareholders' approval in general meeting at which the relevant participant and his associates must abstain from voting.

5. The period within which shares must be taken up under an option;

Commencing on the date of grant of an option and expiring at 10 years from that date.

6. The minimum period for which an option must be held before it can be exercised

There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the Share Option Scheme.

7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be paid:

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant. Any offer may be accepted or deemed to have been accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in shares on The Stock Exchange of Hong Kong Limited or an integral multiple thereof. To the extent that the offer is not accepted within 21 days from the date of offer, it will be deemed to have been irrevocably declined and the offer will lapsed.

8. The basis of determining the exercise price:

The subscription price for the shares under the Share Option Scheme shall be determined by the Board in its absolute discretion and notified to the participant, provided that such price shall be at least the highest of (i) the closing price of Shares as stated in the daily quotations of The Stock Exchange of Hong Kong Limited on the date of offer of an option which must be a trading day; (ii) the average closing price of the Shares as stated in the daily quotations of The Stock Exchange of Hong Kong Limited for the five consecutive trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

9. The remaining life of the Scheme:

The Scheme is valid and effective for a period of 10 years. It commenced on 20 April 2005 and will expire on 19 April 2015.

DISCLOSURE OF INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 31 December 2005, the interests and/or short positions of the directors or chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have taken under such provisions of the SFO), and/or which were required, pursuant to Section 352 of the SFO, to be entered in the registrar referred therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange were as follows:

(i) Long position in shares of the Company

Name of director	Capacity	Number of shares	Approximate percentage of interest in the Company as at 31 December 2005
Mr. Zhang Hwo Jie	Interest in a controlled corporation	390,000,000	75%

Note: Mr. Zhang Hwo Jie holds 36% of the entire issued capital of Prosper Empire Limited, which is interested in 75% of the entire issued capital of the Company as at 31 December 2005. Under the SFO, Mr. Zhang Hwo Jie is deemed to be interested in the shares held by Prosper Empire Limited.

(ii) Long position in shares of Prosper Empire Limited, an associated corporation of the Company

Name of director	Capacity	Approximate percentage of interest in Prosper Empire Limited as at 31 December 2005
Mr. Zhang Hwo Jie	Beneficial owner	36%
Mr. Zhang Yaohua	Beneficial owner	33%
Mr. Zhang Jian Hua	Beneficial owner	31%

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the interests or short positions of the persons (other than a director or chief executive of the Company) in the shares or underlying shares of the Company as recorded in the register of interests kept by the Company under section 336 of the SFO are as follows:

Name	Capacity	Number of shares	Approximate percentage of interest as at 31 December 2005
Prosper Empire Limited	Beneficial owner	390,000,000	75%
Ms. Shen Chan Jie Lin	Interest of spouse *(Note)*	390,000,000	75%

Note: Under the SFO, Ms. Shen Chan Jie Lin is deemed to be interested in the shares held by Mr. Zhang Hwo Jie, who is interested in 36% of the issued share capital of Prosper Empire Limited. The interests of Prosper Empire Limited and Ms. Shen Chan Jie Lin in the 390,000,000 shares of the Company refer to the same parcel of shares.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 11 May 2005. Save for the above, neither the Company nor any of its subsidiaries purchases, sold or redeemed any of the Company's shares during the year ended 31 December 2005.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 19 May 2006 to Wednesday, 24 May 2006, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed final dividend for the year ended 31 December 2005, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Thursday, 18 May 2006.

MODLE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted the code of conduct regarding securities transactions by directors set out in Appendix 10 to the Listing Rules during the year ended 31 December 2005. Having made specific enquiry of all directors, all directors confirm that they have complied with the required standard set out in the Model Code regarding securities transactions by the Directors since the listing of the Company's shares on the Main Board of The Hong Kong Stock Exchange on 11 May 2005.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 31 to page 37.

AUDIT COMMITTEE

The Company has set up an audit committee (the "Committee"), in accordance with the requirements of the Code of Corporate Governance Practices, for the purpose of reviewing and providing supervision on the financial reporting process and internal control system of the Group. The Committee comprises the three independent non-executive directors with Dr. Lui Sun Wing as the chairman. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters with management including a review of the audited financial statements for the year ended 31 December 2005.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained a sufficient public float as required under the Listing Rules since the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited on 11 May 2005 and up to the date of this report.

SHARE ISSUE AFTER BALANCE SHEET DATE

On 28 February 2006, Prosper Empire Limited entered into a placing agreement pursuant to which Prosper Empire Limited agreed to place 80,000,000 existing ordinary shares with an aggregate nominal value of HK$8,000,000 owned by Prosper Empire Limited at a price of HK$1.38 per share to not less than six independent investors. The placing price represented (i) a discount of approximately 7.38% to the closing price of HK$1.49 per share as quoted on The Stock Exchange of Hong Kong Limited on 23 February 2006, being the last trading day before the terms of the relevant transactions were fixed and (ii) a discount of approximately 7.63% to the average closing price of the shares of approximately HK$1.494 per share over the last five consecutive trading days up to and including 23 February 2006. On the same day, Prosper Empire Limited entered into a subscription agreement with the Company for the subscription of 80,000,000 new ordinary shares with an aggregate nominal value of HK$8,000,000 at HK$1.38 which is equivalent to the placing price. The net subscription price, after deducting the costs of the relevant transactions, amounted to approximately HK$1.34 per share. The placing shares represented approximately 15.38% of the then existing issued share capital of the Company and approximately 13.33% of the Company issued share capital as enlarged by the subscription and the consequent issuance of 80,000,000 new shares. The relevant transactions are completed on in March 2006 and the net proceeds of approximately HK$107,462,000 were received by the Group.

The purpose of the share issue through the above-mentioned placing and subscription was to expand the production capacity of the Group and the net proceeds of HK$107,462,000 are intended to be utilised as to approximately HK$92,000,000 for the acquisition of new machineries and as to approximately HK$15,462,000 for general working capital purposes. Up to the date of this report, approximately HK$9,714,000 and HK$15,462,000 of the net proceeds had been utilised for the acquisition of new machineries and general working capital respectively, whilst the remaining balances are placed on short-term deposits for future uses.

AUDITORS

The financial statements for the year ended 31 December 2005 have been audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

By order of the Board
Zhang Hwo Jie
Chairman

Hong Kong, 24 April 2006

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
EVA PRECISION INDUSTRIAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 49 to 107 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 April 2006

As at 31 December 2005

	Note	2005 HK$'000	2004 Restated HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**298,064**	208,445
Leasehold land and land use rights	7	**17,232**	17,788
Goodwill/(Negative goodwill)	9	**–**	(172)
Prepayments	12	**25,197**	2,420
Pledged bank deposits	14	**75,000**	–
Other assets		**653**	–
		416,146	228,481
Current assets			
Inventories	10	**59,566**	35,347
Trade receivables	11	**96,885**	80,286
Prepayments and deposits	12	**8,310**	3,893
Amounts due from related parties	13	**–**	4,588
Pledged bank deposits	14	**36,131**	–
Cash and cash equivalents	14	**36,029**	18,987
		236,921	143,101
Current liabilities			
Trade payables	15	**75,655**	62,544
Accruals and other payables	16	**22,053**	14,870
Bank borrowings	17	**95,262**	61,530
Finance lease liabilities	18	**27,904**	26,502
Current income tax liabilities		**11,374**	10,695
		232,248	176,141
Net current assets/(liabilities)		**4,673**	(33,040)
Total assets less current liabilities		**420,819**	195,441
Non-current liabilities			
Bank borrowings	17	**80,540**	50,756
Finance lease liabilities	18	**33,387**	33,928
		113,927	84,684
Net assets		**306,892**	110,757
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**52,000**	2,000
Reserves	20	**254,892**	108,757
Total equity		**306,892**	110,757

Zhang Hwo Jie
Director

Zhang Jian Hua
Director

The notes are an integral part to these financial statements.

Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Investments in and amounts due from subsidiaries	8	**265,868**	–
Current liabilities			
Amounts due to subsidiaries	8	**611**	265
Accruals and other payables	16	**1**	75
		612	340
Net current liabilities		**(612)**	(340)
Net assets/(liabilities)		**265,256**	(340)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**52,000**	–
Reserves	20	**213,256**	(340)
Total equity		**265,256**	(340)

Zhang Hwo Jie
Director

Zhang Jian Hua
Director

The notes are an integral part to these financial statements.

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Sales	5	**485,023**	296,860
Cost of goods sold		**(323,992)**	(180,725)
Gross profit		**161,031**	116,135
Other gains	21	**597**	35
Selling and marketing costs		**(27,436)**	(15,073)
General and administrative expenses		**(34,627)**	(25,651)
Operating profit		**99,565**	75,446
Finance costs	24	**(6,672)**	(4,008)
Profit before income tax		**92,893**	71,438
Income tax expense	25	**(9,678)**	(5,445)
Profit for the year		**83,215**	65,993
Attributable to:			
Equity holders of the Company	26	**83,215**	65,763
Minority interest		**–**	230
		83,215	65,993
Dividends	27	**31,200**	31,127
Basic earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)	28	**17.6**	16.9

The notes are an integral part to these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Note	Attributable to equity holders of the Company: Share capital	Attributable to equity holders of the Company: Reserves	Minority interest	Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2004, as previously reported as equity		2,000	75,158	–	77,158
Balance at 1 January 2004, as previously separately reported as minority interest		–	–	5,101	5,101
Balance at 1 January 2004, as restated		2,000	75,158	5,101	82,259
Profit for the year/Total recgonised income		–	65,763	230	65,993
Issue of shares by subsidiaries before the Reorganisation		–	560	–	560
Acquisition of additional interest in a subsidiary before the Reorganisation		–	150	(352)	(202)
Disposal of a subsidiary		–	–	(2,388)	(2,388)
Share issue costs		–	(4,338)	–	(4,338)
Dividends paid	*27*	–	(28,536)	(2,591)	(31,127)
		–	(32,164)	(5,331)	(37,495)
Balance at 31 December 2004		2,000	108,757	–	110,757
Balance at 1 January 2005, as per above		2,000	108,757	–	110,757
Opening adjustment for the adoption of HKFRS 3	*2.2*	–	172	–	172
Balance at 1 January 2005, as restated		2,000	108,929	–	110,929
Profit for the year/Total recgonised income		–	83,215	–	83,215
Deemed disposals of subsidiaries	*30(c)*	–	(1,070)	–	(1,070)
Issue of shares	*19(g)*	13,000	130,000	–	143,000
Capitalisation of share premium account	*19(e)*	37,000	(37,000)	–	–
Share issue costs		–	(13,582)	–	(13,582)
Dividend paid	*27*	–	(15,600)	–	(15,600)
		50,000	62,748	–	112,748
Balance at 31 December 2005		52,000	254,892	–	306,892

The notes are an integral part to these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Cash flows from operating activities			
Cash generated from operations	29	**87,146**	56,335
Interest received		**99**	29
Interest paid		**(6,672)**	(4,008)
Income tax paid		**(4,801)**	–
Net cash generated from operating activities		**75,772**	52,356
Cash flows from investing activities			
Purchase of property, plant and equipment		**(76,796)**	(34,695)
Prepayments for land use rights and property, plant and equipment		**(15,289)**	(2,420)
Purchase of leasehold land and land use rights		**–**	(7,539)
Proceeds from sale of property, plant and equipment	29	**8**	689
Purchase of other assets		**(653)**	–
Acquisition of additional interests in a subsidiary		**–**	(30)
Disposal of a subsidiary		**(222)**	(1,034)
Decrease in due from a related company		**–**	763
Increase in due from related parties		**–**	(4,588)
Net cash used in investing activities		**(92,952)**	(48,854)
Cash flows from financing activities			
Proceeds from borrowings		**497,483**	156,138
Repayments of borrowings		**(465,948)**	(87,288)
Increase in pledged bank deposits		**(111,131)**	–
Decrease in amounts due to related parties		**–**	(32,271)
Issue of shares	19(g)	**143,000**	–
Share issue costs		**(13,582)**	(4,338)
Issue of shares by subsidiaries before the Reorganisation		**–**	560
Dividends paid		**(15,600)**	(27,635)
Net cash generated from financing activities		**34,222**	5,166
Net increase in cash and cash equivalents		**17,042**	8,668
Cash and cash equivalents at beginning of the year		**18,987**	10,319
Cash and cash equivalents at end of the year		**36,029**	18,987

The notes are an integral part to these financial statements.

1. GENERAL INFORMATION

EVA Precision Industrial Holdings Limited ("the Company") and its subsidiaries (together "the Group") is principally engaged in the design and fabrication of metal stamping and plastic injection moulds and manufacturing of metal stamping and plastic injection products.

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 11 May 2005 ("the Listing").

These financial statements are presented in Hong Kong dollars, unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 24 April 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation

On 20 April 2005, the Company acquired the entire issued share capital of EVA Metal Mould Products Limited ("EVA Metal BVI"), EVA Mould Design & Manufacturing Limited ("EVA Design BVI") and EVA Plastic Mould Products Limited ("EVA Plastic BVI"), companies incorporated in the British Virgin Islands, through share exchanges ("the Reorganisation") and consequently became the holding company of its subsidiaries as set out in Note 8, except for EVA Precision Industrial (Eastern China) Limited and EVA Precision Industrial (Suzhou) Limited, which were established subsequent to that date.

The Reorganisation has been accounted for using merger accounting and, accordingly, the consolidated financial statements of the Group for the year ended 31 December 2005 presented the results of the Group as if the structure of the Group resulting from the Reorganisation had been in existence throughout the year. Comparative figures for the year ended 31 December 2004 have been prepared on the same basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Basis of preparation *(Continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 32, 33, 39, 39 Amendment and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 33 and HKAS-Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. Except for subsidiaries established in Mainland China which have functional currency of Hong Kong dollars and presentation currency of Chinese Renminbi, all other group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land and land use rights were stated at cost less accumulated depreciation and accumulated impairment losses.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for negative goodwill. Until 31 December 2004, negative goodwill was recognised in the income statement over a period of 10 years. In accordance with the provisions of HKFRS 3, the Group ceased amortisation of negative goodwill from 1 January 2005, and derecognised the carrying amount of negative goodwill at 1 January 2005, with a corresponding adjustment to retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Basis of preparation *(Continued)*

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, where applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;
- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005;
- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and
- HKFRS 3 – prospectively after 1 January 2005.

The adoption of revised HKAS 17 resulted in:

	As at 31 December	
	2005	2004
	HK$'000	*HK$'000*
Decrease in property, plant and equipment	**17,232**	17,788
Increase in leasehold land and land use rights	**17,232**	17,788

The adoption of HKFRS 3, HKAS 36 and HKAS 38 resulted in:

	As at 1 January 2005
	HK$'000
Decrease in negative goodwill	172
Increase in retained earnings	172

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Basis of preparation *(Continued)*

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 December 2005 but which the Group has not early adopted, as follows:

- *HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)*
  This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not have any defined benefit plan, the adoption of this amendment will not have significant impact to the Group's financial statements.

- *HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)*
  The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the financial statements as at 31 December 2005 and 2004.

- *HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)*
  This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from 1 January 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Basis of preparation *(Continued)*

- *HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)*

  This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.

- *HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)*

  These amendments are not relevant to the Group's operations, as the Group is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

- *HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)*

  HKFRS 6 is not relevant to the Group's operations.

- *HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)*

  HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from 1 January 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Basis of preparation *(Continued)*

- *HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)*

  HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management estimate that the adoption of HKFRS-Int 4 will not have a material impact on the Company's financial statements.

- *HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)*

  HKFRS-Int 5 is not relevant to the Group's operations.

- *HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005)*

  HK(IFRIC)-Int 6 is not relevant to the Group's operations.

2.3 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Consolidation *(Continued)*

(a) Subsidiaries (Continued)

Except for the Reorganisation, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2.4 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment

Construction-in-progress, representing buildings on which construction work has not been completed and machinery pending installation, is stated at historical cost, which includes construction expenditures incurred, cost of machinery, and other direct costs capitalised during the construction and installation period, less accumulated impairment losses, if any. No depreciation is provided in respect of construction-in-progress until the construction and installation work is completed. On completion, the construction-in-progress is transferred to appropriate categories of property, plant and equipment.

All other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Plant and machinery	10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

Group companies operate several defined contribution plans. The plans are generally funded through payments to trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employment cost when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Revenue recognition

Revenue comprises the fair value of the consideration received and receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Leases (as the lessee)

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is expensed in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.18 Research and development costs

Research costs are written off as incurred. Development costs are charged against income in the period incurred except for those incurred for specific projects where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) the enterprise intends to produce and market, or use, the product or process; (iv) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the enterprise can be demonstrated; and (v) adequate resources exist, or their availability can be demonstrated to complete the product and market or use the product or process. Capitalised development costs are amortised on a straight line basis over the period in which the related products are expected to be sold, starting from the commencement of sales.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk.

(i) Foreign exchange risk

The Group mainly operates in Mainland China and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong dollars, Chinese Renminbi and United States dollars. Foreign exchange risk also arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposures.

(ii) Credit risk

The Group has policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs credit evaluation of its customers. The Group has also policies that limit the amount of credit exposure to any financial institution.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Interest rate risk

The Group's income and operating cash flows are substantially independent of the changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in Note 17 and Note 18 to the consolidated financial statements.

The Group currently does not used any interest rate swaps to hedge its exposure to interest rate risk.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Fair value estimation

The nominal value less estimated impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an estimate of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not realised. The identification of write-downs requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(c) Impairment of trade and other receivables

The Group makes provision for impairment of trade and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

(d) Impairment of non-financial assets

The Group tests annually whether assets have suffered any impairment. The recoverable amounts of cash-generating units are determined by the value-in-use calculations. These calculations require the use of estimates.

(e) Income taxes

The Group is subject to income taxes in Mainland China and Hong Kong. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. SALES AND SEGMENT INFORMATION

(a) Sales

	2005	2004
	HK$'000	*HK$'000*
Sales		
Design and fabrication of metal stamping moulds	**62,544**	55,034
Manufacturing of metal stamping and lathing products	**390,097**	228,383
Design and fabrication of plastic injection moulds	**9,433**	–
Manufacturing of plastic injection products	**8,345**	–
Others *	**14,604**	13,443
	485,023	296,860

* *Others mainly represent sales of scrap materials.*

5. SALES AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting format – business segments

At 31 December 2005, the Group was organised into two main business segments:

(i) design and fabrication of metal stamping moulds and manufacturing of metal stamping and lathing products ("Metal stamping"); and

(ii) design and fabrication of plastic injection moulds and manufacturing of plastic injection products ("Plastic injection").

The segment results and other segment items are as follows:

	2005			2004		
	Metal stamping	**Plastic injection**	**Total**	Metal stamping	Plastic injection	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Total gross segment sales	**467,982**	**17,778**	**485,760**	296,860	–	296,860
Inter-segment sales	**(737)**	**–**	**(737)**	–	–	–
Sales	**467,245**	**17,778**	**485,023**	296,860	–	296,860
Segment results	**100,334**	**669**	**101,003**	76,588	(802)	75,786
Unallocated expenses			**(1,438)**			(340)
Finance costs			**(6,672)**			(4,008)
Profit before income tax			**92,893**			71,438
Income tax expense			**(9,678)**			(5,445)
Profit for the year			**83,215**			65,993
Depreciation	**18,797**	**1,025**	**19,822**	13,883	–	13,883
Amortisation	**556**	**–**	**556**	20	–	20

Unallocated expenses represented corporate expenses. Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

5. SALES AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting format – business segments *(Continued)*

The segment assets and liabilities are as follows:

	As at 31 December 2005				As at 31 December 2004			
	Metal stamping	**Plastic injection**	**Un-allocated**	**Total**	Metal stamping	Plastic injection	Un-allocated	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	**576,518**	**76,549**	**–**	**653,067**	348,015	23,567	–	371,582
Liabilities	**301,799**	**33,002**	**11,374**	**346,175**	245,948	4,182	10,695	260,825
Capital expenditure *(Note 6 and 7)*	**77,611**	**32,027**	**–**	**109,638**	105,541	–	–	105,541

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, inventories, trade receivables and operating cash.

Segment liabilities comprise operating liabilities but exclude income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights, including additions resulting from acquisitions through business combinations.

(c) Secondary reporting format – geographical segments

Analysis of the Group's sales by geographical segment is determined based on destination of shipments/delivery of goods. Analysis of the Group's segment assets and capital expenditure is determined based on the location where the assets are located.

No geographical segment analysis on the Group's sales, assets and capital expenditure is presented as substantially all of the Group's sales are derived from Mainland China/Hong Kong, and substantially all of the Group's assets were located in Mainland China/Hong Kong.

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and Machinery	Furniture and fixtures	Motor vehicles	Construction-in-progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004						
Cost	36,841	92,541	4,292	4,833	10,490	148,997
Accumulated depreciation	(1,996)	(17,956)	(1,483)	(1,554)	–	(22,989)
Net book amount	34,845	74,585	2,809	3,279	10,490	126,008
Year ended 31 December 2004						
Opening net book amount	34,845	74,585	2,809	3,279	10,490	126,008
Additions	1,969	56,798	3,227	2,787	33,221	98,002
Transfers	15,102	15,364	–	–	(30,466)	–
Disposals *(Note 29)*	–	(1,230)	(34)	(235)	–	(1,499)
Disposal of a subsidiary *(Note 30(b))*	–	–	(183)	–	–	(183)
Depreciation	(1,815)	(10,066)	(936)	(1,066)	–	(13,883)
Closing net book amount	50,101	135,451	4,883	4,765	13,245	208,445
At 31 December 2004						
Cost	53,912	162,292	6,843	6,553	13,245	242,845
Accumulated depreciation	(3,811)	(26,841)	(1,960)	(1,788)	–	(34,400)
Net book amount	50,101	135,451	4,883	4,765	13,245	208,445
Year ended 31 December 2005						
Opening net book amount	50,101	135,451	4,883	4,765	13,245	208,445
Additions	1,823	39,601	3,930	1,878	62,406	109,638
Transfers	25,876	8,138	–	–	(34,014)	–
Disposals *(Note 29)*	–	(73)	(124)	–	–	(197)
Depreciation	(2,908)	(14,513)	(1,237)	(1,164)	–	(19,822)
Closing net book amount	74,892	168,604	7,452	5,479	41,637	298,064
At 31 December 2005						
Cost	81,962	209,821	10,161	8,431	41,637	352,012
Accumulated depreciation	(7,070)	(41,217)	(2,709)	(2,952)	–	(53,948)
Net book amount	74,892	168,604	7,452	5,479	41,637	298,064

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

Plant and machinery and motor vehicles include the following amounts where the Group is a lessee under finance lease liabilities:

	2005	2004
	HK$'000	*HK$'000*
Plant and machinery	**104,768**	88,965
Motor vehicles	**1,348**	2,312
	106,116	91,277

Depreciation expense is analysed as follows:

	2005	2004
	HK$'000	*HK$'000*
Cost of goods sold	**14,513**	9,722
Selling and marketing costs	**1,159**	2,817
General and administrative expenses	**4,150**	1,344
	19,822	13,883

The Group's interests in buildings are analysed as follows:

	2005	2004
	HK$'000	*HK$'000*
Buildings in Hong Kong, located on land with leases of between 10 to 50 years	**1,874**	1,962
Buildings in Mainland China, located on land with land use rights of between 10 to 50 years	**73,018**	48,139
	74,892	50,101

Buildings with a carrying amount of HK$1,874,000 (2004: HK$1,962,000) were pledged as collaterals for the Group's borrowings *(Note 17)*.

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

Included in construction-in-progress is capitalised interest of approximately HK$632,000 (2004: Nil). Analysis of construction-in-progress is as follows:

	2005	2004
	HK$'000	*HK$'000*
Construction costs of buildings	**14,018**	12,453
Cost of machinery	**27,619**	792
	41,637	13,245

7. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2005	2004
	HK$'000	*HK$'000*
In Hong Kong, held on:		
Leases of between 10 to 50 years	**7,163**	7,502
In Mainland China, held on:		
Land use rights of between 10 to 50 years	**10,069**	10,286
	17,232	17,788

7. LEASEHOLD LAND AND LAND USE RIGHTS *(Continued)*

Leasehold land with a carrying amount of HK$7,163,000 (2004: HK$7,502,000) were pledged as collaterals for the Group's borrowings *(Note 17)*.

	2005	2004
	HK$'000	*HK$'000*
Beginning of the year	**17,788**	10,451
Additions	**–**	7,539
Amortisation	**(556)**	(202)
End of the year	**17,232**	17,788

8. INVESTMENTS IN AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES

	2005	2004
	HK$'000	*HK$'000*
Unlised shares, at cost	**123,351**	–
Amounts due from subsidiaries	**142,517**	–
	265,868	–
Amounts due to subsidiaries	**(611)**	(265)

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and without pre-determined terms of repayment terms.

8. INVESTMENTS IN AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES *(Continued)*

The following is a list of the principal subsidiaries at 31 December 2005:

Name	Place and date of incorporation/ operations	Issued/ Registered and fully paid up capital	Percentage of equity interest attributable to the Group (a)	Principal activities
EVA Metal Mould Products Limited	British Virgin Islands, 27 April 2004	US$1	100%	Investment holdings
EVA Mould Design & Manufacturing Limited	British Virgin Islands, 27 April 2004	US$1	100%	Investment holdings
EVA Plastic Mould Products Limited	British Virgin Islands, 27 April 2004	US$1	100%	Investment holdings
EVA Precision Industrial (Eastern China) Limited	British Virgin Islands, 23 June 2005	US$1	100%	Investment holdings
EVA Group Limited	Hong Kong, 8 September 2000	HK$15,000	100%	Investment holdings
EVA Holdings Limited	Hong Kong, 17 January 1997	HK$10,000	100%	Trading of metal parts
EVA Limited	Hong Kong, 14 January 1993	HK$680,000	100%	Trading of metal parts
EVA Plastic Mould Products (HK) Limited	Hong Kong, 16 March 2004	HK$280,000	100%	Trading of plastic moulds
EVA Mould Design & Manufacturing (HK) Limited	Hong Kong, 27 May 2004	HK$1	100%	Design of metal parts products and plastic moulds
Okuno Precision Metal Co., Limited	Hong Kong, 16 March 2004	HK$280,000	100%	Trading of metal moulds
Yihe Precision Hardware (Shenzhen) Co., Ltd. (億和精密金屬製品(深圳)有限公司) (b)	Mainland China, 21 May 2001	HK$91,880,000(e)	100%	Manufacturing of metal moulds and parts

8. INVESTMENTS IN AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation /operations	Issued/ Registered and fully paid up capital	Percentage of equity interest attributable to the Group (a)	Principal activities
Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. (億和塑膠電子制品(深圳)有限公司) (b)	Mainland China, 9 July 2004	HK$16,665,900(e)	100%	Manufacturing of plastic moulds and parts
EVA Precision Industrial (Suzhou) Limited (億和精密工業(蘇州)有限公司) (b)	Mainland China, 11 August 2005	HK$24,500,000(e)	100%	Manufacturing of metal and plastic moulds and parts

Notes:

(a) The shares of EVA Metal Mould Products Limited, EVA Mould Design & Manufacturing Limited, EVA Plastic Mould Products Limited and EVA Precision Industrial (Eastern China) Limited are held directly by the Company. The shares of other subsidiaries are held indirectly.

(b) Yihe Precision Hardware (Shenzhen) Co., Ltd. and Yihe Precision Plastic and Electronics Products (Shenzhen) Co, Ltd. are wholly foreign owned enterprises established in Shenzhen, Guangdong Province, Mainland China for a term of 20 years up to May 2021 and July 2024, respectively. EVA Precision Industrial (Suzhou) Limited is a wholly foreign owned enterprise established in Suzhou, Jiangsu Province, Mainland China for a term of 50 years up to August 2055.

(c) During the period from 1 January 2004 to 27 June 2004, the financial statements included 78% interest in EVA-Miyagawa Company Limited. During the period from 28 June 2004 to 31 December 2004, the consolidated financial statements included 100% interest in EVA-Miyagawa Company Limited following the Group's acquisition of the remaining 22% interest in EVA-Miyagawa Company Limited for HK$30,000 on 28 June 2004. EVA-Miyagawa Company Limited ceased its operation on 1 May 2004 and was deemed to be disposed upon the Reorganisation (Note 30(c)).

(d) During the period from 1 January 2004 to 9 February 2004, the Group had 86.49% interest in Shenzhen Heyixing Industrial Co., Ltd., a sino-foreign equity joint venture established in Shenzhen, Guangdong Province, Mainland China for a term of 20 years up to April 2013. On 10 February 2004, the Group injected additional capital of HK$8,000,000 into Shenzhen Heyixing Industrial Co., Ltd. and thereafter, the Group's interest in Shenzhen Heyixing Industrial Co., Ltd. was increased to 90.57%. On 28 June 2004, the Group disposed of its entire interest in Shenzhen Heyixing Industrial Co., Ltd. to Mr. Zhang Yaohua, a director and a substantial beneficial shareholder of the Company, for approximately HK$23,770,000, representing the Group's share of net assets of Shenzhen Heyixing Industrial Co., Ltd. at the date of disposal.

8. INVESTMENTS IN AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES *(Continued)*

Notes: (Continued)

(e) At 31 December 2005, the Group is committed to make capital contributions to the following subsidiaries:

Name of subsidiaries	Committed capital contribution	Due date
	HK$'000	
EVA Precision Industrial (Suzhou) Limited	130,618	July 2008
Yihe Precision Hardware (Shenzhen) Co., Ltd.	24,774	July 2008
Yihe Precision Plastic and Electronics Products (Shenzhen) Co, Ltd.	49,957	January 2008
Yihe Precision Plastic and Electronics Products (Shenzhen) Co, Ltd.	30,000	December 2008
	235,349	

9. GOODWILL/(NEGATIVE GOODWILL)

	Goodwill	Negative goodwill	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004			
Cost	–	(246)	(246)
Accumulated amortisation	–	52	52
Net book amount	–	(194)	(194)
Year ended 31 December 2004			
Opening net book amount	–	(194)	(194)
Acquisition of additional interests in subsidiaries *(Note 30(a))*	86	(172)	(86)
Disposal of a subsidiary *(Note 30(b))*	(74)	–	(74)
Amortisation	(12)	194	182
Closing net book amount	–	(172)	(172)
At 31 December 2004			
Cost	–	(418)	(418)
Accumulated amortisation	–	246	246
Net book amount	–	(172)	(172)
Year ended 31 December 2005			
Opening net book amount	–	(172)	(172)
Opening adjustment for the adoption of HKFRS 3	–	172	172
Closing net book amount	–	–	–
At 31 December 2005			
Cost	–	–	–
Accumulated amortisation	–	–	–
Net book amount	–	–	–

Amortisation of HK$182,000 during the year ended 31 December 2004 is included in general and administrative expenses in the income statement.

10. INVENTORIES

	2005	2004
	HK$'000	*HK$'000*
Raw materials	**20,529**	13,494
Work-in-progress	**22,730**	10,321
Finished goods	**16,307**	11,532
	59,566	35,347

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$324,412,000 (2004: HK$178,826,000).

The Group has written back an inventory provision of HK$420,000 (2004: Write-down of HK$1,899,000) for the year ended 31 December 2005. Such reversal has been included in cost of goods sold in the income statement.

11. TRADE RECEIVABLES

	2005	2004
	HK$'000	*HK$'000*
Trade receivables	**98,073**	81,474
Less: provision for impairment of trade receivables	**(1,188)**	(1,188)
Trade receivables – net	**96,885**	80,286

The credit period granted by the Group to its customers is generally around 30 to 90 days. The aging analysis of the trade receivables is as follows:

	2005	2004
	HK$'000	*HK$'000*
0 to 90 days	**95,093**	74,303
91 to 180 days	**2,483**	3,340
181 to 365 days	**188**	3,757
Over 365 days	**309**	74
	98,073	81,474
Less: Provision for impairment of trade receivables	**(1,188)**	(1,188)
	96,885	80,286

11. TRADE RECEIVABLES *(Continued)*

The top five customers and the largest customer accounted for 66% and 19% of the trade receivables balance as at 31 December 2005, respectively. Other than these major customers, there is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

The net book value of trade receivables approximates its fair value as at 31 December 2005.

The Group has recognised a loss of approximately nil (2004: HK$796,000) for the impairment of its trade receivables for the year ended 31 December 2005. The loss has been included in general and administrative expenses in the income statement.

12. PREPAYMENTS AND DEPOSITS

	2005	2004
	HK$'000	*HK$'000*
Non-current		
Prepayments for purchase of		
– Land use rights	**13,791**	–
– Property, plant and equipment	**11,406**	2,420
	25,197	2,420
Current		
Prepayments for purchase of raw materials	**915**	208
VAT recoverable	**1,287**	2,038
Interest receivable	**492**	–
Deposits and other receivables	**5,616**	1,647
	8,310	3,893

13. AMOUNTS DUE FROM RELATED PARTIES

The amounts due from related parties were unsecured, non-interest bearing and repayable within one year.

14. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

	2005	2004
	HK$'000	*HK$'000*
Non-current		
Pledged bank deposits	**75,000**	–
Current		
Pledged bank deposits	**36,131**	–
Cash at bank and in hand	**36,029**	18,987
	147,160	18,987

Bank deposits of HK$111,131,000 were pledged as collaterals for the Group's borrowings *(Note 17)*.

The effective interest rate on pledged bank deposits was 3.23%, these deposits have an average maturity of 115 days.

As at 31 December 2005, pledged bank deposits and cash and cash equivalents were denominated in the following currencies:

	2005	2004
	HK$'000	*HK$'000*
Hong Kong dollar	**90,588**	17,645
Chinese Renminbi	**40,459**	936
U.S. dollar	**10,205**	379
Japanese yen	**5,908**	27
	147,160	18,987

15. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	2005	2004
	HK$'000	*HK$'000*
0 to 90 days	**71,915**	59,897
91 to 180 days	**3,646**	2,077
181 to 365 days	**94**	570
	75,655	62,544

16. ACCRUALS AND OTHER PAYABLES

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Payable for purchase of land use rights	**11,100**	3,612	**–**	–
Payable for construction of buildings and purchase of property, plant and equipment	**1,130**	3,926	**–**	
Accrual for wages, salaries and welfare	**6,514**	5,512	**–**	–
Other accruals and payables	**3,309**	1,820	**1**	75
	22,053	14,870	**1**	75

17. BORROWINGS

	2005 HK$'000	2004 HK$'000
Current		
Short-term bank loans	**63,800**	24,147
Trust receipts bank loans	**31,095**	27,265
Long-term bank loans, current portion	**–**	9,760
Mortgage loan, current portion	**367**	358
	95,262	61,530
Non-current		
Long-term bank loans, non-current portion	**75,000**	44,849
Mortgage loan, non-current portion	**5,540**	5,907
	80,540	50,756
Total bank borrowings	**175,802**	112,286

The Group's bank borrowings are repayable as follows:

	2005 HK$'000	2004 HK$'000
Within 1 year	**95,262**	61,530
Between 1 to 2 years	**376**	37,444
Between 2 to 5 years	**76,184**	8,927
Wholly repayable within 5 years	**171,822**	107,901
Not wholly repayable within 5 years	**3,980**	4,385
	175,802	112,286

The maturity of bank borrowings is as follows:

	2005 HK$'000	2004 HK$'000
Within 1 year	**94,895**	61,171
Between 1 to 2 years	**–**	27,000
Between 2 to 5 years	**75,000**	17,849
Over 5 years	**5,907**	6,266
	175,802	112,286

The carrying amounts of bank borrowings approximate their fair values.

17. BORROWINGS *(Continued)*

The effective interest rates of the Group's bank borrowings at the balance sheet date were as follows:

	Short-term bank loans		Trust receipts bank loans		Long-term bank loans		Mortgage loan	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*						
Hong Kong dollar	4.42%	3.84%	5.96%	2.43%	4.20%	2.50%	3.52%	2.42%
Chinese Renminbi	**–**	7.25%	–	–	–	–	–	–

The carrying amounts of the bank borrowings are denominated in the following currencies:

	2005	2004
	HK$'000	*HK$'000*
Hong Kong dollar	**175,802**	98,139
Chinese Renminbi	**–**	14,147
	175,802	112,286

The Group has undrawn floating rate borrowing facilities of approximately HK$185,724,000 (2004: HK$66,205,000). The facilities expiring within one year are subject to review annually.

As at 31 December 2005, bank borrowings were secured by pledge of bank deposits of HK$111,131,000, pledge of leasehold land and buildings located in Hong Kong with net book amounts of approximately HK$7,163,000 and HK$1,874,000, respectively, and corporate guarantees provided by the Company to its subsidiaries of approximately HK$103,067,000 (Note 31).

As at 31 December 2004, bank borrowings were secured by the following:

(a) pledge of leasehold land and buildings located in Hong Kong with net book amounts of approximately HK$7,502,000 and HK$1,962,000, respectively;

(b) joint personal guarantees totalling of HK$22,512,000 provided by Mr. Zhang Hwo Jie, Mr. Zhang Yaohua and Mr. Zhang Jian Hua, directors of the Company;

(c) personal guarantee of HK$40,000,000 provided by Mr. Zhang Hwo Jie;

(d) bank deposits totalling of HK$54,608,000 provided by Mr. Zhang Hwo Jie, Mr. Zhang Yao Hua and Mr. Zhang Jian Hua;

17. BORROWINGS *(Continued)*

(e) corporate guarantee of HK$10,000,000 provided by Shenzhen Heyixing Industrial Co., Ltd., a related company; and

(f) Corporate guarantees provided by the Company to its subsidiaries of approximately HK$27,265,000 *(Note 31)*.

18. FINANCE LEASE LIABILITIES

The Group's finance lease liabilities have maturity dates within five years and are repayable as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**30,089**	28,516
In the second year	**22,118**	20,245
In the third to fifth year	**12,870**	15,025
	65,077	63,786
Less: Future finance charges on finance leases	**(3,786)**	(3,356)
Present value of finance lease liabilities	**61,291**	60,430

The present value of finance lease liabilities is as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**27,904**	26,502
In the second year	**21,043**	19,256
In the third to fifth year	**12,344**	14,672
Total finance lease liabilities	**61,291**	60,430
Less: Amount included in current liabilities	**(27,904)**	(26,502)
	33,387	33,928

The finance lease liabilities are denominated in Hong Kong dollars. The carrying amounts of finance lease liabilities approximate their fair values.

18. FINANCE LEASE LIABILITIES *(Continued)*

As at 31 December 2005, the effective interest rate of the Group's finance lease liabilities was 5.0% (2004: 4.7%).

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessors in the event of default. The net book amount of the leased assets is approximately HK$106,116,000 (2004: HK$91,277,000). The finance lease liabilities are additionally secured by corporate guarantees provided by the Company to its subsidiaries of approximately HK$9,527,000 (Note 31).

As at 31 December 2004, finance lease liabilities were also secured by personal guarantees provided by Mr. Zhang Hwo Jie of approximately HK$21,761,000, joint personal guarantees provided by Mr. Zhang Hwo Jie and Mr. Zhang Jian Hua of approximately HK$4,324,000, joint personal guarantees provided by Mr. Zhang Hwo Jie, Mr. Zhang Yaohua and Mr. Zhang Jian Hua of approximately HK$2,161,000, guarantee provided by the Government of Hong Kong Special Administration Region of approximately HK$1,127,000, and corporate guarantees provided by the Company to its subsidiaries of approximately HK$13,921,000 (Note 31).

19. SHARE CAPITAL

	Note	**Number of ordinary shares** ***'000***	**Nominal value** *HK$'000*
Authorised:			
Upon incorporation on 12 July 2004	*(a)*	**10,000**	100
Share consolidation	*(b)*	**(9,000)**	–
At 31 December 2004		**1,000**	100
Increase in authorised share capital	*(c)*	**999,000**	99,900
At 31 December 2005		**1,000,000**	100,000

19. SHARE CAPITAL *(Continued)*

	Note	Number of ordinary shares (thousands)	Nominal value HK$'000
Issued and fully paid:			
Allotted and issued nil paid			
– on 12 July 2004	(d)	1	–
– on 27 August 2004	(d)	9	–
Share consolidation	(b)	(9)	–
On acquisitions of EVA Metal BVI, EVA Design BVI and EVA Plastic BVI			
– nil paid share credited as fully paid	(d)	–	–
– consideration shares issued	(d)	20,000,000	2,000
Capitalisation issue	(e)	369,999,999	–
At 31 December 2004	(f)	390,000,000	2,000
New issue of shares	(g)	130,000,000	13,000
Capitalisation of share premium account	(e)	–	37,000
At 31 December 2005		520,000,000	52,000

Notes:

(a) The Company was incorporated in the Cayman Islands on 12 July 2004 with an authorised capital of HK$100,000, divided into 10,000,000 ordinary shares of HK$0.01 each.

(b) Pursuant to a shareholder's resolution passed on 27 August 2004, every 10 ordinary shares of HK$0.01 each were consolidated into one ordinary share of HK$0.1 each. Consequently, the Company had an authorised share capital of 1,000,000 ordinary shares of HK$0.1 each, and an issued share capital of 1 ordinary share of HK$0.1 each.

(c) Pursuant to a shareholder's resolution passed on 20 April 2005, the authorised share capital was increased from HK$100,000 to HK$100,000,000 by the creation of an additional 999,000,000 ordinary shares of HK$0.1 each.

(d) On 12 July 2004 and 27 August 2004, 1 ordinary share and 9 ordinary shares of HK$0.01 each of the Company were allotted and issued as nil paid, respectively, which were consolidate into 1 ordinary share of HK$0.1 each through a share consolidation (Note 19(b)). On 20 April 2005, the Company:

(i) credited as fully paid at par value of HK$0.1, the 1 ordinary share of the Company then outstanding, which were allotted and issued as nil paid; and

19. SHARE CAPITAL *(Continued)*

(ii) further allotted and issued 20,000,000 ordinary shares of the Company, credited as fully paid at par value of HK$0.1 each,

as consideration of and in exchange for the entire issued share capital of EVA Metal BVI, EVA Design BVI and EVA Plastic BVI in connection with the Reorganisation.

(e) On 20 April 2005, 369,999,999 ordinary shares of the Company were allotted and issued, credited as fully paid at par value of HK$0.1 each to the then existing shareholders of the Company by the capitalisation of HK$37,000,000 from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the Listing as described in Note 19(g) below.

(f) The share capital of the Company as at 31 December 2004 was presented as if the number of shares outstanding immediately after the share exchange in connection with the Reorganisation and the related subsequent capitalisation issue had been in existence throughout the year.

(g) On 11 May 2005, the Company issued 130,000,000 ordinary shares of HK$0.1 each at HK$1.1 per share in connection with the Listing, and raised gross proceeds of approximately HK$143,000,000.

Share options

In 2005, the Company has adopted a share option scheme ("Share Option Scheme"). Under the Share Options Scheme, the Company's directors may, at their sole discretion, grant to any employee of the Group to take up options to subscribe for shares of the Company at the higher of (i) the closing price of shares of the Company as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the day of the offer of grant; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the day of the offer of the grant; and (iii) the nominal value of shares. A nominal consideration of HK$1 is payable on acceptance of the grant of an option. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not, in aggregate, exceed 30% of the relevant shares or securities of the Company in issue from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not, in aggregate, exceed 52,000,000 shares, representing 10% of the shares in issue upon completion of the placing and the capitalisation issue of the shares of the Company, unless the Company obtains further approval from the shareholders.

As at 31 December 2005 and up to the date of approval of these financial statements, no options had been granted under the Share Option Scheme.

20. RESERVES

(a) Group

	Note	Share premium HK$'000	Capital reserve (i) HK$'000	Statutory reserves (ii) HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2004		–	(375)	2,418	73,115	75,158
Profit for the year		–	–	–	65,763	65,763
Issue of shares by subsidiaries before the Reorganisation		–	560	–	–	560
Acquisition of additional interest in a subsidiary before the Reorganisation		–	150	–	–	150
Share issue costs		(4,338)	–	–	–	(4,338)
Dividend paid		–	–	–	(28,536)	(28,536)
Transfer to statutory reserves		–	–	4,592	(4,592)	–
Balance at 31 December 2004		(4,338)	335	7,010	105,750	108,757
Balance at 1 January 2005, as per above		(4,338)	335	7,010	105,750	108,757
Opening adjustment for the adoption of HKFRS 3		–	–	–	172	172
Balance at 1 January 2005, as restated		(4,338)	335	7,010	105,922	108,929
Profit for the year		–	–	–	83,215	83,215
Deemed disposals of subsidiaries	*30(c)*	–	(1,070)	–	–	(1,070)
Issue of shares	*19(g)*	130,000	–	–	–	130,000
Capitalisation of share premium account	*19(e)*	(37,000)	–	–	–	(37,000)
Share issue costs		(13,582)	–	–	–	(13,582)
Dividend		–	–	–	(15,600)	(15,600)
Transfer to statutory reserves		–	–	6,647	(6,647)	–
Balance at 31 December 2005		**75,080**	**(735)**	**13,657**	**166,890**	**254,892**

20. RESERVES *(Continued)*

(b) Company

	Note	Share premium HK$'000	Capital reserve (i) HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2004		–	–	–	–
Loss for the year		–	–	(340)	(340)
Balance at 31 December 2004		–	–	(340)	(340)
Balance at 1 January 2005, as per above		–	–	(340)	(340)
Profit for the year		–	–	32,765	32,765
Issue of shares	*19(g)*	130,000	–	–	130,000
Capitalisation of share premium account	*19(e)*	(37,000)	–	–	(37,000)
Share issue costs		(17,920)	–	–	(17,920)
Premium arising from the Reorganisation		–	121,351	–	121,351
Dividend paid		–	–	(15,600)	(15,600)
Balance at 31 December 2005		**75,080**	**121,351**	**16,825**	**213,256**

Notes–

(i) Capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation (Note 2.1) over the nominal value of the share capital of the Company issued in exchange therefor.

Capital reserve of the Company represents the difference between the costs of investments in subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange therefore.

20. RESERVES *(Continued)*

(b) Company *(Continued)*

Notes– *(Continued)*

(ii) According to the articles of association of the relevant subsidiaries established in Mainland China and the Mainland China rules and regulations, the Mainland China subsidiaries are required to transfer not less than 10% of their net profit as stated in the financial statements prepared under Mainland China accounting regulations to statutory reserves before the corresponding Mainland China subsidiaries can distribute any dividend. Such a transfer is not required when the amount of statutory reserves reach 50% of the corresponding subsidiaries' registered capital. The statutory reserve shall only be used to make up losses of the corresponding subsidiaries, to expand the corresponding subsidiaries' production operations, or to increase the capital of the corresponding subsidiaries. Upon approval by the resolutions of the corresponding subsidiaries' shareholders in general meetings, the corresponding subsidiaries may convert their statutory reserves into registered capital and issue bonus capital to existing owners in proportion to their existing ownership structure.

21. OTHER GAINS

	2005	2004
	HK$'000	*HK$'000*
Interest income	**591**	29
Others	**6**	6
	597	35

22. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and general and administrative expenses are analysed as follows:

	2005	2004
	HK$'000	HK$'000
Crediting–		
Net exchange gains	2,362	85
Amortisation of negative goodwill	–	194
Charging–		
Employment costs *(Note 23)*	51,397	32,694
Less: Amount included in research and development costs	(2,752)	(1,193)
	48,645	31,501
Depreciation *(Note 6)*		
– Owned assets	11,007	9,079
– Leased assets	8,815	4,804
Less: Amount included in research and development costs	(2,854)	(1,547)
	16,968	12,336
Research and development costs	5,606	2,740
Amortisation of leasehold land and land use rights	556	202
Amortisation of goodwill	–	12
Auditors' remuneration	1,290	650

23. EMPLOYMENT COSTS

	2005	2004
	HK$'000	HK$'000
Wages, salaries and bonus	49,083	30,354
Staff welfare	1,097	1,122
Retirement benefit – defined contribution plans (a)	1,217	1,218
	51,397	32,694

23. EMPLOYMENT COSTS *(Continued)*

(a) Retirement benefit – defined contribution plans

As stipulated by rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plan for its employees in Mainland China, which is a defined contribution plan. The Group and its employees contribute approximately 8% and 5%, respectively, of the employees' salary as specified by the local government, and the Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions are subjected to a cap of HK$1,000 per month.

During the year ended 31 December 2005, the aggregate amount of the Group's contributions to the aforementioned pension schemes were approximately HK$1,217,000 (2004: HK$1,218,000). As at 31 December 2005, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions (2004: Nil).

23. EMPLOYMENT COSTS *(Continued)*

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2005 is set out below:

Name of director	Fee	Salaries	Discretionary bonus	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Mr. Zhang Hwo Jie	–	1,520	130	12	1,662
Mr. Zhang Jian Hwa (i)	–	455	130	4	589
Mr. Zhang Yaohua	–	1,520	130	–	1,650
Mr. Nomo Kenshiro	–	528	48	12	588
Independent non-executive directors					
Dr. Lui Sun Wing (ii)	70	–	–	4	74
Mr. Choy Tak Ho (ii)	70	–	–	–	70
Mr. Chan Wai Dune (ii)	70	–	–	4	74
	210	4,023	438	36	4,707

The remuneration of every director for the year ended 31 December 2004 is set out below:

Name of director	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Mr. Zhang Hwo Jie	720	60	402	12	1,194
Mr. Zhang Yaohua	720	60	402	–	1,182
Mr. Nomo Kenshiro	430	36	–	–	466
	1,870	156	804	12	2,842

23. EMPLOYMENT COSTS *(Continued)*

(b) Directors' and senior management's emoluments *(Continued)*

Notes–

(i) Mr. Zhang Jian Hua was appointed as an executive director of the Company on 14 September 2005.

(ii) Dr. Lui Sun Wing, Mr. Choy Tak Ho and Mr. Chan Wai Dune were appointed as independent non-executive directors on 11 January 2005.

(iii) None of the directors waived or agreed to waive any emoluments paid/payable by the Group during the year (2004: Nil).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: two) individual and the emolument paid to Mr. Zhang Jian Hua prior to his appointment as an executive director on 14 September 2005 are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries and wages	**1,205**	1,459
Bonus	**75**	90
Retirement benefit – defined contribution plans	**16**	14
	1,296	1,563

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**–**	1
	1	**2**

During the year, no emolument was paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2004: Nil).

24. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest expense on:		
Bank borrowings wholly repayable within five years	**4,078**	2,203
Bank borrowings not wholly repayable with five years	**181**	29
Finance lease liabilities	**3,045**	1,776
	7,304	4,008
Less: amount capitalised in construction-in-progress	**(632)**	–
	6,672	4,008

The capitalisation rate was approximately 6.0% per annum, representing the weighted average rate of the costs of borrowings used to finance the Group's construction-in-progress.

25. INCOME TAX EXPENSE

	2005	2004
	HK$'000	*HK$'000*
Current taxation		
– Hong Kong profits tax	**4,449**	6,548
– Mainland China enterprise income tax	**5,229**	144
Deferred taxation relating to the origination and reversal of temporary differences	**–**	(1,247)
	9,678	5,445

(a) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits for the year (2004: 17.5%).

25. INCOME TAX EXPENSE *(Continued)*

(b) Mainland China enterprise income tax

The subsidiaries established in Shenzhen, Guangdong Province, Mainland China and Suzhou, Jiangsu Province, Mainland China are subject to Mainland China enterprise income tax at a rate of 15% for the year ended 31 December 2005 (2004: 15%). Shenzhen Heyixing Industrial Co., Ltd., Yihe Precision Hardware (Shenzhen) Co., Ltd. and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. are production enterprises with operating period of more than ten years and, in accordance with the relevant income tax regulations of Mainland China, are exempted from enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in enterprise income tax for the next three years. The first profitable year after offsetting prior year tax losses of Shenzhen Heyixing Industrial Co., Ltd. and Yihe Precision Hardware (Shenzhen) Co., Ltd. were 2000 and 2003, respectively. Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd and EVA Precision Industrial (Suzhou) Limited were established in July 2004 and August 2005, respectively, and had no profits subject to tax during the year ended 31 December 2005.

(c) Overseas income taxes

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and, accordingly, is exempted from the Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts of the British Virgin Islands and accordingly, are exempted from the British Virgin Islands income tax.

25. INCOME TAX EXPENSE *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits on the consolidated companies as follows:

	2005	2004
	HK$'000	*HK$'000*
Profit before taxation	**92,893**	71,438
Tax calculated at domestic rates applicable to profits in the respective countries/places	**14,527**	11,466
Tax exemption	**(5,373)**	(6,112)
Income not subject to tax	**(283)**	(18)
Utilisation of previously unrecognised tax losses	**–**	(116)
Tax losses for which no deferred income tax asset was recognised	**807**	225
Tax expense	**9,678**	5,445

The weighted average applicable tax rate for both the years ended 31 December 2005 and 2004 was approximately 16%.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$1,038,000 (2004: HK$231,000) in respect of losses amounting to HK$6,416,000 (2004: HK$1,438,000) that can be carried forward against future taxable income. The unrecognised tax losses of HK$3,125,000 (2004: HK$641,000) can be carried forward infinitively, the tax losses of HK$797,000 (2004: HK$797,000) and HK$2,494,000 (2004: nil) will be expired in 2009 and 2010 respectively.

26. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$32,765,000 (2004: Loss of HK$340,000).

27 DIVIDENDS

Dividends paid during the year ended 31 December 2005 were HK$15,600,000 (HK 3 cents per share) (2004: HK$27,635,000). A final dividend of HK2.6 cents per ordinary share, totalling HK$15,600,000, is to be proposed at the Annual General Meeting on 24 May 2006. The proposed dividend was not reflected as a dividend payable as at 31 December 2005 but was reflected as an appropriation of retained earnings for the year ended 31 December 2005.

	2005	2004
	HK$'000	*HK$'000*
Interim dividend paid of HK1.8 cents per ordinary share	**9,360**	–
Special dividend paid of HK1.2 cents per ordinary share	**6,240**	–
Proposed final dividend of HK2.6 cents per ordinary share	**15,600**	–
Other dividends	**–**	31,127
	31,200	31,127

Dividends of HK$31,127,000 during the year ended 31 December 2004 represented dividend declared by subsidiaries to their then shareholders prior to the Reorganisation *(Note 2.1)*, of which HK$3,492,000 was settled by offsetting amounts due from related parties at the instructions of the relevant shareholder.

28. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of (i) 473,699,000 ordinary shares in issue during the year ended 31 December 2005; and (ii) 390,000,000 ordinary shares deemed to be in issue during the year ended 31 December 2004 as if the share capital of the Company outstanding immediately after the share exchanges in connection with the Reorganisation and the related subsequent capitalisation issue as described in Note 19 had been in existence throughout the year.

	2005	2004
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**83,215**	65,763
Weighted average number of ordinary shares in issue (thousands)	**473,699**	390,000
Basic earnings per share (HK cents per share)	**17.6**	16.9

Diluted earnings per share for the years ended 31 December 2005 and 2004 are not presented because there were no dilutive potential ordinary shares in existence during the years.

29. CASH GENERATED FROM OPERATIONS

	2005	2004
	HK$'000	*HK$'000*
Profit for the year	**83,215**	65,993
Adjustments for:		
– Inome tax *(Note 25)*	**9,678**	5,445
– Depreciation *(Note 6)*	**19,822**	13,883
– Amortisation of leasehold land and land use rights	**556**	202
– Amortisation of goodwill/negative goodwill	**–**	(182)
– Loss on sale of property, plant and equipment	**189**	810
– Loss on disposal of a subsidiary	**–**	74
– Interest income	**(591)**	(29)
– Interest expense	**6,672**	4,008
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Inventories	**(24,219)**	(21,383)
– Trade receivables	**(16,664)**	(41,773)
– Prepayments and deposits	**(4,374)**	235
– Trade payables	**13,111**	32,760
– Accruals and other payables	**(249)**	(3,708)
Cash generated from operations	**87,146**	56,335

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005	2004
	HK$'000	*HK$'000*
Net book amount	**197**	1,499
Loss on sale of property, plant and equipment	**(189)**	(810)
Proceeds from sale of property, plant and equipment	**8**	689

29. CASH GENERATED FROM OPERATIONS *(Continued)*

Non-cash transactions

During the year ended 31 December 2005, the Group entered into finance lease arrangements in respect of property, plant and equipment with total financed amount of approximately HK$32,842,000 (2004: HK$63,307,000).

On 28 June 2004, the Group disposed of its entire 90.57% interest in Shenzhen Heyixing Industrial Co., Ltd. to Mr. Zhang Yaohua, a director and a substantial beneficial shareholder of the Company, for approximately HK$23,770,000, which was satisfied by offsetting the amounts due to related parties at the instructions of the relevant related parties.

Dividends of HK$3,492,000 during the year ended 31 December 2004 payable to the other shareholders were settled by offsetting amounts due from related parties at the instructions of the relevant shareholders.

30. BUSINESS COMBINATIONS

(a) Acquisition of additional interests in subsidiaries

(i) On 10 February 2004, the Group injected additional capital of HK$8,000,000 into Shenzhen Heyixing Industrial Co., Ltd. and thereafter, the Group's interest in Shenzhen Heyixing Industrial Co., Ltd. was increased from 86.49% to 90.57%, and resulted in a goodwill of approximately HK$86,000.

(ii) On 28 June 2004, the Group acquired an additional 22% interest in EVA-Miyagawa Company Limited for HK$30,000 and thereafter, the Group's interest in EVA-Miyagawa Company Limited was increased from 78% to 100%. Details of the acquisition are:

	HK$'000
Share of net assets by the then minority shareholder at the date of acquisition	202
Negative goodwill arising on acquisition	(172)
Consideration paid	30

30. BUSINESS COMBINATIONS *(Continued)*

(b) Disposal of a subsidiary

On 28 June 2004, the Group disposed of its entire 90.57% interest in Shenzhen Heyixing Industrial Co., Ltd. to Mr. Zhang Yaohua, a director and a substantial beneficial shareholder of the Company. Details of the disposal are:

	HK$'000
Net assets disposed	
Property, plant and equipment	183
Inventories	183
Trade receivables	315
Prepayments and deposits	496
Amounts due from related parties	28,882
Cash and cash equivalents	1,034
Trade payables	(630)
Accruals and other payables	(92)
Amount due to a related company	(2,591)
Current income tax liabilities	(1,622)
	26,158
Less: minority interest	(2,388)
Net assets attributable to the Group at the date of disposal	23,770
Goodwill released upon disposal	(74)
Consideration satisfied by offsetting amounts due to related parties	(23,770)
Loss on disposal of a subsidiary	(74)
Cash and cash equivalents disposed of	1,034

(c) Group reorganisation

Immediately prior to the Reorganisation, EVA-Miyagawa Company Limited and Offspin Technology Limited were deemed to be disposed and both companies are not included within the Group upon the Listing. The net asset values of the companies as at the date of disposal were approximately HK$1,070,000, which were recorded as a deduction from capital reserve of the Group.

31. CONTINGENCIES

As at 31 December 2005, the Company has given guarantees in respect of the banking facilities of its subsidiaries of HK$103,067,000 (2004: HK$27,265,000) (Note 17), and guarantees in respect of finance lease liabilities of its subsidiaries of HK$9,527,000 (2004: HK$13,921,000) *(Note 18)*.

32. CAPITAL COMMITMENTS

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2005	2004
	HK$'000	*HK$'000*
Contracted but not provided for		
– Construction of buildings	**21,058**	3,368
– Purchase of plant and machinery	**105,053**	9,732
	126,111	13,100

33 RELATED-PARTY TRANSACTIONS

The Group is controlled by Prosper Empire Limited (incorporated in British Virgin Islands), which owns 75% of the Company's shares as at 31 December 2005. The ultimate parent of the Group is Prosper Empire Limited (incorporated in British Virgin Islands).

The following transactions were carried out with related parties:

(a) During the year, the Hong Kong Inland Revenue Department ("HKIRD") advised EVA Limited, a subsidiary of the Group, that it was conducting a tax audit to re-examine the offshore claim lodged by EVA Limited and its related companies in the previous years. In this connection, EVA Limited and EVA Holdings Limited, subsidiaries of the Group, prepared a settlement proposal to the HKIRD in July 2005 in respect of their tax liabilities and penalty for the years of assessment 1998/99 to 2003/04. EVA Limited also placed a deposit of HK$1,000,000 with the HKIRD, which was borne by Mr. Zhang Hwo Jie, a director and substantial beneficial shareholder of the Company. The outcome of the tax audit was not finalised up to the date of approval of these financial statements.

In March 2006, the HKIRD issued estimated assessment to EVA Limited and EVA Holdings Limited in respect of their potential income tax liabilities for revenue protection purpose for the year of assessment 1999/00, which is subject to finalisation of the aforementioned tax audit. The two companies have objected to the estimated assessments as, in the opinion of the directors of the companies, these estimated assessments are excessive and incorrect.

33 RELATED-PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

As this relates to tax of subsidiaries before the Reorganisation and certain directors/substantial shareholders of the Company have agreed to indemnify the Group for any additional tax liabilities in respect of periods prior to the Reorganisation, any additional tax liabilities would be settled and borne by the directors/substantial shareholders of the Company.

(b) On 28 June 2004, the Group disposed of its entire interest in Shenzhen Heyixing Industrial Co., Ltd. to Mr. Zhang Yaohua, a director and a substantial beneficial shareholder of the Company, for approximately HK$23,770,000, representing the Group's share of net assets of Shenzhen Heyixing Industrial Co., Ltd. at the date of the disposal *(Note 30(b))*.

(c) Key management compensation

	2005	2004
	HK$'000	*HK$'000*
Wages, salaries and allowances	**6,037**	4,619
Retirement benefits – defined contribution plans	**32**	26
	6,069	4,645

34 EVENT AFTER THE BALANCE SHEET DATE

On 26 February 2006, the Company issued 80,000,000 ordinary shares of HK$0.1 each at HK$1.38 per share by way of placing, resulting in net proceeds of approximately HK$107,462,000.

	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS				
Turnover	**485,023**	296,860	167,729	122,845
Profit attributable to equity holders of the Company	**83,215**	65,763	30,166	23,592
CONSOLIDATED BALANCE SHEET				
Non-current assets	**416,146**	228,481	136,265	87,249
Current assets	**236,921**	143,101	68,681	53,561
Current liabilities	**(232,248)**	(176,141)	(114,958)	(79,174)
Non-current liabilities	**(113,927)**	(84,684)	(7,729)	(9,533)
Net assets	**306,892**	110,757	82,259	52,103
Share capital	**52,000**	2,000	1,625	1,625
Reserves	**254,892**	108,757	75,533	45,367
Equity	**306,892**	110,757	77,158	46,992
Minority interest	**–**	–	5,101	5,111
	306,892	110,757	82,259	52,103

BASIS OF PRESENTATION

On 20 April 2005, the Company acquired the entire issued share capital of EVA Metal Mould Products Limited ("EVA Metal BVI"), EVA Mould Design & Manufacturing Limited ("EVA Design BVI") and EVA Plastic Mould Products Limited ("EVA Plastic BVI"), companies incorporated in British Virgin Islands, through share exchanges ("the Reorganisation") and consequently became the holding company of its subsidiaries as set out in Note 8 to the financial statements, except for EVA Precision Industrial (Eastern China) Limited and EVA Precision Industrial (Suzhou) Limited, which were established subsequent to that date.

The Reorganisation has been accounted for using merger accounting and, accordingly, the financial information for the years ended 31 December 2002, 2003, 2004 and 2005 as contained in "Four Years Financial Summary" had been prepared as if the structure of the Group resulting from the Reorganisation had been in existence throughout the years.

EVA Precision Industrial Holdings Limited
億和精密工業控股有限公司

Unit 8, 6th Floor, Greenfield Tower, Concordia Plaza
No.1, Science Museum Road, Kowloon, Hong Kong
香港九龍科學館道1號康宏廣場南座6樓8室
Telephone 電話: 2620 6488
Facsimile 傳真: 2191 9978
Website 網站: www.eva-group.com

EVA Industrial Garden, Tang Xing Road, Shi Yan Town
Bao An District, Shenzhen, The People's Republic of China
中國深圳市寶安區石岩鎮塘興路億和科技工業園
Telephone 電話: 0755-2762 9999
Facsimile 傳真: 0755-2762 9181
Postcode 郵編: 518108