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

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立之有限公司）

Stock Code 股份代號 : 838

2006
Annual Report
二零零六年年報

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 Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company is an investment holding company and its subsidiaries (together the "Group") is 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 and printers as well as other products such as home appliance 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 a listed company 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.

Corporate Milestone

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 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 with a construction area of approximately 21,000 sq.m. was completed. The Group's production lines were moved to the Group's current production complex in Shenzhen in the same year.
2003	The second factory building of the Group's current production complex in Shenzhen with a construction area of approximately 19,000 sq.m. 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 Science and Technology Bureau (深圳市科學技術局); – "Reliable and Credible Enterprise" (守合同重信用企業) 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 in the PRC of (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

Year	Event
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) and "Certificate of Green Activity" by Canon. 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 production line was established and located in the second factory building of the Group's production complex in Shenzhen for trial production.
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. was granted with "Very Valuable Vendor (2004 Best Assistance) Award" (VVV獎－2004最佳協力獎) by Canon, "Acclamation Certificate" (表彰狀) by 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 line was 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. Yihe Precision Hardware (Shenzhen) Co., Ltd. was granted with the "Shenzhen Most Respected and Influential Enterprise" Award (「深圳最受尊敬（最具影響力）企業」獎) by Shenzhen Enterprises Evaluation Association (深圳市企業評價協會). EVA Precision Industrial Holdings Limited and its subsidiaries - Yihe Precision Hardware (Shenzhen) Co., Ltd., Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. and Okuno Precision Metal Co., Limited jointly obtained ISO9001:2000 and ISO14001:2004 integrated certification from the BSI Group.

Corporate Milestone

Year	Event
2006	The construction of the first phase of the Group's new production plant in Suzhou was completed and commenced production.
	EVA Limited received "2006 First Round Southern China VVV (Very Valuable Vendor) Award" (VVV獎2006准優秀獎) and "Very Valuable Vendor (Remarkable Effort) Award" (VVV獎－敢鬪獎) from Canon.
	EVA Precision Industrial Holdings Limited and Yihe Precision Hardware (Shenzhen) Co., Ltd. received an approval certificate for chemical substances management (CMS) standard by Epson.
	Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. and Okuno Precision Metal Co., Limited received an approval certificate for chemical substances management (CMS) standard by Ricoh.
	Yihe Precision Hardware (Shenzhen) Co., Ltd. received "High and New Technology Project" (高新技術項目) accreditation from Shenzhen Technology and Information Bureau (深圳市科技和信息局) and was accredited as "Enterprise with Highest Growth Potential in Human Resources" (深圳最具人材成長價值企業) by Shenzhen Human Resources Exchange Services Centre (深圳市人材交流服務中心) and Shenzhen Enterprises Evaluation Association (深圳市企業評價協會).
	EVA Precision Industrial Holdings Limited received the "Enterprise with Highest Growth Potential" (最具成長性企業) Award from Chinese Enterprise Union (中國企業聯合會) and Chinese Entrepreneur Union (中國企業家協會), the "Most Creative Enterprise in China" (中國最具創新力企業) Award from China Marketing Association (中國市場學會) and China Enterprises News Society (中國企業報社) and the "Shenzhen Top 100 Enterprise" (深圳百強企業) Award from Shenzhen Enterprises Association (深圳市企業聯合會) and Shenzhen Commercial Press (深圳商報).
	Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. was awarded with TS16949:2002 certification in respect of the production of automobile parts by the BSI Group.
	EVA Precision Industrial (Suzhou) Limited obtained ISO9001:2000 and ISO14001:2004 certification from the BSI Group.

Financial Highlights

OPERATING RESULTS		2006	2005	2004	2003	2002
Turnover	HK$'000	**691,240**	485,023	296,860	167,729	122,845
Earnings before interest and taxation (EBIT)	HK$'000	**128,763**	98,974	75,417	32,948	31,642
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	HK$'000	**160,344**	119,352	89,320	41,620	37,708
Profit attributable to equity holders of the Company	HK$'000	**108,649**	83,215	65,763	30,166	23,592
FINANCIAL POSITION						
Net cash generated from operating activities	HK$'000	**87,322**	75,772	52,356	44,335	35,474
Net current assets (liabilities)	HK$'000	**30,746**	4,673	(33,040)	(46,277)	(25,613)
Shareholders' equity	HK$'000	**498,596**	306,892	110,757	77,158	46,992
PER SHARE DATA						
Earnings per share						
– Basic *(Note 1)*	HK cents	**18.5**	17.6	16.9	7.7	6.0
– Diluted *(Note 2)*	HK cents	**18.5**	N/A	N/A	N/A	N/A
OTHER KEY STATISTICS						
Earnings before interest, taxation, depreciation and amortisation (EBITDA) margin	(%)	**23.2**	24.6	30.1	24.8	30.7
Net profit margin	(%)	**15.7**	17.2	22.2	18.0	19.2
Return on shareholders' equity	(%)	**21.8**	27.1	59.4	39.1	50.2
Net debt-to-equity ratio *(Note 3)*	(%)	**26.9**	29.3	138.8	73.1	91.7

Financial Highlights

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) 587,288,000 ordinary shares in issue during the year ended 31 December 2006; (ii) 473,699,000 ordinary shares in issue during the year ended 31 December 2005; and (iii) 390,000,000 ordinary shares deemed to be in issue during the year ended 31 December 2002, 2003 and 2004 as if the share capital of the Company outstanding immediately after the capitalisation issue executed on 20 April 2005 in connection with the listing of the Company on The Stock Exchange of Hong Kong Limited had been in existence throughout the years.

Note 2:

Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of 587,617,000 ordinary shares adjusted to assume conversion of all dilutive potential ordinary shares (i.e. share options). Calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. There are no potential dilutive ordinary shares before 2006.

Note 3:

Net debt-to-equity ratio is calculated based on the total balance of bank borrowings, finance lease liabilities and amount due to related parties less cash and bank balances 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 *(Chairman)*
Mr. Choy Tak Ho
Mr. Leung Tai Chiu

REMUNERATION COMMITTEE

Mr. Zhang Hwo Jie *(Chairman)*
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

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Kowloon, Hong Kong

REGISTERED OFFICE

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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISOR

Jones Day

COMPLIANCE ADVISORS

CAF Securities Company Limited
SBI Crosby Limited

PRINCIPAL BANKERS

Hong Kong

DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited
The Bank of Tokyo-Mitsubishi UFJ, Limited
Standard Chartered Bank (Hong Kong) Limited
Dah Sing Bank, Limited
CITIC Ka Wah Bank Limited

Mainland China

China Merchants Bank
Agricultural Bank of China
Shenzhen Commercial Bank

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 REGISTER AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
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INVESTOR AND MEDIA RELATION

Strategic Financial Relations Limited

WEBSITE

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

STOCK CODE

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Chairman's Statement

On behalf of the Board of Directors (the "Directors"), I am pleased to present to you the annual report of EVA Precision Industrial Holdings Limited (the "Company" and together with its subsidiaries collectively referred to as the "Group") for the year ended 31 December 2006. During the year under review, the Group's turnover and profit achieved satisfactory growth. Turnover amounted to approximately HK$691,240,000, representing an increase of 42.5% as compared with the previous year. Profit attributable to equity holders of the Company grew by 30.6% over that of the previous year to reach approximately HK$108,649,000. 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 our supportive shareholders, a final dividend of HK3 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 HK2 cents per ordinary share, the full year dividend for 2006 will amount to HK$30,000,000.

BUSINESS DEVELOPMENT

Year 2006 was a year of achievement and investment for us and noteworthy advances were made. Spotting vast potential in the Yangtze River Delta region where more and more of the Group's existing customers or targeted customers have established or are about to establish production bases, the Group had established a new production plant in Suzhou

Zhang Hwo Jie | Chairman

Chairman's Statement

during the year ended 31 December 2006 to capture the mushrooming business opportunities in the region. 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. The Group's strategic move to Suzhou will also enable the Group to strengthen relationship with existing customers with production bases in the Yangtze River Delta region and forge new business relationships.

All of the metal stamping and plastic injection components produced by the Group are principally made from moulds. Under the current business model of the Group, the Group's customers normally require the Group to design and manufacture the relevant moulds before the placement of orders for metal stamping and plastic injection components. The completed moulds are then consigned in the Group's production plants for the subsequent mass production of components. Accordingly, the manufacturing capability and quality standards of moulds are the crucial determinants for securing large-scale orders from customers for the subsequent production of metal stamping and plastic injection components. With a view to increasing the Group's production capacity of moulds, the Group is in the process of constructing a mould research and development centre in Shenzhen with a construction ceremony held on 19 September 2006. The new mould research and development centre is expected to be completed in the latter half of 2007. With an expanded mould production capability, the Group will not only be able to obtain more orders under its existing business model but an expanded mould production capability can also enable the Group to produce and sell moulds on a standalone basis to customers who retain production plants in overseas countries.

PROSPECTS

Over the past few years, the Group continued to benefit from the outsourcing of production processes from Japanese office automation equipment manufacturers. With a faster change in business technologies and demand from end users, it is crucial for the office automation equipment manufacturers which are the Group's customers to grasp the market trend more accurately to ensure that their products will be well accepted in the market. To ensure that latest market information can be obtained before product launch, it is important for our customers to minimise production lead time and therefore the Japanese office automation equipment manufacturers are outsourcing more of their manufacturing processes to outside production service providers. However, there are two critical factors influencing our customers' decision in selecting an appropriate production service provider. First, the production service provider should possess comprehensive technical capabilities and strong production capacity so that it can handle any last minute changes in product design and specifications within a reasonable lead time. Secondly, the production service provider should possess a wide customer base instead of solely relying on single customer so that any last minute change in product design and specifications will not seriously affect its operations, since it takes substantial time for our customers to nurture an appropriate production service provider which is experienced in handling the specific technical requirements for office automation equipment and therefore any disruption in its operations will in turn seriously affect the smooth launch of the customers' products and their product development plans in the future.

Chairman's Statement

With the Group's continued expansion in production capacity covering both metal stamping and plastic injection moulds and components and a widespread customer base covering substantially all of the office automation equipment manufacturers in the world, management believes that the Group is in good position to continue benefiting from the outsourcing trend by Japanese office automation equipment manufacturers. In the future, the Group will also offer integrated assembly services to complete its "one-stop" business model.

At the same time as we celebrate the Group's achievements during the year, on behalf of the Board of 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 products of the highest quality, thereby maximising the returns to our shareholders.

Zhang Hwo Jie
Chairman

Hong Kong, 3 April 2007

Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31 December 2006, 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 components and (iii) lathing of metal components. A review of the Group's operations for the year ended 31 December 2006 by major business segments is as follows:

METAL DIVISION

During the year ended 31 December 2006, the overall turnover of the Group increased by 42.5% to approximately HK$691,240,000 as compared to that of approximately HK$485,023,000 for the year ended 31 December 2005. The rise in the Group's overall turnover for the year ended 31 December 2006 was mainly contributed by the continuous growth of the Group's long-established metal division, whose turnover increased by approximately HK$147,757,000, or 31.6% over that for the year ended 31 December 2005. 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 to Japanese customers accounted for approximately 82.6% of the Group's total sales for the year ended 31 December 2006 (2005: 80.9%).

As a service provider to reputable manufacturers with international 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 characteristics of Japanese manufacturers, which are currently the Group's major customer group, include

Management Discussion and Analysis

(i) a strong emphasis on product quality, in particular for office automation equipment such as copiers and printers 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) a strong 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). Further, to manufacture components with high precision standards for its customers, the Group had invested in high quality equipment and a substantial portion of the Group's production machinery are first-tier equipment produced by international renowned brand names such as Aida, Sodick, Agie, Panasonic, Nomura, Sumitomo, and Mitsubishi. The Group also maintains a strong quality control team with a headcount of 213 employees and other engineers and technicians of 386 employees as at 31 December 2006.

Such investment in quality and production management has proven to be beneficial to the Group. During the year ended 31 December 2006, the sales of the Group's metal division to most of its major Japanese customers increased significantly. Apart from Japanese customers, the remaining 17.4% of sales of the Group's metal division was derived from reputable Hong Kong or international companies during the year ended 31 December 2006. To broaden its customer base, the Group will continue to source new customers. However, it is the policy of the Group to be selective in the sourcing of new customers and management will take into account a number of factors which include the pricing of products and credibility of potential customers in its decision making process.

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 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 service to its customers and reduce the 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.

During the year ended 31 December 2005, the Group's plastic division was under initial development stage and as such, turnover of the Group's plastic division only amounted to approximately HK$17,778,000 for the year ended 31 December 2005. During the year ended 31 December 2006, 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. For the year ended 31 December 2006, turnover of the Group's plastic division amounted to approximately HK$76,238,000, representing an increase of approximately 328.8% as compared to that for the year ended 31 December 2005. Operating profit of the Group's plastic division for the year ended 31 December 2006 was approximately HK$12,876,000, as compared to an operating profit of approximately HK$665,000 for the year ended 31 December 2005.

Management Discussion and Analysis

HUMAN RESOURCES

As at 31 December 2006, the total number of employees of the Group was 2,991, representing a growth of 29.1% as compared to 2,316 employees as at 31 December 2005. The increase in headcount was primarily due to the overall expansion of the Group during the year ended 31 December 2006.

The Group considers its employees, in particular the skilled engineers 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. Remuneration policy is reviewed regularly, taking into account 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 organized to inspire the team spirit of the Group's staff, which includes the organization 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.

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 plastic material producers designated by the Group's customers. Accordingly, most of the Group's sales and cost of sales are currently made 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 2006, approximately 42%, 54% and 4% (2005: 47%, 50% and 3%) of the Group's sales and approximately 29%, 58% and 13% (2005: 36%, 55% and 9%) of the Group's purchases were denominated in Hong Kong dollars, US dollars and Renminbi, respectively.

Management is aware of the potential foreign currency risk that may arise from the continuous appreciation of Renminbi by the PRC government. Although only a small portion of the Group's purchases are denominated in Renminbi currently, the Group has taken actions to manage its foreign currency exposure. In particular, despite the Group's substantial business operations in Mainland China, only 11.3% of its bank borrowings were denominated in Renminbi as at 31 December 2006. As at 31 December 2006, deposits denominated in Renminbi amounting to RMB26,500,000 were pledged for obtaining Hong Kong dollar loans of an equivalent amount, which effectively acted as a hedge against the appreciation of Renminbi. Management will evaluate the Group's foreign currency exposure on a continuing basis and take further actions to minimize the Group's exposure whenever necessary.

Management Discussion and Analysis

FINANCIAL REVIEW

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

By business segment

	2006 HK$'000	2006 %	2005 HK$'000	2005 %
Turnover				
Metal division				
Design and fabrication of metal stamping moulds	**72,476**	**10.5%**	62,544	12.9%
Manufacturing of metal stamping components and lathing products	**526,618**	**76.2%**	390,097	80.4%
Others *(Note 1)*	**15,908**	**2.3%**	14,604	3.0%
	615,002		467,245	
Plastic division				
Design and fabrication of plastic injection moulds	**14,833**	**2.1%**	9,433	2.0%
Manufacturing of plastic injection components	**61,363**	**8.9%**	8,345	1.7%
Others *(Note 1)*	**42**	**–**	–	–
	76,238		17,778	
Total	**691,240**		485,023	
Segment results				
Metal division	**116,032**		98,848	
Plastic division	**12,876**		665	
Operating profit	**128,908**		99,513	
Unallocated expenses	**(145)**		(539)	
Finance income	**1,094**		591	
Finance costs	**(9,646)**		(6,672)	
Income tax expenses	**(11,562)**			
Profit attributable to equity holders of the Company	**108,649**		83,215	

Note 1: Others mainly represented sales of scrap materials

Management Discussion and Analysis

Turnover

Metal division

The increase in turnover of the Group's metal division by 31.6% from approximately HK$467,245,000 for the year ended 31 December 2005 to approximately HK$615,002,000 for the year ended 31 December 2006 was primarily driven by the increase in revenue generated from manufacturing of metal stamping components 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 2006. Those customers which only provided sale orders to the Group on a trial basis previously also started to provide large scale orders to the Group, which contributed to the significant increase in revenue generated from manufacturing of metal stamping components and lathing products during the year ended 31 December 2006.

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. During the year ended 31 December 2006, 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. For the year ended 31 December 2006, turnover of the Group's plastic division amounted to approximately HK$76,238,000, representing an increase of approximately 328.8% as compared to that for the year ended 31 December 2005.

Gross profit

The Group achieved a gross profit of approximately HK$221,019,000 for the year ended 31 December 2006, representing an increase of 37.3% as compared to that for the year ended 31 December 2005. Gross profit margin for the year ended 31 December 2006 was approximately 32.0%, which decreased as compared to that of 33.2% for the year ended 31 December 2005. The decrease in gross profit margin was primarily caused by the change in product mix. During the year ended 31 December 2006, the Group's revenue from the manufacture of metal stamping and plastic injection components and lathing products increased significantly by 47.6% and its proportion to total turnover increased slightly from approximately 82.1% for the year ended 31 December 2005 to approximately 85.1% for the year ended 31 December 2006. 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 slightly diluted from 14.9% for the year ended 31 December 2005 to 12.6% for the year ended 31 December 2006 although its amount increased by approximately 21.3% from approximately HK$71,977,000 for the year ended 31 December 2005 to approximately HK$87,309,000 for the year ended 31 December 2006. 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 2006.

Management Discussion and Analysis

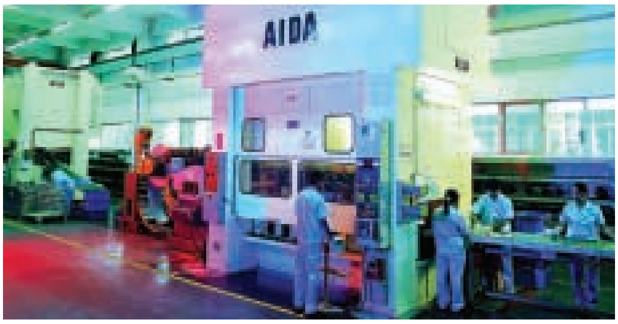
Segment results

For the year ended 31 December 2006, segment result of the Group's metal division amounted to approximately HK$116,032,000, representing a 17.4% increase as compared to that of approximately HK$98,848,000 for the year ended 31 December 2005. This increase was primarily brought by the surge of turnover of the Group's metal division during the year. The operating profit margin of the Group's metal division for the year ended 31 December 2006 was approximately 18.9%, which decreased by approximately 2% as compared to that of approximately 21.2% for the year ended 31 December 2005. The slight decrease in operating profit margin of the Group's metal division was primarily caused by (i) the dilution of the Group's overall gross profit margin as a result of the significant increase in revenue from the manufacture of metal stamping components and lathing products as described above; (ii) employee share options expenses of approximately HK$3,188,000 which were related to employee share options granted during the year ended 31 December 2006 (2005: Nil); and (iii) initial loss incurred by the Group's new Suzhou production base amounting to approximately HK$2,951,000 during its initial development stage in 2006.

Segment result of the Group's plastic division for the year ended 31 December 2006 was approximately HK$12,876,000, which increased by approximately 18.4 times as compared to that of approximately HK$665,000 for the year ended 31 December 2005. Operating profit margin of the Group's plastic division for the year ended 31 December 2006 was approximately 16.9%, which increased significantly as compared to that of approximately 3.7% for the year ended 31 December 2005. During the year ended 31 December 2005, the Group's plastic division was only under initial development stage whilst in 2006, the Group's plastic division started to obtain large scale orders from its customers and therefore the Group's plastic division benefited from economy of scale which improved its operating profit margin.

Finance costs

The Group's finance costs for the year ended 31 December 2006 amounted to approximately HK$9,646,000, which increased by approximately 44.6% as compared to that of approximately HK$6,672,000 for the year ended 31 December 2005. During the year ended 31 December 2006, the Group's capital expenditure amounted to approximately HK$217,239,000, representing an increase of approximately 98.1% as compared to that of approximately HK$109,638,000 for the year ended 31 December 2005. As such, the average loan balances utilised by the Group during the year ended 31 December 2006 increased with a view to financing the increased capital expenditure and as such, the Group's finance costs for the year ended 31 December 2006 increased as compared to that for the year ended 31 December 2005.



Management Discussion and Analysis

Income tax expenses

During the year ended 31 December 2006, income tax expenses amounted to approximately HK$11,562,000. Effective tax rate (defined as the percentage of income tax expenses as compared to profit before income tax) for the year ended 31 December 2006 was approximately 9.6%, which decreased as compared to that of approximately 10.4% for the year ended 31 December 2005. During the year ended 31 December 2006, Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd., the principal subsidiary for the Group's plastic business, was exempted from PRC enterprise income tax. Since the profit recorded by Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. during the year ended 31 December 2006 increased significantly as a result of the improvement in the performance of the Group's plastic division, the Group's overall effective tax rate was diluted from approximately 10.4% for the year ended 31 December 2005 to approximately 9.6% for the year ended 31 December 2006.

Profit attributable to equity holders of the Company

During the year ended 31 December 2006, profit attributable to equity holders of the Company amounted to approximately HK$108,649,000, which increased by approximately 30.6% as compared to approximately HK$83,215,000 for the year ended 31 December 2005. Net profit margin of the Group for the year ended 31 December 2006 was approximately 15.7%, which decreased as compared to that of 17.2% for the year ended 31 December 2005. The 1.5% decrease in net profit margin of the Group was mainly caused by (i) the change in product mix of the Group and the decrease in the proportion of revenue from design and fabrication of metal stamping and plastic injection moulds to total turnover which diluted the Group's overall gross profit margin; (ii) employee share options expenses of approximately HK$3,188,000 which were related to employee share options granted during the year ended 31 December 2006 (2005: Nil); and (iii) initial loss incurred by the Group's new Suzhou production base amounting to approximately HK$2,951,000 during its initial development stage in 2006.

By geographical location

	For the year ended 31 December		**For the six months ended 30 June** *(Note 1)*	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Turnover				
Shenzhen operations	**669,869**	485,023	**283,745**	199,764
Suzhou operations	**21,371**	–	**–**	–
	691,240	485,023	**283,745**	199,764
Profit attribution to equity holders of the Company				
Shenzhen operations	**111,600**	83,215	**43,838**	30,884
Suzhou operations	**(2,951)**	–	**(3,419)**	–
	108,649	83,215	**40,419**	30,884

Note 1: Financial figures for the six months ended 30 June 2005 and 2006 were extracted from the Group's unaudited interim report dated 14 September 2006.

Management Discussion and Analysis

As indicated above, a substantial portion of the Group's turnover for the year ended 31 December 2006 was still derived from the Group's existing Shenzhen production plant since the construction of the Group's new Suzhou production plant was only completed in mid 2006. The new Suzhou production plant was under construction in the first half of 2006 and incurred initial set up costs of approximately HK$3,419,000 during the six months ended 30 June 2006. In the second half of 2006, the Group's new Suzhou production plant commenced commercial production and started to generate revenue thereafter. Although the new Suzhou production plant was still under initial development stage in the latter half of 2006, it generated turnover of approximately HK$21,371,000 and net profit of approximately HK$468,000 during that period. As such, the Group's new Suzhou production plant managed to reduce its accumulated loss from approximately HK$3,419,000 for the six months ended 30 June 2006 to approximately HK$2,951,000 for the entire year ended 31 December 2006.

LIQUIDITY, FINANCIAL RESOURCES AND RATIOS

For the year ended 31 December 2006, the Group recorded net cash generated from operating activities amounting to approximately HK$87,322,000, representing an increase of approximately 15.2% as compared to that of approximately HK$75,772,000 for the year ended 31 December 2005. The increase in net cash generated from operating activities was in line with the increase in the turnover and profit of the Group during the year ended 31 December 2006. Net cash used in investing activities which was primarily related to the purchases of fixed assets and amounted to approximately HK$175,742,000 for the year ended 31 December 2006, increased by approximately 89.1% as compared to that of approximately HK$92,952,000 for the year ended 31 December 2005 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$34,222,000 for the year ended 31 December 2005 to approximately HK$108,381,000 for the year ended 31 December 2006 which was primarily caused by the receipt of the net proceeds from the Group's share placement of approximately HK$107,467,000 during the year.

Bank loans as at 31 December 2006 were denominated in Hong Kong dollars and Renminbi with fixed or floating interest rates and were used for financing the Group's operations and expansion. Treasury activities are controlled by senior management members with an objection 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 2006 is as follows:

	31 December 2006	31 December 2005
Inventory turnover days *(Note 1)*	**78**	67
Debtors' turnover days *(Note 2)*	**81**	73
Creditors' turnover days *(Note 3)*	**87**	85
Current ratio *(Note 4)*	**1.09**	1.02
Net debt-to-equity ratio *(Note 5)*	**0.27**	0.29

Management Discussion and Analysis

Note:

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

2. Calculation of debtors' turnover days 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 days is based on the ending balance of trade payables divided by cost of sales 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 and finance lease liabilities less cash and bank balances divided by shareholders' equity.

Inventory turnover days

Inventory turnover days for the year ended 31 December 2006 increased to approximately 78 days as compared to that of approximately 67 days for the year ended 31 December 2005. The increase in inventory turnover days for the year ended 31 December 2006 was primarily due to the accumulation of inventories as at 31 December 2006 to cope with the expected increase in sales orders in 2007.

Debtors' and creditors' turnover days

Although the Group's scale of operations continued to expand, the Group was still able to settle its debtors' and creditors' balances within three months. As such, both of the Group's debtors' and creditors' turnover days for the year ended 31 December 2006 only increased slightly to approximately 81 days and 87 days respectively despite a 42.5% increase in the Group's turnover during the year.

Current ratio and net debt-to-equity ratio

During the year ended 31 December 2006, the Group received net proceeds from share placement amounting to approximately HK$107,467,000 which improved the Group's equity base during the year. 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 1.02 and 0.29 as at 31 December 2005 to approximately 1.09 and 0.27 as at 31 December 2006.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2006, the charges on the Group's assets included (i) pledge of bank deposits of approximately HK$33,245,000, of which approximately HK$26,377,000 were used for securing the Group's bank borrowings and HK$6,868,000 were pledged in favour of a contractor of construction work as deposits for construction costs; (ii) pledge of leasehold land and buildings located in Hong Kong with net book value of approximately HK$8,604,000 for securing bank borrowings; and (iii) mortgage of equipment under finance lease liabilities with net book value of HK$128,759,000 for securing finance lease liabilities.

Management Discussion and Analysis

OUTLOOK

During the year ended 31 December 2006, the Group had continued its plan to transform itself from a metal mould and component manufacturers to a fully integrated one-stop service provider. As part of the Group's expansion plan, the construction of phase one of the Group's Suzhou production plant was completed in mid 2006 and commercial operations commenced in the second half of 2006.

The Group's new Suzhou production plant will primarily focus on serving various Japanese and other multi-national manufacturers located in the Yangtze River Delta region. These Japanese and multi-national manufacturers are the target customers of the Group's new Suzhou production plant taking into account (i) their credibility; (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 Japanese and multi-national manufacturers. Taking into account the concentration of multi-national manufacturers in the Yangtze River Delta region, management sees great potential in this market and expects the new Suzhou production plant to provide strong momentum for the continuous growth of the Group in the future. However, management understands that a majority of multi-national manufacturers will be prudent in granting sale orders to new suppliers and trial periods are normally required for multi-national manufacturers to observe the production capability and quality standards of potential suppliers. As such, at its initial stage of operations, the Group's new Suzhou production plant will primarily focus on tapping potential business from the Group's existing customers with production plants located in the Yangtze River Delta region which include (i) Konica Minolta in Wuxi; Canon in Suzhou and Fuji Xerox and Ricoh in Shanghai because the Group's reputation had already been strongly established among these existing Japanese customers. The Group's new Suzhou production plant will strive to expand and obtain business from other reputable multi-national manufacturers at the later stage. Under the current business model of the Group, the Group's customers normally require the Group to design and manufacture the relevant moulds prior to the mass production of metal stamping and plastic injection components. The completed moulds will be consigned in the Group's production plants for the subsequent production of metal stamping and plastic injection components. In the second half of 2006, the Group's new Suzhou production plant had generated turnover of approximately HK$21,371,000, of which approximately 56.2% was related to the design and manufacture of moulds. The moulds manufactured by the Suzhou production plant during the latter half of 2006 will be used for the mass production of metal stamping and plastic injection components for the year ending 31 December 2007.

Taking into account the huge potentials for the Group's business in the Yangtze River Delta region and the continuous transfer of high end production processes by the Group's customers from overseas countries to China, the construction of phase two of the Group's Suzhou production plant with a construction area of approximately 59,000 square metres is expected to commence in the second half of 2007, with completion targeted for the second half of 2008.

As part of the Group's plan to transform itself to a fully integrated one-stop service provider, the Group had continued to expand the production capacity of its plastic division during the year ended 31 December 2006. The Group decided to expand its plastic business because, while part of the office automation equipment manufactured by its customers is made of metal components, plastic components account for the remaining portion. With the continuous expansion of the Group's plastic production lines, turnover generated by the Group's plastic division during the year ended 31 December 2006 increased by approximately 328.8% to approximately HK$76,238,000, as compared to the turnover of approximately HK$17,778,000 for the year ended 31 December 2005.

Management Discussion and Analysis

The Group's customers normally require the Group to design and manufacture the relevant moulds prior to the mass production of metal stamping and plastic injection components. Accordingly, the manufacturing capability and quality standards for the production of moulds are crucial determinants for securing large-scale sale orders from customers for the subsequent production of metal stamping and plastic injection components, in particular under the current trend that the Group's customers will update their product models on a more frequent basis and accordingly require their suppliers to manufacture the relevant moulds within a shorter period of time. With a view to increasing the Group's production capacity of moulds, the Group is in the process of establishing a mould research and development centre in Shenzhen. The construction of the mould research and development centre has commenced in September 2006 and is expected to be completed in the latter half of 2007. With an expanded mould production capability, the Group will not only be able to obtain more orders under its existing business model but an expanded mould production capability will also enable the Group to produce and sell moulds on a standalone basis to customers who retain production plants in overseas countries.

The Group's existing Shenzhen production plant is located in the eastern bank of the Pearl River Delta region. With a view to better serving the Group's existing customers and developing businesses from new customers located in the western bank of the Pearl River Delta region, the Group currently plans to establish a new production plant in Zhongshan, Guangdong Province, the PRC. The construction of the new Zhongshan production plant with a construction area of approximately 33,000 square metres is expected to commence in mid 2007, with completion targeted for mid 2008. At its initial stage of operations, the Group's new Zhongshan production plant will primarily focus on serving existing customers located in the western bank of the Pearl River Delta region, in particular Canon's production plants in Zhongshan and Zhuhai which are principally engaged in the assembly of laser beam printers and are presently served by the Group's existing production plant in Shenzhen. The establishment of a new production plant in Zhongshan which is in the proximity of the Group's customers located in the western bank of the Pearl River Delta region will not only reduce the transportation costs of the Group and its customers, but can also strengthen the Group's business relationship with its existing customers which will finally translate into larger business volume for the Group. Further, with the production plant in Zhongshan taking up certain customers located in the western bank of the Pearl River Delta region, the Group's existing Shenzhen production plant can spare production capacity for handling the booming orders from other existing customers located in the eastern bank of the Pearl River Delta region. At a later stage of its operations, the Group's Zhongshan production plant will also strive to develop new customers located in the western bank of the Pearl River Delta region.

Currently the Group primarily serves as a mould and component supplier to reputable Japanese manufacturers engaging in the production of office automation equipment which includes copiers and printers. Taking into account (i) the Group primarily focused on the production of metal stamping moulds and components previously with other business opportunities relating to the office automation equipment market, which include the manufacture of relevant plastic injection components and moulds and the provision of assembly services to office automation equipment manufacturers, remained relatively 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

Management Discussion and Analysis

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 2006 and the Group had started to obtain small scale orders for the production of automobile parts on trial basis. However, taking into consideration (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 will continue 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 3 April 2007, the Group had applied the listing proceeds as follows:

	Planned as per prospectus dated 29 April 2005 HK$	**Actual application as at 3 April 2007** 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 components	25 million	25 million
Establishment of a mould research and development centre	35 million	13 million
Repayment of bank loans	30 million	30 million
General working capital of the Group	3 million	3 million
	125 million	103 million

The unutilised proceeds from listing of approximately HK$22 million are related to the establishment of a mould research and development centre. The mould research and development centre is currently under construction and the Company will continue to use the remaining HK$22 million for its establishment as stated in the Prospectus. Such remaining proceeds are currently placed on short-term deposits.

Management Discussion and Analysis

SHARE PLACEMENT

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 share 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's issued share capital as enlarged by the subscription and the consequent issuance of 80,000,000 new shares. The relevant transactions are completed in March 2006 and the net proceeds of approximately HK$107,467,000 were received by the Company in March 2006.

The purpose of the share issue through the above-mentioned placing and subscription is to expand the production capacity of the Group and the net proceeds of HK$107,467,000 are intended to be utilised as to approximately HK$92,000,000 for the acquisition of new machineries and as to approximately HK$15,467,000 for general working capital purposes. Up to the date of this report, all of such net proceeds had been utilised for the afore-mentioned purposes.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. ZHANG Hwo Jie, aged 44, 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 in 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, aged 33, 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, aged 34, is 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 component 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 Hong Kong International Enterprise Management Institute in September 2003 and was accredited as one of the outstanding personalities in machinery industry by the Shenzhen Machinery Association (深圳市機械行業協會) in 2004. Further, Mr. Zhang was accredited as a "Creative and Outstanding Person of China Enterprises" (中國企業創新優秀人物) by China Marketing Association (中國市場學會) and China Enterprises News Society (中國企業報社) in July 2006. 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 (美國認証協會), 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 (國際職業資格証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, aged 65, 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 mould and component 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.

Directors and Senior Management Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. LUI Sun Wing, aged 56, 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 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, Hang Fung Gold Technology Limited and Smart Union Group (Holdings) Limited. Dr. Lui was appointed as a director on 11 January 2005.

Mr. CHOY Tak Ho, aged 79, is an independent non-executive director. Mr. Choy has 40 years of experience in international trading business in Hong Kong. He is the president of Union International (H.K.) Co., Ltd., 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. He is also a member of National Committee of the 8th and 9th Chinese People's Political Consultation Conference, the honorary director of China Overseas Friendship Association, a member of the 6th, 7th and 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, VODone Limited, Oriental Explorer Holdings Limited and Multifield International Holding Limited. He was appointed as a director on 11 January 2005.

Mr. Leung Tai Chiu, aged 61, is an independent non-executive director. Mr. Leung is a Fellow of Institute of Chartered Accountants in England and Wales. He obtained his professional qualification in the United Kingdom in 1975 and has worked in the auditing profession for over 30 years, 20 years of which as a partner. Mr. Leung retired from PricewaterhouseCoopers effective from 1 May 2005. Mr. Leung is also an independent non-executive director of Kingboard Laminates Holdings Limited. He was appointed as a director on 5 June 2006.

SENIOR MANAGEMENT

Mr. WONG Hoi Chu, Francis aged 34, is the chief financial officer and company secretary of the Group. Mr. Wong is responsible for the accounting, taxation and financial 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 a Fellow of 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.

Directors and Senior Management Profile

Mr. CHEN Hong Bin, aged 39, 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 14 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 ART Precision Industrial Ltd. (深圳藝晶五金實業有限公司). Mr. Chen holds a bachelor's degree in business and administration from the University of Shenzhen (深圳大學). 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 Te Min, aged 38, 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 15 years of experience in production and quality management in the industrial field. Prior to joining the Group in December 2005, Mr. Li held 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 also received "Quality Control System Consultant Certificate" (品質管理體系諮詢師証書) from China Certification Personnel and Training Institute National Accredited Committee (中國認証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 Organization Shenzhen Expert Committee (全國高協組織深圳專業委員會).

Mr. HU Xiao Feng, aged 37, is the deputy general manager of Yihe Precision Hardware (Shenzhen) Co., Ltd., a subsidiary of the Group. Mr. Li is responsible for the general operation and management of Yihe Precision Hardware (Shenzhen) Co., Ltd. Mr. Hu joined the Group in December 2004 as a manager in the production department and was subsequently promoted to deputy general manager in July 2006. Prior to joining the Group, Mr. Hu had 10 years of experience in the metal stamping industry, specializing in the office automation equipment sector. Mr. Hu has extensive knowledge in various aspects of the manufacturing industry which include production operations, quality control and logistic management. Mr. Hu holds a high diploma in business administration from Peking University (北京大學) and has obtained a professional management qualification certificate from the Hong Kong Human Resource Accreditation Centre.

Corporate Governance Report

The Group has strong intention to comply with the provisions of the Code of 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 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 of Corporate Governance Practices 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 experience;
- 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 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

Corporate Governance Report

Independent Non-executive Directors

Dr. Lui Sun Wing
Mr. Choy Tak Ho
Mr. Leung Tai Chiu (Appointed on 5 June 2006)
Mr. Chan Wai Dune (Resigned on 5 June 2006)

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 25 to page 27 under the section headed "Directors and Senior Management Profile " of the annual report.

The Group has arranged appropriate insurance cover 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 has received from each of the independent non-executive directors an annual confirmation 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 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 2006, 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

Corporate Governance Report

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 2006.

BOARD MEETING

During the year ended 31 December 2006, the Board held ten meetings.

Name of directors	**Number of attendance**
Mr. Zhang Hwo Jie	10/10
Mr. Zhang Jian Hua	10/10
Mr. Zhang Yaohua	10/10
Mr. Nomo Kenshiro	9/10
Dr. Lui Sun Wing	10/10
Mr. Choy Tak Ho	10/10
Mr. Leung Tai Chiu *(Note 1)*	9/9
Mr. Chan Wai Dune *(Note 2)*	1/1

Note 1: Mr. Leung Tai Chiu was appointed as an independent non-executive director on 5 June 2006 and there were nine board meetings held during the period from 5 June 2006 to 31 December 2006.

Note 2: Mr. Chan Wai Dune resigned as an independent non-executive director with effect from 5 June 2006 and there was one board meeting held during the period from 1 January 2006 to 4 June 2006.

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 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 audit committee comprises the three independent non-executive directors with Dr. Lui Sun Wing as the chairman.

Corporate Governance Report

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 reports and accounts of the Group and oversees the Group's financial reporting 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 meeting during the year ended 31 December 2006 and had attended to the following matters:

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

– discuss the internal controls, risk management and financial reporting matters relating to the annual accounts for the year ended 31 December 2005 and the interim accounts for the six months ended 30 June 2006 before recommending the accounts 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:

Name of audit committee member	**Attendance**
Dr. Lui Sun Wing	2/2
Mr. Choy Tak Ho	2/2
Mr. Leung Tai Chiu *(Note 1)*	1/1
Mr. Chan Wai Dune *(Note 2)*	1/1

Note 1: Mr. Leung Tai Chiu was appointed as a member of the audit committee on 5 June 2006 and there was only one audit committee meeting during the period from 5 June 2006 to 31 December 2006.

Note 2: Mr. Chan Wai Dune resigned as a member of the audit committee with effect from 5 June 2006 and there was only one audit committee meeting held during the period from 1 January 2006 to 4 June 2006.

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 consolidated financial statements for the year ended 31 December 2006.

Corporate Governance Report

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. One of the board meeting described in the section headed "Board Meeting" above which was held during the year ended 31 December 2006 was related to the nomination of Mr. Leung Tai Chiu as an independent non-executive director with all directors present at the meeting. The directors had discussed, inter alia, the qualification, experience, remuneration and terms of appointment of Mr. Leung Tai Chiu during that meeting.

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 2006, the remuneration committee held one meeting with all members present 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 of directors for the year ended 31 December 2006 are set out in Note 20 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. Further details in respect of the Group's share option scheme are set out on page 38 to page 41 under the section headed "Report of the Directors" of the annual report.

AUDITORS' REMUNERATION

During the year ended 31 December 2006, the total remuneration for audit services provided by PricewaterhouseCoopers, the external auditors, amounted to HK$1,500,000. The audit fee was approved by the audit committee. The statement made by the auditors in respect of their reporting responsibilities are set out on page 45 of this annual report.

Corporate Governance Report

During the year ended 31 December 2006, 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 approximately to HK$377,000. The non-audit services mainly comprised tax compliance and tax advisory services of approximately HK$75,000 and non-audit agreed-upon procedures on the interim consolidated financial statements of approximately HK$302,000. The audit committee had been 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, all directors confirm that they have complied with the required standards set out in the Model Code during the year ended 31 December 2006 and up to the date of this report.

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 to the Listing Rules during the year ended 31 December 2006.

By order of the Board
Zhang Hwo Jie
Chairman

Hong Kong, 3 April 2007

Report of the Directors

The directors of the Company are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

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 2006 is set out in Note 5 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year ended 31 December 2006 attributable to the Group's major suppliers and customers are as follows:

Purchases	
The largest supplier	25.9%
Five largest suppliers combined	47.3%
Sales	
The largest customer	14.9%
Five largest customers combined	46.2%

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 2006 are set out in the consolidated income statement on page 49.

DIVIDENDS

The Board recommends the payment of a final dividend of HK3 cents per ordinary share, totaling approximately HK$18,000,000. Subject to the approval of the directors' recommendation by the shareholders at the annual general meeting to be held 18 May 2007, the final dividend will be payable on or about 25 May 2007. Including the interim dividend of HK$12,000,000 paid on 20 October 2006 in respect of the six months ended 30 June 2006, the total dividends declared for the year ended 31 December 2006 will be HK$30,000,000.

Report of the Directors

FIXED ASSETS

Details of the movements in property, plant and equipment during the year ended 31 December 2006 are set out in Note 6 to the consolidated 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 for the year ended 31 December 2006 amounted to approximately HK$1,479,000.

BORROWINGS AND INTEREST CAPITALISED

Details of borrowings are set out in Note 15 and Note 16 to the consolidated financial statements. Interest and other borrowing costs capitalised by the Group during the year ended 31 December 2006 are set out in Note 21 to the consolidated financial statements.

RESERVES

Details of movements in reserves during the year ended 31 December 2006 are set out in Note 18 to the consolidated financial statements.

DONATIONS

The donations made by the Group during the year ended 31 December 2006 amounted to approximately HK$204,000.

PENSION SCHEMES

Details of the Group's pension schemes are set out in Note 20 to the consolidated financial statements.

FIVE YEAR FINANCIAL SUMMARY

A five year financial summary of the Group is set out on pages 102.

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 2006.

Report of the Directors

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year ended 31 December 2006 and up to the date of this report were:

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. Leung Tai Chiu	(appointed on 5 June 2006)
Mr. Chan Wai Dune	(resigned on 5 June 2006)

In accordance with the Company's articles of association, Mr. Lui Sun Wing, Mr. Choy Tak Ho and Mr. Leung Tai Chiu 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

During the year ended 31 December 2006 and up to 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

The following connected transaction, which also constitutes related party transaction set out in Note 29 to the consolidated financial statements, was entered into during the year ended 31 December 2006:

Report of the Directors

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 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 process 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 approximately HK$22,000 was placed by EVA Limited to the HKIRD during the year ended 31 December 2006 in respect of an estimated tax charged by the HKIRD for the assessment year 1999/2000. In addition, a service fee of approximately HK$150,000 was also paid in connection with the related tax advisory service. The total sum of HK$172,000 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 2006.

The above transaction constitutes a connected transaction but is exempted from the reporting, announcement and independent shareholders' approval requirements in accordance with the Chapter 14A of the Listing Rules.

SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDERS

On 5 June 2006, the Group obtained a syndicated loan facility of HK$120,000,000 by entering into various loan facility agreements (the "Facility Agreements") with DBS Bank (Hong Kong) Limited and Hang Seng Bank Limited as the joint coordinating arrangers. The purpose of the syndicated loan facility is to finance the payment of land cost, factory construction costs and equipment purchase costs in connection with the establishment of a production plant located in Suzhou, Jiangsu province, the People's Republic of China, which had commenced commercial operations in the second half of 2006. Pursuant to the Facility Agreements, the following specific performance obligations are imposed on the executive directors and controlling shareholders namely Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua (the "Zhang's Brothers") throughout the life of the syndicated loan facility: (i) Zhang's Brothers shall at all times beneficially own, directly or indirectly, an aggregate of at least 51% of the issued share capital of the Company and remain as its largest shareholders and shall procure that such shareholdings shall remain unencumbered except to the extent required under the Facility Agreements; (ii) Zhang's Brothers shall at all times remain, directly or indirectly, the largest shareholders of EVA Precision Industrial (Suzhou) Limited, a subsidiary of the Company, and shall procure that such shareholdings shall remain unencumbered, except to the extent required under the Facility Agreements, in particular, the pledge of the entire share capital of EVA Precision Industrial (Suzhou) Limited and EVA Precision Industrial (Eastern China) Limited,

Report of the Directors

its immediate holding company, to the relevant lenders pursuant to the Facility Agreements; (iii) Zhang's Brothers shall maintain management control over the Group and shall actively involve in the business of the Group and (iv) Mr. Zhang Hwo Jie shall remain as the chairman of the Company.

A breach of the aforesaid obligations will constitute an event of default under the syndicated loan facility which may result in the cancellation of all or any part of the commitments under the syndicated loan facility and all borrowed amounts outstanding becoming immediately due and payable.

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. 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.

Report of the Directors

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 lapse.

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 Share Options Scheme

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

On 21 June 2006, 10 August 2006 and 16 February 2007, options to subscribe for 30,250,000 shares, 950,000 shares and 22,050,000 shares have been granted to the directors and eligible employees under the Share Option Scheme. Details of the movements of the share options under the Share Option Scheme for the year ended 31 December 2006 and up to the date of this report were as follows:

Report of the Directors

	Granted on 21 June 2006	Granted on 10 August 2006	Lapsed during the year ended 31 December 2006	As at 31 December 2006	Granted on 16 February 2007	Lapsed during the period from 1 January 2007 up to the date of this report	As at the date of this report	Share price immediately before offer date	Exercise price
								HK$	HK$
Executive directors									
Zhang Hwo Jie	1,300,000	–	–	1,300,000	–	–	1,300,000	1.72	1.70
	–	–	–	–	1,200,000	–	1,200,000	1.95	1.96
Zhang Jian Hua	1,300,000	–	–	1,300,000	–	–	1,300,000	1.72	1.70
	–	–	–	–	1,400,000	–	1,400,000	1.95	1.96
Zhang Yaohua	1,300,000	–	–	1,300,000	–	–	1,300,000	1.72	1.70
	–	–	–	–	1,400,000	–	1,400,000	1.95	1.96
Nomo Kenshiro	900,000	–	–	900,000	–	–	900,000	1.72	1.70
	–	–	–	–	300,000	–	300,000	1.95	1.96
Independent non-executive directors									
Lui Sun Wing	300,000	–	–	300,000	–	–	300,000	1.72	1.70
	–	–	–	–	300,000	–	300,000	1.95	1.96
Choy Tak Ho	300,000	–	–	300,000	–	–	300,000	1.72	1.70
	–	–	–	–	300,000	–	300,000	1.95	1.96
Leung Tai Chiu	300,000	–	–	300,000	–	–	300,000	1.72	1.70
	–	–	–	–	300,000	–	300,000	1.95	1.96
Employees of the Group									
In aggregate	24,550,000	–	(1,400,000)	23,150,000	–	(100,000)	23,050,000	1.72	1.70
	–	950,000	–	950,000	–	(150,000)	800,000	1.68	1.71
	–	–	–	–	7,250,000	–	7,250,000	1.95	1.96
	–	–	–	–	9,600,000	–	9,600,000	1.95	1.96
	30,250,000	950,000	(1,400,000)	29,800,000	22,050,000	(250,000)	51,600,000		

Report of the Directors

The fair values of the options granted on 21 June 2006 and 10 August 2006 were approximately HK$12,923,000 and HK$391,000, respectively. The fair values of 12,450,000 options and 9,600,000 options on 16 February 2007 were approximately HK$4,675,000 and HK$2,510,000, respectively. These fair values were calculated using the Black-Scholes valuation model and the significant inputs into the model were as follows:

	Exercise price HK$	Expected volatility	Expected life	Risk-free rate	Dividend paid out rate
Granted on 21 June 2006					
– 30,250,000 options	1.70	30%	1.5 to 3.5 years	4.5%	Nil
Granted on 10 August 2006					
– 950,000 options	1.71	30%	1.5 to 3.5 years	4.5%	Nil
Granted on 16 February 2007					
– 12,450,000 options	1.96	27.14% to 30.89%	1.5 to 3.5 years	4.046% to 4.072%	2.17%
– 9,600,000 options	1.96	32.17%	1 year	4.002%	2.17%

All options referred to the above are subject to vesting schedules and exercise periods as follows:

% of the options granted	Vesting date	Exercise period
With respect to 30,250,000 options granted on 21 June 2006		
20%	22 June 2007	22 June 2007 to 22 June 2010
30%	23 June 2008	23 June 2008 to 22 June 2010
50%	22 June 2009	22 June 2009 to 22 June 2010
With respect to 950,000 options granted on 10 August 2006		
20%	13 August 2007	13 August 2007 to 11 August 2010
30%	11 August 2008	11 August 2008 to 11 August 2010
50%	11 August 2009	11 August 2009 to 11 August 2010
With respect to 12,450,000 options granted on 16 February 2007		
20%	4 February 2008	4 February 2008 to 2 February 2011
30%	2 February 2009	2 February 2009 to 2 February 2011
50%	2 February 2010	2 February 2010 to 2 February 2011
With respect to 9,600,000 options granted on 16 February 2007		
100%	4 February 2008	4 February 2008 to 2 February 2009

Report of the Directors

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

As at 31 December 2006, the interests and/or short positions of the directors or chief executive of the Company's 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 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 register referred therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and The Stock Exchange of Hong Kong Limited were as follows:

(i) Long position in shares of the Company

Name of director	Corporate interests	Personal interests	Personal interests in underlying shares held under equity derivatives *(Note 1)*	Total interests	Approximate percentage of interest in the Company as at 31 December 2006
Mr. Zhang Hwo Jie	390,000,000 *(Note 2)*	3,636,000	1,300,000	394,936,000	65.82%
Mr. Zhang Jian Hua	–	4,856,000	1,300,000	6,156,000	1.03%
Mr. Zhang Yaohua	–	4,632,000	1,300,000	5,932,000	0.99%
Mr. Nomo Kenshiro	–	–	900,000	900,000	0.15%
Mr. Lui Sun Wing	–	–	300,000	300,000	0.05%
Mr. Choy Tak Ho	–	–	300,000	300,000	0.05%
Mr. Leung Tai Chiu	–	–	300,000	300,000	0.05%

Notes:

1. These interests represent the directors' beneficial interests in the underlying shares in respect of share options granted by the Company to the directors as beneficial owners, details of which are set out in the section headed "Share Options" above.

2. Mr. Zhang Hwo Jie holds 36% of the entire issued capital of Prosper Empire Limited, which was interested in 65% of the entire issued capital of the Company as at 31 December 2006. Under the SFO, Mr. Zhang Hwo Jie is deemed to be interested in the shares held by Prosper Empire Limited.

Report of the Directors

(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 2006
Mr. Zhang Hwo Jie	Personal interests	36%
Mr. Zhang Yaohua	Personal interests	33%
Mr. Zhang Jian Hua	Personal interests	31%

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, 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	Number of underlying shares held under equity derivatives	Approximate percentage of interest
Prosper Empire Limited	Beneficial owner	390,000,000	–	65%
Ms. Shen Chan Jie Lin	Interest of spouse *(Note1)*	393,636,000	1,300,000	65.82%

Note:

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

PURCHASES, SALE AND REDEMPTION OF THE SHARES

Save for the placement of shares by the Company on 28 February 2006 as mentioned in the section headed "Management Discussion and Analysis" of this annual report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2006.

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.

Report of the Directors

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 May 2007 to Friday, 18 May 2007, 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 2006, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share register in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 14 May 2007.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 28 to page 33.

AUDIT COMMITTEE

The Company has set up an audit committee, in accordance with the requirements of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, for the purpose of reviewing and providing supervision on the financial reporting process and internal control system of the Group. The audit 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 consolidated financial statements for the year ended 31 December 2006.

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 during the year ended 31 December 2006 and up to the date of this report.

AUDITORS

The consolidated financial statements for the year ended 31 December 2006 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, 3 April 2007

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
EVA PRECISION INDUSTRIAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of EVA Precision Industrial Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 101, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 3 April 2007

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	6	**476,794**	298,064
Leasehold land and land use rights	7	**24,160**	17,232
Prepayments	11	**19,300**	25,197
Pledged bank deposits	12	**–**	75,000
Other assets		**653**	653
		520,907	416,146
Current assets			
Inventories	9	**101,102**	59,566
Trade receivables	10	**152,542**	96,885
Prepayments and deposits	11	**14,816**	8,310
Pledged bank deposits	12	**33,245**	36,131
Cash and cash equivalents	12	**55,990**	36,029
		357,695	236,921
Current liabilities			
Trade payables	13	**112,515**	75,655
Accruals and other payables	14	**33,356**	22,053
Bank borrowings	15	**140,722**	95,262
Finance lease liabilities	16	**29,542**	27,904
Current income tax liabilities		**10,814**	11,374
		326,949	232,248
Net current assets		**30,746**	4,673
Total assets less current liabilities		**551,653**	420,819
Non-current liabilities			
Bank borrowings	15	**18,497**	80,540
Finance lease liabilities	16	**34,560**	33,387
		53,057	113,927
Net assets		**498,596**	306,892
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	**60,000**	52,000
Reserves	18	**438,596**	254,892
Total equity		**498,596**	306,892

Zhang Hwo Jie
Director

Zhang Jian Hua
Director

The accompanying notes are an integral part to these consolidated financial statements.

Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Investments in and amounts due from subsidiaries	8	**380,144**	265,868
Current assets			
Cash and cash equivalents		**31**	–
Current liabilities			
Amounts due to subsidiaries	8	**–**	611
Accruals and other payables	14	**1**	1
		1	612
Net current assets/(liabilities)		**30**	(612)
Net assets		**380,174**	265,256
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	**60,000**	52,000
Reserves	18	**320,174**	213,256
Total equity		**380,174**	265,256

Zhang Hwo Jie
Director

Zhang Jian Hua
Director

The accompanying notes are an integral part to this financial statement.

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Revenue	5	**691,240**	485,023
Cost of sales	19	**(470,221)**	(323,992)
Gross profit		**221,019**	161,031
Other income		**10**	6
Selling and marketing costs	19	**(35,685)**	(27,436)
General and administrative expenses	19	**(56,581)**	(34,627)
Operating profit		**128,763**	98,974
Finance income	21	**1,094**	591
Finance costs	21	**(9,646)**	(6,672)
Profit before income tax		**120,211**	92,893
Income tax expense	22	**(11,562)**	(9,678)
Profit for the year		**108,649**	83,215
Attributable to:			
Equity holders of the Company	23	**108,649**	83,215
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)	24		
– basic		**18.5**	17.6
– diluted		**18.5**	N/A
Dividends	25	**30,000**	31,200

The accompanying notes are an integral part to these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

		Attributable to equity holders of the Company		
	Note	Share capital HK$'000	Reserves HK$'000	Total HK$'000
Balance at 1 January 2006		52,000	254,892	306,892
Profit for the year/total recognised income		–	108,649	108,649
Issue of shares	17(e)	8,000	102,400	110,400
Share issue costs		–	(2,933)	(2,933)
Employee share option scheme				
– value of employee services	17	–	3,188	3,188
Dividends paid	25	–	(27,600)	(27,600)
		8,000	75,055	83,055
Balance at 31 December 2006		60,000	438,596	498,596
Balance at 1 January 2005		2,000	108,929	110,929
Deemed disposals of subsidiaries, recognised directly in equity		–	(1,070)	(1,070)
Profit for the year		–	83,215	83,215
Total recognised income		–	82,145	82,145
Issue of shares		13,000	130,000	143,000
Capitalisation of share premium account		37,000	(37,000)	–
Share issue costs		–	(13,582)	(13,582)
Dividend paid	25	–	(15,600)	(15,600)
		50,000	63,818	113,818
Balance at 31 December 2005		52,000	254,892	306,892

The accompanying notes are an integral part to these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Cash generated from operations	26	**108,480**	87,146
Interest received		**940**	99
Interest paid		**(9,976)**	(6,672)
Income tax paid		**(12,122)**	(4,801)
Net cash generated from operating activities		**87,322**	75,772
Cash flows from investing activities			
Purchase of property, plant and equipment		**(174,151)**	(76,796)
Prepayments for land use rights and property, plant and equipment		**(1,591)**	(15,289)
Proceeds from sale of property, plant and equipment	26	**–**	8
Purchase of other assets		**–**	(653)
Disposal of a subsidiary		**–**	(222)
Net cash used in investing activities		**(175,742)**	(92,952)
Cash flows from financing activities			
Proceeds from borrowings		**379,755**	497,483
Repayments of borrowings		**(396,338)**	(433,967)
Repayments of capital element of finance lease liabilities		**(32,789)**	(31,981)
Decrease/(increase) in pledged bank deposits		**77,886**	(111,131)
Issue of shares	17(e)	**110,400**	143,000
Share issue costs		**(2,933)**	(13,582)
Dividends paid		**(27,600)**	(15,600)
Net cash generated from financing activities		**108,381**	34,222
Net increase in cash and cash equivalents		**19,961**	17,042
Cash and cash equivalents at beginning of the year		**36,029**	18,987
Cash and cash equivalents at end of the year		**55,990**	36,029

The accompanying notes are an integral part to these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 3 April 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and 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 consolidated financial statements, are disclosed in Note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of revised HKFRS

In 2006, the Group adopted the revised HKFRS below, which is effective for accounting periods beginning on or after 1 January 2006 and relevant to its operations. The impact on the Group's accounting policies is set out below.

HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts

HKAS 39 and HKFRS 4 (Amendments) require 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 (i) the unamortised balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. No financial guarantee contracts have been issued at the group level. For guarantees provided by the Company for banking facilities granted to subsidiaries, the Company regards such guarantees as insurance contracts and does not recognise liabilities for financial guarantees at inception, but performs a liability adequacy test at each reporting date and recognises any deficiency in the income statement.

Standards and interpretations that are not yet effective and not early adopted by the Group

The following HKFRS and HK(IFRIC)-Interpretations, which are mandatory for the Group's accounting periods on or after 1 May 2006 or later periods, have not been early adopted by the Group:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, (effective for annual periods beginning on or after 1 June 2007). HKFRS 7 introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from 1 January 2008, but it is not expected to have a material impact on the Group's consolidated financial statements.

- HKFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 requires an entity to report separate information about each operating segments. The Group will apply HKFRS 8 from 1 January 2009, but it is not expected to have a material impact on the Group's consolidated financial statements.

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have a material impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of revised HKFRSs (Continued)

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have a material impact on the Group's consolidated financial statements.

- HK(IFRIC)-Int 11, HKFRS2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). HK(IFRIC)-Int 11 requires a subsidiary to measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognised in equity as a contribution from the parent, provided that the share-based arrangement is accounted for as equity-settled in the consolidated financial statements of the parent. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008, but it is not expected to have a material impact on the Group's consolidated financial statements.

Interpretations that are not yet effective and not relevant for the Group's operations:

The following interpretations to existing standards have been published that are mandatory for entities with accounting periods beginning on or after 1 March 2006 or later periods but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply the requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations.

- HK(IFRIC) - Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC) - Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have contracts with embedded derivative element, HK(IFRIC) - Int 9 is not relevant to the Group's operations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

- HK(IFRIC)-Int 12, Service Concession Arrangements, (effective for annual periods beginning on or after 1 January 2008). The Group has no service concession arrangements and management considers the interpretation is not relevant to the Group.

Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment – Employee Benefits
- HKAS 21 Amendment – New Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2.2 Consolidation

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

Subsidiaries (Continued)

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 accumulated impairment losses, if any (Note 2.7). The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

2.3 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.

2.4 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 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.

(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.

2.5 Property, plant and equipment

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

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. The carrying amount of any replaced part is written off. All other repairs and maintenance are charged 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 less estimated 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.

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.

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 and recognised in the income statement.

2.6 Leasehold land and land use rights

All land in Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group has acquired the right to use certain land in Mainland China. All land in Hong Kong is under operating leases with the government. The premiums paid for leasehold land and land use rights are treated as prepayments for operating leases and recorded as leasehold land and land use rights, which are amortised over the lease/land use right periods using the straight-line method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, are tested at least 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). Assets other than goodwill that have 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 the 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

2.14 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 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 participate in 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 costs 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 vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. 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.

2.16 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Provisions *(Continued)*

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 the passage of time is recognised as interest expense.

2.17 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.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Leases (as the lessee)

(a) Operating leases

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 to the income statement on a straight-line basis over the period of the lease.

(b) Finance leases

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 commencement of the lease 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 charged to 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.

2.19 Borrowing costs

Borrowing costs incurred for the construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.20 Financial guarantees

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The group companies do not recognise liabilities for financial guarantees at inception, but perform liability adequacy tests at each reporting date by comparing respective net liabilities (if applicable) regarding the financial guarantees with the amounts that would be required if the financial guarantees were to result in a present legal or constructive obligation. If the respective liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the income statement immediately.

2.21 Dividend distributions

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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 the 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 reviews and arranges hedges against foreign exchange exposures when considered necessary.

(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 evaluations of its customers. The Group also has 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 banking facilities available.

(iv) Cash flow and fair value interest rate risk

The Group' s income and operating cash flows are substantially independent of 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 15 to the consolidated financial statements.

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

(b) Fair value estimation

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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 consequently the 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 changes in market conditions. 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 of inventories are recorded where events or changes in circumstances indicate that the balances may not be 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.

(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 the carrying value of receivables and the 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 such 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(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 SEGMENT INFORMATION

(a) Revenue

	2006	2005
	HK$'000	HK$'000
Sales		
Design and fabrication of metal stamping moulds	**72,476**	62,544
Manufacturing of metal stamping and lathing products	**526,618**	390,097
Design and fabrication of plastic injection moulds	**14,833**	9,433
Manufacturing of plastic injection products	**61,363**	8,345
Others *	**15,950**	14,604
	691,240	485,023

* Others mainly represent sales of scrap materials.

(b) Primary reporting format – business segments

At 31 December 2006, 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").

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5 SEGMENT INFORMATION *(Continued)*

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

The segment results and other segment items are as follows:

	2006			2005		
	Metal stamping HK$'000	**Plastic injection HK$'000**	**Total HK$'000**	Metal stamping HK$'000	Plastic injection HK$'000	Total HK$'000
Total gross segment revenue	**617,926**	**76,837**	**694,763**	467,982	17,778	485,760
Inter-segment revenue	**(2,924)**	**(599)**	**(3,523)**	(737)	–	(737)
Revenue	**615,002**	**76,238**	**691,240**	467,245	17,778	485,023
Segment results	**116,032**	**12,876**	**128,908**	98,848	665	99,513
Unallocated expenses			**(145)**			(539)
Finance income			**1,094**			591
Finance costs			**(9,646)**			(6,672)
Profit before income tax			**120,211**			92,893
Income tax expense			**(11,562)**			(9,678)
Profit for the year			**108,649**			83,215
Depreciation	**27,242**	**3,779**	**31,021**	18,797	1,025	19,822
Amortisation	**560**	**–**	**560**	556	–	556

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5 SEGMENT INFORMATION *(Continued)*

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

The segment assets and liabilities are as follows:

	As at 31 December 2006				As at 31 December 2005			
	Metal stamping HK$'000	Plastic injection HK$'000	Un-allocated HK$'000	Total HK$'000	Metal stamping HK$'000	Plastic injection HK$'000	Un-allocated HK$'000	Total HK$'000
Assets	729,435	149,135	32	878,602	576,518	76,549	–	653,067
Liabilities	163,605	8,027	208,374	380,006	123,466	5,337	217,372	346,175
Capital expenditure	176,894	40,345	–	217,239	77,611	32,027	–	109,638

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 bank borrowings, finance lease liabilities and income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights.

(c) Secondary reporting format – geographical segments

Analysis of the Group's revenue 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 of the Group's revenue, assets and capital expenditure is presented as substantially all of the Group's revenue is derived from Mainland China/Hong Kong, and substantially all of the Group's assets are located in Mainland China/Hong Kong.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and Machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
At 1 January 2005						
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	–	(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
Year ended 31 December 2006						
Opening net book amount	74,892	168,604	7,452	5,479	41,637	298,064
Additions	2,094	39,116	7,513	2,732	158,296	209,751
Transfers	33,635	159,198	–	–	(192,833)	–
Depreciation	(4,030)	(23,303)	(2,158)	(1,530)	–	(31,021)
Closing net book amount	106,591	343,615	12,807	6,681	7,100	476,794
At 31 December 2006						
Cost	117,691	408,135	17,674	11,163	7,100	561,763
Accumulated depreciation	(11,100)	(64,520)	(4,867)	(4,482)	–	(84,969)
Net book amount	106,591	343,615	12,807	6,681	7,100	476,794

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	2006 **HK$'000**	2005 HK$'000
Plant and machinery	**126,677**	104,768
Motor vehicles	**2,082**	1,348
	128,759	106,116

Depreciation expense is analysed as follows:

	2006 **HK$'000**	2005 HK$'000
Cost of sales	**24,829**	14,513
Selling and marketing costs	**499**	1,159
General and administrative expenses	**5,693**	4,150
	31,021	19,822

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

	2006 **HK$'000**	2005 HK$'000
Buildings in Hong Kong, located on land with leases of between 10 to 50 years	**1,784**	1,874
Buildings in Mainland China, located on land with land use rights of between 10 to 50 years	**104,807**	73,018
	106,591	74,892

Buildings with a carrying amount of HK$1,784,000 (2005: HK$1,874,000) were pledged as collateral for the Group's borrowings (Note 15).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Included in non-current prepayment for land use rights and property, plant and equipment is capitalised interest of approximately HK$457,000 (2005: included in construction-in-progress of HK$632,000).

Analysis of construction-in-progress is as follows:

	2006 HK$'000	2005 HK$'000
Construction costs of buildings	6,713	14,018
Cost of machinery	387	27,619
	7,100	41,637

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 amounts are analysed as follows:

	2006 HK$'000	2005 HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	6,820	7,163
In Mainland China, held on:		
Land use rights of between 10 to 50 years	17,340	10,069
	24,160	17,232

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

Leasehold land with a carrying amount of HK$6,820,000 (2005: HK$7,163,000) was pledged as collateral for the Group's borrowings (Note 15).

Movements are:

	2006 HK$'000	2005 HK$'000
Beginning of the year	17,232	17,788
Additions	7,488	–
Amortisation	(560)	(556)
End of the year	24,160	17,232
Representing –		
Cost	25,863	18,375
Accumulated amortisation	(1,703)	(1,143)
Net book amount	24,160	17,232

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

	Company	
	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	123,351	123,351
Amounts due from subsidiaries	256,793	142,517
	380,144	265,868
Amounts due to subsidiaries	–	(611)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

The following is a list of the principal subsidiaries at 31 December 2006:

Name	Place of incorporation/ operations and kind of legal entity	Issued/ registered and fully paid up capital	Percentage of equity interest attributable to the Group (a)	Principal activities
EVA Metal Mould Products Limited (a)	British Virgin Islands, limited liability company	US$1	100%	Investment holding
EVA Mould Design & Manufacturing Limited (a)	British Virgin Islands, limited liability company	US$1	100%	Investment holding
EVA Plastic Mould Products Limited (a)	British Virgin Islands, limited liability company	US$1	100%	Investment holding
EVA Precision Industrial (Eastern China) Limited (a)	British Virgin Islands, limited liability company	US$1	100%	Investment holding
EVA Precision Industrial Zhongshan (BVI) Limited (a)	British Virgin Islands, limited liability company	US$1	100%	Investment holding
EVA Group Limited	Hong Kong, limited liability company	HK$15,000	100%	Investment holding
EVA Holdings Limited	Hong Kong, limited liability company	HK$10,000	100%	Trading of metal parts
EVA Limited	Hong Kong, limited liability company	HK$680,000	100%	Trading of metal parts
EVA Plastic Mould Products (HK) Limited	Hong Kong, limited liability company	HK$280,000	100%	Trading of plastic moulds
EVA Mould Design & Manufacturing (HK) Limited	Hong Kong, limited liability company	HK$1	100%	Design of metal parts products and plastic moulds

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

Name	Place of incorporation/ operations and kind of legal entity	Issued/ registered and fully paid up capital	Percentage of equity interest attributable to the Group (a)	Principal activities
Okuno Precision Metal Co., Limited	Hong Kong, limited liability company	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, limited liability company	HK$181,880,000	100%	Manufacturing of metal moulds and parts
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, limited liability company	HK$65,844,800 (c)	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, limited liability company	HK$24,500,000 (c)	100%	Manufacturing of metal and plastic moulds and parts
EVA Precision Industrial (Zhongshan) Limited (億和精密工業(中山)有限公司) (b)	Mainland China, limited liability company	HK$12,000,000 (c)	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, EVA Precision Industrial (Eastern China) Limited and EVA Precision Industrial Zhongshan (BVI) Limited are held directly by the Company. The interests in other subsidiaries are held indirectly.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

Notes: (Continued)

(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. EVA Precision Industrial (Zhongshan) Limited is a wholly foreign owned enterprise established in Zhongshan, Guangdong Province, Mainland China for a term of 50 years up to August 2056.

(c) At 31 December 2006, the Group was committed to make capital contributions to the following subsidiaries:

Name of subsidiaries	Committed capital contribution HK$'000	Due date
EVA Precision Industrial (Suzhou) Limited	120,923	July 2008
Yihe Precision Plastic and Electronics Products (Shenzhen) Co, Ltd.	14,155	January 2008
Yihe Precision Plastic and Electronics Products (Shenzhen) Co, Ltd.	30,000	December 2008
EVA Precision Industrial (Zhongshan) Limited	68,000	August 2009
	233,078	

9 INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	**29,435**	20,529
Work-in-progress	**35,634**	22,730
Finished goods	**36,033**	16,307
	101,102	59,566

The cost of inventories recognised as expense and included in cost of sales amounted to HK$469,708,000 (2005: HK$324,412,000).

The Group has made an inventory provision of HK$513,000 for the year ended 31 December 2006 (2005: Write-back of HK$420,000). Such provision has been included in cost of sales in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

10 TRADE RECEIVABLES

	2006 HK$'000	2005 HK$'000
Trade receivables	153,730	98,073
Less: provision for impairment of trade receivables	(1,188)	(1,188)
Trade receivables – net	152,542	96,885

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

	2006 HK$'000	2005 HK$'000
0 to 90 days	130,743	95,093
91 to 180 days	20,195	2,483
181 to 365 days	2,792	188
Over 365 days	–	309
	153,730	98,073

The top five customers and the largest customer accounted for 41.3% and 12.2% of the trade receivables balance as at 31 December 2006, 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 carrying value of trade receivables approximates its fair value as at 31 December 2006.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2006 HK$'000	2005 HK$'000
Hong Kong ("HK") dollars	68,178	48,531
United States ("US") dollars	83,575	48,074
Chinese Renminbi	1,977	1,468
	153,730	98,073

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11 PREPAYMENTS AND DEPOSITS

	2006 HK$'000	2005 HK$'000
Non-current		
Prepayments for purchase of		
– Land use rights	14,233	13,791
– Property, plant and equipment	5,067	11,406
	19,300	25,197
Current		
Prepayments for purchase of raw materials	477	915
VAT recoverable	6,709	1,287
Interest receivable	338	492
Other receivables	6,815	4,701
Prepayments	477	915
	14,816	8,310

12 PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

	2006 HK$'000	2005 HK$'000
Non-current		
Pledged bank deposits	–	75,000
Current		
Pledged bank deposits	33,245	36,131
Short-term bank deposits	12,100	–
Cash at bank and on hand	43,890	36,029
	55,990	36,029
	89,235	147,160

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

12 PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS *(Continued)*

Bank deposits of HK$26,377,000 (2005: HK$111,131,000) were pledged as collaterals for the Group's borrowings (Note 15) and HK$6,868,000 (2005: Nil) were mainly pledged in favour of a contractor of construction work.

The effective interest rate on pledged bank deposits was 1.9% per annum (2005: 3.2% per annum). These deposits have an average maturity of 359 days (2005: 115 days).

The effective interest rate on short-term bank deposits was 1.3% per annum. These deposits have an average maturity of 12 days. The effective interest rate on cash at bank was 0.7% per annum (2005: 0.7% per annum).

Pledged bank deposits and cash and cash equivalents were denominated in the following currencies:

	2006	2005
	HK$'000	HK$'000
HK dollars	**14,325**	90,588
Chinese Renminbi	**58,402**	40,459
US dollars	**15,968**	10,205
Japanese yen	**540**	5,908
	89,235	147,160

13 TRADE PAYABLES

The aging analysis of trade payables is as follows:

	2006	2005
	HK$'000	HK$'000
0 to 90 days	**105,892**	71,915
91 to 180 days	**6,531**	3,739
181 to 365 days	**87**	1
Over 365 days	**5**	–
	112,515	75,655

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

14 ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Payable for purchase of land use rights	**11,300**	11,100	**–**	–
Payable for construction of buildings and purchase of property, plant and equipment	**8,417**	1,130	**–**	–
Accrued wages, salaries and welfare	**9,057**	6,514	**–**	–
Accrued operating expenses	**2,775**	2,174		
Other payables	**1,807**	1,135	**1**	1
	33,356	22,053	**1**	1

15 BORROWINGS

	2006	2005
	HK$'000	HK$'000
Current		
Short-term bank loans	**107,916**	63,800
Trust receipts bank loans	**25,763**	31,095
Long-term bank loans, current portion	**6,667**	–
Mortgage loan, current portion	**376**	367
	140,722	95,262
Non-current		
Long-term bank loans, non-current portion	**13,333**	75,000
Mortgage loan, non-current portion	**5,164**	5,540
	18,497	80,540
Total bank borrowings	**159,219**	175,802

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

15 BORROWINGS *(Continued)*

The Group's bank borrowings are repayable as follows:

	2006 HK$'000	2005 HK$'000
Within 1 year	**140,722**	95,262
Between 1 and 2 years	**7,052**	376
Between 2 and 5 years	**7,878**	76,184
Wholly repayable within 5 years	**155,652**	171,822
Not wholly repayable within 5 years	**3,567**	3,980
	159,219	175,802

The carrying amounts of bank borrowings approximate their fair values.

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

	2006 HK$'000	2005 HK$'000
HK dollars	**141,303**	175,802
Chinese Renminbi	**17,916**	–
	159,219	175,802

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	
	2006	2005	2006	2005	2006	2005	2006	2005
HK dollars	**5.2%**	4.4%	**5.3%**	6.0%	**5.6%**	4.2%	**5.3%**	3.5%
Chinese Renminbi	**5.0%**	–	**–**	–	**–**	–	**–**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

15 BORROWINGS *(Continued)*

The Group has undrawn floating rate borrowing facilities of approximately HK$300,555,000 (2005: HK$185,724,000). The facilities expiring within one year are subject to review annually.

As at 31 December 2006, bank borrowings were secured by pledges of bank deposits of HK$26,377,000 (2005: HK$111,131,000), pledges of leasehold land and buildings located in Hong Kong with net book amounts of approximately HK$8,604,000 (2005: HK$9,037,000) and corporate guarantees provided by the Company to its subsidiaries.

16 FINANCE LEASE LIABILITIES

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

	2006 HK$'000	2005 HK$'000
Within one year	**32,368**	30,089
In the second year	**19,051**	22,118
In the third to fifth year	**17,855**	12,870
	69,274	65,077
Less: Future finance charges on finance leases	**(5,172)**	(3,786)
Present value of finance lease liabilities	**64,102**	61,291

The present value of finance lease liabilities is as follows:

	2006 HK$'000	2005 HK$'000
Within one year	**29,542**	27,904
In the second year	**17,455**	21,043
In the third to fifth year	**17,105**	12,344
Total finance lease liabilities	**64,102**	61,291
Less: Amount included in current liabilities	**(29,542)**	(27,904)
	34,560	33,387

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

16 FINANCE LEASE LIABILITIES *(Continued)*

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

As at 31 December 2006, the effective interest rate of the Group's finance lease liabilities was 6.8% per annum (2005: 5.0% per annum).

Finance 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$128,759,000 (2005: HK$106,116,000). The finance lease liabilities are additionally secured by corporate guarantees provided by the Company in respect of these liabilities of approximately HK$40,932,000 (2005: HK$9,527,000) and by the Government of Hong Kong Special Administration Region of approximately HK$160,000 (2005: HK$1,264,000).

17 SHARE CAPITAL

	Note	**Number of ordinary shares** (thousands)	**Nominal value** HK$'000
Authorised			
At 1 January 2005		1,000	100
Increase in authorised share capital	(a)	999,000	99,900
At 31 December 2005 and 2006		1,000,000	100,000
Issued and fully paid			
At 1 January 2005	(b)	390,000	2,000
Issue of shares	(c)	130,000	13,000
Capitalisation of share premium account	(d)	–	37,000
At 31 December 2005		520,000	52,000
Issue of shares	(e)	80,000	8,000
At 31 December 2006		600,000	60,000

Notes to the Consolidated Financial Statements

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17 SHARE CAPITAL *(Continued)*

Notes:

(a) 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.

(b) The share capital of the Company as at 1 January 2005 is presented as if the number of shares outstanding immediately after the share exchange in connection with a reorganisation and the related subsequent capitalisation issue had been in existence throughout the year. The reorganisation was carried out in April 2005 in contemplation with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(c) 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 an initial public offering and listing, and raised gross proceeds of approximately HK$143,000,000.

(d) 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 described in Note(c) above.

(e) On 28 February 2006, the Company issued 80,000,000 ordinary shares of HK$0.1 each at HK$1.38 per share by way of a private placement, and raised gross proceeds of HK$110,400,000.

Share options

In 2005, the Company has adopted a share option scheme ("Share Option Scheme"). Under the Share Option Scheme, the Company's directors may, at their sole discretion, grant to any director or employee of the Group options to subscribe for shares of the Company at the higher of (i) the closing price of the 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 shares 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, unless the Company has obtained further approval from the shareholders.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

17 SHARE CAPITAL *(Continued)*

Share options *(Continued)*

In June and August 2006, a total of 31,200,000 share options were granted to the Company's directors and employees with an exercise prices ranging from HK$1.70 to HK$1.71 per share. These options are vested according to a pre-determined schedule over three years. No option has been exercised from the date of grant to 31 December 2006. Share options outstanding at 31 December 2006 are exercisable at prices ranging from HK$1.70 to HK$1.71 per share and will expire during the period from June 2010 to August 2010.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006	
	Average exercise price per share HK$	Number of options '000
At 1 January	–	–
Granted	1.70	30,250
Granted	1.71	950
Lapsed	1.70	(1,400)
At 31 December	1.70	29,800
Exercisable as at 31 December	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

17 SHARE CAPITAL *(Continued)*

Share options *(Continued)*

Share options outstanding as at the end of the year have the following expiry date and exercise price:

Expiry date	Exercise price per share HK$	Number of options '000
22 June 2010	1.70	28,850
11 August 2010	1.71	950
	1.70	29,800

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was HK$0.43 per option. The significant inputs into the model were exercise prices of HK$1.70 to HK$1.71, volatility of 30%, dividend yield of 0%, an expected option life of 1.5 years to 3.5 years, and on annual risk-free interest rate of 4.5%.

Based on the above, the fair value of the above options granted during the year determined using the Black-Scholes Valuation Model was approximately HK$13,313,000 (2005: Nil). The attributable amount charged to the consolidated income statement during the year ended 31 December 2006 was HK$3,188,000 (2005: Nil).

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18 RESERVES

(a) Group

	Note	Share premium HK$'000	Capital reserve (i) HK$'000	Statutory reserves (ii) HK$'000	Share options reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2005		(4,338)	335	7,010	–	105,922	108,929
Profit for the year		–	–	–	–	83,215	83,215
Deemed disposals of subsidiaries		–	(1,070)	–	–	–	(1,070)
Issue of shares	17(c)	130,000	–	–	–	–	130,000
Capitalisation of share premium account	17(d)	(37,000)	–	–	–	–	(37,000)
Share issue costs		(13,582)	–	–	–	–	(13,582)
Dividends paid		–	–	–	–	(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
Balance at 1 January 2006		75,080	(735)	13,657	–	166,890	254,892
Profit for the year		–	–	–	–	108,649	108,649
Issue of shares	17(e)	102,400	–	–	–	–	102,400
Share issue costs		(2,933)	–	–	–	–	(2,933)
Employee share option scheme – value of employee services	17	–	–	–	3,188	–	3,188
Dividends paid		–	–	–	–	(27,600)	(27,600)
Transfer to statutory reserves		–	–	8,450	–	(8,450)	–
Balance at 31 December 2006		**174,547**	**(735)**	**22,107**	**3,188**	**239,489**	**438,596**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

18 RESERVES *(Continued)*

(b) Company

	Note	Share premium HK$'000	Contributed Surplus (i) HK$'000	Share options reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2005		–	–	–	(340)	(340)
Profit for the year		–	–	–	32,765	32,765
Issue of shares	17(c)	130,000	–	–	–	130,000
Capitalisation of share premium account	17(d)	(37,000)	–	–	–	(37,000)
Share issue costs		(17,920)	–	–	–	(17,920)
Premium arising from a reorganisation		–	121,351	–	–	121,351
Dividends paid		–	–	–	(15,600)	(15,600)
Balance at 31 December 2005		75,080	121,351	–	16,825	213,256
Balance at 1 January 2006		75,080	121,351	–	16,825	213,256
Profit for the year		–	–	–	31,863	31,863
Issue of shares	17(e)	102,400	–	–	–	102,400
Share issue costs		(2,933)	–	–	–	(2,933)
Employee share option scheme – value of employee services	17	–	–	3,188	–	3,188
Dividends paid		–	–	–	(27,600)	(27,600)
Balance at 31 December 2006		**174,547**	**121,351**	**3,188**	**21,088**	**320,174**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

18 RESERVES *(Continued)*

(b) Company *(Continued)*

Notes –

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

Contributed Surplus of the Company represents the difference between the costs of investments in subsidiaries acquired pursuant to a reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

The reorganisation took place in April 2005 in contemplation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(ii) In accordance with 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 reaches 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 of the corresponding subsidiaries' shareholders in general meetings, the subsidiaries may convert their statutory reserves into registered capital and issue bonus capital to the existing owners in proportion to the existing ownership structure.

Notes to the Consolidated Financial Statements

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19 EXPENSES BY NATURE

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

	2006 HK$'000	2005 HK$'000
Depreciation *(Note 6)*		
– Owned assets	**20,388**	11,007
– Leased assets	**10,633**	8,815
	31,021	19,822
Employment expenses *(Note 20)*	**84,209**	51,397
Amortisation of leasehold land and land use rights	**560**	556
Auditors' remuneration	**1,877**	1,555
Net exchange gains	**(3,400)**	(2,362)
Changes in inventories of finished goods and work in progress (excluding employment/labour and depreciation expenses)	**22,188**	18,952
Raw materials and consumables used	**367,930**	258,991
Others	**58,102**	37,144
	562,487	386,055

20 EMPLOYMENT EXPENSES

	2006 HK$'000	2005 HK$'000
Wages, salaries and bonus	**77,788**	49,083
Share options granted *(Note 17)*	**3,188**	–
Staff welfare	**882**	1,097
Retirement benefit – defined contribution plans (a)	**2,351**	1,217
	84,209	51,397

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20 EMPLOYMENT EXPENSES *(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 subject to a cap of HK$1,000 per month.

During the year ended 31 December 2006, the aggregate amount of the Group's contributions to the aforementioned pension schemes were approximately HK$2,351,000 (2005: HK$1,217,000). As at 31 December 2006, the Group was not entitled to any forfeited contributions to reduce its future contributions (2005: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20 EMPLOYMENT EXPENSES *(Continued)*

(b) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2006 is set out below:

Name of director	Fee	Salaries	Discretionary bonus	Share-based payments	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors						
Mr. Zhang Hwo Jie	–	1,560	130	150	12	1,852
Mr. Zhang Jian Hua	–	1,560	130	150	12	1,852
Mr. Zhang Yaohua	–	1,560	130	150	–	1,840
Mr. Nomo Kenshiro	–	576	48	104	5	733
Independent non-executive directors						
Dr. Lui Sun Wing	120	–	–	35	6	161
Mr. Choy Tak Ho	120	–	–	35	–	155
Mr. Chan Wai Dune (i)	52	–	–	–	3	55
Mr. Leung Tai Chiu (ii)	69	–	–	35	3	107
	361	5,256	438	659	41	6,755

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20 EMPLOYMENT EXPENSES *(Continued)*

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

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

Name of director	Fee	Salaries	Discretionary bonus	Share-based payments	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors						
Mr. Zhang Hwo Jie	–	1,520	130	–	12	1,662
Mr. Zhang Jian Hua	–	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	70	–	–	–	4	74
Mr. Choy Tak Ho	70	–	–	–	–	70
Mr. Chan Wai Dune	70	–	–	–	4	74
	210	4,023	438	–	36	4,707

Notes –

(i) Mr. Chan Wai Dune resigned as an independent non-executive director of the Company on 6 May 2006.

(ii) Mr. Leung Tai Chiu was appointed as an independent non-executive director on 6 May 2006.

None of the directors waived or agreed to waive any emoluments paid/payable by the Group during the year (2005: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20 EMPLOYMENT EXPENSES *(Continued)*

(c) Five highest paid individuals

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

	2006 **HK$'000**	2005 HK$'000
Salaries	**900**	1,205
Bonus	**75**	75
Share options granted	**127**	–
Retirement benefit – defined contribution plan	**12**	16
	1,114	1,296

The emoluments fell within the following bands:

	Number of individuals **2006**	2005
Emolument bands		
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**1**	–
	1	1

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 (2005: Nil).

Notes to the Consolidated Financial Statements

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21 FINANCE INCOME/COSTS

	2006 HK$'000	2005 HK$'000
Finance income		
Interest income on bank deposits	1,094	591
Finance costs		
Interest expense on:		
Bank borrowings wholly repayable within five years	5,629	4,078
Bank borrowings not wholly repayable within five years	242	181
Finance lease liabilities	4,232	3,045
	10,103	7,304
Less: amount capitalised	(457)	(632)
	9,646	6,672

The capitalisation rate was approximately 4.3% per annum (2005: 6.0% per annum), representing the weighted average rate of the costs of borrowings used to finance the related assets.

Notes to the Consolidated Financial Statements

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22 INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000
Current taxation		
– Hong Kong profits tax	5,348	4,449
– Mainland China enterprise income tax	6,111	5,229
Underprovision in prior years	103	–
	11,562	9,678

(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 (2005: 17.5%).

(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 2006 (2005: 15%). 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 Yihe Precision Hardware (Shenzhen) Co., Ltd. and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd, was 2003 and 2006, respectively. EVA Precision Industrial (Suzhou) Limited and EVA Precision Industrial (Zhongshan) Limited were established in August 2005 and August 2006, respectively, and had no taxable profits during the year ended 31 December 2006.

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22 INCOME TAX EXPENSE *(Continued)*

(c) Overseas income taxes

The Company is 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 Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and accordingly, are exempted from British Virgin Islands income tax.

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 entities as follows:

	2006 **HK$'000**	2005 HK$'000
Profit before tax	**120,211**	92,893
Tax calculated at domestic rates applicable to profits in the respective countries/places of business	**18,843**	14,465
Tax exemption	**(7,106)**	(5,373)
Income not subject to tax	**(422)**	(283)
Expenses not deductible for tax purpose	**53**	–
Utilisation of previously unrecognised tax losses	**(390)**	–
Tax losses for which no deferred income tax asset was recognised	**481**	869
Underprovision in prior years	**103**	–
Tax charge	**11,562**	9,678

The weighted average applicable tax rate for the year ended 31 December 2006 was approximately 15.7% (2005: 15.6%).

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$1,129,000 (2005: HK$1,038,000) in respect of losses amounting to HK$6,983,000 (2005: HK$6,416,000) that can be carried forward against future taxable income. Tax losses of HK$3,342,000 (2005: HK$3,125,000) can be carried forward indefinitely, and tax losses of HK$690,000 (2005: HK$2,494,000) and HK$2,951,000 will expire in 2010 and 2011 respectively.

Notes to the Consolidated Financial Statements

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23 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$31,863,000 (2005: HK$32,765,000).

24 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 ordinary shares in issue during the year.

Basic

	2006	2005
Profit attributable to equity holders of the Company (HK$'000)	**108,649**	83,215
Weighted average number of ordinary shares in issue ('000)	**587,288**	473,699
Basic earnings per share (HK cents per share)	**18.5**	17.6

Notes to the Consolidated Financial Statements

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24 EARNINGS PER SHARE *(Continued)*

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares (i.e. share options). A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	2005
Profit attributable to equity holders of the Company (HK$'000)	**108,649**	83,215
Weighted average number of ordinary shares in issue ('000)	**587,288**	473,699
– adjustment for share options ('000)	**329**	–
Weighted average number of ordinary shares for diluted earnings per share ('000)	**587,617**	473,699
Diluted earnings per share (HK cents per share)	**18.5**	N/A

There were no dilutive potential ordinary shares in existence during the year ended 31 December 2005.

25 DIVIDENDS

	2006 **HK$'000**	2005 HK$'000
Interim dividend paid of HK2.0 cents (2005: HK1.8 cents) per ordinary share	**12,000**	9,360
Special dividend paid of HK1.2 cents per ordinary share	**–**	6,240
Proposed final dividend of HK3.0 cents (2005: HK2.6 cents) per ordinary share	**18,000**	15,600
	30,000	31,200

A final dividend of HK 3.0 cents per share, totalling HK$18,000,000, is to be proposed at the upcoming Annual General Meeting. These consolidated financial statements do not reflect this dividend payable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

26 CASH GENERATED FROM OPERATIONS

	2006 HK$'000	2005 HK$'000
Profit for the year	108,649	83,215
Adjustments for:		
– Income tax	11,562	9,678
– Depreciation	31,021	19,822
– Amortisation of leasehold land and land use rights	560	556
– Loss on sale of property, plant and equipment	–	189
– Share-based payments	3,188	–
– Interest income	(1,094)	(591)
– Interest expense	9,646	6,672
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Inventories	(41,536)	(24,219)
– Trade receivables	(55,657)	(16,664)
– Prepayments and deposits	(6,352)	(4,374)
– Trade payables	36,860	13,111
– Accruals and other payables	11,633	(249)
Cash generated from operations	108,480	87,146

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

	2006 HK$'000	2005 HK$'000
Net book amount	–	197
Loss on sale of property, plant and equipment	–	(189)
Proceeds from sale of property, plant and equipment	–	8

Non-cash transactions

During the year ended 31 December 2006, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total financed amount of approximately HK$35,600,000 (2005: HK$32,842,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

27 CONTINGENCIES

As at 31 December 2006, the Company has given guarantees to its subsidiaries' bankers in respect of their banking facilities of approximately HK$96,894,000 (2005: HK$103,067,000) (Note 15), and in respect of the Group's finance lease liabilities of approximately HK$40,932,000 (2005: HK$9,527,000) (Note 16).

28 CAPITAL COMMITMENTS

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

	2006 HK$'000	2005 HK$'000
Contracted but not provided for		
– Purchase of land use rights	7,277	–
– Construction of buildings	879	21,058
– Purchase of plant and machinery	12,477	105,053
	20,633	126,111

29 RELATED-PARTY TRANSACTIONS

The Group is controlled by Prosper Empire Limited, which owns 65% of the Company's shares as at 31 December 2006. Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua, the Company's executive directors, have beneficial interest in Prosper Empire Limited.

(a) The following transactions were carried out with related parties:

The Hong Kong Inland Revenue Department ("HKIRD") advised EVA Limited, a wholly owned 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 this connection, EVA Limited and EVA Holdings Limited, wholly owned subsidiaries of the Group, proposed a settlement with the HKIRD in July 2005 in respect of their tax liabilities for the years of assessment 1998/1999 to 2003/2004. EVA Limited was required to place a deposit of HK$1,000,000 and made an estimated tax payment of approximately HK$22,000 to the HKIRD during the years ended 31 December 2005 and 2006 respectively, which was paid by Mr. Zhang Hwo Jie, a director and substantial beneficial shareholder of the Company, under a tax indemnity arrangement in connection with a group reorganisation in April 2005 in contemplation with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. The outcome of the tax audit has not been finalised up to the date of approval of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

29 RELATED-PARTY TRANSACTIONS *(Continued)*

(a) The following transactions were carried out with related parties: *(Continued)*

The HKIRD issued estimated protective assessments to EVA Limited and EVA Holdings Limited in respect of the years of assessment 1999/2000 and 2000/2001, which are subject to the aforementioned tax audit. The two companies have objected to the estimated assessments for the year of assessment 1999/2000 and are in the process of objecting the estimated assessment for the year of assessment 2000/2001 as, in the opinion of the directors of the companies, these estimated assessments are excessive.

This matter relates to tax liabilities of the Group's subsidiaries before a group reorganisation in April 2005 in contemplation with the listing of Company's shares on The Stock Exchange of Hong Kong Limited 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. In this connection, any additional tax liabilities would be settled and borne by the directors/substantial shareholders of the Company.

(b) Key management compensation

	2006	2005
	HK$'000	HK$'000
Salaries and allowances	**7,155**	6,037
Share options granted	**851**	–
Retirement benefits – defined contribution plans	**58**	32
	8,064	6,069

30 ULTIMATE HOLDING COMPANY

The Directors consider Prosper Empire Limited, a Company incorporated in the British Virgin Islands, to be the Company's ultimate holding company.

31 EVENT AFTER THE BALANCE SHEET DATE

In February 2007, 22,050,000 share options were granted to certain directors and employees at an exercise price of HK$1.96 per share, which will expire during the period from February 2009 to February 2011. These options are vested according to a predetermined schedule over three years.

Five Years Financial Summary

	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000
RESULTS					
Turnover	**691,240**	485,023	296,860	167,729	122,845
Profit attributable to equity holders of the Company	**108,649**	83,215	65,763	30,166	23,592
CONSOLIDATED BALANCE SHEET					
Non-current assets	**520,907**	416,146	228,481	136,265	87,249
Current assets	**357,695**	236,921	143,101	68,681	53,561
Current liabilities	**(326,949)**	(232,248)	(176,141)	(114,958)	(79,174)
Non-current liabilities	**(53,057)**	(113,927)	(84,684)	(7,729)	(9,533)
Net assets	**498,596**	306,892	110,757	82,259	52,103
Share capital	**60,000**	52,000	2,000	1,625	1,625
Reserves	**438,596**	254,892	108,757	75,533	45,367
Equity	**498,596**	306,892	110,757	77,158	46,992
Minority interests	**–**	–	–	5,101	5,111
	498,596	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"), the then holding companies of other companies comprising the Group, through share exchanges ("the Reorganisation") and consequently became the holding company of its subsidiaries as set out in Note 8 to the consolidated financial statements, except for those subsidiaries which were incorporated 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 "Five Years Financial Summary" had been prepared as if the structure of the Group resulting from the Reorganisation had been in existence throughout the years.

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