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)
(Stock Code: 838)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

FINANCIAL RESULTS

The directors (the "Directors") of EVA Precision Industrial Holdings Limited (the "Company") are pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 June	
		2005	2004
	Note	***HK$'000***	*HK$'000*
Sales	*3*	**199,764**	124,593
Cost of goods sold		**(134,892)**	(76,267)
Gross profit		**64,872**	48,326
Other gains – net		**28**	18
Selling and distribution expenses		**(9,984)**	(5,545)
General and administrative expenses		**(16,859)**	(11,823)
Operating profit		**38,057**	30,976
Finance costs		**(3,661)**	(1,361)
Profit before income tax	*4*	**34,396**	29,615
Income tax expense	*5*	**(3,512)**	(2,388)
Profit for the period		**30,884**	27,227
Attributable to:			
Equity holders of the Company		**30,884**	26,997
Minority interest		**–**	230
		30,884	27,227
Basic earnings per share for profit attributable to the equity holders of the Company during the period (HK cents per share)	*6*	**7.2**	6.9
Dividends	*7*	**15,600**	8,181

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2005 Unaudited *HK$'000*	As at 31 December 2004 Restated *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**225,394**	208,445
Leasehold land and land use rights		**17,562**	17,788
Prepayments		**12,545**	2,420
Negative goodwill		**–**	(172)
		255,501	228,481
Current assets			
Inventories		**41,030**	35,347
Trade receivables	*8*	**89,690**	80,286
Prepayments, deposits and other receivables		**7,483**	3,893
Due from related parties		**–**	4,588
Pledged bank deposits		**24,993**	–
Cash and cash equivalents		**51,327**	18,987
		214,523	143,101
Current liabilities			
Trade payables	*9*	**(69,023)**	(62,544)
Accruals and other payables		**(11,670)**	(14,870)
Bank borrowings, current portion		**(47,340)**	(61,530)
Finance lease obligations, current portion		**(25,775)**	(26,502)
Current income tax liabilities		**(9,013)**	(10,695)
		(162,821)	(176,141)
Net current assets/(liabilities)		**51,702**	(33,040)
Total assets less current liabilities		**307,203**	195,441
Non-current liabilities			
Bank borrowings, non-current portion		**(5,725)**	(50,756)
Finance lease obligations, non-current portion		**(31,317)**	(33,928)
		(37,042)	(84,684)
Net assets		**270,161**	110,757
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**52,000**	2,000
Reserves		**218,161**	108,757
Total equity		**270,161**	110,757

Notes:

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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 Company became the holding company of its subsidiaries now comprising the Group through share exchanges (the "Reorganisation") on 20 April 2005 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited on 11 May 2005.

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Reorganisation has been accounted for using merger accounting by treating the Company and its subsidiaries as a continuing group, in accordance with Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by the HKICPA. On this basis, the consolidated accounts of the Group as at and for the six months ended 30 June 2005 have been prepared as if the structure of the Group resulting from the Reorganisation had been in existence throughout the period. Comparative figures as at 31 December 2004 and for the six months ended 30 June 2004 have been prepared on the same basis.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in Note 2 of the Accountants' Report contained in the Company's prospectus dated 29 April 2005, except for those changes in accounting policies as a result of the adoption of new or revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005. The adoption of these new HKFRSs does not have a material effect on the Group, except as set out below:

HKAS 1 Presentation of Financial Statements – The adoption of HKAS 1 has affected the presentation of minority interest and other disclosures in the preparation of the condensed consolidated financial information as at and for the six months ended 30 June 2005 and the comparative figures.

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

	As at	
	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Decrease in property, plant and equipment	**17,562**	17,788
Increase in leasehold land and land use rights	**17,562**	17,788

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

	As at
	30 June 2005
	HK$'000
Decrease in negative goodwill	172
Increase in retained earnings	172

2. SEGMENT INFORMATION

The Group is organised into two main business segments: (i) design and fabrication of metal stamping moulds and manufacturing of metal stamping and lathing products ("Metal stamping segment"); and (ii) design and fabrication of plastic injection moulds and manufacturing of plastic injection products ("Plastic segment"):

The segment results and other segment items for the six months ended 30 June 2005 are as follows:

	Unaudited Six months ended 30 June					
	2005			2004		
	Metal stamping segment *HK$'000*	**Plastic segment** *HK$'000*	**Total** *HK$'000*	Metal stamping segment *HK$'000*	Plastic segment *HK$'000*	Total *HK$'000*
Sales	**196,591**	**3,173**	**199,764**	124,593	–	124,593
Operating profit/(loss)	**41,272**	**(3,215)**	**38,057**	30,976	–	30,976
Finance costs			**(3,661)**			(1,361)
Profit before income tax			**34,396**			29,615
Income tax expense			**(3,512)**			(2,388)
Profit for the period			**30,884**			27,227
Depreciation	**9,309**	**205**	**9,514**	5,839	–	5,839
Amortisation	**226**	**–**	**226**	108	–	108
Capital expenditure	**24,371**	**2,183**	**26,554**	29,127	–	29,127

There are no sales or other transactions between business segments.

No geographical segment analysis is presented as substantially all of the Group's sales, segment results, assets and liabilities were located in Mainland China/Hong Kong.

3. SALES

Sales of the Group for the six months ended 30 June 2004 and 2005 are analysed as follows:

	Unaudited Six months ended 30 June	
	2005 *HK$'000*	2004 *HK$'000*
Design and fabrication of metal stamping moulds	**24,806**	25,906
Manufacturing of metal stamping and lathing products	**166,055**	92,969
Design and fabrication of plastic injection moulds	**2,548**	–
Manufacturing of plastic injection products	**625**	–
Others *(Note 1)*	**5,730**	5,718
	199,764	124,593

Note:–

1. *Others mainly represented sales of scrap materials.*

4. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging/(crediting):

	Unaudited Six months ended 30 June	
	2005 *HK$'000*	2004 *HK$'000*
Interest income	**(26)**	(12)
Loss on disposal of property, plant and equipment	**91**	792
Net exchange loss/(gains)	**236**	(37)

5. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Current taxation		
– Hong Kong profits tax	**1,056**	1,569
– Mainland China enterprise income tax	**2,456**	144
Deferred taxation relating to the origination and reversal of temporary differences	**–**	675
	3,512	2,388

(i) *Hong Kong profits tax*
Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits for the six month ended 30 June 2004 and 2005.

(ii) *Mainland China enterprise income tax*
The subsidiaries established in Shenzhen, Guangdong Province, Mainland China are subject to Mainland China enterprise income tax at a rate of 15% for the six months ended 30 June 2004 and 2005. Yihe Precision Hardware (Shenzhen) Co., Ltd. and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd., subsidiaries of the Company, are production enterprises with operating period of more than then years and, in accordance with the relevant income tax regulations of Mainland China, are fully 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. was 2003. Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd was established in July 2004 and had no profit subject to such tax during the six months ended 30 June 2005.

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

6. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of (i) 426,630,000 ordinary shares in issue during the six months ended 30 June 2005; and (ii) 390,000,000 ordinary shares deemed to be in issue during the six months ended 30 June 2004 as if the share capital of the Company outstanding immediate after the share exchanges in connection with the Reorganisation and the related subsequent capitalisation issue had been in existence throughout the period.

	Unaudited Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**30,884**	26,997
Weighted average number of ordinary shares in issue (thousands)	**426,630**	390,000
Basic earnings per share (HK cents per share)	**7.2**	6.9

Diluted earnings per share for the six months ended 30 June 2004 and 2005 are not presented because there were no dilutive potential ordinary shares in existence during the period.

7. DIVIDENDS

The Board declared an interim dividend of HK1.8 cents per share and a special dividend of HK1.2 cents per share, totalling HK3 cents per share for the six months ended 30 June 2005 to eligible shareholders whose names appear on the Registrar of member of the Company on 10 October 2005. The interim and special dividends will be payable in cash on or about 20 October 2005.

8. **Trade receivables**

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

	As at 30 June 2005	**As at** 31 December 2004
	HK'000	*HK'000*
0 to 90 days	**82,103**	74,303
91 to 180 days	**6,332**	3,340
181 to 365 days	**2,172**	3,757
Over 365 days	**271**	74
	90,878	81,474
Less: Provision for impairment of trade receivables	**(1,188)**	(1,188)
	89,690	80,286

9. **Trade payables**

The aging analysis of the trade payables is as follows:

	As at 30 June 2005	**As at** 31 December 2004
	HK'000	*HK'000*
0 to 90 days	**65,003**	59,897
91 to 180 days	**4,020**	2,077
181 to 365 days	**–**	570
	69,023	62,544

MANAGEMENT DISCUSSION AND ANALYSIS
BUSINESS REVIEW

During the six months ended 30 June 2005, the Group was principally engaged in (i) the design and fabrication of metal stamping and plastic injection moulds and (ii) manufacturing of metal stamping and plastic injection products and lathing of metal components. A review of the Group's operations for the six months ended 30 June 2005 by major business segment is as follows:

Metal division

During the six months ended 30 June 2005, the overall turnover of the Group increased by 60% to approximately HK$199,764,000 as compared to that of approximately HK$124,593,000 for the six months ended 30 June 2004. The significant rise in the Group's overall turnover for the six months ended 30 June 2005 was mainly contributed by the continuous growth of the Group's long-established metal division, whose turnover increased by approximately HK$71,998,000, or 58% over that for the six months ended 30 June 2004. During the period, the Group's metal division continued to focus on serving renowned Japanese office automation equipment manufacturers including Toshiba, Konica Minolta, Canon, Kyocera Mita, Fuji-Xerox, Ricoh, Epson and Brother and sales by metal division to Japanese customers accounted for approximately 84.7% of the Group's total sales for the six months ended 30 June 2005 (2004: 73.8%).

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 (i) a strong emphasis on product quality, in particular for office automation equipment such as copiers and fax machines whose components require high precision standards to ensure the effective functioning of the equipment; (ii) emphasis on production efficiency to minimise production lead time and just-in-time inventory management and (iii) 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 and Nomura. The Group also maintains a strong quality control team with a headcount of 167 employees as at 30 June 2005.

Such investment in quality and production management has proven to be beneficial to the Group. During the six months ended 30 June 2005, the Group experienced an increase in sale orders from its existing customers. Those Japanese customers who only provided sale orders to the Group on a trial basis previously also increased their orders since late 2004 or early 2005, resulting in a significant surge in the turnover of the Group's metal division during the six months ended 30 June 2005.

To maintain its competitive advantage in product quality and management, the Group will continue to invest in first-tier machinery and equipment with an objective of increasing the production capacity of the metal division of its Shenzhen operations by 40% in 2006. A new production plant will also be established in the Yangtze Delta region of the PRC to serve the needs of our existing and target customers in that region, providing the Group with an estimated additional 40% increase in production capacity upon its establishment. With a view to strengthening the Group's production management, a new "Management by Object" methodology was also implemented during the six months ended 30 June 2005 and a launch ceremony was held and attended by all management members of the Group in March 2005. In line with the Group's business expansion, experienced engineers and skilful talents were recruited, which included two senior Japanese management members who formerly held management positions with certain of the Group's existing Japanese customers. Management believes that the Group will continue to benefit from the outsourcing trend of Japanese customers, provided that the Group is able to improve its product quality and management on a continuing basis.

Apart from Japanese customers, the remaining 15.3% of sales of the Group's metal division was derived from reputable Hong Kong or international companies during the six months ended 30 June 2005. 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 plastic division with its first phase of production lines amounting to approximately HK$17,684,000 was established by the Group in late 2004. The Group decided to expand into plastic business because, while part of the office automation equipment manufactured by its customers are made of metal parts and components, plastic components account for the remaining portion. Management believes that the expansion into plastic business will not only provide the momentum for the Group's future growth, but also enable the Group to provide a more comprehensive 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 six months ended 30 June 2005, the plastic production line was operated on a trial basis in the Group's No. 2 factory building in Shenzhen. It was relocated to the Group's No.3 factory building in Shenzhen, which was built to accommodate the Group's plastic division, on 18 July 2005. Prior to the relocation of the plastic production line to No. 3 factory building, the Group's plastic division was operated on a trial basis during which small scale orders were accepted for test-running the plastic production line and management members of the Group's plastic division devoted substantial effort in fine-tuning the production process and obtaining feedback from customers. As the plastic division was only operated on a trial basis with a view to test-running its production, it recorded a loss of approximately HK$3,215,000 during the six months ended 30 June 2005, which management considers to be part of the investment for the full-scale operation of the Group's plastic division in the future.

Nevertheless, the Group's existing customers had already indicated their support for the Group's expansion into plastic business during its trial production period. From May 2005 onwards, sales orders were received from Konica Minolta, Fuji-Xerox and Ricoh for the production of plastic moulds, which will be consigned in the Group's factory for future production of plastic components upon completion of the moulds.

HUMAN RESOURCES

As at 30 June 2005, the total number of employees of the Group was 1,831, representing a growth of 38% as compared to 1,325 employees as at 30 June 2004. The increase in headcount was primarily due to the overall expansion of the Group during the six months ended 30 June 2005.

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

Remuneration policy is reviewed regularly, making reference to the prevailing legal framework, market conditions and performance of the Group and individual staff. However, apart from providing attractive remuneration packages, management believes that the creation of a harmonious working environment is also important for attracting and retaining qualified staff for its future success, in particular in a business environment where shortage of labour exists. Various employee activities were organised to inspire the team spirit of the Group's staff, which includes the organisation of company outings and sport activities in which the Group's employees, top management (including executive directors) and customers participated. Substantial resources were also devoted to improve the factory and dormitory environment of the Group with a view to providing an attractive working and living environment for the Group's employees and, in return, the Group was awarded with an "Green Garden Community Honour Certificate (園林式、花園式(小區)榮譽證書)" granted by the Shenzhen Municipal Government in January 2005.

FOREIGN CURRENCY EXPOSURE

A substantial portion of the Group's customers are reputable international manufacturers with worldwide distribution networks. At the same time, a majority of the Group's suppliers are international steel and metal producers designated by the Group's customers. Accordingly, most of the Group's sales and cost of sales are currently made in HK dollars and US dollars and only a portion of its sales and purchases are denominated in Renminbi. During the six months ended 30 June 2005, approximately 66%, 31% and 3% (2004: 74%, 21% and 5%) of the Group's sales and approximately 35%, 56% and 9% (2004: 52%, 37% and 11%) 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 recent change in the foreign exchange policy by the PRC government. Although only a small portion of the Group's sales and purchases are denominated in Renminbi currently, the Group had taken actions to manage its foreign currency exposure. During the six months ended 30 June 2005, management had refinanced the Group's Renminbi borrowings with Hong Kong dollar loans and accordingly, the percentage of Renminbi borrowings to the Group's total bank borrowings reduced from approximately 12.6% as at 31 December 2004 to nil as at 30 June 2005. As at 30 June 2005, a deposit denominated in Renminbi amounting to RMB26,500,000 was pledged for obtaining a Hong Kong dollar loan 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 minimise the Group's exposure whenever necessary.

FINANCIAL REVIEW

Turnover

Metal division

The increase in turnover of the Group's metal division by 58% from approximately HK$124,593,000 for the six months ended 30 June 2004 to approximately HK$196,591,000 for the six months ended 30 June 2005 was primarily driven by the increase in revenue generated from manufacturing of metal stamping and lathing products. With the continuous development of the Group's production management and its reputation among prominent international manufacturers, the Group experienced an increase in sale orders from its existing customers during the six months ended 30 June 2005. Those customers which only provided sale orders to the Group's 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 and lathing products during the six month ended 30 June 2005.

Plastic division

During the six months ended 30 June 2005, the Group's plastic division was operated on a trial basis and only small orders are accepted for the purpose of test-running the production process. Accordingly, revenue generated from the Group's plastic division only constituted approximately 1.6% of its total turnover for the six months ended 30 June 2005. The Group's revenue from design and fabrication of plastic injection moulds amounting to approximately HK$2,548,000 primarily represented sale orders received from the Group's existing customers from May 2005 onwards for production of plastic injection moulds which will be consigned in the Group's factories for the future production of plastic injection components.

Gross profit

The Group achieved a gross profit of approximately HK$64,872,000 for the six months ended 30 June 2005, representing an increase of 34.2% as compared to that for the six months ended 30 June 2004. Gross profit margin for the six months ended 30 June 2005 was approximately 32.5%, which decreased as compared to that of 38.8% for the six months ended 30 June 2004. The decrease in gross profit margin was primarily because (i) the Group's revenue from the manufacture of metal stamping and lathing products increased significantly and its proportion to total turnover increased from approximately 74.6% for the six months ended 30 June 2004 to approximately 83.1% for the six months ended 30 June 2005. At the same time, with the significant increase in revenue from the manufacture of metal stamping and lathing products, the proportion of revenue from design and fabrication of metal stamping moulds to total turnover was diluted from 20.8% for the six months ended 30 June 2004 to 12.4% for the six months ended 30 June 2005 although its amount remained comparable to that for the six months ended 30 June 2004. Since the gross profit margin from the manufacture of metal stamping and lathing products is generally lower than that from design and fabrication of metal stamping products, the significant increase in revenue from the manufacture of metal stamping and lathing products had diluted the Group's overall gross profit margin for the six months ended 30 June 2005 and (ii) with the continuous development of the Group's production management and its reputation among customers, management believes that the Group is poised to achieve further growth in revenue in the future. To establish a solid foundation for the Group's future growth, the Group has been expanding its scale of operations since the latter half of 2004 which included the establishment of new production lines and the recruitment and training of additional production and management personnel with a view to accommodating the expected surge in sale orders in the coming years. The expansion of the Group's scale of operations had increased the Group's production overhead costs, which are semi-fixed in nature, and consequently lowered the Group's overall gross profit margin during the six months ended 30 June 2005. Nevertheless, management considers the expansion of operating scale as a necessary step for achieving future growth and expects the effect of increased production overhead costs to be offset through economy of scale brought by the continuous increase in the Group's turnover in the future.

Segment results

For the six months ended 30 June 2005, segment result of the Group's metal division amounted to approximately HK$41,272,000, representing a 33.2% increase as compared to that of approximately HK$30,976,000 for the six months ended 30 June 2004. This increase was primarily brought by the surge of turnover of the Group's metal division during the period.

During the six months ended 30 June 2005, the Group's plastic division was operated on a trial basis during which small orders were accepted primarily for test-running the production process. Since the Group's plastic division was not operated on full scale, it recorded an initial loss of approximately HK$3,215,000 which management considers as an investment for its full-scale operations in the future.

Finance costs

Prior to its initial public offering in May 2005, the Group's primarily relied on bank loans and finance lease arrangements to finance the expansion of its business. Since the Group has been expanding its scale of operations since the latter half of 2004, the balance of bank loans and finance lease obligations increased correspondingly which consequently resulted in an increase in the Group's finance costs by approximately HK$2,300,000 for the six months ended 30 June 2005.

Following its initial public offering in May 2005, the Group had utilised a portion of its listing proceeds and cash generated from operating activities for repayment of certain bank loans and finance lease obligations. Accordingly, the Group's total borrowings which include bank loans and finance lease obligations as at 30 June 2005 reduced by approximately 36.2% as compared to that as at 31 December 2004.

Income tax expenses

Yihe Precision Hardware (Shenzhen) Co., Ltd., the Group's principal subsidiary in the PRC, is subject to PRC enterprise income tax at a rate of 15%. However, it is fully exempted from PRC enterprise income tax for two years starting from its first year of profitable operations, followed by a 50% reduction in PRC enterprise income tax for the next three years. The tax exemption period of Yihe Precision Hardware (Shenzhen) Co., Ltd. ended on 31 December 2004 and it was subject to a tax rate of 7.5% during the six months ended 30 June 2005. Coupled with the increase in the Group's profit before taxation, the Group experienced an increase in income tax expenses during the six months ended 30 June 2005.

Profit attributable to equity holders of the Company

Despite an increase in finance and taxation expenses and the initial loss of the Group's plastic division, the profit attributable to equity holders of the Company increased by approximately 14.4% from approximately HK$26,997,000 for the six months ended 30 June 2004 to approximately HK$30,884,000 for the six months ended 30 June 2005, which was primarily attributable to the continuous increase in the Group's turnover during the period.

LIQUIDITY, FINANCIAL RESOURCES AND RATIOS

Following the Company's initial public offering on 11 May 2005, the Group received net proceeds of approximately HK$125,080,000 which are intended to be used to finance the future expansion of the Group's operations and repayment of loans. Bank loans as at 30 June 2005 were denominated in Hong Kong dollars 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 objective of achieving a balance between the Group's expansion needs and its financial stability. An analysis of the Group's key liquidity and capital adequacy ratios as at 30 June 2005 are as follows:

	For the six months ended 30 June 2005	For the year ended 31 December 2004
Inventory turnover days *(Note 1)*	**55**	71
Debtors' turnover days *(Note 2)*	**81**	99
Creditors' turnover days *(Note 3)*	**93**	126
Current ratio *(Note 4)*	**1.32**	0.81
Net gearing ratio *(Note 5)*	**0.13**	1.39

Note:–

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

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

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

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

5. Net gearing ratio is calculated based on the total balance of bank loans and finance lease obligations less cash and bank balances divided by shareholders' equity.

Inventory turnover days

Substantially all of the Group's Japanese customers have their own designated raw material suppliers. These Japanese customers generally require the Group to purchase raw materials from their designated suppliers for the manufacture of metal and plastic components and delivery and pricing of raw materials are negotiated based on three-way communications among the Group, its customers and suppliers. This practice enables the Group to manage its inventories in an efficient manner despite a continuous increase in its turnover and business scale. The Group's inventory turnover days for the six months ended 30 June 2005 was approximately 55 days, which decreased by 16 days as compared to that for the year ended 31 December 2004 owing to a continuous improvement of the Group's inventory management.

Debtors' and creditors' turnover days

During the six months ended 30 June 2005, the Group's debtors' and creditors' turnover days decreased from approximately 99 days and 126 days for the year ended 31 December 2004 to approximately 81 days and 93 days respectively owing to the continuous improvement of the Group's cash flow management during the period.

Current ratio and net gearing ratio

During the six months ended 30 June 2005, the Group received net proceeds from initial public offering amounting to approximately HK$125,080,000. A portion of the Group's bank loans were also repaid with a view to strengthening the Group's financial position. Coupled with the continuous inflow of cash from operations, the Group's current ratio and net gearing ratio improved and changed from approximately 0.81 and 1.39 as at 31 December 2004 to approximately 1.32 and 0.13 as at 30 June 2005.

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2005, bank deposits of approximately HK$24,993,000, the Group's office premises located in Hong Kong with a net book value of approximately HK$9,309,000 and property, plant and equipment with a total net book value of approximately HK$101,813,000 were pledged as securities for the Group's borrowing facilities and finance lease obligations.

OUTLOOK

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

Management considers 2005 to be a year of investment. During the six months ended 30 June 2005, the Group had made investments to transform itself from a metal mould and component supplier to a comprehensive service provider covering metal and plastic moulds and components and related assembly services with a view to reducing the costs of the Group's customers in logistic and quality control aspects that arise from their current practices of outsourcing the production of metal and plastic components and related assembly services to different suppliers. As part of the Group's expansion plan, a new No. 3 factory building adjacent to the Group's existing plants in Shenzhen commenced operations on 18 July 2005. The new No. 3 factory building occupies a total construction area of approximately 18,000 sq.m. It will serve as the Group's production base for design and fabrication of plastic moulds, plastic components and assembly services with an estimated monthly production capacity of approximately 100 sets of plastic moulds and 7,500,000 units of plastic components. Management believes that the horizontal expansion into the plastic injection mould and component manufacturing business is critical to the Group's transformation into a comprehensive service provider and will also provide the Group with the momentum for growth in the coming years.

The Group's Shenzhen plant is currently serving the production factories of its customers, which primarily comprises top-tier Japanese brand names for office automation equipment and consumer electronic products, located within the Pearl Delta Region. One of the major customers of the Group has recently indicated to the Group that it is constructing a new production plant in the Yangtze Delta region which would be in addition to their production base in the Pearl Delta Region and that this new plant would also require the same type of products and services currently provided by the Group in Shenzhen. Further, a number of other existing or target customers of the Group have either established or are about to establish their new production bases in the Yangtze Delta Region. These include Fuji-Xerox and Ricoh in Shanghai; Canon and Lexmark in Suzhou; Sharp in Changshu and Konica Minolta in Wuxi. To capture the business opportunities that have arisen from the expansion of business of its existing and target customers in the Yangtze Delta Region and deepening the Group's relationship with its existing customers, management resolved to establish a new production plant in Suzhou, the PRC. The first phase of the new Suzhou factory, which has a floor area of approximately 30,000 sq.m., is expected to commence production by end of 2005 or early 2006. Supported by the Group's Shenzhen and Suzhou factories, management believes that the Group will be able to enlarge its coverage of customers in Southern and Eastern China, whilst maximising economies of scale.

Currently, the Group generally produces moulds for its customers on the condition that these customers consign the moulds in the Group's production plants upon their completion for the production of metal and plastic components. This business model provides a stable income stream for the Group since the production cycles of moulds normally last for three to four years. However, at the same time, management also sees the potential in manufacturing and selling the moulds on standalone basis taking into account (i) the growing demand for moulds in the PRC market and (ii) the demand for high precision moulds from the Group's existing customers for use in their factories located outside Hong Kong and the PRC. Accordingly, the Group earmarked approximately HK$35 million out of its proceeds from listing in May 2005 for establishing a mould development centre in Shenzhen with a view to maximising the production capacity for moulds and strengthening the Group's engineering and product development capability. Subsequent to the listing, the Group is currently in the process of establishing the mould development centre which is expected to commence operations in 2006.

As described above, one of the key characteristics of the Group's existing Japanese customers is their strong emphasis on quality and production management. Accordingly, the Group devoted substantial resources in strengthening its product quality and management and, in return, accreditations were received from its customers during the six months ended 30 June 2005 which included (i) the "Best Assistance Award (最佳協力獎)" granted by Canon in January 2005; (ii) an "Acclamation Certificate (表彰狀)" granted by Konica Minolta in March 2005 and (iii) an approval certificate for chemical substances management (CMS) standard granted by Ricoh in January 2005. Management believes that the Group's commitment to product quality and management, coupled with the investments made for providing more comprehensive services to its customers, will deepen its customer relationships which will in turn transform into economic benefits for the Group.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 11 May 2005. Save for the above, neither the Company nor any of its subsidiaries purchases, sold or redeemed any of the Company's shares during the six months ended 30 June 2005. As at 30 June 2005, 520,000,000 shares were in issue.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

The Company and the Directors confirm, to the best of their knowledge, that the Company has compiled with the Code of Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") since the listing of the shares on the Main Board of the Stock Exchange on 11 May 2005.

The Company also 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 for securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirm that they have complied with the required standard set out in the Model Code regarding securities transactions by the Directors since the listing of the Company's shares on the Main Board of the Stock Exchange on 11 May 2005.

AUDIT COMMITTEE

The Company has set up an audit committee (the "Committee"), in accordance with the requirements of the Code of Corporate Governance Practices, for the purpose of reviewing and providing supervision on the financial reporting process and internal control system of the Group. The Committee comprises the three independent non-executive directors with Dr. Lui Sun Wing as the chairman. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters with management relating to the preparation of the unaudited consolidated financial statements of the Group for the six months ended 30 June 2005.

REMUNERATION COMMITTEE

The Group had established a remuneration committee which comprises two independent non-executive directors, namely Dr. Lui Sun Wing and Mr. Choy 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 5 October 2005 to Monday, 10 October 2005, 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 interim and special dividends for the six months ended 30 June 2005, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 4 October 2005.

By order of the Board
Zhang Hwo Jie
Chairman

Hong Kong, 14 September 2005

As at the date of this announcement, the board comprises four executive directors, being Mr. Zhang Hwo Jie (Chairman), Mr. Zhang Yaohua, Mr. Zhang Jian Hua and Mr. Nomo Kenshiro, and three independent non-executive directors, being Mr. Choy Tak Ho, Dr. Lui Sun Wing and Mr. Chan Wai Dune.