(Expressed in United States dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that trading securities are stated at their fair value as explained in note 1(h).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgement made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Subsidiaries and controlled entities

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interests in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(g)), unless the investment is classified as held for sale (or included in a disposal Group that is classified as held for sale.

(d) Property, plant and equipment

The property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(g)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, an appropriate proportion of production overheads and borrowing costs (see note 1(s)).

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Property, plant and equipment *(Continued)*

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	30 – 35 years
Leasehold improvements	2 – 10 years
Machinery and equipment	6 – 14 years
Motor vehicles	5 – 6 years
Office equipment, fixtures and fittings	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Construction in progress

Construction in progress represents fixed assets under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(g)). Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the People's Republic of China (the "PRC").

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(f) Leased assets

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risk and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(f) Leased assets *(Continued)*

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(g) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exist, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease; and

– investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Impairment of assets *(Continued)*

(ii) ***Impairment of other assets*** *(Continued)*

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(g)).

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

(i) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(j) Inventories *(Continued)*

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(g)).

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the capital reserve within equity. The fair value is measured at the grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(o) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, the movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue represents the sales value of goods to customers after allowances for goods returned, excludes value added tax ("VAT") and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated into United States dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into United States dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, are translated into United States dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which related to that foreign operation is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(s) Borrowing costs

Borrowing costs are expensed in profit and loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 34).

(a) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in the capital reserve within equity. Further details of the new policy are set out in note 1(n)(ii).

The new accounting policy is required to be applied retrospectively with comparatives restated in accordance with HKFRS 2.

This change in accounting policy had no effect on the financial statements as no share options have been granted under the share option scheme so far.

Details of the employee share option scheme are set out in note 31.

(b) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to the equity shareholders of the Company.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 1(c).

2 CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

(b) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements) *(Continued)*

These changes in presentation had no effect on the Group's results and the Group's net assets at 31 December 2005 have increased by $9,375,000 (2004: $Nil).

(c) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use (including land use rights paid to the PRC government authorities) were stated at cost less accumulated depreciation and impairment losses.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in notes 1(d) and (f). Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment and are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

As a result of adopting this new policy, the premiums for acquiring land use rights of $4,989,000 as at 31 December 2005 (2004: $2,858,000) have been reclassified from property, plant and equipment as interests in leasehold land held for own use under operating leases.

(d) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments to those as set out in notes 1(g) to (i), (k) and (l). Further details of the changes are as follows.

(i) Investments in equity securities

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision.

2 CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

(d) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement) *(Continued)*

(i) Investments in equity securities *(Continued)*

With effect from 1 January 2005, and in accordance with HKAS 39, all non-trading investments that do not have a quoted market price in an active market and whose fair value cannot reliably measured are stated at cost less impairment losses. There are no material adjustments arising from the adoption of the new policies for unquoted equity investments. Further details of the new policies are set out in note 1(h).

(ii) Derivative financial instruments

In prior years, derivative financial instruments entered into by management to hedge the foreign currency risk of a committed or highly probable future transaction were recognised on a cash basis.

With effect from 1 January 2005, and in accordance with HKAS 39, all derivative financial instruments entered into by the Group are stated at fair value. Changes in fair value of derivatives held as hedging instruments in a cash flow hedge are recognised in equity to the extent that the hedge is effective and until the hedged transaction occurs. Any other changes in fair value of the derivatives are recognised in profit and loss. Further details of the new policies are set out in note 1(i).

The adoption of this new accounting policy does not have any opening balance adjustment and impact on the financial position of the Group at 31 December 2005.

(e) Definition of related parties (HKAS 24, Related party disclosure)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(t) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members). The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

3 TURNOVER

The Group is principally engaged in design, development, manufacture and sale of customised metal castings for use in various industries.

Turnover represents the sales value of casting products to customers after allowances for goods returned, excludes VAT and is after the deduction of any trade discounts.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2005	2004
	$'000	*$'000*
Sales of:		
– Compressor parts	**36,549**	43,004
– Automobile parts and components	**38,367**	17,120
– Mechanical parts	**34,168**	28,635
	109,084	88,759

4 OTHER REVENUE

	2005	2004
	$'000	*$'000*
VAT and property tax refunds	**162**	191
Interest income	**1,077**	77
Sundry income	**334**	55
	1,573	323

Pursuant to the relevant approval documents issued by the local tax bureau, Tian Jin CMT Industry Company Limited ("CMT") and Suzhou CMS Machinery Company Limited ("CMS") are entitled to refunds of VAT on sales of steel products and property tax. The amount of the refund is calculated on an annual basis and recognised as other revenue when the refund is approved by the respective tax authorities.

(Expressed in United States dollars)

5 OTHER NET INCOME

	2005 $'000	2004 $'000
Exchange gain	970	278
Gain from trading of foreign exchange contracts	–	61
Loss on disposal of fixed assets	(86)	(16)
Net realised and unrealised gain/(loss) on trading securities	22	(43)
Gain on disposal of associate (note 29(b))	–	9
Others	139	39
	1,045	328

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

	2005 $'000	2004 $'000
(a) Finance costs:		
Interest expense on bank advances wholly repayable within five years	1,190	913
Less: Amount capitalised	(321)	(380)
	869	533
Discounting charges	203	146
	1,072	679

Borrowing costs were capitalised at an annualised rate of 4.45% for the year ended 31 December 2005 (2004: 3.52%).

	2005 $'000	2004 $'000
(b) Personnel expenses:		
Salaries, wages and bonuses	7,558	5,671
Contributions to retirement benefit schemes	812	439
	8,370	6,110
Average number of employees during the year	3,007	2,246
(c) Other items:		
Amortisation of land lease premium	94	63
Auditors' remuneration	224	177
Depreciation	8,744	5,650
Cost of inventories	75,744	60,800

(Expressed in United States dollars)

7 INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2005 $'000	2004 $'000
Current tax – PRC		
Tax for the year	924	1,414
Tax refund	(181)	(307)
(Over)/under-provision in respect of prior years	(271)	8
	472	1,115

Reconciliation between actual tax expense and accounting profit at applicable tax rates:

	2005 $'000	2004 $'000
Profit before tax	23,061	18,964
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	1,654	2,573
Income and expenses not subject to taxation	(239)	(607)
Tax refund	(181)	(307)
(Over)/under-provision in respect of prior years	(271)	8
Tax effect of tax concessions	(491)	(552)
Actual tax expense	472	1,115

The provision for Hong Kong Profits Tax for 2005 is calculated at 17.5% (2004: 17.5%). No provision for Hong Kong Profits Tax is made for the year as CMP (Hong Kong) Industry Company Limited ("CMP(HK)") did not earn any assessable income for Hong Kong Profits Tax purposes.

Pursuant to the rules and regulations of the Cayman Islands, the Company and CMTS (Cayman Islands) Industry Company Limited ("CMTS(CI)") and CMW (Cayman Islands) Co., Ltd ("CMW(CI)") are not subject to any income tax in the Cayman Islands.

7 INCOME TAX *(CONTINUED)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

During the year ended 31 December 2005, CMT was nominated as an "Advanced Technology Enterprise with Foreign Investment" and granted a reduced income tax rate of 10% for the period commencing 1 January 2004 to 31 December 2004. In the circumstances, an over-provision of PRC Enterprise Income Tax of $271,000 is recorded for the year ended 31 December 2005. The provision for PRC Enterprise Income Tax for 2005 of CMT is calculated at 10% (2004: 15%) as the management considers CMT would be granted the reduced income tax rate for "Advanced Technology Enterprise with Foreign Investment".

For the year ended 31 December 2005, CMW (Tianjin) Industry Co., Ltd ("CMWT") is subject to income tax at the rate of 15% applicable to foreign invested enterprises in Tianjin, the PRC.

Pursuant to the income tax rules and regulations of the PRC, CMS is eligible for a 100% relief from PRC Enterprise Income Tax for the two years from their first profit-making year of operations and thereafter, they are subject to PRC Enterprise Income Tax at 50% of the standard income tax rate for the following three years. The financial year ended 31 December 2005 being the forth year of CMS following the first profit-making year, CMS is subject to PRC Enterprise Income Tax at a reduced rate of 7.5% for 2005.

For the year ended 31 December 2005, Suzhou CMB Machinery Co., Ltd is subject to income tax at the rate of 15% applicable to foreign invested enterprises in Suzhou, the PRC.

The Group was granted a refund of PRC Enterprise Income Tax amounted to $181,000 from the Tax Bureau of Tianjin, during the year ended 31 December 2005 as tax incentives for engaging in manufacturing of automobile parts and components.

For the year ended 31 December 2004, the Group was granted a refund of PRC Enterprise Income Tax amounted to $307,000 from the Tax Bureau of Tianjin following the capitalisation of retained earnings of CMT.

7 INCOME TAX *(CONTINUED)*

(b) Current taxation in the balance sheets represents:

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	*$'000*	***$'000***	*$'000*
Provision for PRC Enterprise Income Tax for the year	**924**	1,414	**–**	–
PRC tax paid	**(736)**	(734)	**–**	–
	188	680	**–**	–

(c) Deferred taxation

No provision has been made for deferred taxation as at 31 December 2005 (2004: $Nil) as the Group has no significant deductible or taxable temporary differences which would give rise to deferred tax assets or liabilities.

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees *$'000*	Basic salaries, allowances and other benefits *$'000*	Contributions to retirement benefit schemes *$'000* *(Note 29(a))*	Bonus *$'000*	2005 Total *$'000*
Executive directors					
Mr Ho Ming-Shiann	51	–	–	–	51
Mr Guu Herng-Chang	51	81	–	45	177
Mr Tsao Ming-Hong	51	–	–	–	51
Mr Wu Cheng-Tao	51	–	–	–	51
Non-executive director					
Mr Christian Odgaard Pedersen	26	–	–	–	26
Independent non-executive directors					
Mrs Chiu Lin Mei-Yu	19	–	–	–	19
Mr Hsu Shan-Ko	19	–	–	–	19
Mr Wong Tin Yau, Kelvin	19	–	–	–	19
Total	287	81	–	45	413

8 DIRECTORS' REMUNERATION *(CONTINUED)*

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows: *(Continued)*

	Directors' fees $'000	Basic salaries, allowances and other benefits $'000	Contributions to retirement benefit schemes $'000 *(Note 29(a))*	Bonus $'000	2004 Total $'000
Executive directors					
Mr Ho Ming-Shiann	–	35	–	18	53
Mr Guu Herng-Chang	–	114	–	111	225
Mr Tsao Ming-Hong	–	30	–	12	42
Mr Wu Cheng-Tao	–	–	–	–	–
Non-executive director					
Mr Christian Odgaard Pedersen	–	–	–	–	–
Independent non-executive directors					
Mrs Chiu Lin Mei-Yu	–	–	–	–	–
Mr Hsu Shan-Ko	–	–	–	–	–
Mr Wong Tin Yau, Kelvin	–	–	–	–	–
Total	–	179	–	141	320

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

	2005 Number of directors	2004 Number of directors
HK$		
Nil – 1,000,000	7	7
1,000,001 – 2,000,000	1	1
	8	8

There were no amounts paid during the year to the directors in connection with their retirement from employment with the Group or inducement to join. There was no any arrangement under which a director waived or agreed to waive any remuneration during the year.

(Expressed in United States dollars)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include one Director (2004: one Director) of the Company whose emolument are disclosed in note 8. Details of emoluments paid to the remaining highest paid individuals of the Group are as follows:

	2005	2004
	$'000	*$'000*
Basic salaries, allowances and other benefits	**196**	249
Contributions to retirement benefit schemes *(Note 29(a))*	**–**	–
Bonuses	**50**	164
	246	413
Number of senior management	**4**	4

The emoluments of the remaining individuals with the highest emoluments are within the following bands:

	2005	2004
	Number of individuals	Number of individuals
HK$		
Nil – 1,000,000	**4**	3
1,000,001 – 1,500,000	**–**	1
	4	4

There were no amounts paid during 2005 (2004: $Nil) to the five highest paid employees in connection with their retirement from employment with the Group, or inducement to join.

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders include a profit of $11,566,000 (2004: loss of $58,000) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year

	2005	2004
	$'000	*$'000*
Interim dividend declared and paid of 0.25 cents per ordinary share	**2,608**	8,553
Final dividend proposed after the balance sheet date of 0.3 cents per ordinary share (2004: Nil)	**3,113**	–
	5,721	8,553

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

Pursuant to the resolution passed at the board of directors' meeting on 31 August 2004, an interim dividend of $7,618,000 was paid by CMP(HK) to its then shareholders. Pursuant to the resolutions passed at the board of directors' meeting on 31 August 2004, dividends of $738,000 and $197,000 were paid by CMTS(CI) and CMS to their then minority shareholders.

The dividend per share for the year ended 31 December 2004 is not presented above as such information is not meaningful having regard to the consolidated financial statements.

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the Company's ordinary equity shareholders of $22,589,000 (2004: $17,849,000) and the weighted average number of 1,035,753,000 (2004: 750,685,000) ordinary shares in issue during the year.

(b) There were no dilutive potential ordinary shares during 2005 and 2004 and, therefore, diluted earnings per share are not presented.

13 SEGMENT REPORT

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group is principally engaged in the manufacture and sale of steel products. Accordingly, no business segment analysis is provided.

(b) Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal economic environments. The PRC is a major market for all of the Group's businesses.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers.

	2005	2004
	$'000	*$'000*
The PRC	**55,166**	55,506
United States of America	**39,010**	21,399
Japan	**11,620**	8,308
Others	**3,288**	3,546
	109,084	88,759

Most of the assets of the Group are located in the PRC. Accordingly, no geographical segment assets and capital expenditure are provided.

(Expressed in United States dollars)

14 FIXED ASSETS

The Group

	Interests in leasehold land held for own use under operating leases $'000	Buildings held for own use $'000	Leasehold improve-ments $'000	Machinery and equipment $'000	Motor vehicles $'000	Office equipment, furniture and fixtures $'000	Total $'000
Cost:							
At 1 January 2004	3,246	14,483	1,646	43,835	935	2,156	66,301
Additions	–	510	179	1,795	248	908	3,640
Transfer from construction in progress *(Note 15)*	–	3,693	30	15,849	71	271	19,914
Disposals	–	–	–	(8)	(85)	(95)	(188)
At 31 December 2004	3,246	18,686	1,855	61,471	1,169	3,240	89,667
Accumulated depreciation:							
At 1 January 2004	325	1,591	772	9,290	375	884	13,237
Charge for the year	63	477	200	4,436	144	394	5,714
Written back on disposal	–	–	–	(5)	(69)	(75)	(149)
At 31 December 2004	388	2,068	972	13,721	450	1,203	18,802
Carrying amount:							
At 31 December 2004	2,858	16,618	883	47,750	719	2,037	70,865

14 FIXED ASSETS *(CONTINUED)*

The Group *(Continued)*

	Interests in leasehold land held for own use under operating leases	Buildings held for own use	Leasehold improve-ments	Machinery and equipment	Motor vehicles	Office equipment, furniture and fixtures	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost:							
At 1 January 2005	3,246	18,686	1,855	61,471	1,169	3,240	89,667
Exchange adjustment	83	478	57	1,866	29	78	2,591
Additions	2,153	–	412	1,321	10	82	3,978
Transfer from construction in progress *(Note 15)*	–	323	117	12,028	290	907	13,665
Disposals	–	(1)	(118)	(1,116)	(83)	(181)	(1,499)
At 31 December 2005	5,482	19,486	2,323	75,570	1,415	4,126	108,402
Accumulated depreciation:							
At 1 January 2005	388	2,068	972	13,721	450	1,203	18,802
Exchange adjustment	11	62	34	541	14	39	701
Charge for the year	94	553	360	7,103	183	545	8,838
Written back on disposal	–	(1)	–	(313)	(61)	(20)	(395)
At 31 December 2005	493	2,682	1,366	21,052	586	1,767	27,946
Carrying amount:							
At 31 December 2005	4,989	16,804	957	54,518	829	2,359	80,456

Leasehold prepayment, land and buildings are located in the PRC. The Group was formally granted the rights to use the land on which the Group's factories are erected for a period of 50 years, with expiry through 2055, by the relevant PRC authorities.

15 CONSTRUCTION IN PROGRESS

	The Group	
	2005	2004
	$'000	*$'000*
Cost:		
At 1 January	**4,906**	13,879
Exchange adjustment	**119**	–
Additions	**35,049**	10,941
Transfer to fixed assets *(Note 14)*	**(13,665)**	(19,914)
At 31 December	**26,409**	4,906

16 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005	2004
	$'000	*$'000*
Unlisted shares, at cost	**94,061**	74,933

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

(Expressed in United States dollars)

16 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

All of these controlled subsidiaries as defined under note 1(c) and have been consolidated into the group financial statements.

Name of company	Place of incorporation/ operation	Percentage of equity attributable to the Company Direct %	Indirect %	Issued and fully paid-up registered capital	Principal activities
Capital Charm Associates Limited	British Virgin Islands	100	–	$162	Investment holding
CMP (Hong Kong) Industry Company Limited	Hong Kong/ Taiwan	–	100	HK$162,203,000	Investment holding
CMTS (Cayman Islands) Industry Company Limited	Cayman Islands/ Taiwan	–	100	$21,520,000	Investment holding
Tian Jin CMT Industry Company Limited *(Note a)*	PRC	–	100	$30,000,000	Manufacturing and sale of casting products
Suzhou CMS Machinery Company Limited *(Note a)*	PRC	–	100	$24,000,000	Manufacturing and sale of casting products
CMW (Cayman Islands) Co., Ltd *(Note b)*	Cayman Islands/ Taiwan	67	–	$27,992,836	Investment holding
CMW (Tianjin) Industry Co., Ltd *(Note a)*	PRC	–	100	$13,000,000	Manufacturing of casting products
Suzhou CMB Machinery Co., Ltd *(Note a)*	PRC	100	–	–	Manufacturing of casting products

Notes on the Consolidated Financial Statements

(Expressed in United States dollars)

16 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Notes:

(a) A wholly foreign owned enterprise established in the PRC.

(b) Pursuant to a shareholders' agreement dated 26 April 2005, the Group have contracted to contribute $37,500,000, representing a 75% equity interest of CMW(CI). Up to 31 December 2005, the Group has contributed $19,128,000 to CMW(CI). Upon the fulfilment of capital contribution requirements as set out in the shareholders' agreement, the Group will hold a 75% equity interest of CMW(CI).

17 OTHER FINANCIAL ASSETS

	The Group	
	2005	2004
	$'000	*$'000*
Unlisted equity securities outside Hong Kong, at cost	**500**	500

18 TRADING SECURITIES

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	*$'000*	***$'000***	*$'000*
Trading securities (at market value)				
Listed securities outside Hong Kong	**79**	161	**79**	–
Unlisted investment funds outside Hong Kong	**–**	390	**–**	–
	79	551	**79**	–

19 INVENTORIES

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	*$'000*	***$'000***	*$'000*
Raw materials	**3,421**	4,842	**–**	–
Work in progress	**3,520**	2,643	**–**	–
Finished goods	**10,371**	6,211	**4,863**	–
Others	**2,406**	2,457	**–**	–
	19,718	16,153	**4,863**	–

20 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Trade and other receivables, deposits and prepayments comprise:

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	*$'000*	***$'000***	*$'000*
Trade receivables	**31,023**	25,711	**15,477**	–
Bills receivable	**127**	1,428	**–**	–
Other receivables, deposits and prepayments	**2,043**	46,232	**217**	43,859
	33,193	73,371	**15,694**	43,859

All of the trade and other receivables, deposits and prepayments are expected to be recoverable within one year.

Included in trade receivables are amount due from related companies of $3,314,000 (2004: $1,841,000), details of which are disclosed in note 29(c).

Certain trade receivables of the Group approximately $3,957,000 (2004: $Nil) as at 31 December 2005 were pledged against bank loans (note 22).

An ageing analysis of trade receivables and bills receivable (net of impairment losses for bad and doubtful debts), based on the invoice date is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	*$'000*	***$'000***	*$'000*
Within 3 months	**28,385**	25,452	**13,194**	–
Over 3 months but less than 6 months	**1,281**	938	**901**	–
Over 6 months but less than 1 year	**795**	648	**691**	–
Over 1 year but less than 2 years	**689**	85	**689**	–
Over 2 years but less than 3 years	**–**	16	**–**	–
	31,150	27,139	**15,475**	–

The Group's credit policy is set out in note 27(a).

20 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(CONTINUED)*

Included in other receivables as at 31 December 2004 were the net proceeds of $43,859,000 receivable from the issuance of shares upon listing of the Company's shares on the Stock Exchange, which were received by the Company in January 2005.

Included in trade and other receivables, deposits and prepayments are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group				The Company			
	2005		2004		**2005**		2004	
		'000		'000		**'000**		'000
United States Dollars	**USD**	**754**	USD	12,924	**USD**	**–**	USD	–
Japanese Yen	**JPY**	**5,946**	JPY	4,407	**JPY**	**5,946**	JPY	–
Euros	**EUR**	**625**	EUR	896	**EUR**	**625**	EUR	–
Hong Kong Dollars	**HKD**	**–**	HKD	–	**HKD**	**–**	HKD	341,223

21 CASH AND CASH EQUIVALENTS

Analysis of the balances of cash and cash equivalents is set out below:

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**8,620**	6,947	**1,924**	–
Deposits with banks	**31,442**	–	**27,423**	–
	40,062	6,947	**29,347**	–

21 CASH AND CASH EQUIVALENTS *(CONTINUED)*

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group				The Company			
	2005		2004		**2005**		2004	
		'000		'000		**'000**		'000
Hong Kong Dollars	**HKD**	**197,934**	HKD	–	**HKD**	**197,934**	HKD	–
United States Dollars	**USD**	**645**	USD	2,693	**USD**	**–**	USD	–
Euros	**EUR**	**401**	EUR	875	**EUR**	**187**	EUR	–
Taiwan Dollars	**TWD**	**17,481**	TWD	3,987	**TWD**	**1,224**	TWD	–
Japanese Yen	**JPY**	**5,057**	JPY	63,739	**JPY**	**4,997**	JPY	–

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

22 BANK LOANS

The bank loans are repayable as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Within 1 year or on demand	**24,431**	30,237	**1,320**	–
After 1 year but within 2 years	**–**	3,500	**–**	–
After 2 years but within 5 years	**–**	–	**–**	–
	24,431	33,737	**1,320**	–
Representing:				
Secured bank loans	**5,277**	5,043	**1,320**	–
Unsecured bank loans	**19,154**	28,694	**–**	–
	24,431	33,737	**1,320**	–

Certain bank loans of approximately $1,320,000 and $3,957,000 (2004: $5,043,000 and $Nil) as at 31 December 2005 were secured by pledged bank deposits and trade receivables (note 20) respectively.

22 BANK LOANS *(CONTINUED)*

Include in bank loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2005	2004	**2005**	2004
	'000	*'000*	***'000***	*'000*
United States Dollars	**USD 23,108**	USD 24,374	**USD –**	USD –
Euros	**EUR 1,066**	EUR –	**EUR 1,066**	EUR –

23 OTHER UNSECURED LOAN

Other unsecured loan from the local authority in Suzhou, the PRC, to a subsidiary is interest-free and is expected to be settled within one year.

24 TRADE AND OTHER PAYABLES

Trade and other payables comprise:

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	*$'000*	***$'000***	*$'000*
Trade payables	**7,816**	8,451	**587**	–
Bills payable	**4,221**	5,071	**–**	–
Other payables	**5,708**	7,988	**510**	156
	17,745	21,510	**1,097**	156

Certain bills payable of approximately $2,870,000 (2004: $4,649,000) as at 31 December 2005 were secured by pledged bank deposits of $660,000 (2004: $1,610,000).
An ageing analysis of trade payables and bills payable is as follows:

	The Group	
	2005	2004
	$'000	*$'000*
Due within 1 month or on demand	**3,372**	5,565
Due after 1 month but within 3 months	**8,665**	5,471
Due after 3 months but within 6 months	**–**	2,486
	12,037	13,522

(Expressed in United States dollars)

25 SHARE CAPITAL

	Note	2005 Number of shares (thousand)	2005 $'000	2004 Number of shares (thousand)	2004 $'000
Authorised:					
Ordinary shares of HK$0.01 each	(a)	10,000,000	12,853	10,000,000	12,853
Issued:					
At 1 January		1,000,000	1,285	–	–
Issuance of shares pursuant to the reorganisation	(b)	–	–	224,411	288
Capitalisation issue	(c)	–	–	525,589	676
Issuance of shares by placing and public offer	(d)	–	–	250,000	321
Issuance of shares pursuant to the exercise of the Over-allotment Option	(e)	37,500	48	–	–
		1,037,500	1,333	1,000,000	1,285

Notes:

(a) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 August 2004 with an authorised share capital of HK$390,000 divided into 39,000,000 shares of HK$0.01 each. On 5 August 2004, 1 share was transferred by Reid Services Limited to CMP (Cayman Islands) Industry Co., Ltd. ("CMP(CI)") at par.

Pursuant to a written resolution of the sole shareholder passed on 8 December 2004, the authorised share capital of the Company was increased from HK$390,000 to HK$100,000,000 by the creation of an additional 9,961,000,000 ordinary shares.

(b) Pursuant to the reorganisation in 2004, an aggregate of 224,411,000 ordinary shares of $0.01 each were issued. Among them, 218,171,000 ordinary shares were issued and swapped with the shares of the former shareholders of the subsidiaries in accordance with their respective equity interests. The remaining 6,240,000 ordinary shares were issued to employees at HK$0.1 each in return for their waiver of share options in CMP(HK), with HK$62,400 (equivalent to $8,000) credited to the Company's share capital and the remaining proceeds of HK$561,600 (equivalent to $72,000) credited to the share premium. The issuance of shares resulted in the Company becoming the holding company of the Group.

(c) Authorised by a written resolution of the sole shareholder passed on 8 December 2004, the directors capitalised an amount of HK$5,256,000 (equivalent to $676,000) standing to the credit of the share premium account of the Company and appropriated such amount as capital to pay up in full at par 525,589,000 ordinary shares for allotment and issue to the then existing shareholders.

(d) On 31 December 2004, 250,000,000 additional ordinary shares of par value HK$0.01 were issued and offered for subscription at a price of HK$1.42 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange. The proceeds of HK$2,500,000 (equivalent to $321,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$352,500,000 (equivalent to $45,309,000), before the share issue expenses of HK$19,633,000 (equivalent to $2,523,000), were credited to the share premium account.

(Expressed in United States dollars)

25 SHARE CAPITAL *(CONTINUED)*

(e) In connection with the Placing and Public Office of the Company's shares in December 2004, the Company has granted GC Capital (Asia) Limited ("GCC"), the joint bookrunners, an Over-allotment Option for issuing additional Over-allotment shares of not more than 37,500,000 ordinary shares of the Company within 30 days after the day of the Prospectus.

On 17 January 2005, GCC exercised the Over-allotment Option in full on behalf of the Placing Underwriters (as defined in the Prospectus) at HK$1.42 each. The Over-allotment Shares commenced dealing in the Stock Exchange on 19 January 2005.

The proceeds of HK$375,000 (equivalent to $48,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$52,875,000 (equivalent to $6,796,000), before the share issue expenses of HK$781,000 (equivalent to $100,000), were credited to the share premium account.

26 RESERVES

Movements in reserves of the Group during the year are set out below:

(i) The Group

	Attributable to equity shareholders of the company							
	Share premium $'000 (Note (a))	Statutory surplus reserve $'000 (Note (b))	Exchange fluctuation reserve $'000 (Note (c))	Other reserve $'000 (Note (d))	Retained profits $'000	Total $'000	Minority interest $'000 (Note (g))	Total equity $'000
At 1 January 2004	2,200	2,737	8	11,200	29,583	45,728	–	45,728
Exchange differences arising from consolidation	–	–	(14)	–	–	(14)	–	(14)
Transfer to other reserve	(2,200)	–	–	2,200	–	–	–	–
Other reserve arising from the reorganisation	–	–	–	21,520	–	21,520	–	21,520
Issuance of shares pursuant to the reorganisation *(Note 25(b))*	72	–	–	–	–	72	–	72
Capitalisation issue *(Note 25(c))*	(676)	–	–	–	–	(676)	–	(676)
Issuance of shares by placing and public offer *(Note 25(d))*	45,309	–	–	–	–	45,309	–	45,309
Share issue expenses *(Note 25(d))*	(2,523)	–	–	–	–	(2,523)	–	(2,523)
Profit for the year	–	–	–	–	17,849	17,849	–	17,849
Appropriation	–	875	–	–	(875)	–	–	–
Dividend for the year	–	–	–	–	(8,553)	(8,553)	–	(8,553)
At 31 December 2004	42,182	3,612	(6)	34,920	38,004	118,712	–	118,712

26 RESERVES *(CONTINUED)*

Movements in reserves of the Group during the year are set out below: *(Continued)*

(i) The Group *(Continued)*

	Attributable to equity shareholders of the company							
	Share premium	Statutory surplus reserve	Exchange fluctuation reserve	Other reserve	Retained profits	Total	Minority interest	Total equity
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
	(Note (a))	*(Note (b))*	*(Note (c))*	*(Note (d))*				
At 1 January 2005	42,182	3,612	(6)	34,920	38,004	118,712	–	118,712
Exchange differences arising from consolidation	–	–	2,370	–	–	2,370	–	2,370
Issuance of shares pursuant to the Over-allotment Option *(Note 25(e))*	6,796	–	–	–	–	6,796	–	6,796
Share issue expenses *(Note 25(e))*	(100)	–	–	–	–	(100)	–	(100)
Capital contribution from minority shareholders	–	–	–	–	–	–	9,375	9,375
Profit for the year	–	–	–	–	22,589	22,589	–	22,589
Appropriations	–	1,266	–	–	(1,266)	–	–	–
Dividend for the year	–	–	–	–	(2,608)	(2,608)	–	(2,608)
At 31 December 2005	48,878	4,878	2,364	34,920	56,719	147,759	9,375	157,134

26 RESERVES *(CONTINUED)*

(ii) The Company

	Share premium $'000	Contributed surplus $'000 (note (e))	Retained profits/ (accumulated loss) $'000	Total $'000
At 5 August (date of incorporation)	–	–	–	–
Contributed surplus arising from the reorganisation	–	74,653	–	74,653
Issuance of share pursuant to the reorganisation *(Note 25(b))*	72	–	–	72
Capitalisation issue *(Note 25(c))*	(676)	–	–	(676)
Issuance of shares by placing and public offer *(Note 25(d))*	45,309	–	–	45,309
Share issue expenses *(Note 25(d))*	(2,523)	–	–	(2,523)
Loss for the year	–	–	(58)	(58)
At 31 December 2004	42,182	74,653	(58)	116,777
At 1 January 2005	42,182	74,653	(58)	116,777
Issuance of share pursuant to the Over-allotment Option *(Note 25(e))*	6,796	–	–	6,796
Share issue expenses	(100)	–	–	(100)
Profit for the year	–	–	11,566	11,566
Dividend for the year	–	–	(2,608)	(2,608)
At 31 December 2005	48,878	74,653	8,900	132,431

26 RESERVES *(CONTINUED)*

(a) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(b) Statutory surplus reserve

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of their registered capital.

(c) Exchange fluctuation reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in notes 1(r).

(d) Other reserve

Other reserve represents the difference between the contributed capitals of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange therefor.

(e) Contributed surplus

Pursuant to the reorganisation in 2004, the Company became the holding company of the Group on 8 December 2004. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the reorganisation was transferred to contributed surplus.

26 RESERVES *(CONTINUED)*

(f) Distributability of reserves

As at 31 December 2005, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $132,431,000 (2004: $116,777,000).

27 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables and other receivables. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 60 days from the date of billing. Debtors with balance that are more than 12 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Cash and cash equivalents are normally placed with licensed banks that have a credit rating equal to or better than the Group. Given their high credit ratings, management does not expect any licensed bank to fail to meet its obligations.

At the balance sheet date, the Group has a certain concentration of credit risk as 50% (2004: 21%) of the total trade receivable and other receivables was due from the Group's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as investment of surplus cash, raising of loans and fixed assets acquisitions beyond certain limits.

27 FINANCIAL INSTRUMENTS *(CONTINUED)*

(c) Interest rate risk

Cash and cash equivalents and bank loans are the major types of the Group's financial instruments subject to interest rate risk.

Cash and cash equivalents comprise mainly bank deposits with fixed interest rates ranging from 2.25% to 4.43% per annum and the maturity dates of these bank deposits are within 1 year.

Bank loans of $23,110,000 and $1,320,000 bear a floating interest rate at 0.8% over LIBOR and fixed interest rate ranging from 3% to 5.39% per annum respectively. All bank loans are repayable within 1 year. Other details of the bank loan are set out in note 22.

(d) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchase that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Renminbi and United States dollars.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2004.

28 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments, representing purchase of property, plant and equipment, not provided for in the financial statements are as follows:

	2005 $'000	2004 $'000
Authorised, but not contracted for	8,854	36,827
Contracted for	9,444	1,427
	18,298	38,254

(b) Foreign currency contracts

The notional amounts of the Group's foreign currency contracts are as follows:

	2005 $'000	2004 $'000
Foreign currency contracts	–	2,000

(c) Contingent liabilities

The Group had contingent liabilities as follows:

	2005 $'000	2004 $'000
Bills discounted with banks (with recourse)	–	1,921

(d) Other commitments

At 31 December 2005, the Group had commitments to contribute capital of $30,372,000 to subsidiaries.

29 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2005, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Taiwan Asahi Bearing Co., Ltd ("Asahi")	Shareholder of the Company
China Metal Products Company Limited ("CMP")	Shareholder of the Company
TRAS Shokai Co., Ltd ("TRAS")	Shareholder of the Company
Dairitsu Industry Company Limited ("Dairitsu")	Shareholder of the Company
China Metal Japan Company Limited ("CMJ")	Affiliated company
China Metal Automotive International Co., Limited ("CMAI")	Affiliated company
Fuzhou Xin Mi Mechanical and Electrical Products Co., Ltd ("Fuzhou Xin Mi")	Affiliated company
Yanmar Diesel Engine Co., Ltd. ("Yanmar")	Related company

29 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Recurring transactions

Particulars of significant transactions between the Group and the one of the above related parties during the year are as follows:

	2005	2004
	$'000	*$'000*
Sales of goods to		
– Asahi	**265**	642
– Fuzhou Xin Mi	**2,012**	859
– TRAS	**282**	–
– Yanmar	**9,921**	5,670
	12,480	7,171
Commission to		
– CMAI	**570**	240
– CMJ	**185**	106
	755	346
Reimbursement of expenses to		
– CMAI	**2,782**	1,253
– CMP	**44**	52
	2,826	1,305

Included in the reimbursement of expenses to CMP is the Group's share of contributions to retirement schemes of certain eligible employees in Taiwan of $44,000 (2004: $13,000) for the year ended 31 December 2005. The schemes are administered by CMP. Based on an agreement between the Group and CMP, CMP is responsible for the retirement liability of these employees. The Group is not obliged to incur any liability beyond the contribution.

29 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Recurring transactions *(Continued)*

In addition, remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of highest paid employees as disclosed in note 9, is as follows:

	The Group	
	2005	2004
	$'000	*$'000*
Short-term employee benefits	**1,673**	1,524
Post-employment benefits	**–**	–
Equity compensation benefits	**–**	–
	1,673	1,524

Total remuneration is included in "personnel expenses" (see note 6).

(b) Non-recurring transactions

	2005	2004
	$'000	*$'000*
Purchases of goods from CMP	**–**	280

On 30 September 2004, the Group entered into a share transfer agreement with CMP, for the disposal of the Group's 50% interest in CMJ at a consideration of $69,000. A gain of $9,000 arose from this transaction.

29 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Amounts due from related companies

	2005	2004
	$'000	*$'000*
Trade		
– Asahi	**64**	162
– Fuzhou Xin Mi	**743**	427
– TRAS	**67**	–
– Yanmar	**2,440**	1,252
	3,314	1,841
Non-trade		
– CMAI	**73**	83
	3,387	1,924

All the other amounts due from related companies are unsecured, interest-free and are expected to be recovered within one year. There was no provision made against these amounts at 31 December 2005.

(d) Amounts due to related companies

	2005	2004
	$'000	*$'000*
CMP	**18**	65
CMJ	**25**	41
Dairitsu	**71**	71
Yanmar	**100**	–
	214	177

These amounts are unsecured, interest-free and are expected to be repaid within one year.

30 RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Tianjin and Suzhou whereby the Group is required to make contributions to the Schemes at the rate of 20% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

Employees engaged by the Group in Taiwan are covered by the retirement schemes in Taiwan which are administered by CMP. As disclosed in note 29(a), CMP is responsible for the retirement liability of these persons and the Group is not obliged to incur any liability beyond the contribution.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

31 EQUITY COMPENSATION BENEFIT

The Company has a share option scheme (the "Option Scheme") which was adopted on 8 December 2004 whereby the directors of the Company are authorised, at their discretion, to invite, among others, any full-time or part-time employees and directors, suppliers, customers and advisers to the Group (subject to the eligibility requirements as set out therein) to take up options which entitle them to subscribe for shares not exceeding 10% of the total issued shares of the Company in issue immediately following completion of the Share Offer and Capitalisation Issue, being 100,000,000 shares, unless the Company obtains a fresh approval from shareholders and which must not in aggregate exceed 30% of the shares in issue form the time to time. The options may be exercised and for a period not more than 10 years after the date upon which the option is deemed to be granted. The exercise price of options may be determined by the board at its absolute discretion but in any event will not be less than the higher of:

(i) the closing price of the shares as stated in the daily quotations sheet of Stock Exchange on the date of grant, which must be a business day;

(ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five consecutive business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

No share options have been granted under the Option Scheme to the eligible participants so far.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the management use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. Certain critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The management reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Inventories

Inventories are stated at the lower of cost and net realisable value at balance sheet date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The management estimates the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions.

(c) Impairment losses for bad and doubtful debts

Impairment losses for bad and doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the income statement in future years.

33 NON-ADJUSTING POST BALANCE SHEET EVENT

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 11.

(Expressed in United States dollars)

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for Accounting periods beginning on or after
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
Amendment to HKAS 39	Financial instruments: Recognition and measurement: The fair value option	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

35 COMPARATIVE FIGURES

Certain comparative figures in the consolidated balance sheet have been reclassified as a result of a change in accounting policies in leasehold land and buildings held for own use under HKAS 17 "Leases", details of which are set out in note 1(f).