1. GENERAL INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation

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

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

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

2.2 Basis of preparation

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

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

The adoption of new/revised HKFRS

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

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

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

2.2 Basis of preparation *(Continued)*

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

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

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

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

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

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

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

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

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

2.2 Basis of preparation *(Continued)*

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

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively after 1 January 2005.

The adoption of revised HKAS 17 resulted in:

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

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

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

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

2.2 Basis of preparation *(Continued)*

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

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

- *HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)*

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

- *HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)*

  The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the financial statements as at 31 December 2005 and 2004.

- *HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)*

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

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

2.2 Basis of preparation *(Continued)*

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

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

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

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

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

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

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

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

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

2.2 Basis of preparation *(Continued)*

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

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

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

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

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

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

2.3 Consolidation

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

(a) Subsidiaries

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

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

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

2.3 Consolidation *(Continued)*

(a) Subsidiaries (Continued)

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

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

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

2.5 Foreign currency translation *(Continued)*

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

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

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

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

2.6 Property, plant and equipment

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

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

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

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

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

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

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

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

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

2.7 Impairment of non-financial assets

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

2.8 Inventories

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

2.9 Trade and other receivables

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

2.10 Cash and cash equivalents

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

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

2.11 Share capital

Ordinary shares are classified as equity.

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

2.12 Borrowings

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

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

2.13 Deferred income tax

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

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

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

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

2.14 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

(c) Share-based compensation

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

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

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

2.15 Provisions

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

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

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

2.16 Revenue recognition

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

(a) Sales of goods

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

(b) Interest income

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

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

2.17 Leases (as the lessee)

(a) Operating lease

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

(b) Finance lease

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

2.18 Research and development costs

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

2.19 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Foreign exchange risk

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

(ii) Credit risk

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

(iii) Liquidity risk

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

(iv) Interest rate risk

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

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

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Fair value estimation

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Useful lives of property, plant and equipment

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

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

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

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

(c) Impairment of trade and other receivables

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

(d) Impairment of non-financial assets

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

(e) Income taxes

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

5. SALES AND SEGMENT INFORMATION

(a) Sales

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

* *Others mainly represent sales of scrap materials.*

5. SALES AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting format – business segments

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

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

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

The segment results and other segment items are as follows:

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

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

5. SALES AND SEGMENT INFORMATION *(Continued)*

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

The segment assets and liabilities are as follows:

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

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

Segment liabilities comprise operating liabilities but exclude income tax liabilities.

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

(c) Secondary reporting format – geographical segments

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

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

6. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Depreciation expense is analysed as follows:

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

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

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

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

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

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

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

7. LEASEHOLD LAND AND LAND USE RIGHTS

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

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

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

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

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

Notes: (Continued)

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

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

9. GOODWILL/(NEGATIVE GOODWILL)

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

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

10. INVENTORIES

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

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

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

11. TRADE RECEIVABLES

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

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

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

11. TRADE RECEIVABLES *(Continued)*

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

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

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

12. PREPAYMENTS AND DEPOSITS

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

13. AMOUNTS DUE FROM RELATED PARTIES

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

14. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

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

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

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

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

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

15. TRADE PAYABLES

The aging analysis of trade payables is as follows:

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

16. ACCRUALS AND OTHER PAYABLES

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

17. BORROWINGS

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

The Group's bank borrowings are repayable as follows:

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

The maturity of bank borrowings is as follows:

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

The carrying amounts of bank borrowings approximate their fair values.

17. BORROWINGS *(Continued)*

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

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

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

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

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

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

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

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

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

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

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

17. BORROWINGS *(Continued)*

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

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

18. FINANCE LEASE LIABILITIES

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

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

The present value of finance lease liabilities is as follows:

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

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

18. FINANCE LEASE LIABILITIES *(Continued)*

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

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

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

19. SHARE CAPITAL

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

19. SHARE CAPITAL *(Continued)*

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

Notes:

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

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

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

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

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

19. SHARE CAPITAL *(Continued)*

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

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

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

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

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

Share options

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

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

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

20. RESERVES

(a) Group

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

20. RESERVES *(Continued)*

(b) Company

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

Notes–

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

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

20. RESERVES *(Continued)*

(b) Company *(Continued)*

Notes– *(Continued)*

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

21. OTHER GAINS

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

22. EXPENSES BY NATURE

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

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

23. EMPLOYMENT COSTS

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

23. EMPLOYMENT COSTS *(Continued)*

(a) Retirement benefit – defined contribution plans

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

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

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

23. EMPLOYMENT COSTS *(Continued)*

(b) Directors' and senior management's emoluments

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

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

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

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

23. EMPLOYMENT COSTS *(Continued)*

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

Notes–

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

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

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

(c) Five highest paid individuals

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

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

The emoluments fell within the following bands:

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

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

24. FINANCE COSTS

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

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

25. INCOME TAX EXPENSE

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

(a) Hong Kong profits tax

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

25. INCOME TAX EXPENSE *(Continued)*

(b) Mainland China enterprise income tax

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

(c) Overseas income taxes

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

25. INCOME TAX EXPENSE *(Continued)*

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

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

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

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

26. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

27 DIVIDENDS

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

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

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

28. EARNINGS PER SHARE

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

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

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

29. CASH GENERATED FROM OPERATIONS

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

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

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

29. CASH GENERATED FROM OPERATIONS *(Continued)*

Non-cash transactions

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

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

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

30. BUSINESS COMBINATIONS

(a) Acquisition of additional interests in subsidiaries

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

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

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

30. BUSINESS COMBINATIONS *(Continued)*

(b) Disposal of a subsidiary

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

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

(c) Group reorganisation

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

31. CONTINGENCIES

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

32. CAPITAL COMMITMENTS

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

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

33 RELATED-PARTY TRANSACTIONS

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

The following transactions were carried out with related parties:

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

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

33 RELATED-PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

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

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

(c) Key management compensation

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

34 EVENT AFTER THE BALANCE SHEET DATE

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