Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1 GENERAL INFORMATION

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

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

2.1 Basis of preparation

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of revised HKFRS

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

HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of revised HKFRSs (Continued)

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

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

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

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

2.2 Consolidation

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

Subsidiaries

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

Subsidiaries (Continued)

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

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less accumulated impairment losses, if any (Note 2.7). The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

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

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

2.5 Property, plant and equipment

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

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

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

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

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

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

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

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

2.6 Leasehold land and land use rights

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Impairment of investments in subsidiaries and non-financial assets

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

2.8 Inventories

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

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.10 Cash and cash equivalents

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Share capital

Ordinary shares are classified as equity.

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

2.12 Trade payables

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

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

2.14 Deferred income tax

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

(c) Share-based compensation

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

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

2.16 Provisions

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Provisions *(Continued)*

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

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

2.17 Revenue recognition

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

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

(a) Sales of goods

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

(b) Interest income

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Leases (as the lessee)

(a) Operating leases

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

(b) Finance leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.19 Borrowing costs

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

2.20 Financial guarantees

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

2.21 Dividend distributions

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Foreign exchange risk

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

(ii) Credit risk

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

(iii) Liquidity risk

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

(iv) Cash flow and fair value interest rate risk

The Group' s income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in Note 15 to the consolidated financial statements.

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

(b) Fair value estimation

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Useful lives of property, plant and equipment

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

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

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

(c) Impairment of trade and other receivables

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

(d) Impairment of non-financial assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(e) Income taxes

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

5 SEGMENT INFORMATION

(a) Revenue

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

* Others mainly represent sales of scrap materials.

(b) Primary reporting format – business segments

At 31 December 2006, the Group was organised into two main business segments:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5 SEGMENT INFORMATION *(Continued)*

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

The segment results and other segment items are as follows:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5 SEGMENT INFORMATION *(Continued)*

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

The segment assets and liabilities are as follows:

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

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

Segment liabilities comprise operating liabilities but exclude bank borrowings, finance lease liabilities and income tax liabilities.

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

(c) Secondary reporting format – geographical segments

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

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

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For the year ended 31 December 2006

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and Machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
At 1 January 2005						
Cost	53,912	162,292	6,843	6,553	13,245	242,845
Accumulated depreciation	(3,811)	(26,841)	(1,960)	(1,788)	–	(34,400)
Net book amount	50,101	135,451	4,883	4,765	13,245	208,445
Year ended 31 December 2005						
Opening net book amount	50,101	135,451	4,883	4,765	13,245	208,445
Additions	1,823	39,601	3,930	1,878	62,406	109,638
Transfers	25,876	8,138	–	–	(34,014)	–
Disposals	–	(73)	(124)	–	–	(197)
Depreciation	(2,908)	(14,513)	(1,237)	(1,164)	–	(19,822)
Closing net book amount	74,892	168,604	7,452	5,479	41,637	298,064
At 31 December 2005						
Cost	81,962	209,821	10,161	8,431	41,637	352,012
Accumulated depreciation	(7,070)	(41,217)	(2,709)	(2,952)	–	(53,948)
Net book amount	74,892	168,604	7,452	5,479	41,637	298,064
Year ended 31 December 2006						
Opening net book amount	74,892	168,604	7,452	5,479	41,637	298,064
Additions	2,094	39,116	7,513	2,732	158,296	209,751
Transfers	33,635	159,198	–	–	(192,833)	–
Depreciation	(4,030)	(23,303)	(2,158)	(1,530)	–	(31,021)
Closing net book amount	106,591	343,615	12,807	6,681	7,100	476,794
At 31 December 2006						
Cost	117,691	408,135	17,674	11,163	7,100	561,763
Accumulated depreciation	(11,100)	(64,520)	(4,867)	(4,482)	–	(84,969)
Net book amount	106,591	343,615	12,807	6,681	7,100	476,794

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

Depreciation expense is analysed as follows:

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

Analysis of construction-in-progress is as follows:

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

7 LEASEHOLD LAND AND LAND USE RIGHTS

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

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

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For the year ended 31 December 2006

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

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

Movements are:

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

Name	Place of incorporation/ operations and kind of legal entity	Issued/ registered and fully paid up capital	Percentage of equity interest attributable to the Group (a)	Principal activities
Okuno Precision Metal Co., Limited	Hong Kong, limited liability company	HK$280,000	100%	Trading of metal moulds
Yihe Precision Hardware (Shenzhen) Co., Ltd. (億和精密金屬製品(深圳)有限公司) (b)	Mainland China, limited liability company	HK$181,880,000	100%	Manufacturing of metal moulds and parts
Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. (億和塑膠電子制品(深圳)有限公司) (b)	Mainland China, limited liability company	HK$65,844,800 (c)	100%	Manufacturing of plastic moulds and parts
EVA Precision Industrial (Suzhou) Limited (億和精密工業(蘇州)有限公司) (b)	Mainland China, limited liability company	HK$24,500,000 (c)	100%	Manufacturing of metal and plastic moulds and parts
EVA Precision Industrial (Zhongshan) Limited (億和精密工業(中山)有限公司) (b)	Mainland China, limited liability company	HK$12,000,000 (c)	100%	Manufacturing of metal and plastic moulds and parts

Notes:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

Notes: (Continued)

(b) Yihe Precision Hardware (Shenzhen) Co., Ltd. and Yihe Precision Plastic and Electronics Products (Shenzhen) Co, Ltd. are wholly foreign owned enterprises established in Shenzhen, Guangdong Province, Mainland China for a term of 20 years up to May 2021 and July 2024, respectively. EVA Precision Industrial (Suzhou) Limited is a wholly foreign owned enterprise established in Suzhou, Jiangsu Province, Mainland China for a term of 50 years up to August 2055. EVA Precision Industrial (Zhongshan) Limited is a wholly foreign owned enterprise established in Zhongshan, Guangdong Province, Mainland China for a term of 50 years up to August 2056.

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

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

9 INVENTORIES

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

10 TRADE RECEIVABLES

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

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

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

The top five customers and the largest customer accounted for 41.3% and 12.2% of the trade receivables balance as at 31 December 2006, respectively. Other than these major customers, there is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

The carrying value of trade receivables approximates its fair value as at 31 December 2006.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11 PREPAYMENTS AND DEPOSITS

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

12 PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

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

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

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

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

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

13 TRADE PAYABLES

The aging analysis of trade payables is as follows:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

14 ACCRUALS AND OTHER PAYABLES

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

15 BORROWINGS

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

15 BORROWINGS *(Continued)*

The Group's bank borrowings are repayable as follows:

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

The carrying amounts of bank borrowings approximate their fair values.

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

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

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

	Short-term bank loans		Trust receipts bank loans		Long-term bank loans		Mortgage loan	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
HK dollars	**5.2%**	4.4%	**5.3%**	6.0%	**5.6%**	4.2%	**5.3%**	3.5%
Chinese Renminbi	**5.0%**	–	**–**	–	**–**	–	**–**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

15 BORROWINGS *(Continued)*

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

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

16 FINANCE LEASE LIABILITIES

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

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

The present value of finance lease liabilities is as follows:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

16 FINANCE LEASE LIABILITIES *(Continued)*

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

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

Finance lease liabilities are effectively secured as the rights to the leased assets revert to the lessors in the event of default. The net book amount of the leased assets is approximately HK$128,759,000 (2005: HK$106,116,000). The finance lease liabilities are additionally secured by corporate guarantees provided by the Company in respect of these liabilities of approximately HK$40,932,000 (2005: HK$9,527,000) and by the Government of Hong Kong Special Administration Region of approximately HK$160,000 (2005: HK$1,264,000).

17 SHARE CAPITAL

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

17 SHARE CAPITAL *(Continued)*

Notes:

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

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

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

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

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

Share options

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

17 SHARE CAPITAL *(Continued)*

Share options *(Continued)*

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

17 SHARE CAPITAL *(Continued)*

Share options *(Continued)*

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

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

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

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

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18 RESERVES

(a) Group

	Note	Share premium HK$'000	Capital reserve (i) HK$'000	Statutory reserves (ii) HK$'000	Share options reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2005		(4,338)	335	7,010	–	105,922	108,929
Profit for the year		–	–	–	–	83,215	83,215
Deemed disposals of subsidiaries		–	(1,070)	–	–	–	(1,070)
Issue of shares	17(c)	130,000	–	–	–	–	130,000
Capitalisation of share premium account	17(d)	(37,000)	–	–	–	–	(37,000)
Share issue costs		(13,582)	–	–	–	–	(13,582)
Dividends paid		–	–	–	–	(15,600)	(15,600)
Transfer to statutory reserves		–	–	6,647	–	(6,647)	–
Balance at 31 December 2005		75,080	(735)	13,657	–	166,890	254,892
Balance at 1 January 2006		75,080	(735)	13,657	–	166,890	254,892
Profit for the year		–	–	–	–	108,649	108,649
Issue of shares	17(e)	102,400	–	–	–	–	102,400
Share issue costs		(2,933)	–	–	–	–	(2,933)
Employee share option scheme – value of employee services	17	–	–	–	3,188	–	3,188
Dividends paid		–	–	–	–	(27,600)	(27,600)
Transfer to statutory reserves		–	–	8,450	–	(8,450)	–
Balance at 31 December 2006		**174,547**	**(735)**	**22,107**	**3,188**	**239,489**	**438,596**

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18 RESERVES *(Continued)*

(b) Company

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

18 RESERVES *(Continued)*

(b) Company *(Continued)*

Notes –

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

19 EXPENSES BY NATURE

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

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

20 EMPLOYMENT EXPENSES

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20 EMPLOYMENT EXPENSES *(Continued)*

(a) Retirement benefit – defined contribution plans

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20 EMPLOYMENT EXPENSES *(Continued)*

(b) Directors' and senior management's emoluments

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20 EMPLOYMENT EXPENSES *(Continued)*

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

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

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

Notes –

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20 EMPLOYMENT EXPENSES *(Continued)*

(c) Five highest paid individuals

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

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

The emoluments fell within the following bands:

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

During the year, no emolument was paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2005: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

21 FINANCE INCOME/COSTS

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

22 INCOME TAX EXPENSE

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

(a) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits for the year (2005: 17.5%).

(b) Mainland China enterprise income tax

The subsidiaries established in Shenzhen, Guangdong Province, Mainland China and Suzhou, Jiangsu Province, Mainland China are subject to Mainland China enterprise income tax at a rate of 15% for the year ended 31 December 2006 (2005: 15%). Yihe Precision Hardware (Shenzhen) Co., Ltd. and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. are production enterprises with operating period of more than ten years and, in accordance with the relevant income tax regulations of Mainland China, are exempted from enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in enterprise income tax for the next three years. The first profitable year after offsetting prior year tax losses of Yihe Precision Hardware (Shenzhen) Co., Ltd. and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd, was 2003 and 2006, respectively. EVA Precision Industrial (Suzhou) Limited and EVA Precision Industrial (Zhongshan) Limited were established in August 2005 and August 2006, respectively, and had no taxable profits during the year ended 31 December 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

22 INCOME TAX EXPENSE *(Continued)*

(c) Overseas income taxes

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

23 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$31,863,000 (2005: HK$32,765,000).

24 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Basic

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

24 EARNINGS PER SHARE *(Continued)*

Diluted

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

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

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

25 DIVIDENDS

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

26 CASH GENERATED FROM OPERATIONS

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

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

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

Non-cash transactions

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

27 CONTINGENCIES

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

28 CAPITAL COMMITMENTS

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

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

29 RELATED-PARTY TRANSACTIONS

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

29 RELATED-PARTY TRANSACTIONS *(Continued)*

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

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

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

(b) Key management compensation

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

30 ULTIMATE HOLDING COMPANY

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

31 EVENT AFTER THE BALANCE SHEET DATE

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