Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 10 July 2002 under the Companies Law. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1 November 2004.

The principal place of business is 11th Floor, Block E1, Hoi Bun Industrial Building, No. 6 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong.

The principal activities of the Group were the manufacture and sale of precision metal components for hard disk drives ("HDD"), hydraulic equipment, automotive parts and components for other applications.

In the opinion of the directors, the holding company and the ultimate holding company of the Group is Tottenhill Limited, which was incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

Notes to Financial Statements (Continued)

31 December 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The principal changes in accounting policies are as follows:

(a) **HKAS 21 The Effects of Changes in Foreign Exchange Rates**

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) **HKAS 39 Financial Instruments: Recognition and Measurement**

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The adoption of this amendment has had no material impact on these financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) **HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease**

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

Notes to Financial Statements (Continued)

31 December 2006

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for accounting period beginning on or after 1 January 2009. The standard requires disclosures that enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environment in which the Group operates.

HK(IFRIC) – Int 7, HK(IFRIC) – Int 8, HK(IFRIC) – Int 9, HK(IFRIC) – Int 10, HK(IFRIC) – Int 11 and HK(IFRIC) – Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

Notes to Financial Statements (Continued)

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures *(Continued)*

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flow are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment losses is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements (Continued)

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent company;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	Over the shorter of the lease terms and 50 years
Leasehold improvements	Over the shorter of the lease terms and 3 to 5 years
Plant and machinery	10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

Notes to Financial Statements *(Continued)*

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the cost of construction and other direct costs attributable to the construction of property, plant and equipment, which is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and put into use.

Investment properties

Investment properties are interests in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposed of an investment property are recognised in the income statement in the year of retirement or disposal.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Notes to Financial Statements (Continued)

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Notes to Financial Statements (Continued)

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Notes to Financial Statements (Continued)

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains or losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Notes to Financial Statements (Continued)

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group's derivative financial instruments do not qualify for hedge accounting and any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

Notes to Financial Statements (Continued)

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements (Continued)

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Notes to Financial Statements (Continued)

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is calculated by using a binomial model, further details of which are given in note 31 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Notes to Financial Statements (Continued)

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries, limited to a maximum of HK$1,000 per month, and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred except for those directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, which are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to Financial Statements (Continued)

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of those entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING AND JUDGEMENT AND ESTIMATE

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below:

Impairment of assets

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to Financial Statements (Continued)

31 December 2006

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

The Group's operating businesses are structured and managed separately according to geographical locations of the customers. Each of the Group's geographical segments represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

The locations of the geographical segments are as follows:

(a) Thailand;

(b) Malaysia;

(c) Mainland China, Macau and Hong Kong;

(d) North America;

(e) Europe; and

(f) Other countries

In determining the Group's business segments, revenues and assets are attributed to the segments based on the products they provide.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements (Continued)

31 December 2006

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:								
Sales to external customers	274,159	131,506	53,965	26,570	65,971	29,471	–	581,642
Intersegment sales	82,768	–	4,994	–	–	–	(87,762)	–
Other revenue	9,262	–	7,518	–	–	–	–	16,780
Total revenue	366,189	131,506	66,477	26,570	65,971	29,471	(87,762)	598,422
Segment results	59,111	23,015	18,887	4,689	11,644	5,143	(15,250)	107,239
Interest income								4,574
Interest expense								(22,664)
Profit before tax								89,149
Tax								(4,391)
Profit for the year								84,758
Profit attributable to ordinary equity holders of the Company								84,758
Assets and liabilities								
Segment assets	289,967	29,701	1,122,753	8,872	22,428	40,604	(110,152)	1,404,173
Unallocated assets								2,210
Total assets								1,406,383
Segment liabilities	118,611	–	141,937	834	4,371	51,766	(110,152)	207,367
Unallocated liabilities								391,833
Total liabilities								599,200

Notes to Financial Statements *(Continued)*

31 December 2006

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments *(Continued)*

Year ended 31 December 2006	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000
Other segment information:								
Capital expenditure	8,463	–	210,260	–	–	–	–	218,723
Depreciation and amortisation	19,647	–	56,677	–	–	–	–	76,324
Fair value gains on investment properties	–	–	(769)	–	–	–	–	(769)
Changes in fair value of derivative financial instruments:								
Interest rate swap	–	–	1,222	–	–	–	–	1,222
Forward currency contracts	–	–	(2,011)	–	–	–	–	(2,011)
Gain on disposal of items of property, plant and equipment	(247)	–	–	–	–	–	–	(247)
Loss on disposal of items of property, plant and equipment	–	–	1,956	–	–	–	–	1,956
Impairment of items of property, plant and equipment	–	–	8,422	–	–	–	–	8,422

Notes to Financial Statements (Continued)

31 December 2006

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments *(Continued)*

Year ended 31 December 2005	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:								
Sales to external customers	206,245	119,104	18,136	16,013	44,029	2,450	–	405,977
Intersegment sales	91,633	–	13,474	–	–	–	(105,107)	–
Other revenue	3,630	–	11,325	–	–	761	–	15,716
Total revenue	301,508	119,104	42,935	16,013	44,029	3,211	(105,107)	421,693
Segment results	38,182	23,586	14,681	3,527	9,712	1,302	(14,780)	76,210
Interest income								2,411
Interest expense								(11,460)
Profit before tax								67,161
Tax								(2,763)
Profit for the year								64,398
Profit attributable to ordinary equity holders of the Company								64,398
Assets and liabilities								
Segment assets	237,210	42,759	876,886	3,206	12,665	2,010	(40,475)	1,134,261
Unallocated assets								–
Total assets								1,134,261
Segment liabilities	16,505	–	264,539	65	755	44,636	(40,475)	286,025
Unallocated liabilities								363,493
Total liabilities								649,518

Notes to Financial Statements (Continued)

31 December 2006

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments *(Continued)*

Year ended 31 December 2005	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000
Other segment information:								
Capital expenditure	60,813	–	328,198	–	–	–	–	389,011
Depreciation and amortisation	12,581	–	34,255	–	–	–	–	46,836
Fair value gains on investment properties	–	–	(3,216)	–	–	–	–	(3,216)
Changes in fair value of derivative financial instruments:								
Interest rate swap	–	–	(1,186)	–	–	–	–	(1,186)
Forward currency contracts	–	–	2,921	–	–	–	–	2,921
Gain on disposal of items of property, plant and equipment	–	–	–	–	–	–	–	–
Loss on disposal of items of property, plant and equipment	–	–	338	–	–	–	–	338
Impairment of items of property, plant and equipment	–	–	–	–	–	–	–	–

Notes to Financial Statements (Continued)

31 December 2006

4. SEGMENT INFORMATION *(Continued)*

(b) Business segments

The following tables present revenue and certain asset and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006	HDD components HK$'000	Hydraulic equipment components HK$'000	Automotive components HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:						
Sales to external customers	467,828	91,151	11,252	11,411	–	581,642
Other segment information:						
Segment assets	219,773	76,109	19,213	47,992	–	363,087
Unallocated assets						1,043,296
Total assets						1,406,383
Capital expenditure	–	–	–	–	–	–
Corporate and other unallocated amounts						218,723
Total capital expenditure						218,723

Year ended 31 December 2005	HDD components HK$'000	Hydraulic equipment components HK$'000	Automotive components HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:						
Sales to external customers	326,903	62,986	1,026	15,062	–	405,977
Other segment information:						
Segment assets	164,568	59,881	9,232	18,020	–	251,701
Unallocated assets						882,560
Total assets						1,134,261
Capital expenditure	–	–	–	–	–	–
Corporate and other unallocated amounts						389,011
Total capital expenditure						389,011

Notes to Financial Statements (Continued)

31 December 2006

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	Note	2006 HK$'000	2005 HK$'000
REVENUE			
Sale of goods and materials		**581,642**	405,977
OTHER INCOME			
Bank interest income		**4,574**	2,411
Sundry income		**3,052**	3,567
		7,626	5,978
GAINS			
Foreign exchange gains, net		**10,701**	7,747
Fair value gains:			
Derivative financial instruments – transactions not qualifying as hedges:			
Interest rate swap		**–**	1,186
Forward currency contracts		**2,011**	–
Fair value gains on investment properties	*16*	**769**	3,216
Gain on disposal of items of property, plant and equipment		**247**	–
		13,728	12,149
		21,354	18,127

Notes to Financial Statements (Continued)

31 December 2006

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold*		411,427	282,348
Depreciation	*14*	75,415	45,834
Recognition of prepaid land lease payments	*15*	814	776
Equity-settled share option expense**	*31*	3,924	7,577
Auditors' remuneration		1,911	1,522
Employee benefits expense (excluding directors' remuneration *(note 8)*):			
Wages and salaries		61,447	46,500
Equity-settled share option expenses**		1,993	3,798
Pension scheme contributions***		1,563	1,284
		65,003	51,582
Minimum lease payments under operating leases:			
Land and buildings		125	106
Equipment		237	216
		362	322
Research and development costs		10,086	8,168
Fair value (gains)/losses, net:			
Derivative financial instruments – transactions not qualifying as hedges			
Interest rate swap	*26*	1,222	(1,186)
Forward currency contracts	*26*	(2,011)	2,921
		(789)	1,735
Loss on disposal of a subsidiary	*33*	–	173
Loss on disposal of items of property, plant and equipment, net		1,709	338
Impairment of items of property, plant and equipment****	*14*	8,422	–
Provision/(write-back of provision) against inventory obsolescence		4,674	(4,961)

Notes to Financial Statements (Continued)

31 December 2006

6. PROFIT BEFORE TAX *(Continued)*

Notes:

* The cost of inventories sold includes an amount of approximately HK$113,508,000 (2005: HK$67,542,000) relating to the employee benefits expense, depreciation and operating lease charges, the amount of which were also included in the respective total amounts disclosed separately above for each of these types of expenses.

** The equity-settled share option expense for the year is included in "Administrative expenses" on the face of the consolidated income statement.

The equity-settled share option expense includes an amount of approximately HK$1,993,000 (2005: HK$3,798,000) relating to the employee benefits expense which was also included in the employee benefits expense separately disclosed above.

*** At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: Nil).

**** The impairment of items of property, plant and equipment for the year is included in "Cost of sales" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**16,290**	7,955
Interest on finance leases	**6,158**	3,487
Financial arrangement fees	**833**	756
Other interest	**216**	18
	23,497	12,216

Notes to Financial Statements (Continued)

31 December 2006

8. DIRECTORS' REMUNERATION

The remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is analysed as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Fees	2,094	2,157
Other emoluments:		
Salaries, allowances and benefits in kind	3,730	2,924
Employee share option benefits	1,750	2,034
Pension scheme contributions	51	48
	5,531	5,006
	7,625	7,163

During the prior year, all of the directors were granted share options, in respect of their service to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees and employee share option benefits paid to independent non-executive directors during the year were as follows:

2006		Group	
	Fees HK$'000	Employee share option benefits HK$'000	Total remuneration HK$'000
Dr. Cheng Ngok	60	–	60
Mr. Choi Hon Ting, Derek	60	–	60
Mr. Wu Karl Kwok	60	–	60
	180	–	180

Notes to Financial Statements (Continued)

31 December 2006

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors *(Continued)*

2005	Fees HK$'000	Group Employee share option benefits HK$'000	Total remuneration HK$'000
Dr. Cheng Ngok	60	118	178
Mr. Choi Hon Ting, Derek	60	118	178
Mr. Wu Karl Kwok	60	118	178
	180	354	534

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors and a non-executive director

2006	**Fees HK$'000**	**Salaries, allowances and benefits in kind HK$'000**	**Employee share option benefits HK$'000**	**Pension scheme contributions HK$'000**	**Total remuneration HK$'000**
Executive directors:					
Mr. Chui Siu On	**390**	**1,220**	**256**	**12**	**1,878**
Mr. Ho Yu Hoi	**544**	**1,006**	**416**	**–**	**1,966**
Mr. Lai Man Kit	**360**	**628**	**416**	**12**	**1,416**
Mr. Li Chi Hang	**200**	**336**	**416**	**12**	**964**
Mr. Wong Kwok Keung	**360**	**540**	**246**	**12**	**1,158**
	1,854	**3,730**	**1,750**	**48**	**7,382**
Non-executive director:					
Mr. Ng Kin Nam	**60**	**–**	**–**	**3**	**63**
	1,914	**3,730**	**1,750**	**51**	**7,445**

Notes to Financial Statements (Continued)

31 December 2006

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and a non-executive director *(Continued)*

2005

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Chui Siu On	390	1,220	257	12	1,879
Mr. Ho Yu Hoi	667	857	435	–	1,959
Mr. Lai Man Kit	360	628	435	12	1,435
Mr. Li Chi Hang	200	219	435	12	866
Mr. Ng Kin Nam	240	–	79	8	327
	1,857	2,924	1,641	44	6,466
Non-executive director:					
Mr. Ng Kin Nam	120	–	39	4	163
	1,977	2,924	1,680	48	6,629

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2005: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2005: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2005: one) non-director, highest paid employee for the year are as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	**780**	780
Employee share option benefits	**246**	450
Pension scheme contributions	**12**	12
	1,038	1,242

Notes to Financial Statements (Continued)

31 December 2006

9. FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The remuneration of the non-director, highest paid employee fell within the following band:

	Number of employees	
	2006	2005
HK$1,000,001 to HK$1,500,000	**1**	1

During the prior year, share options were granted to the non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employee's remuneration disclosures.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006	2005
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**2,011**	1,250
Current – Elsewhere		
Charge for the year	**3,666**	3,618
Overprovision in prior year	**–**	(370)
Deferred *(note 29)*	**(1,286)**	(1,735)
Total tax charge for the year	**4,391**	2,763

Notes to Financial Statements (Continued)

31 December 2006

10. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Profit before tax	**89,149**	67,161
Tax at the applicable tax rates	**19,554**	16,044
Lower tax rate for local authorities	**(1,818)**	(334)
Expenses not deductible for tax	**14,679**	20,527
Income not subject to tax	**(29,285)**	(34,315)
Overprovision in the prior year	**–**	(370)
Adjustments in respect of current tax of previous years	**677**	1,159
Tax losses not recognised	**584**	52
Tax charge at the Group's effective rate of 4.9% (2005: 4.1%)	**4,391**	2,763

According to the income tax law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises, Dongguan Koda Metal Products Company Limited ("Dongguan Koda") and Guangzhou XingHao Precision Metal Products Company Limited ("Xing Hao"), two wholly-owned subsidiaries of the Company established in the Dongguan Coastal Economic Open Zone and Zengcheng Xiancun Lantian Economic Open Zone, respectively, are subject to corporate income tax at a rate of 24%, and are exempt from PRC corporate income tax for the first two profitable years of their operations, and thereafter, are eligible for a 50% relief from PRC corporate income tax for the following three years. On 13 November 2003, Dongguan Koda obtained a further approval from the local tax authority that it would be subject to a tax rate of 10% for the three years ended 31 December 2006. Dongguan Koda began its first profitable year in the year ended 31 December 1999 and it was subject to a tax rate of 10% during the year ended 31 December 2006 (2005: 10%). Xing Hao began its first profitable year in the year ended 31 December 2004 and it was subject to a tax rate of 12% during the year ended 31 December 2006 (2005: Nil).

Integrated Precision Engineering (Thailand) Company Limited ("IPE Thailand"), a company incorporated in Thailand, is subject to income tax in Thailand at a rate of 30% on the estimated assessable profits arising in or derived from Thailand. IPE Thailand has two production factories, Factory I and Factory II (Phase 1) and Factory II (Phase 2). IPE Thailand is exempted from income tax for a period of three years from 2 June 2000 to 1 June 2003 for income generated from Factory I due to the promotion privileges granted under the Investment Promotion Act B.E. 2520 by the Board of Investment, a government authority, in Thailand. The Board of Investment also granted IPE Thailand an exemption from income tax for a period of three years from 3 January 2003 to 2 January 2006 for income generated from Factory II (Phase 1). IPE Thailand is subject to income tax for Factory I and Factory II (Phase 1) after the tax holiday. For Factory II (Phase 2), the Board of Investment granted IPE Thailand an exemption from income tax as well for a period of six to eight years from 31 July 2005 to 30 July 2011 or 2013 for income generated therefrom. IPE Thailand can entitle to an additional one year of tax exemption after the aforementioned tax holiday if certain conditions are met.

Under Decree-Law no.58/99/M, companies in Macau incorporated under that Law (referred to as the "58/99/M Companies") are exempted from Macau complementary tax (Macau income tax) as long as they do not sell their products to a Macau resident company. IPE Macao Commercial Offshore Limited, a subsidiary of the Group in Macau, is qualified as a 58/99/M Company.

Notes to Financial Statements (Continued)

31 December 2006

11. PROFIT/(LOSS) ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to ordinary equity holders of the Company for the year ended 31 December 2006 includes a profit of HK$109,889,000 (2005: loss of HK$26,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim dividend – HK1.5 cents (2005: HK1.5 cents) per ordinary share	**10,857**	9,009
Final dividend paid in respect of the previous financial year on shares issued under the Company's share option scheme and placement of new shares subsequent to the balance sheet date and before the close of the register of members of the Company, of HK1.8 cents (2005: HK1.8 cents) per ordinary share	**2,161**	1,803
Proposed final dividend – HK1.8 cents (2005: HK1.8 cents) per ordinary share	**13,013**	10,867
	26,031	21,679

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to Financial Statements (Continued)

31 December 2006

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2006 HK$'000	2005 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**84,758**	64,398

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**683,430,417**	567,115,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**16,578,375**	38,898,198
	700,008,792	606,013,198

Notes to Financial Statements (Continued)

31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Con-struction in progress HK$'000	Total HK$'000
Cost:							
At 1 January 2006	124,148	3,729	530,008	7,409	11,766	155,707	832,767
Additions	8,684	1,798	17,785	1,727	434	188,145	218,573
Transfer (out)/in	88,183	–	200,854	6,159	2,329	(297,525)	–
Disposals	–	(287)	(19,253)	(31)	(903)	–	(20,474)
Exchange realignment	7,503	–	36,085	501	364	8,864	53,317
At 31 December 2006	228,518	5,240	765,479	15,765	13,990	55,191	1,084,183
Accumulated depreciation and impairment:							
At 1 January 2006	(10,967)	(3,656)	(142,427)	(3,586)	(8,088)	–	(168,724)
Depreciation provided during the year	(7,870)	(145)	(64,346)	(1,705)	(1,349)	–	(75,415)
Impairment	–	–	(8,422)	–	–	–	(8,422)
Disposals-depreciation	–	269	8,496	24	813	–	9,602
Disposals-impairment	–	–	8,422	–	–	–	8,422
Exchange realignment	(861)	–	(11,954)	(258)	(147)	–	(13,220)
At 31 December 2006	(19,698)	(3,532)	(210,231)	(5,525)	(8,771)	–	(247,757)
At 31 December 2006:							
Cost	228,518	5,240	765,479	15,765	13,990	55,191	1,084,183
Accumulated depreciation	(19,698)	(3,532)	(210,231)	(5,525)	(8,771)	–	(247,757)
Net carrying amount	208,820	1,708	555,248	10,240	5,219	55,191	836,426
At 31 December 2005:							
Cost	124,148	3,729	530,008	7,409	11,766	155,707	832,767
Accumulated depreciation	(10,967)	(3,656)	(142,427)	(3,586)	(8,088)	–	(168,724)
Net carrying amount	113,181	73	387,581	3,823	3,678	155,707	664,043

Notes to Financial Statements (Continued)

31 December 2006

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

Group	Freehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At 1 January 2005	47,455	3,729	312,445	5,025	9,264	72,438	450,356
Additions	706	–	86,794	1,084	347	298,543	387,474
Transfer (out)/in	77,248	–	134,639	1,588	2,920	(216,395)	–
Disposals	–	–	(106)	(171)	(199)	(192)	(668)
Disposal of a subsidiary *(note 33)*	–	–	–	–	(506)	–	(506)
Exchange realignment	(1,261)	–	(3,764)	(117)	(60)	1,313	(3,889)
At 31 December 2005	124,148	3,729	530,008	7,409	11,766	155,707	832,767
Accumulated depreciation:							
At 1 January 2005	(5,374)	(3,155)	(106,539)	(2,901)	(7,893)	–	(125,862)
Depreciation provided during the year	(5,783)	(501)	(37,817)	(867)	(866)	–	(45,834)
Disposals	–	–	11	123	196	–	330
Disposal of a subsidiary *(note 33)*	–	–	–	–	449	–	449
Exchange realignment	190	–	1,918	59	26	–	2,193
At 31 December 2005	(10,967)	(3,656)	(142,427)	(3,586)	(8,088)	–	(168,724)
At 31 December 2005:							
Cost	124,148	3,729	530,008	7,409	11,766	155,707	832,767
Accumulated depreciation	(10,967)	(3,656)	(142,427)	(3,586)	(8,088)	–	(168,724)
Net carrying amount	113,181	73	387,581	3,823	3,678	155,707	664,043
At 31 December 2004:							
Cost	47,455	3,729	312,445	5,025	9,264	72,438	450,356
Accumulated depreciation	(5,374)	(3,155)	(106,539)	(2,901)	(7,893)	–	(125,862)
Net carrying amount	42,081	574	205,906	2,124	1,371	72,438	324,494

Notes to Financial Statements (Continued)

31 December 2006

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

The net book values of the Group's property, plant and equipment held under finance leases included in the total amount of the respective categories of property, plant and equipment as at 31 December 2006 are:

(i) plant and machinery amounting to HK$138,636,000 (2005: HK$144,307,000);

(ii) construction in progress amounting to HK$4,446,000 (2005: HK$5,541,000); and

(iii) motor vehicles amounting to HK$119,000 (2005: HK$220,000).

At 31 December 2006, none of the Group's plant and machinery, land and buildings were pledged to secure the interest-bearing bank and other borrowings and the general banking facilities granted to the Group.

At 31 December 2005, certain of the Group's plant and machinery with a net book value of approximately HK$39,736,000 were pledged to secure general banking facilities granted to the Group (note 27).

At 31 December 2005, certain of the Group's land and buildings with a net book value of approximately HK$2,376,000 were pledged to secure general banking facilities granted to the Group (note 27).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**36,032**	34,659
Additions during the year	**–**	1,537
Recognised during the year *(note 6)*	**(814)**	(776)
Exchange realignment	**1,277**	612
Carrying amount at 31 December	**36,495**	36,032
Current portion included in prepayments, deposits and other receivables	**(814)**	(786)
Non-current portion	**35,681**	35,246

The leasehold lands are held under medium leases and are situated in Hong Kong and Mainland China.

Notes to Financial Statements (Continued)

31 December 2006

16. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**15,986**	12,770
Net profit from a fair value adjustment *(note 5)*	**769**	3,216
Carrying amount 31 December	**16,755**	15,986

The Group's investment properties are situated in Hong Kong and in Beijing, the PRC and are held under the following lease terms:

	HK$'000	HK$'000
Long term leases	**1,755**	1,786
Medium term leases	**15,000**	14,200
	16,755	15,986

The Group's investment properties were revalued on 31 December 2006 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at HK$16,755,000 on an open market, existing use basis.

At 31 December 2005, an investment property of the Group with a value of HK$14,200,000 was pledged to secure general banking facilities granted to the Group (note 27). During the year, the pledged investment property was released and replaced by the corporate guarantee issued by the Company.

Particulars of the Group's investment properties are as follows:

Location	**Use**	**Tenure**	**Attributable interest of the Group**
Unit B Golden Lake Villa No. 29 Silver Cape Road, Sai Kung New Territories, Hong Kong	Residence	Medium term lease	100%
Room E on Level 16 Shen Fang Commercial Building amid An Zhen Xi Li Si Qu Chaoyang District, Beijing, the PRC	Residence	Long term lease	100%

Notes to Financial Statements (Continued)

31 December 2006

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**43**	43

The amounts due from subsidiaries included in the Company's current assets of HK$489,793,000 (2005: HK$185,717,000) are unsecured, interest-free and are repayable on demand. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Best Device Group Limited ("Best Device")	British Virgin Islands/ Hong Kong	US$5,528	100%	–	Investment holding
Cyber Starpower Limited	British Virgin Islands/ Hong Kong	US$1,000	–	100%	Investment holding
Anglo Dynamic Limited	British Virgin Islands/ Hong Kong	US$2,000	–	100%	Investment holding
Tai Situpa Group Limited	British Virgin Islands/ Hong Kong	US$2,000	–	100%	Investment holding
Lewiston Group Limited	British Virgin Islands/ Hong Kong	US$1,000	–	100%	Investment holding
Integrated Precision Engineering (Thailand) Company Limited	Thailand	THB150,000,000	–	99.99%	Trading and manufacture of precision metal components

Notes to Financial Statements (Continued)

31 December 2006

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Integrated Precision Engineering Pte. Limited ("IPE Singapore")	Singapore	S$1,200,000	–	100%	Dormant
Integrated Precision Engineering Company Limited	Hong Kong	HK$3,000,000	–	100%	Trading of precision metal components and investment holding
IPE Macao Commercial Offshore Limited	Macau	MOP100,000	–	100%	Trading of precision metal components
Dongguan Koda Metal Products Company Limited ("Dongguan Koda")*	PRC/Mainland China	HK$168,604,176	–	100%	Manufacture of precision metal components
Guangzhou Xing Hao Precision Metal Products Company Limited ("Xing Hao")**	PRC/Mainland China	HK$326,308,115	–	100%	Manufacture of precision metal components
IPE Precision Machinery Limited	Hong Kong	HK$100,000	–	100%	Investment holding
廣州市科裕機械設備有限公司("Ke Yu")***	PRC/Mainland China	US$1,787,933	–	100%	Manufacture of machinery parts and moulds

* *Dongguan Koda is a wholly-foreign-owned enterprise with a registered capital of HK$213,000,000. Up to 31 December 2006, HK$168,604,176 has been contributed.*

** *Xing Hao is a wholly-foreign-owned enterprise with a registered capital of HK$530,000,000. Up to 31 December 2006, HK$326,308,115 has been contributed.*

*** *Ke Yu is a wholly-foreign-owned enterprise with a registered capital of US$2,000,000. Up to 31 December 2006, US$1,787,933 has been contributed.*

Notes to Financial Statements (Continued)

31 December 2006

18. LOAN TO AN UNLISTED EQUITY INVESTMENT

The loan to the unlisted equity investment is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the loan approximates to its fair value. In the opinion of the directors, the loan is not expected to be repaid within the next twelve months.

19. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted equity investment, at cost	**150**	–

As at 31 December 2006, an unlisted equity investment with a carrying amount of HK$150,000 (2005: Nil) was stated at cost because the range of reasonable fair value estimates is not significant that the directors are of the opinion that its fair value cannot be measured reliably.

20. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**73,579**	53,917
Consumables	**32,549**	14,452
Work in progress	**76,984**	51,160
Finished goods	**22,673**	12,523
	205,785	132,052
Less: provision against inventory obsolescence	**(9,691)**	(5,017)
	196,094	127,035

Notes to Financial Statements (Continued)

31 December 2006

21. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers where payments in advance are normally required. The credit period generally ranges from 30 to 120 days, but longer credit terms will be granted to certain major customers with the approval of directors. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 1 month	**61,485**	41,984
1 to 2 months	**52,673**	40,513
2 to 3 months	**36,726**	27,091
3 to 4 months	**11,457**	10,507
4 to 12 months	**4,652**	4,571
	166,993	124,666

The carrying amounts of the trade receivables approximate to their fair values.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**4,843**	2,025	**239**	422
Deposits and other receivables	**8,127**	5,250	**–**	2
	12,970	7,275	**239**	424

The carrying amounts of the prepayments, deposits and other receivables approximate to their fair values.

Notes to Financial Statements (Continued)

31 December 2006

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**96,726**	95,591	**105**	284
Non-pledged time deposits	**41,977**	62,852	**–**	–
Cash and cash equivalents	**138,703**	158,443	**105**	284

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$12,244,100 (2005: HK$9,615,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

24. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 1 month	**36,241**	31,448
1 to 2 months	**24,593**	27,114
2 to 3 months	**22,647**	14,175
3 to 4 months	**11,170**	8,152
4 to 12 months	**2,668**	2,178
Over 1 year	**63**	–
	97,382	83,067

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 90 days. The carrying amounts of the trade and bills payables approximate to their fair values.

Notes to Financial Statements (Continued)

31 December 2006

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**102,499**	191,138	**–**	–
Accruals	**6,540**	8,899	**89**	–
	109,039	200,037	**89**	–

The other payables, which mainly represent payables for purchase of machinery, are non-interest-bearing and repayable within one year. The carrying amounts of the other payables and accruals approximate to their fair values.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Derivative financial instruments – transactions not qualifying as hedges		
Assets		
Interest rate swap*	**–**	1,186
Liabilities		
Interest rate swap*	**36**	–
Forward currency contracts**	**910**	2,921
	946	2,921

The carrying amounts of the interest rate swap and forward currency contracts are the same as their fair values.

* *At 31 December 2006, the Group had an interest rate swap agreement with a bank to manage its interest rate exposure in connection with the Group's long term banking facilities which did not meet the criteria for hedge accounting. A notional amount of HK$100,000,000 (2005: HK$100,000,000) with floating rate was swapped into fixed rate. The agreement lasts for three years and will expire in August 2008.*

** *At 31 December 2006, the Group had enterred into forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. The agreement requires the Group to buy Japanese Yen with US dollars or Hong Kong dollars at a pre-agreed exchange rate on pre-determined dates up to March 2007.*

Notes to Financial Statements (Continued)

31 December 2006

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2006 Effective interest rate (%)	2006 Maturity	2006 HK$'000	2005 Effective interest rate (%)	2005 Maturity	2005 HK$'000
Current						
Financial lease payables *(note 28)*	2.95–8	2007	30,840	2.95–9.4	2006	30,249
Bank overdrafts – unsecured	5–8	On demand	33	4.01–5.25	On demand	6,103
Bank loans – unsecured	5.23–6.75	2007	135,248	5.01–5.27	2006	75,000
Bank loans – secured	–	–	–	Prime rate minus 2.6%	2006	992
Other loans – unsecured	–	–	–	3–5.5	2006	2,840
			166,121			115,184
Non-current						
Financial lease payables *(note 28)*	2.95–8	2008–2009	43,665	2.95–9.4	2007–2009	68,694
Bank loans – secured	–	–	–	Prime rate minus 2.6%	2008	2,151
Bank loans – unsecured	5.23–6.75	2008–2012	175,999	5.01–5.27	2007–2011	173,803
			219,664			244,648
			385,785			359,832

Notes to Financial Statements (Continued)

31 December 2006

27. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	Group	
	2006	2005
	HK$'000	HK$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**135,281**	82,095
In the second year	**132,389**	82,547
In the third to fifth years, inclusive	**40,557**	92,051
Beyond five years	**3,053**	1,356
	311,280	258,049
Other borrowings repayable:		
Within one year	**30,840**	33,089
In the second year	**29,555**	28,956
In the third to fifth years, inclusive	**14,110**	39,738
	74,505	101,783
	385,785	359,832

Notes:

(a) As at 31 December 2005, certain of the Group's banking facilities were secured by:

(i) charges over certain of the Group's land and buildings which had an aggregate net book value at the balance sheet date of approximately HK$2,376,000;

(ii) charges over the Group's investment property situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$14,200,000; and

(iii) charges over certain of the Group's plant and machinery which had an aggregate net book value at the balance sheet date of approximately HK$39,736,000.

As at 31 December 2006, all the interest-bearing bank and other borrowings are unsecured.

(b) As at 31 December 2006, except for the unsecured bank loans with interest rates ranging from 6.5% to 6.75% (2005: 5.5% to 6.75%) which are denominated in Thai Baht, all borrowings are in Hong Kong dollars.

Interest rates for all the Group's borrowings are floating. The carrying amounts of the Group's borrowings approximate to their fair values.

Notes to Financial Statements (Continued)

31 December 2006

28. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its high precision metal component business. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

At 31 December 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2006 HK$'000	Minimum lease payments 2005 HK$'000	Present value of minimum lease payments 2006 HK$'000	Present value of minimum lease payments 2005 HK$'000
Amounts payable:				
Within one year	34,747	35,967	30,840	30,249
In the second year	31,461	32,652	29,555	28,956
In the third to fifth years, inclusive	14,607	41,922	14,110	39,738
Total minimum finance lease payments	80,815	110,541	74,505	98,943
Future finance charges	(6,310)	(11,598)		
Total net finance lease payables	74,505	98,943		
Portion classified as current liabilities *(note 27)*	(30,840)	(30,249)		
Non-current portion *(note 27)*	43,665	68,694		

29. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year were as follows:

Deferred tax liabilities

Group	2006		
	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2006	1,175	736	1,911
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	(452)	141	(311)
Exchange realignment	144	–	144
At 31 December 2006	867	877	1,744

Notes to Financial Statements (Continued)

31 December 2006

29. DEFERRED TAX *(Continued)*

Deferred tax assets

Group

	2006 Deductible temporary differences HK$'000
At 1 January 2006	–
Deferred tax credited to the income statement during the year *(note 10)*	**975**
At 31 December 2006	**975**

Deferred tax liabilities

Group	2005 Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2005	4,009	–	4,009
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	(2,645)	736	(1,909)
Exchange realignment	(189)	–	(189)
At 31 December 2005	1,175	736	1,911

Notes to Financial Statements (Continued)

31 December 2006

29. DEFERRED TAX *(Continued)*

Deferred tax assets

Group

	Deductible temporary differences HK$'000	2005 Items not taxable until taken up in the statutory accounts of a subsidiary in Mainland China HK$'000	Total HK$'000
At 1 January 2005	(742)	568	(174)
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	742	(568)	174
At 31 December 2005	–	–	–

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2006 HK$000	2005 HK$000	**2006 HK$000**	2005 HK$000
Tax losses	**3,812**	60	**1,593**	60
Deductible temporary differences	**22,254**	1,288	**–**	–
	26,066	1,348	**1,593**	60

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Notes to Financial Statements (Continued)

31 December 2006

30. SHARE CAPITAL

Shares

	2006 **HK$'000**	2005 HK$'000
Authorised:		
1,200,000,000 (2005: 1,200,000,000) ordinary shares of HK$0.1 each	**120,000**	120,000
Issued and fully paid:		
722,960,000 (2005: 601,070,000) ordinary shares of HK$0.1 each	**72,296**	60,107

The movements in share capital for the years ended 31 December 2006 and 2005 were as follows:

	Notes	**Number of shares in issue**	**Issued share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2005		500,000,000	50,000	48,809	98,809
Placement of new shares	*(a)*	100,000,000	10,000	105,000	115,000
Share options exercised	*(b)*	1,070,000	107	728	835
		601,070,000	60,107	154,537	214,644
Share issue expenses	*(a)*	–	–	(3,516)	(3,516)
At 31 December 2005 and 1 January 2006		601,070,000	60,107	151,021	211,128
Placement of new shares	*(c)*	120,000,000	12,000	212,400	224,400
Share options exercised	*(d)*	2,750,000	275	2,125	2,400
Repurchase of shares	*(e)*	(860,000)	(86)	(946)	(1,032)
		722,960,000	72,296	364,600	436,896
Share issue expenses	*(c)*	–	–	(12,073)	(12,073)
At 31 December 2006		**722,960,000**	**72,296**	**352,527**	**424,823**

Notes to Financial Statements (Continued)

31 December 2006

30. SHARE CAPITAL *(Continued)*

A summary of the transactions with reference to the above movements in the Company's issued share capital is as follows:

(a) The Group placed 100,000,000 new shares in 2005 at the subscription price of HK$1.15 per share, resulting in a total cash consideration, before expenses, of HK$115,000,000.

(b) The subscription rights attaching to 1,070,000 share options were exercised in 2005 at the subscription price of HK$0.78 per share, resulting in the issue of 1,070,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$834,600.

(c) During the year, the Group placed 120,000,000 new shares at the subscription price of HK$1.87 per share, resulting in a total cash consideration, before expenses, of HK$224,400,000.

(d) The subscription rights attaching to 2,750,000 share options were exercised during the year at the subscription price of HK$0.78 or HK$1.41 per share (note 31), resulting in the issue of 2,750,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$2,400,000.

(e) The Company repurchased its own shares on the Stock Exchange during the year ended 31 December 2006. The shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on the repurchase was charged against share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

Details of the repurchases of shares are summarised as follows:

Date of repurchase	Number of shares repurchased	Repurchase price per share Highest HK$	Lowest HK$	Total consideration HK$'000
11 December 2006	100,000	1.19	1.19	119
18 December 2006	190,000	1.20	1.17	227
21 December 2006	315,000	1.20	1.15	369
27 December 2006	215,000	1.25	1.24	268
28 December 2006	40,000	1.23	1.20	49
	860,000			1,032

Share options

Details of the Company's share option scheme and the share options issued under the scheme are set out in note 31 to the financial statements.

Notes to Financial Statements (Continued)

31 December 2006

31. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution in writing of the sole shareholder dated 12 October 2004 which became effective on 1 November 2004, the date on which the shares of the Company were listed on the Stock Exchange. Unless otherwise cancelled or amended, the Scheme will remain in force for 10 years from 12 October 2004.

The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Under the Scheme, the directors of the Company are authorised at their absolute discretion, to invite any directors (including the executive, non-executive and independent non-executive directors) and full-time employees of any member of the Group and any advisors, consultants, distributors, contributors, suppliers, agents, customers, joint venture business partners, promoters, service providers of any member of the Group who is eligible to participate in the Scheme, to take up options to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of listing of the Company's shares on the Stock Exchange.

The Company may seek approval of the shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the Scheme and any other schemes) will not be counted for the purpose of calculating the limit.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue at the date of grant.

The exercise price in respect of any particular option shall be such price as determined by the board in its absolute discretion at the time of the making of the offer but in any case the exercise price shall be at least the highest of (i) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the offer date; (ii) the average of the official closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company.

The offer of a grant of share options must be accepted not later than 28 days after the date of offer, upon payment of a consideration of HK$1 by the grantee. Share options may be exercised during the period commencing on the date upon which the share options are accepted and expiring on the last day of a five-year period from such acceptance date or the last day of the period of the Scheme, whichever is earlier. There is no minimum period for which an option must be held before the exercise of the option except otherwise imposed by the board of directors.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Notes to Financial Statements (Continued)

31 December 2006

31. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options: At 1 January 2006	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of the Company's shares***: At grant date of options HK$ per share	Immediately before the exercise date HK$ per share	At exercise date of options HK$ per share
Directors												
Mr. Chui Siu On	800,000	–	–	–	–	800,000	27-07-05	27-07-05 to 31-12-08	1.41	–	–	–
	800,000	–	–	–	–	800,000	27-07-05	01-07-06 to 31-12-08	1.41	–	–	–
	1,400,000	–	–	–	–	1,400,000	27-07-05	01-07-07 to 31-12-08	1.41	–	–	–
	3,000,000	–	–	–	–	3,000,000						
Mr. Ho Yu Hoi	1,400,000	–	–	–	–	1,400,000	27-07-05	27-07-05 to 31-12-08	1.41	–	–	–
	1,400,000	–	–	–	–	1,400,000	27-07-05	01-07-06 to 31-12-08	1.41	–	–	–
	2,200,000	–	–	–	–	2,200,000	27-07-05	01-07-07 to 31-12-08	1.41	–	–	–
	5,000,000	–	–	–	–	5,000,000						
Mr. Lai Man Kit	1,400,000	–	–	–	–	1,400,000	27-07-05	27-07-05 to 31-12-08	1.41	–	–	–
	1,400,000	–	–	–	–	1,400,000	27-07-05	01-07-06 to 31-12-08	1.41	–	–	–
	2,200,000	–	–	–	–	2,200,000	27-07-05	01-07-07 to 31-12-08	1.41	–	–	–
	5,000,000	–	–	–	–	5,000,000						
Mr. Li Chi Hang	1,400,000	–	–	–	–	1,400,000	27-07-05	27-07-05 to 31-12-08	1.41	–	–	–
	1,400,000	–	–	–	–	1,400,000	27-07-05	01-07-06 to 31-12-08	1.41	–	–	–
	2,200,000	–	–	–	–	2,200,000	27-07-05	01-07-07 to 31-12-08	1.41	–	–	–
	5,000,000	–	–	–	–	5,000,000						
Mr. Wong Kwok Keung	400,000	–	–	–	–	400,000	30-11-04	30-11-04 to 31-12-08	0.78	–	–	–
	450,000	–	–	–	–	450,000	30-11-04	01-01-06 to 31-12-08	0.78	–	–	–
	450,000	–	–	–	–	450,000	30-11-04	01-01-07 to 31-12-08	0.78	–	–	–
	450,000	–	–	–	–	450,000	30-11-04	01-01-08 to 31-12-08	0.78	–	–	–
	280,000	–	–	–	–	280,000	27-07-05	01-01-06 to 31-12-08	1.41	–	–	–
	600,000	–	–	–	–	600,000	27-07-05	01-01-07 to 31-12-08	1.41	–	–	–
	920,000	–	–	–	–	920,000	27-07-05	01-01-08 to 31-12-08	1.41	–	–	–
	3,550,000	–	–	–	–	3,550,000						

Notes to Financial Statements *(Continued)*

31 December 2006

31. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Scheme during the year: *(Continued)*

	Number of share options									Price of the Company's shares***		
Name or category of participant	At 1 January 2006	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	At grant date of options HK$ per share	Immediately before the exercise date HK$ per share	At exercise date of options HK$ per share
Mr. Ng Kin Nam	500,000	–	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	–	–	–
Dr. Cheng Ngok	500,000	–	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	–	–	–
Mr. Wu Karl Kwok	500,000	–	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	–	–	–
Mr. Choi Hon Ting, Derek	500,000	–	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	–	–	–
	23,550,000	–	–	–	–	23,550,000						
Members of senior management and other employees of the Group												
In aggregate	4,290,000	–	(1,315,000)	–	–	2,975,000	30-11-04	30-11-04 to 31-12-08	0.78	–	1.88	1.92
	5,210,000	–	(1,030,000)	–	–	4,180,000	30-11-04	01-01-06 to 31-12-08	0.78	–	1.85	1.89
	5,085,000	–	–	–	(20,000)	5,065,000	30-11-04	01-01-07 to 31-12-08	0.78	–	–	–
	5,085,000	–	–	–	(20,000)	5,065,000	30-11-04	01-01-08 to 31-12-08	0.78	–	–	–
	3,000,000	–	–	–	–	3,000,000	04-02-05	04-02-05 to 31-12-07	1.09	–	–	–
	1,500,000	–	(165,000)	–	(20,000)	1,315,000	27-07-05	27-07-05 to 31-12-08	1.41	–	1.80	1.84
	3,440,000	–	(240,000)	–	(45,000)	3,155,000	27-07-05	01-01-06 to 31-12-08	1.41	–	1.93	1.94
	4,820,000	–	–	–	(45,000)	4,775,000	27-07-05	01-01-07 to 31-12-08	1.41	–	–	–
	6,290,000	–	–	–	(45,000)	6,245,000	27-07-05	01-01-08 to 31-12-08	1.41	–	–	–
	–	3,000,000	–	–	–	3,000,000	13-09-06	01-01-08- to 31-12-12	1.35	1.26	–	–
	38,720,000	3,000,000	(2,750,000)	–	(195,000)	38,775,000						

Notes to Financial Statements (Continued)

31 December 2006

31. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Scheme during the year: *(Continued)*

	Number of share options									Price of the Company's shares***		
Name or category of participant	At 1 January 2006	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	At grant date of options HK$ per share	Immediately before the exercise date HK$ per share	At exercise date of options HK$ per share
Suppliers of services												
In aggregate	350,000	–	–	–	–	350,000	30-11-04	30-11-04 to 31-12-08	0.78	–	–	–
	450,000	–	–	–	–	450,000	30-11-04	01-01-06 to 31-12-08	0.78	–	–	–
	450,000	–	–	–	–	450,000	30-11-04	01-01-07 to 31-12-08	0.78	–	–	–
	450,000	–	–	–	–	450,000	30-11-04	01-01-08 to 31-12-08	0.78	–	–	–
	7,000,000	–	–	–	–	7,000,000	04-02-05	04-02-05 to 31-12-07	1.09	–	–	–
	500,000	–	–	–	–	500,000	27-07-05	27-07-05 to 31-12-08	1.41	–	–	–
	280,000	–	–	–	–	280,000	27-07-05	01-01-06 to 31-12-08	1.41	–	–	–
	420,000	–	–	–	–	420,000	27-07-05	01-01-07 to 31-12-08	1.41	–	–	–
	550,000	–	–	–	–	550,000	27-07-05	01-01-08 to 31-12-08	1.41	–	–	–
	10,450,000	–	–	–	–	10,450,000						
	72,720,000	3,000,000	(2,750,000)	–	(195,000)	72,775,000						

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

The fair value of the share options granted during the year was HK$1,020,000 of which the Group recognised a share option expense of HK$255,000 during the year ended 31 December 2006.

The total share option expense recognised by the Group during the year was HK$3,924,000 (2005: HK$7,577,000).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

Dividend yield (%)	2.44%
Expected volatility (%)	39.24%
Historical volatility (%)	39.24%
Risk-free interest rate (%)	3.89%
Expected life of option (year)	3.85
Weighted average share price (HK$)	1.26

The expected life of the options is based on the historical data over the prior periods and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Notes to Financial Statements (Continued)

31 December 2006

31. SHARE OPTION SCHEME *(Continued)*

No other feature of the options granted was incorporated into the measurement of fair value.

The 2,750,000 share options exercised during the year resulted in the issue of 2,750,000 ordinary shares of the Company and new share capital of HK$275,000 and share premium of HK$2,125,000 (before issue expenses), as further detailed in note 32 to the financial statements.

At the balance sheet date, the Company had 72,775,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 72,775,000 additional ordinary shares of the Company and additional share capital of HK$7,277,500 and share premium of HK$78,892,200 (before issue expenses).

At the date of approval of these financial statements, the Company had 72,735,000 share options outstanding under the Scheme, which represented approximately 10.06% of the Company's shares in issue as at that date.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 46 to 47 of the financial statements.

The Group's contributed surplus originally represented the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

In accordance with the law of the PRC on wholly-foreign-owned investment enterprises, the Company's subsidiaries are required to appropriate an amount of not less than 10% of their profits after tax to the statutory surplus reserve, until the accumulated total of such appropriations reaches 50% of the respective subsidiaries' registered capital and thereafter any further appropriation is optional. The reserve can only be used, upon approval of the relevant authority, to offset accumulated losses or increase capital.

The transfer of net profit to the statutory public welfare fund is made at the discretion of the directors at 5% of the net profit of the Company's subsidiaries. The statutory public welfare fund can be used for employees' welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the years ended 31 December 2006 and 2005.

Notes to Financial Statements (Continued)

31 December 2006

32. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005		31,813	–	–	(9,958)	5,555	27,410
Issue of shares	*30(a)*	105,000	–	–	–	–	105,000
Share issue expenses	*30(a)*	(3,516)	–	–	–	–	(3,516)
Exercise of share options	*30(b)*	728	–	–	–	–	728
Equity-settled share option arrangements	*31*	–	–	7,577	–	–	7,577
Loss for the year	*11*	–	–	–	–	(26)	(26)
Final 2004 dividend	*12*	–	–	–	–	(1,803)	(1,803)
Interim 2005 dividend	*12*	–	–	–	–	(9,009)	(9,009)
Proposed final 2005 dividend	*12*	–	–	–	–	(10,867)	(10,867)
At 31 December 2005 and 1 January 2006		134,025	–	7,577	(9,958)	(16,150)	115,494
Issue of shares	*30(c)*	212,400	–	–	–	–	212,400
Share issue expenses	*30(c)*	(12,073)	–	–	–	–	(12,073)
Exercise of share options	*30(d)*	2,125	–	–	–	–	2,125
Premium on repurchase of shares	*30(e)*	(946)	–	–	–	–	(946)
Capital redemption reserve arising from repurchase of shares	*30(e)*	–	86	–	–	(86)	–
Equity-settled share option arrangements	*31*	–	–	3,924	–	–	3,924
Forfeiture of options	*11*	–	–	(9)	–	9	–
Profit for the year	*12*	–	–	–	–	109,889	109,889
Final 2005 dividend	*12*	–	–	–	–	(2,161)	(2,161)
Interim 2006 dividend		–	–	–	–	(10,857)	(10,857)
Proposed final 2006 dividend	*12*	–	–	–	–	(13,013)	(13,013)
At 31 December 2006		**335,531**	**86**	**11,492**	**(9,958)**	**67,631**	**404,782**

The Company's contributed surplus represents the excess of the nominal value of the shares of Best Device, one of the subsidiaries of the Company acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

Notes to Financial Statements (Continued)

31 December 2006

33. DISPOSAL OF A SUBSIDIARY

	Notes	2006 HK$'000	2005 HK$'000
Net assets disposed of:			
Property, plant and equipment	14	–	57
Cash and bank balances		–	173
Trade receivables		–	227
Prepayments, deposits and other receivables		–	177
Accruals and other payables		–	(403)
Tax payable		–	(37)
Minority interests		–	(21)
		–	173
Loss on disposal of a subsidiary	6	–	(173)
		–	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2006 HK$'000	2005 HK$'000
Cash consideration	–	–
Cash and bank balances disposed of	–	173
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	(173)

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of plant and machinery with a total capital value at the inception of the leases of HK$7,078,000 (2005: HK$60,015,000).

Notes to Financial Statements (Continued)

31 December 2006

35. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**828,183**	602,856
Guarantees given to an electricity company	**1,021**	662	**–**	–
Guarantees given to the Customs Department of Thailand in connection with import of machinery	**–**	3,017	**–**	–
	1,021	3,679	**828,183**	602,856

36. PLEDGE OF ASSETS

At 31 December 2006, none of the Group's property, plant and equipment, investment properties and bank deposits were pledged to secure the interest-bearing bank and other borrowings and the general banking facilities granted to the Group.

Details of the Group's bank loans at 31 December 2005, which are secured by the assets of the Group, are included in note 27 to the financial statements.

37. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office equipment under operating lease arrangements. Leases for office equipment are negotiated for terms ranging from one to three years. None of these leases include contingent rentals.

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**209**	119
In the second to fifth years, inclusive	**168**	52
	377	171

Notes to Financial Statements (Continued)

31 December 2006

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	2005
	HK$'000	HK$'000
Authorised, but not contracted for:		
Plant and machinery	**–**	831
Renovation of buildings	**261**	–
	261	831
Contracted, but not provided for:		
Plant and machinery	**40,530**	40,408
Construction in progress	**9,662**	18,609
Capital contribution to an unlisted equity investment	**150**	–
	50,342	59,017
	50,603	59,848

The Company did not have any significant commitments during the years ended 31 December 2006 and 2005.

39. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2006	2005
	HK$'000	HK$'000
Short term employee benefits	**9,597**	8,666
Share-based payments	**3,227**	3,924
Post-employment benefits	**118**	119
Total compensation paid to key management personnel	**12,942**	12,709

Further details of directors' emoluments are included in note 8 to the financial statements.

Certain of the related party transactions in respect of the compensation of key management personnel of the Group also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to Financial Statements (Continued)

31 December 2006

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, other interest-bearing loans, finance leases, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally an interest rate swap and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 26 to the financial statements. Management manages and monitors these exposures to ensure that appropriate measures are implemented in a timely and effective manner.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by certain subsidiaries in currencies other than the subsidiaries' functional currency. Approximately 63% (2005: 61%) of the Group's sales are denominated in currencies other than the functional currency of the subsidiaries making the sale, whilst almost 51% (2005: 46%) of costs are denominated in the subsidiaries' functional currency. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

Certain trade receivables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arises.

Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on it assets and liabilities and cash flows. The matching of assets and liabilities is utilised to hedge interest rate risk.

Besides, the Group is exposed to interest rate risk through the impact of rate changes on interest-bearing bank borrowings and obligations under finance leases. The interest rates and terms of repayment of bank borrowings and obligations under the finance leases of the Group are disclosed in note 27.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of management.

Notes to Financial Statements (Continued)

31 December 2006

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group consistently maintains a prudent financial policy and ensures that it maintains sufficient cash to meet its liquidity requirements.

41. POST BALANCE SHEET EVENTS

(a) On 13 March 2007, the Group subscribed 61 new shares of HK$1 each of Cullygrat Surface & Deburring Treatment Limited ("Cullygrat"), a company incorporated in Hong Kong, with a total subscription price of HK$5,000,000. One of the then directors of Cullygrat is a senior management personnel of the Group. After the subscription, the Group held a 61% equity interest in Cullygrat and Cullygrat was deemed to be acquired by the Company. Cullygrat is an investment holding company which was incorporated during the year for setting up an operation in Mainland China for engaging in the provision of processing services for the manufacture of industrial products. The deemed acquisition generated a goodwill of HK$1,949,976, which will be capitalised and tested for impairment at least annually.

The fair values of the identifiable assets and liabilities of Cullygrat as at the date of the deemed acquisition and the corresponding carrying amounts immediately before the deemed acquisition were as follows:

	Fair value recognised on acquisition	**Carrying amount**
	HK$	HK$
Cash and bank balances	5,000,039	5,000,039
Minority interests	(1,950,015)	
	3,050,024	
Goodwill on acquisition	1,949,976	
Satisfied by cash	5,000,000	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the deemed acquisition of a subsidiary is as follows:

	HK$
Cash consideration	(5,000,000)
Cash and bank balances acquired	5,000,039
Net inflow of cash and cash equivalents in respect of the deemed acquisition of a subsidiary	39

Notes to Financial Statements (Continued)

31 December 2006

41. POST BALANCE SHEET EVENTS *(Continued)*

(b) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

42. COMPARATIVE AMOUNTS

Certain comparative balances have been reclassified to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2007.