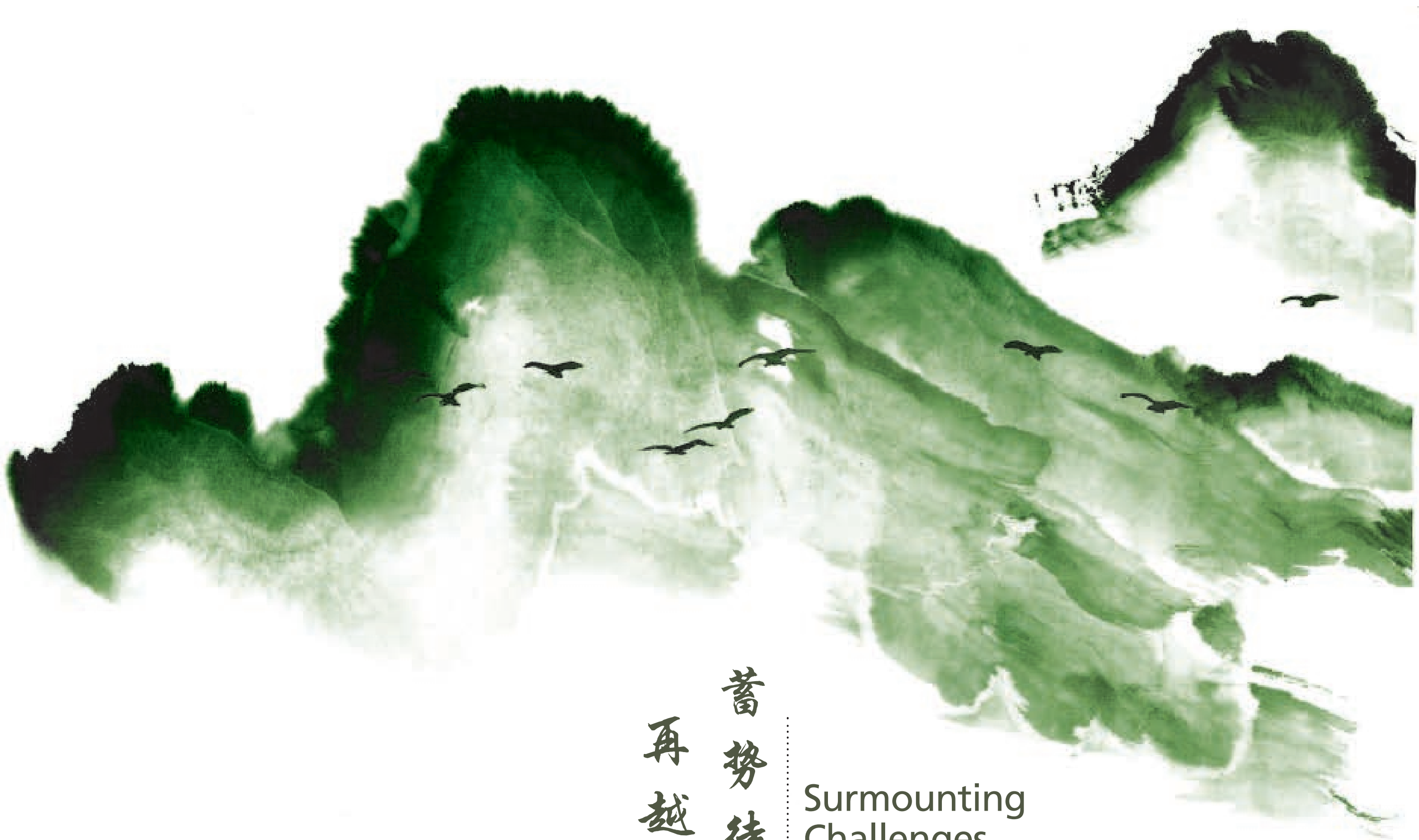
Hi-P INTERNATIONAL LIMITED
赫 比 国 际 有 限 公 司

annual report.05



蓄势待发
再越巅峰

Surmounting Challenges Scaling Peaks

cover rationale

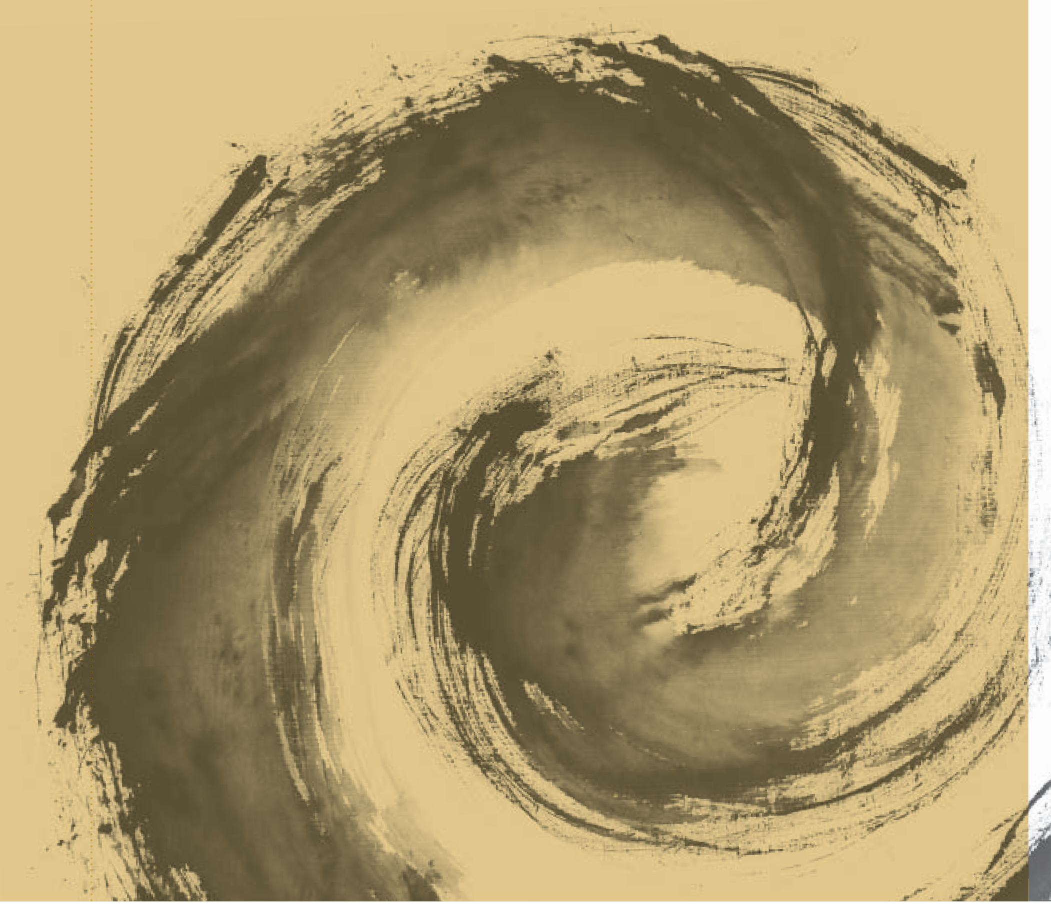
The use of the "shanshui" (Chinese: 山水, lit. "mountain" and "water") painting illustrates the strong Chinese cultural heritage of Hi-P International Limited. The strong brush strokes represent its steely persevering spirit and rigorous discipline. The majestic mountains allude to the new heights of achievements that it will scale.

(shŭi) 水

Water

Adaptability

Hi-P has a demonstrated ability to adapt, develop and implement effective strategies at each stage of its growth. Like the fluidity of water, we are also quick to respond to our customers' demands. We believe in delivering on our commitments with quality and integrity.



contents

Founded in 1980, Hi-P International Limited celebrates 25 years of outstanding achievements.

From a small Singapore-based tool-maker, Hi-P is today a leading supplier of electro-mechanical modules to the telecommunications, consumer electronics and computing industries. Our extensive and integrated service offering ranges from industrial and product design, manufacture, assembly, ancillary value - added services such as surface decoration finishing and precision metal stamping as well as turnkey contract manufacturing.

Headquartered in Singapore, Hi-P has an extensive footprint with 23 manufacturing plants globally. They are located across six sites in the People's Republic of China, two in Singapore, and one each in Mexico, Thailand and Poland. Hi-P employs about 13,500 people across the world.

We serve global industry leaders such as Motorola, the Gillette Company, Seagate, Siemens, Whirlpool, Bosch, Maxtor, Hitachi, NEC, Toshiba, Kodak and Baxter.

Our MISSION is to leverage on our strong execution foundation to create and deliver value for all our stakeholders:

CUSTOMERS

Hi-P is a global provider of quality integrated solutions and a strategic partner for mutual growth and success

SHAREHOLDERS

Hi-P is a company that generates profitable growth and healthy cashflow

EMPLOYEES

Hi-P is a people and results -oriented employer that rewards and empowers our people to maximise their potential

SOCIETY

Hi-P is a responsible corporate citizen that creates jobs and values the environment

Our Core Values

- Mutual Respect
- Team Spirit
- Integrity
- Discipline

corporate profile

25th anniversary celebrations

AWARDS

- Ranked 41st out of Singapore's Top 100 companies with the highest overseas revenue, as surveyed by IE Singapore
- Awarded Best OEM Supplier by Braun and Oral-B
- Awarded Best Teaming Partner of the Year 2005 by Motorola Hangzhou
- Awarded 2005 Best Performance by Whirlpool International Purchasing
- Won the Six Sigma Project Award

ACHIEVEMENTS

- Hi-P Singapore Limited
  - ISO/TS 16949 Certified
  - ISO 9001:2000 Certified
  - ISO 13485:2003 Certified
  - ISO 14001:2004 Certified
- Hi-P (Suzhou) Technology Co., Ltd
  - ISO 9001:2004 re-certification
- Hi-P Tianjin Electronics Co Ltd
  - ISO 9001:2000 Certified
  - ISO 14000 Certified

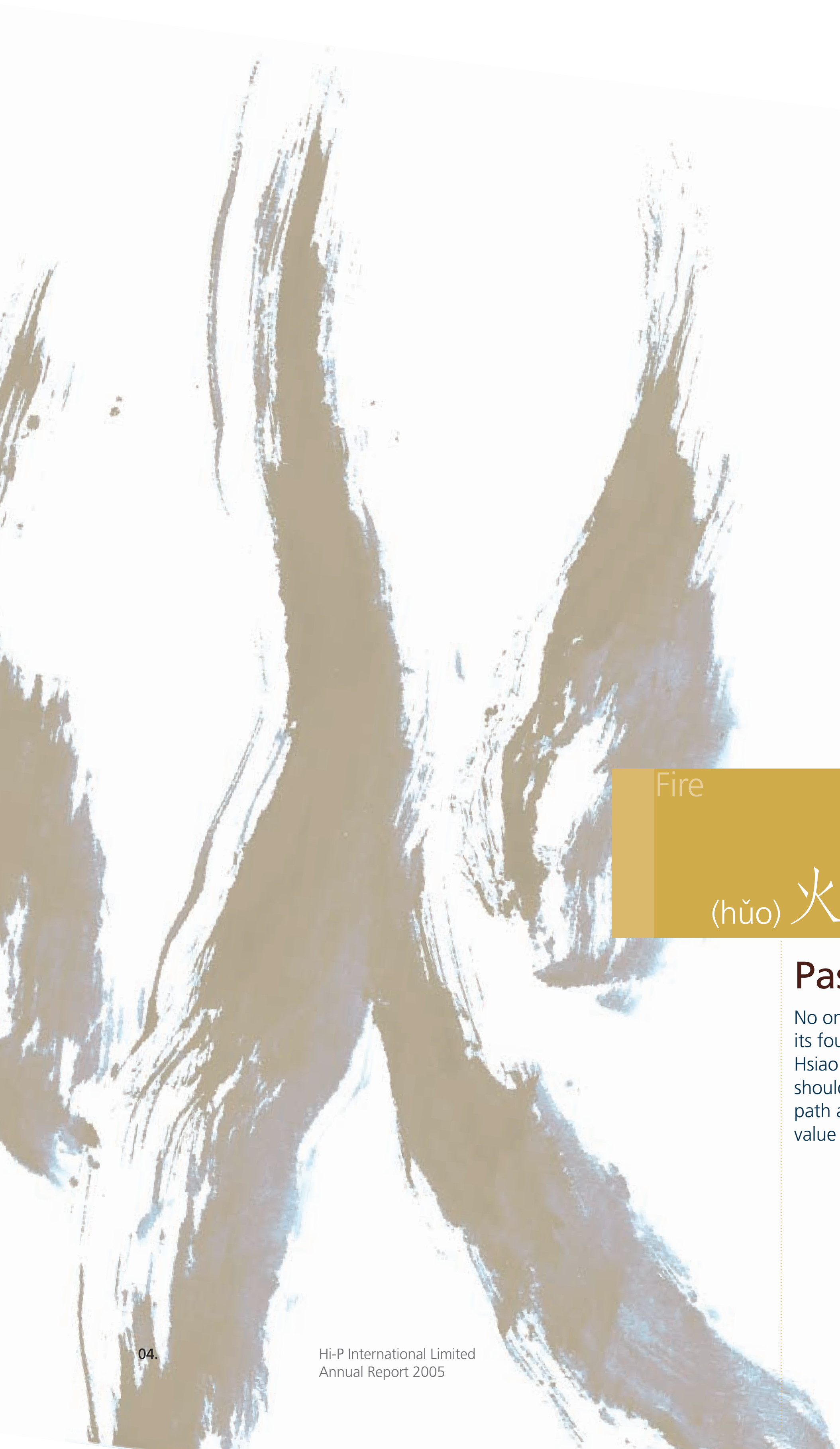
NEW INITIATIVES/ PROGRAMS

- Successfully implemented new SBU strategy
- Launched new Human Resources programs
  - Management Associate Program
  - Hi-P University
  - Tool Apprenticeship Program
  - New Performance Management System
- Launched Real Cost Programme
- Successfully implemented Kanban System for on-time delivery

NEW SUBSIDIARIES INCORPORATED

- Hi-P (Thailand) Co., Ltd
- Hi-P Poland SP. ZO.O.
- Hi-P GmbH
- Hi-P (Shanghai) Stamping Mold & Component Industries Co., Ltd
- Hi-P Samkwang Technology (Shanghai) Co., Ltd

highlights of 2005



Fire

(hǔo) 火

Passion

No one personifies the passion of Hi-P better than its founder, Executive Chairman and CEO, Mr.Yao Hsiao Tung. He is a man who believes that one should set one's own self-expectation, development path and the extent of one's ambitions. To him, the value of his life is contributing to society.

In 2005, Hi-P International Limited celebrated 25 years of remarkable achievements. It was also another record year as revenue reached S$633 million while net profit hit S$89 million. So what does the future hold? Here, we speak with Mr Yao Hsiao Tung, the visionary founder who catapulted the Singapore tool maker into one of the world's leading integrated contract manufacturer.

Q: MR YAO, WHAT WOULD YOU CONSIDER AS THE GREATEST ACHIEVEMENT FOR HI-P IN THE LAST 25 YEARS?

Yao: There are many milestones in our 25-year history that I am very proud of. Most significantly, we have successfully transformed a small local tool maker into an internationally reputed vertical integrated contract manufacturer, employing some 13,500 people. We serve some of the world's leading manufacturers, which is a strong testament to our commitment to quality and integrity. We have distinguished ourselves as one of the first Singapore companies to succeed in China; our China operations have been profitable since we started in 1993. We have also succeeded in globalizing our operations. In addition, we were listed on the Singapore Exchange in December 2003 and have since won recognition from both the local and international investing community.

Q: HI-P GREW BY A CAGR OF MORE THAN 50% IN REVENUE AND PROFITS FROM 1999 TO 2004. IN 2005, REVENUE GREW 12.8% BUT NET PROFIT WAS ONLY MARGINALLY BETTER. WHY?

Yao: Revenue growth was mainly driven by stronger performances at the Consumer Electronics and Computing business units. Although revenue at the Wireless SBU was flat last year, we are encouraged by a strong pick-up in the last two quarters of the year. Last year, our profitability was impacted by three major factors: - higher material costs, start-up costs and under-utilization of new facilities.

Gross margin declined mainly due to new projects which commenced in Q4 which had higher material costs. At the operating level, we were also affected by start-up costs relating to new plants and processes set-up during the year. Last year, Hi-P set up new plants in Thailand and Poland, and we re-located to a new and larger plant in Mexico. We were also impacted by under-utilization of new facilities in Suzhou, lens manufacturing and surface mount technology (SMT) manufacturing.

interview with executive chairman

However, we view these investments in new plants and new process capabilities as crucial to our long term prospects. We believe that these are short term pains that we have to endure to ensure that we remain competitive in the long run.

Nonetheless we are still pleased that our overall profitability is amongst the best in the industry. We believe this is contributed by our discipline and strong execution foundation.

Q: IT APPEARS THAT PROFITABILITY LAST YEAR SUFFERED AS A RESULT OF EXPANSION. DO YOU INTEND TO SLOW DOWN THE PACE OF EXPANSION?

Yao: Actually, we are planning to invest more than S$100 million in 2006. A major reason our capacity was underutilized last year was the preference of some customers for suppliers with total capability solutions. As we did not have several metal-related capabilities at the time, that affected our loading. So this year, we will be spending some money to add metal-related process capabilities such as cosmetic stamping, anodizing as well as magnesium molding to meet the rising demand for "designer" features in mobile phones. We also penetrated an important new customer in the telecommunications sector and will be building a new plant to serve them.

Q: HOW WILL YOU FUND THE $100 PLUS MILLION CAPEX IN 2006?

Yao: We expect to be able to fund our capex with internally generated funds. As at the end of 2005, we still have net cash and cash equivalents of $73 million. With continued growth this year, we should be able to generate enough operating cash flows to finance the capex in 2006.

Q: WILL WE THEREFORE SEE ANOTHER YEAR OF LOWER MARGINS IN 2006 AS A RESULT OF THIS ONGOING EXPANSION?

Yao: As for 2006, we expect average margins to be moderately better than that seen in the last quarter of 2005. In the long term, with greater vertical integration, we do expect our margins to decline, albeit at a moderate pace. However, it is more important to note that our value added to our customers will increase as we will be able to offer more services under one roof.

interview with executive chairman

Q: HI-P HAS STEPPED UP ITS CAPEX IN THE LAST FIVE YEARS AND YET MANAGED TO GENERATE POSITIVE FREE CASH FLOW IN THE LAST THREE YEARS. HOW DID YOU DO IT AND DO YOU EXPECT THIS TO CONTINUE?

Yao: Cash flow is a key aspect in our capital management strategy. We have been able to generate positive free cash flow in the last three years because of strong revenue and more importantly, because we have been vigilant and prudent in our financial management. Maintaining a healthy cash flow and financial position will always remain a priority for Hi-P.

Q: SO WHAT DOES 2006 HOLD FOR SHAREHOLDERS?

Yao: We were laying the foundation for future sustainable growth by successfully acquiring new customers, strategically expanding into new process capabilities and enlarging our global footprint in 2005. In 2006, we will start to reap the benefits of the hard work put in last year. We have a strong pipeline of projects from both existing and new customers in all business segments. We should also see margins improve from the levels seen in Q4 FY2005. We are starting to see improved loading at some of the under-utilized plants and we are pleased to report that our lens manufacturing and SMT manufacturing have also been qualified by customers. Overall, we expect another year of growth at Hi-P in 2006.

Having said that, I am indeed grateful to our three SBU heads. They have displayed great tenacity and leadership to meet and overcome the challenges of their respective industries. I am thankful to the 13,500 employees that we have around the world who have all contributed to the growth last year. I am also most appreciative to our Directors who have provided much guidance and counsel to the company.

I am confident in the future of Hi-P. As a team, we will continue to work together to surmount all challenges and to scale new peaks.

Q: WHAT ABOUT DIVIDENDS? WILL HI-P INCREASE ITS DIVIDEND PAYOUT IN 2006?

Yao: I am grateful for the continued support of our shareholders. Currently, we do not have a formal dividend policy but we have kept our dividend payout in the last two years to 10% of earnings. We will continually review our dividend payout as part of our total capital management strategy, taking into consideration the company's financial position and its investment needs for growth. Our goal is to work towards a consistent dividend development.

interview with executive chairman

MR YAO HSIAO TUNG
Executive Chairman
Chief Executive Officer

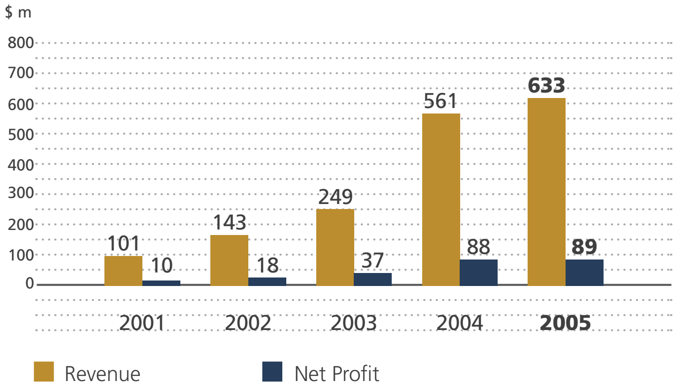
FIVE-YEAR KEY FINANCIAL DATA

FOR THE YEAR (S$ M)	2001	2002	2003	2004	2005
Revenue	101	143	249	561	633
Gross Profit	28	41	66	140	142
Pretax Profit	12	20	40	92	93
Net Profit	10	18	37	88	89
Capital Expenditure	26	32	55	63	86
Gross Margin	28%	29%	26%	25%	19%
Net Margin	10%	13%	15%	16%	11%
Operating Cash flow	19	19	54	58	72
Free Cash Flow	2	-4	21	1	2

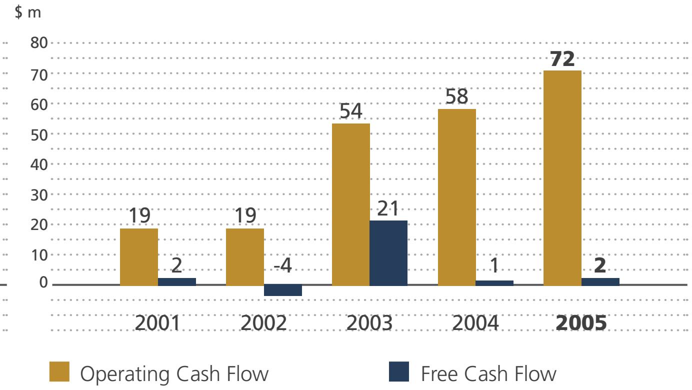
AT YEAR END (S$ M)	2001	2002	2003	2004	2005
Total Assets	124	164	342	443	566
Total Liabilities	62	87	149	172	203
Net Assets	62	77	194	271	364
Share Capital	18	18	44	44	44
Shareholders' Funds	61	75	191	269	362
Cash & Cash Equivalents	13	9	113	88	73
Debt/Equity Ratio	57%	52%	25%	8%	2%
Return on Assets	9%	12%	14%	22%	18%
Return on Equity	18%	26%	27%	38%	28%
Per Share Data (Singapore cents)					
Earnings per share	1.34	2.43	4.93	9.93	10.04
Net Assets per share	3.37	4.18	21.84	30.58	40.78

financial highlights

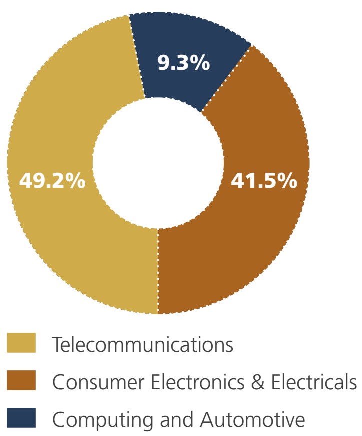
REVENUE & NET PROFIT



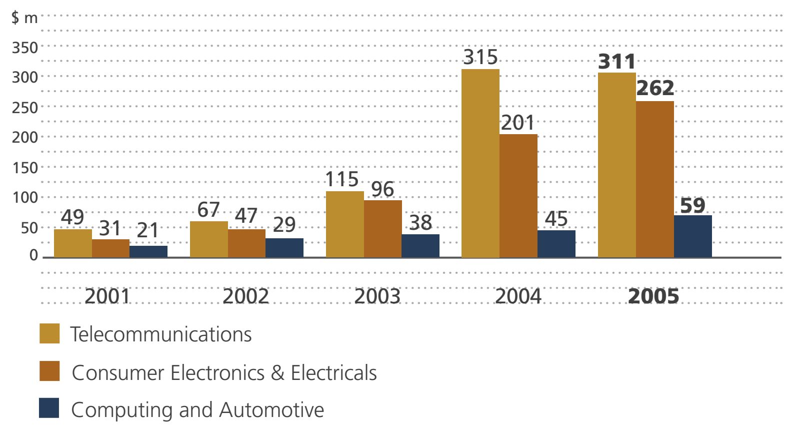
OPERATING CASHFLOW & FREE CASHFLOW



2005 SEGMENTAL REVENUE



FIVE-YEAR SEGMENTAL REVENUE



financial highlights

Gold

(jin) 金

Tenacity

Like the precious metal, Hi-P is tenacious when it comes to managing challenges and scaling new heights of achievement. As Hi-P enters a new era of growth, we believe that we have the right strategy, the right people and the right attitude to create even greater value for all our stakeholders - be they our shareholders, customers, employees or society.

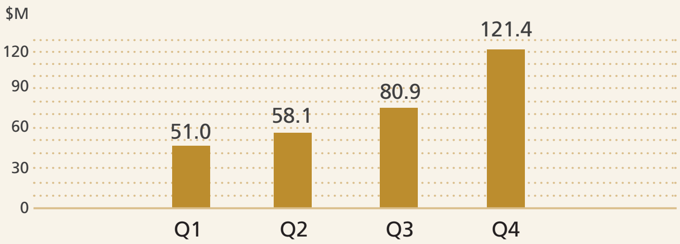
It was an exciting year for Hi-P International Limited in 2005 as we yet again chalked up record revenue and profit. During the year, we continued to expand strategically, both geographically as well as in our vertical integration efforts. We now have 23 manufacturing plants in eight locations, following the addition of new plants in Thailand and Poland last year.

Globally, we continue to see more and more manufacturers consolidating their outsourcing amongst fewer but more integrated suppliers. Hi-P has a strong competitive position to leverage on this trend as we step up the value chain. We have established ourselves as a key electro-mechanical supplier to Tier One manufacturers and with further efforts in vertical integration; we are well-positioned to be the manufacturing partner of choice.

business review

TELECOMMUNICATIONS

Telecommunications Revenue in 2005



According to IDC, some 825 million mobile phones were sold in 2005, or 17% more than 2004. In emerging markets such as Latin America, China and India, growth was driven by falling prices for both phones and cellular connectivity. In the more mature markets such as Europe, North America and Japan, replacement sales of mobile phones continue to be driven by a growing number of users who are enthusiastic for the latest fashion phones and handsets with built-in music players.

As the life cycle for mobile phones gets shorter, mobile phone manufacturers are also increasing outsourcing of their designing and manufacturing to allow for faster response time to the market and to focus on their own core competencies, particularly in branding and marketing. To meet this demand, Hi-P's Wireless SBU has strengthened its competitive position as an electro-mechanical supplier in 2005. Last year, we added industrial and mechanical design and also expanded into Printed Circuit Board Assembly (PCBA) operations. The latter is mainly to support the integration of electro-mechanics components such as keypad, LCD, camera modules and antenna for our customers in the Telecommunications industry. With this new capability, Hi-P will be able to integrate mechanical process with sub-assembly, thereby enhancing our overall value proposition to our customers.

In 2005, the telecommunications segment was the largest contributor to Group revenue with a share of 49.2% or $311.4 million. After a slow start in the beginning of the year, revenue picked up very strongly in the last two quarters, driven by several new projects for Motorola, including some of its high volume leaders. Most significantly, we also announced a new Tier One customer in this segment.

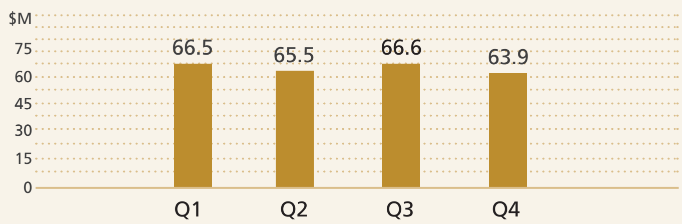
We expect a year of good growth for the Telecommunications segment in 2006, supported by a strong pipeline of projects as well as contributions from our new customer. 2006 will be another active year of strategic expansion and continuous vertical integration. We will be building a new plant in southern China to serve the new customer as well as expanding our process capabilities further. In light of the rising demand for more "designer" features on casings, we will also be developing process capabilities such as sheet window, vacuum metalisation, cosmetic stamping and magnesium molding.

WIRELESS SBU STRATEGY FOUNDATION

Customer Centric Organisation	Vertical Integration	Campus Manufacturing

CONSUMER ELECTRONICS & ELECTRICALS

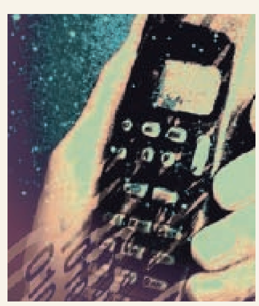
Consumer Electronics Revenue in 2005



Compared to the handset sector, OEMs in the consumer electronics (including housing appliances) industry are slower to outsource their design and manufacturing functions. However, we do see a rising trend and Hi-P is proud to be one of the early manufacturing partners of brand leaders in this space.

The Consumer Electronics and Electrical segment, which accounted for 41.5% of Group revenue, was the star performer in 2005. Last year, revenue grew 31% to S$262.5 million, boosted by a new ladies' razor project as well as a new battery-operated toothbrush. Revenue would have been better if not for a delay in the shipment of a new men's razor project in the fourth quarter.

business review



2005 was a year of exciting customer wins such as Whirlpool, Bosch and a new oral care customer, all leaders in their respective segments. We also set up a plant in Poland in the last quarter of 2005. This will enable us to offer greater flexibility, faster response time to market and enhance our support for our global customers, who not only have manufacturing presence in the European Union, but also significant end-markets.

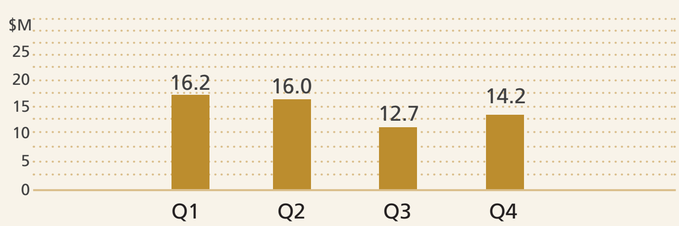
We are optimistic of another year of growth in 2006, boosted by contributions from new customers that were announced last year. We also expect better profitability on the back of a turnaround at our Mexican operations, where profitability had been impacted by significant relocation costs, and better loading at our new Polish plant.

CE SBU STRATEGY FOUNDATION

- Manufacturing & Processing Arts
- Effective Resource Management
- Cost Efficiency
- Competitive Manufacturing Locations Closest to Customer Base
- On-time Delivery
- Top Down Commitment in Delivery
- Effective Project Management & Execution

COMPUTING & AUTOMOTIVE

Computing Revenue in 2005



In 2005, the hard disk drive (HDD) industry shipped 380 million units, representing a growth of 25% over 2004, according to market research firm, Gartner Dataquest. Demand was driven by the explosive growth in digital content and the need for mass storage in both the new consumer markets, such as MP3 players and digital video recorders, and the traditional computing markets.

Notwithstanding the decline in demand for one-inch disk drives which started in the second half of 2005, the Computing segment managed to grow revenues by 31% to $59 million, owing to strong demand for other form factors such as the 1.8" and 2.5" drives. The segment accounted for 9.3% of Group revenue last year.

The Computing SBU also had some significant customer wins, including Samsung and Donaldson in the HDD industry as well as a U.S. company involved in PC-related and music products. To cater to demand from these new customers, we have set up new plants in Thailand and Suzhou.

2006 will be another year of growth for the Computing SBU. The demand outlook for HDD remains optimistic in the PC and consumer electronics sectors. With more mobile multimedia services on the way, the demand for higher storaqe capacity on handsets will accelerate and a new perpendicular recording technology is set to boost HDD capacity by 30%. As we currently serve the world's top HDD manufacturers, we also expect the strong demand trend to benefit Hi-P. Growth will be further augmented by contributions from new customers as well as improving loading at the two new plants.

COMPUTING SBU STRATEGY FOUNDATION

- Excellence in Precision
- Excellence in Execution
- Total Customer Satisfaction

business review

(mù) 木

Wood

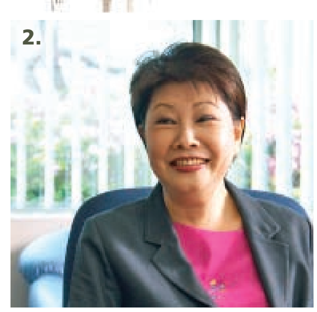
Strength

The people of Hi-P are its pillars of strength, united by their common aspirations for a successful and enduring organization. Our core values - Mutual Respect, Team Spirit, Integrity, Discipline - not only create and promote a harmonious working environment, they also create unique and valuable people who will take Hi-P to new and greater heights.

board of directors

1.

2.



1. MR YAO HSIAO TUNG is our Executive Chairman and Chief Executive Officer. He was appointed to the Board in May 1983. He is responsible for formulating the strategic directions of the Group as well as overall management of the operations. Mr Yao has more than 40 years of experience in the precision tooling and plastic injection molding industry. He was a technical service manager with Du Pont Singapore Electronics Pte Ltd before joining the Group in 1980. Mr Yao holds a Diploma in Chemical Engineering from Taiwan Kaohsiung Technical College.

2. MDM WONG HUEY FANG is an Executive Director and Chief Administrative Officer of the Group. Her key responsibilities include managing our Group's administrative, legal, public relations and procurement functions. She was appointed to the Board in January 1988. Prior to joining our Group in 1985, Mdm Wong was a purchaser with Taiwan-based Aven Electronics Co. Ltd.

3. MR YEO TIONG ENG is a Non-Executive Director of the Group and was appointed to the Board in April 1987. He is currently the Senior Regional Financial Director of Molex Far East South Management Pte Ltd. Mr Yeo graduated with a Bachelor's degree in Accountancy from Nanyang University. He also holds a Masters of Business Administration (Business Law) from Nanyang Technological University. He is a member of the Institute of Certified Public Accountants of Singapore.

4. DR TAN KHEE GIAP is an Independent Director of the Group and was appointed to the Board in November 2003. He is an Associate Professor of Banking and Finance with Nanyang Technological University. Dr Tan also serves as a consultant to multinationals and global organisations in various areas. He is currently the Deputy President of the Economics Society of Singapore. Dr Tan holds a PhD in Economics from the University of East Anglia, UK.

5. MR WONG MENG MENG is an Independent Director of the Group and was appointed to the Board in November 2003. He is the Senior Partner of Wong Partnership, and a director of Clifford Chance Wong Pte Ltd. He has more than 30 years of experience in litigation and arbitration in banking, corporate and commercial matters. He is a member of the International Arbitration Institute, the Singapore International Arbitration Centre's Main Panel of Arbitrators, the Butterworths Asia Advisory Panel on Construction Industry and the Singapore Institute of Architects Panel of Arbitrators.

6. MR CHESTER LIN CHIEN is a Non-Executive Director of the Group and was appointed to the Board in August 2004. Mr Lin was previously the Executive Vice President and President of Solectron's Asia Pacific region. Prior to joining Solectron, he was the Chief Executive Officer of NatSteel Electronics from 1993 to 2001. Previously, Mr Lin also worked with SCI Systems, General Electric and General Instruments (Taiwan). He holds a Bachelor's degree in Electrical Engineering from the Taipei Institute of Technology.

board of directors

1. HUANG WOOI TEIK is our Chief Financial Officer who is responsible for the overall financial operations of the Group. Prior to joining the Group in 2005, Mr. Huang was based in China where he served as the Senior Vice-President (Finance) of Hong Leong (China) Limited, a subsidiary of Singapore-listed Hong Leong Asia Limited. Previously, Mr Huang had held senior management positions in Wilmar Holdings, Carrier Air-Conditioning Group and Sime Darby. Mr Huang started his career in KPMG Peat Marwick and holds a Masters of Business Administration (Honours) from Oklahoma City University, in addition to a Bachelor of Accountancy from University of Singapore. He is a Certified Public Accountant in Singapore, a Fellow of CPA Australia, a member of the Marketing Institute of Singapore and an Associate with the Chartered Institute of Marketing in United Kingdom.

2. GARY HO HOCK YONG is our Managing Director, Wireless SBU. He is responsible for the overall management and business development of the business unit. He has been with the Group since April 1996 and had previously assumed the roles of Senior Sales Engineer, Assistant Sales Manager, Sales Manager, Regional Sales Manager, Corporate Business Manager and Marketing Director within the group. Mr Ho holds a Diploma in Production Technology from the German Singapore Institute.

3. GERHARD J. ZEBE is our Managing Director, Consumer Electronics SBU. He is responsible for the overall management and business development of the business unit. Mr Zebe has more than 29 years of experience in the precision plastic injection mold design and fabrication industry. He was previously Managing Director of the Group's Greater China operations. Prior to joining the Group in June 2002, Mr Zebe was the Technical Director in Braun (Shanghai) Co., Ltd. He had previously held various managerial positions in German-based companies. Mr Zebe holds a Diploma for tool making/tool design with the German chamber for Industry and commerce.

4. ANG LIEN PENG is our General Manager, Computing SBU. He is responsible for the overall management and business development of the business unit. He first joined the Group in September 1998 as a Customer Account Manager. Mr Ang has more than 20 years of experience in the precision plastic injection molding field, having worked in Omni Plastics Pte Ltd, Singa Plastics Pte Ltd and Phillips Singapore Pte Ltd. He holds a Bachelor's Degree in Business Administration from the Oklahoma City University and a Diploma in Production Technology from the German Singapore Institute.

5. CHAN HEAN WEE is our Managing Director, Metal Stamping SPU (Special Process Unit). He is responsible for the overall management and business development of the process unit.Mr Chan has more than 20 years of experience in the metal stamping field. Prior to joining the Group in November 2001, he was Chief Executive Officer and Executive Director of Bi-link Metal Specialties (S) Pte Ltd. Previously, he also held management and supervisory positions in NMB Precision Tool & Die Pte, Ltd. and NMB Singapore Ltd. Mr Chan holds a Bachelor's degree (First Class Honours) in Mechanical Engineering from Strathclyde University, Scotland and a Diploma in Mechanical Engineering from Singapore Polytechnic.

6. CHAN EARN MENG is our Director of Human Resources. He oversees the Group's functions in human resources, administration, environmental health and safety and security. Prior to joining Hi-P in September 2004, he held human resources positions at OCBC Bank and Seagate International. Mr Chan was a commissioned officer with the Ministry of Defence before entering the private sector. He holds a Bachelor of Arts with Honours from the National University of Singapore and a Masters in Business Administration from the University of Southern Queensland.

management team

financial contents

HI-P group of companies

HOLDING CO.

Hi-P International Limited
11 International Business Park, Jurong East
Singapore 609926

SUBSIDIARIES – SINGAPORE

Hi-P Industries Pte. Ltd.
11 Woodlands Sector 1
Singapore 738357

Hi-P Samkwang Technology (Singapore) Pte. Ltd.
11 International Business Park, Jurong East
Singapore 609926

Hi-P Management Services Pte. Ltd.
(previously known as Hi-P Tech Singapore Pte Ltd)
11 International Business Park, Jurong East
Singapore 609926

SUBSIDIARIES - EAST CHINA

Hi-P (Shanghai) Industries Co., Ltd.
Building 8, No. 1006, Jinmin Road,
Pudong New District,
Shanghai, the PRC

Hi-P Camera Products Co., Ltd.
No. 366, Jin Zang Road,
Pudong New District,
Shanghai, the PRC

Hi-P Precision Plastic Manufacturing (Shanghai) Co., Ltd.
No. 366, Jin Zang Road, Pudong New District,
Shanghai, the PRC

Hi-P (Shanghai) Housing Appliance Co., Ltd.
No. 366, Jin Zang Road,
Pudong New District,
Shanghai, the PRC

Hi-P Shanghai Electronics Co., Ltd.
No. 366, Jin Zang Road,
Pudong New District,
Shanghai, the PRC

Hi-P (Suzhou) Technology Co., Ltd.
Building G, No. 72 Loujiang Road,
Kuatang Sub-Zone,
Suzhou Industrial Park,
Jiangsu, the PRC

Hi-P (Suzhou) Electronics Co., Ltd
No.73 Lu Shan Road,
Suzhou New District,
Jiangsu, the PRC

Hi-P (Shanghai) Precision Mold & Die Co., Ltd.
Building 3 and 4, 1006 Jinmin Road,
Jinqiao Export Processing Zone,
Shanghai, the PRC

Hi-P (Shanghai) Technology Co., Ltd
No. 3151 Gu Gao Road,
Cao Lu Town, Pudong New District,
Shanghai, the PRC

Hi-P Samkwang Technology (Shanghai) Co., Ltd
No.1F, 3151 Gu Gao Road,
Cao Lu Town, Pudong New District,
Shanghai, the PRC

Hi-P (Shanghai) Stamping Mold & Component Industries Co., Ltd
No.96 Jinwen Road,
Shanghai Zhuqiao Airport Industrial Nanhui District, Shanghai, the PRC

SUBSIDIARIES - SOUTH CHINA

Hi-P (Xiamen) Precision Plastic Manufacturing Co., Ltd.
Hai Cang Xing Gang Road,
Export Processing Zone,
4D Building, Xiamen, the PRC

SUBSIDIARIES - NORTH CHINA

Hi-P Tianjin Electronics Co., Ltd.
6, Building C Xiang-an Road,
Tianjin Technological and Economic
Development Area,
Tianjin, the PRC

Hi-P (Tianjin) Technology Co., Ltd.
No. 80, the 9th Street,
Tianjin Technological and Economic
Development Area,
Tianjin, the PRC

Hi-P (Tianjin) Precision Mold & Die Co., Ltd.
South Side, Building F,
Fenghua Industrial Park,
No. 66 the 9th Avenue,
Tianjin Technological and Economic
Development Area, Tianjin, the PRC

Qingdao Haier Hi-P Science Technology Co., Ltd.
Haier Industrial Park, 1 Haier Road,
Qingdao, the PRC

SUBSIDIARIES - WEST CHINA

Hi-P (Chengdu) Precision Plastic Manufacturing Co., Ltd.
D.E.F. Area, 1st floor, #11, Gaopeng Road,
Chengdu High-Tech Development Zone,
Chengdu, the PRC

Hi-P (Chengdu) Mold Base Manufacturing Co., Ltd.
B2, C, lst floor,#11, Gaopeng Road,
Chengdu High-Tech Development Zone,
Chengdu, the PRC

SUBSIDIARIES – SOUTH AMERICA

High Precision Moulding and Tools, S.A. de C.V.
Av. De la Exportacion
No. 317 Parque Industrial Guadalajara Carreter Guadalajara -
Chapala Km 7.5 Las Pintas, MP1O, El Salto,
Jalisco, CO. 44690, Mexico

SUBSIDIARIES - NORTH AMERICA

Hi-P North America, Inc.
2020 Hammond Drive, Schaumburg, IL
60173, USA

SUBSIDIARIES - EUROPE

Hi-P Finland Oy
Hornin Katu 7A, 1, Salo 24100, Finland

Hi-P GmbH
Dachauer Str. 37
80335 München
Germany

Hi-P Poland SP. ZO.O.
Grabskiego Street 8/10
55-011 Siechnice
Poland

SUBSIDIARIES - OTHERS

Hi-P Mauritius Ltd.
802 St James Court, St Denis Street
Port Louis, Mauritius

Hi-P Resources Ltd.
802 St James Court, St Denis Street
Port Louis, Mauritius

Hi-P (Thailand) Co., Ltd
Amata City Industrial Estate,7/132, Moo 4,
Tambon Mabyangporn,
Amphur Pluakdaeng, Rayong 21140, Thailand

ASSOCIATED CO.

Express Tech Mfg Pte. Ltd.
5004 Ang Mo Kio Avenue 5
#02-01, Tech Place II , Singapore 569872

Hi-Tec Precision Mould Pte. Ltd.
Blk 2 Skytech #04-01
Bukit Batok Street 24
Singapore 659480

Design Exchange Pte Ltd
67 Ayer Rajah Crescent
Unit 03-25/26
Singapore 139950

Hi-P International Limited (the "Company") is committed to achieving a high standard of corporate governance within the Group. The Company believes it has put in place effective self-regulatory corporate practices to protect its shareholders' interests and enhance long-term shareholders' value. The Board is pleased to report on the Company's corporate governance processes and activities as required by the Code of Corporate Governance 2001 (the "Code") prescribed by the Singapore Exchange Securities Trading Limited ("SGX-ST"). For easy reference, sections of the Code under discussion are specifically identified. However, this Report should be read as a whole as other sections of this Report may also have an impact on the specific disclosures.

Board Matters

PRINCIPLE 1: BOARD CONDUCT OF ITS AFFAIRS

The Board of Directors (the "Board") comprises the following members:

Executive Directors
Mr Yao Hsiao Tung
Mdm Wong Huey Fang

Non-executive Directors
Mr Yeo Tiong Eng
Mr Lin Chien

Independent Directors
Dr Tan Khee Giap
Mr Wong Meng Meng

Apart from its statutory duties and responsibilities, the Board performs the following functions:-

(a) overseeing the management and affairs of the Group;
(b) approving the Group's corporate and strategic directions;
(c) nomination of Directors to the Board;
(d) appointment of key personnel;
(e) reviewing the financial performance of the Group and implementing policies relating to financial matters, which include risk management and internal control and compliance;
(f) approving annual budgets, major funding proposals, investment and divestment proposals; and
(g) assuming responsibility for corporate governance.

These functions are carried out either directly or through Board Committees such as the Nominating Committee, the Remuneration Committee and the Audit Committee.

Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest for a substantial shareholder or a Director, material acquisitions and disposal of assets, corporate or financial restructuring, share issuance and dividends, and financial results and corporate strategies.

Formal Board meetings are held at least once every quarter to oversee the business affairs of the Group, and to approve, if applicable, any financial or business objectives and strategies. Ad-hoc meetings are convened when the circumstances require. The Company's Articles of Association allow a Board meeting to be conducted by way of tele-conference and video-conference.

During the financial year, the Board held eight meetings and the attendance of each Director at every Board and Board Committee meeting is as follows:-

Name	Board Committee		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Mr Yao Hsiao Tung (Executive Chairman)	8	8	5	5	-	-	3	3
Mdm Wong Huey Fang (Executive Director)	8	8	5	5	-	-	-	-
Mr Yeo Tiong Eng (Non-executive Director)	8	8	5	5	1	1	-	-
Mr Lin Chien (Non-executive Director)	8	3	5	5	-	-	-	-
Dr Tan Khee Giap (Independent Director)	8	7	5	5	1	1	3	3
Mr Wong Meng Meng (Independent Director)	8	7	5	5	1	1	3	3

PRINCIPLE 2: BOARD COMPOSITION AND BALANCE

The Board comprises six Directors, two of whom are non-executive Directors and two are independent Directors. The independence of each Director will be reviewed annually by the Nominating Committee. The Nominating Committee adopts the Code definition of what constitutes an independent Director in its review.

The Board will constantly examine its size and, with a view to determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective decision making. The composition of the Board will be reviewed on an annual basis by the Nominating Committee to ensure that the Board has the appropriate mix of expertise and experience.

The Board, taking into account the nature of operations of the Company, considers its current size to be adequate for effective decision-making. Key information regarding the Directors' academic and professional qualifications and other appointments is set out on page 15 of the Annual Report.

PRINCIPLE 6: ACCESS TO INFORMATION

To assist the Board in fulfilling its responsibilities, the Board is provided with management reports containing relevant background or explanatory information required to support the decision-making process. The Board is provided with adequate and timely information prior to each Board meeting. The Board is also provided with management accounts of the Group's performance, position and prospects on a quarterly basis.

The Board has separate and independent access to senior management and the Company Secretary at all times. The Company Secretary attends all Board meetings and ensures that all Board procedures are followed. The Company Secretary also ensures that the Company complies with the requirements of the Companies Act and the SGX-ST.

If any of the Directors require independent professional advice in the furtherance of their duties, the cost of such professional advice will be borne by the Company.

PRINCIPLE 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

It is the view of the Board that it is in the best interest of the Group to adopt a single leadership structure, i.e. where the CEO and the Chairman of the Board is the same person, so as to ensure that the decision-making process of the Group would not be unnecessarily hindered.

The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and based on collective decisions without any individual exercising any considerable concentration of power or influence. Further, all the Board committees are chaired by independent Directors.

The Group's Chairman and CEO is Mr Yao Hsiao Tung, who is responsible for the day-to-day operations of the Group, as well as monitoring the quality, quantity and timeliness of information flow between the Board and the management. Mr Yao is the founder of the Group and has played a key role in developing the Group's business. Through the Group's successful development in these few years, Mr Yao has demonstrated his vision, strong leadership and enthusiasm in this business.

Board Committees

Nominating Committee ("NC")

PRINCIPLE 4: BOARD MEMBERSHIP

PRINCIPLE 5: BOARD PERFORMANCE

The NC comprises Dr Tan Khee Giap, Mr Yeo Tiong Eng and Mr Wong Meng Meng. The Chairman of the NC is Dr Tan Khee Giap.

The Board has approved the written terms of reference of the NC. Its functions are as follows:-

(a) recommending and reviewing candidates for appointment to the Board;
(b) reviewing candidates nominated for appointment as senior management staff;
(c) reviewing and recommending to the Board on an annual basis, the Board structure, size and composition, taking into account the balance between executive and non-executive, independent and non-independent Directors and having regard at all times to the principles of corporate governance and the Code;
(d) procuring that at least one-third of the Board shall comprise independent Directors;
(e) making recommendations to the Board on continuation of service of any Director who has reached the age of 70;
(f) identifying and making recommendations to the Board as to the Directors who are to retire by rotation and to be put forward for re-election at each Annual General Meeting ("AGM") of the Company, having regard to the Directors' contribution and performance, including independent Directors;
(g) determining whether a Director is independent (taking into account the circumstances set out in the Code and other salient factors); and
(h) proposing a set of objective performance criteria to the Board for approval and implementation, to evaluate the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

The NC has adopted a formal process for the evaluation of the performance of the Board. In 2004, the Group implemented the Board-approved evaluation process and performance criteria to assess the performance of the Board. The performance criteria includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, Board processes and Board performance in relation to discharging its principal responsibilities in terms of the financial indicators as set out in the Code.

The NC assessed the Board's performance as a whole in FY2005.

The assessment process involves and includes input from the Board members, applying the performance criteria recommended by the NC and approved by the Board. The Directors' input are collated and reviewed by the Chairman of the NC, who presents a summary of the overall assessment to the NC for review. Areas where the Board's performance and effectiveness could be enhanced and recommendations for improvement are then submitted to the Board for discussion and for implementation.

All Directors are subject to the provisions of the Company's Articles of Association whereby one-third of the Directors are required to retire and subject themselves to re-election by shareholders at every AGM.

The NC recommended to the Board that Mr Wong Meng Meng and Mr Yeo Tiong Eng be nominated for re-appointment at the forthcoming AGM.

In making the recommendation, the NC had considered the Directors' overall contribution and performance.

Remuneration Committee ("RC")

PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION

PRINCIPLE 9: DISCLOSURE OF REMUNERATION

The RC comprises Mr Wong Meng Meng, Mr Yao Hsiao Tung and Dr Tan Khee Giap. The Chairman of the RC is Mr Wong Meng Meng.

The Board has approved the written terms of reference of the RC. Its functions are as follows:-

(a) recommending to the Board a framework of remuneration for the Board and key executives of the Group (as required by law and/or the Code) which shall include the disclosure of details of the Company's remuneration policy, level and mix of remuneration and procedure for setting remuneration and details of the specific remuneration packages such as Director's fees, salaries, allowances, bonuses, options and benefits-in-kind;

(b) proposing to the Board appropriate and meaningful measures for assessing the executive Directors' performance; and

(c) considering the eligibility of Directors for benefits under long-term incentive schemes.

In carrying out the above, the RC may obtain independent external legal and other professional advice as it deems necessary. The expenses of such advice shall be borne by the Company.

The Company sets remuneration packages which are competitive and sufficient to attract, retain and motivate Directors and senior management with adequate experience and expertise to manage the business and operations of the Group. The remuneration paid and payable to the Directors, executive officers and employees related to Directors or the CEO for services rendered during the financial year ended 31 December 2005 are as follows:

Remuneration Bands	Salary %	Performance Bonus %	Director's fees %	Others %	Total %
Directors					
S$500,000 and above					
Yao Hsiao Tung	27	69	4	-	100
S$250,000 - S$500,000					
Wong Huey Fang	71	17	12	-	100
Below S$250,000					
Yeo Tiong Eng	-	-	100	-	100
Dr Tan Khee Giap	-	-	100	-	100
Wong Meng Meng	-	-	100	-	100
Lin Chien	-	-	100	-	100

Remuneration Bands	Salary %	Performance Bonus %	Others %	Total %
Executive Officers				
S$500,001 - S$750,000				
Gerhard J. Zebe	66	34	-	100
S$250,000 - S$500,000				
Huang Wooi Teik (*Appointed with effect from 12 December 2005)	87	13	-	100
Philip Tan Tor Howe (*Resigned with effect from 9 December 2005)	86	14	-	100
Gary Ho Hock Yong	81	19	-	100
Ang Lien Peng	73	27	-	100
Chan Hean Wee	91	9	-	100
Chan Earn Meng	80	20	-	100

The remuneration of the non-executive and independent Directors is in the form of a fixed fee. The remuneration of the non-executive and independent Directors will be subject to approval at the AGM.

The Executive Chairman and CEO has a service agreement with the Company. His compensation consists of salary, bonus and performance award that is dependent on the Group's performance.

Save for above-mentioned, none of the employees who are immediate family members of a Director receives remuneration exceeding S$150,000 during the year.

The Company has a share option scheme known as Hi-P Employee Share Option Scheme (the "ESOS") which was approved by shareholders of the Company on 7 October 2003. The ESOS complies with the relevant rules as set out in Chapter 8 of the Listing Manual. The ESOS will provide eligible participants with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty. The ESOS is administered by the RC. Further information on the share option scheme can be found on pages 81 to 83 of the Annual Report.

Audit Committee ("AC")

PRINCIPLE 11: AUDIT COMMITTEE

The AC comprises Mr Wong Meng Meng, Dr Tan Khee Giap and Mr Yeo Tiong Eng. The Chairman of the AC is Mr Wong Meng Meng.

The Board has approved the written terms of reference of the AC. Its functions are as follows:-

(a) reviewing and evaluating financial and operating results and accounting policies;
(b) reviewing audit plan of external auditors, their evaluation of the system of internal accounting controls and their audit report;
(c) reviewing the Group's financial results and the announcements before submission to the Board for approval;
(d) reviewing the assistance given by the management to external auditors;
(e) considering the appointment/ re-appointment of external auditors;
(f) reviewing interested person transactions; and
(g) other functions as required by law or the Code.

The AC meets regularly and also holds informal meetings and discussions with the management from time to time. The AC has full discretion to invite any Director or executive officer to attend its meetings.

The AC has been given full access to and is provided with the cooperation of the Company's management. In addition, the AC has independent access to the external auditors. The AC meets with the external auditors without the presence of management to review matters that might be raised privately. The AC has reasonable resources to enable it to discharge its functions properly.

The AC has reviewed the volume of non-audit services to the Group by the external auditors, and being satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors, is pleased to recommend their re-appointment.

PRINCIPLE 12: INTERNAL CONTROLS

The Group's internal controls and systems are designed to provide reasonable, but not absolute assurance to the integrity and reliability of the financial information and to safeguard and maintain the accountability of the assets.

The Board believes that, in the absence of any evidence to the contrary, the system of internal controls maintained by the Group's management and that was in place throughout the year and up to the date of this Report, is adequate to meet the needs of the Group in its current business environment.

PRINCIPLE 13: INTERNAL AUDIT

The internal audit function has been out sourced to Messrs PricewaterhouseCoopers ("internal audit managers"). The internal audit function reports directly to the AC on audit matters and to the CEO on administrative matters.

The objective of the internal audit function is to provide independent and reasonable assurance to the AC and management that the Group's risk management, controls and governance processes are adequate and effective.

The AC has reviewed with the internal audit managers their audit plans, their evaluation of the system of internal controls, their audit findings and management's responses to those findings; the effectiveness of material internal controls, including financial, operational and compliance controls and overall risk management of the Company and the Group. The AC is satisfied that the internal audit is adequately resourced and has appropriate standing within the Group.

Communication with Shareholders

PRINCIPLE 10: ACCOUNTABILITY AND AUDIT

PRINCIPLE 14: COMMUNICATION WITH SHAREHOLDERS

PRINCIPLE 15: GREATER SHAREHOLDER PARTICIPATION

The Company recognises that effective communication can highlight transparency and enhance accountability to its shareholders. The Company provides information to its shareholders via SGXNET announcements, news releases and the Company's website. Price-sensitive information is publicly released on an immediate basis where required under the Listing Manual. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that shareholders and the public have a fair access to the information.

The AGM of the Company is a principal forum for dialogue and interaction with all shareholders. All shareholders will receive the Annual Report and the notice of AGM. At the AGM, shareholders will be given the opportunity to voice their views and to direct questions regarding the Group to the Directors including the chairpersons of each of the Board committees. The external auditors are also present to assist the Directors in addressing any relevant queries from the shareholders.

The Company ensures that there are separate resolutions at general meetings on each distinct issue.

The Company's Articles of Association allow a member of the Company to appoint one or two proxies to attend and vote at general meetings.

Risk Management

(Listing Manual Rule 1207(4)(d))

The Company does not have a Risk Management Committee. However, the management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The management reviews all significant control policies and procedures and highlights all significant matters to the Directors and the AC.

Securities Transactions

(Listing Manual Rule 710(2)(b))

The Group has adopted the SGX-ST's Best Practices Guide with respect to dealings in securities by the Directors and its executive officers. Directors, management and officers of the Group who have access to price-sensitive, financial or confidential information are not permitted to deal in the Company's shares during the periods commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year, or one month before the announcement of the Company's financial statement for the financial year end, as the case may be, and ending on the date of announcement of the relevant results, or when they are in possession of unpublished price-sensitive information on the Group. To provide further guidance to employees on dealings in the Company's shares, the Company has adopted a code of conduct on transactions in the Company's shares. The code of conduct is modeled after the Best Practices Guide with some modifications.

Material Contracts

(Listing Manual Rule 1207(8))

Save for the service agreement between Mr Yao Hsiao Tung and the Company, there were no material contracts of the Company or its subsidiaries involving the interest of the chief executive officer or any Director or controlling shareholders subsisting at the end of the financial year ended 2005.

Interested Person Transactions

(Listing Manual Rule 907)

The Company has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

The aggregate value of interested person transactions entered into during the financial year under review is as follows:

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)
Molex Incorporated and its group of companies		
- Sales	S$ 574,654	N.A.
- Purchases	S$ 8,905,879	N.A.
Wong Partnership and Clifford Chance Wong Pte Ltd		
- Fees paid for professional legal services rendered	S$ 178,495	N.A.

Best Practices Guide

The Company has complied with the Best Practices Guide issued by SGX-ST.

REVIEW OF RESULTS OF OPERATIONS

Revenue

Our revenue increased by approximately $72.0 million or 12.8% from $560.9 million in FY2004 to $632.9 million in FY2005. In terms of business activity, the significant increase in revenue was due mainly to the increase in sales from all our business segments i.e. PPIM, MDF and Assembly.

Revenue derived from our PPIM division improved significantly by approximately $19.8 million or 8.0% from $248.1 million in FY2004 to $267.9 million in FY2005. The increase was primarily accounted for by existing customers such as Braun, Seagate and NEC mainly due to increased orders for existing products or new projects. This is partially offset by the decrease in sales to our existing customers, namely Kodak, ZTE, Siemens, Maxtor, Capitel, Nokia, Philip and Palm due to the completion of some of our existing projects or lower demand with these customers.

Revenue from our MDF division increased by approximately $8.4 million or 20.1% from $41.4 million in FY2004 to $49.8 million in FY2005. During the year, there were increase in orders received from MEI, Braun, Siemens and Kodak. This is partially offset by the decrease from other existing customers such as Motorola, Haier, ZTE, Palm and Seagate.

Revenue from our Assembly division increased by approximately $44.0 million or 16.2%, from $271.3 million in FY2004 to $315.3 million in FY2005. The increase was due mainly to the higher sales to Braun, Motorola, MEI, Kodak and NEC. This was partially offset by the decrease in sales made to Siemens, Capitel, Haier, ZTE and Palm due to the completion of some of the existing projects.

By geographical markets, the increase was due mainly to higher sales to our customers in Europe, Singapore and United States. Sales to our customers in the Europe increased by approximately $62.3 million or 39.9%, from $156.1 million in FY2004 to $218.4 million in FY2005, however offset by a decline in the sales to PRC. The increase was primarily attributable to Braun, MEI and Motorola, which was partially offset by a decrease to other existing customers such as Sendo and Siemens.

Sales to our customers in Singapore increased by approximately $30.1 million or 37.6%, from $80.1 million in FY2004 to $110.2 million in FY2005. The increase was mainly attributed to higher sales to our existing customer, Motorola and Seagate, offset by the decline in sales to Maxtor.

Sales to our customers in United States of America increased by approximately $16.0 million or 65.0%, from $24.6 million in FY2004 to $40.6 million in FY2005. The increase was mainly attributed to higher sales to Motorola, Molex, Hitachi, MEI, Siemens and Maxtor which was partially offset by a decrease to other existing customer Palm.

Sales to our customers in PRC decreased by approximately $46.4 million or 16.0%, from $290.3 million in FY2004 to $243.9 million in FY2005. The increase was mainly attributed to higher sales to Motorola, NEC and Braun , which was partially offset by a decrease to other existing customers, Nokia, Capitel, Haier, ZTE, Kodak and Siemens.

By industry, the increase in revenue was mainly contributed by our customers operating in the consumer electronics and electrical and data storage industries, offset by a decline in the telecommunications industry.

Revenue to our customers operating in the consumer electronics and electrical industry increased by approximately $62.0 million or 30.9% from $200.5 million in FY2004 to $262.5 million in FY2005. The increase was due mainly to increased sales to existing customers, Braun, Kodak and MEI. This is partially offset by lower sales to Kodak and Philips.

Revenue to our customers operating in the data storage industry increased by approximately $14.1 million or 31.3%, from $45.0 million in FY2004 to $59.1 million in FY2005. The increase was due mainly to increased sales to our existing customer Seagate. This is partially offset by lower sales to Maxtor.

Revenue to our customers operating in the telecommunications industry decreased by approximately $4.1 million or 1.3% from $315.4 million in FY2004 to $311.3 million in FY2005. The increase was due mainly to a significant increase in sales to our existing customers Motorola and NEC. This is partially offset by lower sales to Siemens, ZTE, Haier, Capitel, Nokia and Palm.

Cost of sales

Our cost of sales increased by approximately $70.1 million or 16.6%, from $421.0 million in FY2004 to $491.1 million in FY2005. Cost of sales as a percentage of revenue increased from approximately 75.1% in FY2004 to 77.6% in FY2005. The percentage increase in cost of sales was attributed to higher material costs as a percentage of sales.

Material costs increased by approximately $45.1 million or 15.7% from $287.5 million in FY2004 to $332.6 million in FY2005.The increase in material costs as a percentage of revenue from 51.3% in FY2004 to 52.6% in FY2005 was due primarily to the increase in sales contributed by our Assembly division which generally requires higher material content and the new projects that were undertaken which has higher material content.

Labour costs increased by approximately $14.9 million or 30.2%, from $49.3 million in FY2004 to $ 64.2 million in FY2005. The increase was due mainly to an increase in headcount in FY2005 to meeting rising demand and new as well as salary increments. Labour costs as a percentage of revenue however increased from approximately 8.8% in FY2004 to 10.1% in FY2005.

Overheads increased by approximately $10.1 million or 12.0%, from $84.1 million in FY2004 to $94.2 million in FY2005. Overheads as a percentage of revenue remained relatively constant at 14.8%.

Gross profit

Our gross profit increased marginally by approximately $2.0 million or 1.4% from $139.9 million in FY2004 to $141.9 million in FY2005.

Gross profit margins decreased from 24.9% in FY2004 to 22.4% in FY2005 mainly as a result of higher material and labor cost included in cost of sales due to a change in product mix.

Operating expenses

Our total operating expenses increased by approximately $5.4 million or 11.1% from $49.0 million in FY2004 to $54.4 million in FY2005. Operating expenses as a percentage of revenue remained relatively constant at 8.7%.

Our administrative expenses increased by approximately $3.1 million or 7.0% from $44.8 million in FY2004 to $47.9 million in FY2005. The increase was mainly due to the increase in personnel and related costs, traveling expense, professional fees, office rental, pre-operation expenses for newly incorporated subsidiaries and other expenses by $3.5 million, $1.9 million, $1.4 million, $1.2 million, $1.1 million and $2.3 million respectively. This is partially offset by the decrease in provision for doubtful debts of $7.3 million. The increase in personnel and related costs was due mainly to an increase in headcount and annual salaries increment. In addition, headcount has increased as a result of our newly set-up manufacturing plants. The increased in expenditure is in line with our business initiatives to reorganised into three Strategic Business Units ("SBUs") - Wireless, Consumer Electronics and Computing.

Our selling expenses increased by approximately $2.3 million or 55.0% from $4.2 million in FY2004 to $6.5 million in FY2005 and this is in line with the increase in sales activity.

Other operating income

Our other operating income increased by approximately $2.4 million or 66.7%, from $3.6 million in FY2004 to $6.0 million in FY2005 due mainly to a compensation from a major customer, sale of factory in Mexico and reinvestment income from PRC .

Profit from operations

Our profit from operations decreased by approximately $1.1 million or 1.2% from $94.5 million in FY2004 to $93.4 million in FY2005. The decrease in profit from operations was attributable to the marginal increase in gross profit of $2.0 million, plus a $5.5 million increase in operating expenses offset by $ 2.4 million increase in other operating income. Profit from operations margin decreased from 16.9% in FY2004 to 14.8% in FY2005 as a result of the decrease in gross profit margin plus the increase in operating expenses and other operating income as a percentage of revenue as described above.

Financial income (expenses) and foreign exchange gain (loss), net

Our net financial expenses decreased by approximately $0.9 million from a loss of $1.0 million in FY2004 to a loss of $0.1 million in FY2005 due mainly to the decrease in total bank borrowings and lease obligations by $ 16.6 million from $22.1 million as at 31 December 2004 to $5.4 million as at 31 December 2005.

Our foreign exchange loss decreased by approximately $1.5 million or 97.5% from a loss of $1.5 million in FY2004 to $0.03 million in FY2005. [The increase was mainly attributed to Hi-P Shanghai , which registered an exchange loss of $0.8million in FY2005 versus an exchange loss of $1.2 million in FY2005, as a result of higher depreciation of the USD against the Euro and JPY during FY2005].

Profit before taxation and share result of associated company

Our profit before tax and share of results of associated company increased by approximately $1.2 million or 1.3%, from $92.0 million in FY2004 to $93.2 million in FY2005. The increase was due mainly to marginal increase in gross profit, coupled with the increase in operating expenses.

Tax

Our tax charge for FY2005 was approximately $4.9 million as compared to $3.1 million in FY2004 due mainly to the increase in profit contribution from certain PRC subsidiaries whose profits are entitled to full tax exemption in FY2004.

CASH FLOW

For the financial year ended 31 December 2005

In FY2005, we generated net cash from operating activities before working capital changes of approximately $119.4 million. Cash utilised for working capital purposes amounted to $38.7 million due mainly to an increase in trade receivables, other receivables, deposits and prepayments, inventories and notes receivable of $52.6 million, $2.7 million, $14.6 million and $1.2 million respectively. This was partially offset by an increase in trade payables and due from/to related parties (trade), net amounting to $31.5 million and $5.6 million respectively. We also made dividends payment and income tax payments of $7.1 million and $1.5 million respectively, resulting in net cash generated from operating activities of approximately $72.2 million.

Net cash used in investing activities amounted to approximately $69.7 million due mainly to our purchase of fixed assets of $73.2 million, partially offset by proceeds from disposal of fixed assets and interest income received of approximately $3.1 million and $0.9 million respectively.

We recorded net cash out flow of $17.4 million from our financing activities due mainly to repayment of the bank term loans, short-term bank loans and lease obligations amounting to $ 11.5 million, $3.2 million and $1.8 million. In addition, interest expense paid amounted to $1.0 million.

REVIEW OF FINANCIAL POSITION

FIXED ASSETS

Our fixed assets comprise factory buildings, leasehold improvements, construction-in-progress, renovation, plant and machinery, furniture and fittings, office equipment and motor vehicles.

Our fixed assets increased by approximately $67.5 million or 40.0% from $169.0 million as at 31 December 2004 to $236.5 million as at 31 December 2005 due mainly to the additions in fixed assets of $86.2 million.

Fixed assets addition comprise mainly of investments in plant and machinery ($56.8 million), construction in progress ($12.0 million), Renovation and ($7.6 million), Motor Vehicle ($2.5 million) and intangible assets amounting to approximately $2.4 million.

During FY2005, new machines were purchased to support the expansion of operation in Hi-P Shanghai Housing Appliance, Hi-P Mexico, Hi-P International, Hi-P Tianjin, Hi-P Industries (Singapore), Hi-P Xiamen Hi-P Suzhou Electronics, Hi-P Chengdu Plastic and Hi-P Shanghai Tooling. In addition, machines were acquired for the newly incorporated sites namely; Hi-P Shanghai Technology, Hi-P Samkwang and Hi-P Thailand.

The increase in construction in progress is mainly attributed to Hi-P Tianjin Technology, Hi-P Poland, Hi-P Shanghai Housing Appliance, Hi-P Precision Plastic, Hi-P Chengdu Plastic and Hi-P International.

The increase in renovation is mainly attributed expansion for Hi-P Mexico and Hi-P Xiamen; and for new sites such as Hi-P Shanghai Technology and Hi-P Thailand.

The increase in motor vehicle is attributed to the newly incorporated subsidiary, Hi-P Samkwang (Shanghai).

The increase in computer equipment relates to the upgrade and establishment of IT infrastructure for new and existing sites; and new computers for employees. It is mainly attributed to Hi-P Shanghai Housing Appliance, Hi-P Shanghai Wireless, Hi-P International, Hi-P Tianjin Technology and Hi-P Chengdu Plastic.

Current Assets

Our current assets increased by approximately $54.5 million or 20.0% from $272.4 million as at 31 December 2004 to $326.9 million as at 31 December 2005. The increase was due mainly to increase in trade receivables, other receivables, deposits and prepayments and inventories, partially offset by the decrease in fixed deposits and cash and bank balance.

Trade receivables increased by $53.6 million or 52.2% from $102.6 million as at 31 December 2004 to $156.2 million as at 31 December 2005. Average receivables turnover has lengthened from 49 days to 74 days for the year ended 31 December 2005.

Other receivables, deposits and prepayments increased by $2.7 million or 15.4% from $17.5 million as at 31 December 2004 to $20.2 million as at 31 December 2005.

Inventories increased by $13.5 million or 22.2% from $60.8 million as at 31 December 2004 to $74.3 million as at 31 December 2005. Average inventory turnover has increased from 36 days to 50 days for the year ended 31 December 2005 as the company involved in more assembly activities and as we prepare for the ramp up in 2006.

Fixed deposits decreased by $11.0 million or 27.3% from $40.1 million as at 31 December 2004 to $29.1 million as at 31 December 2005. Cash at bank decreased by $4.1 million or 8.5%, from $48.1 million as at 31 December 2004 to $44.0 million as at 31 December 2005 due to the cash outlay to purchase new plant and machineries.

Current Liabilities

Our current liabilities increased by approximately $31.4 million or 19.1% from $164.3 million as at 31 December 2004 to $195.7 million as at 31 December 2005. The increase was due mainly to the increase in trade payables, other payables, due to related parties (trade) and provision for taxation partly offset by the decrease in bank term loans (current portion), short-term bank loans and lease liabilities (current portion).

Trade payables increased by $31.5 million or 32.3% from $97.6 million as at 31 December 2004 to $129.1 million as at 31 December 2005. The increase was a result of higher inventory purchases to meet production requirement towards the last quarter of the financial year.

Other payables and accruals increased by $8.4 million or 17.9% from $46.8 million as at 31 December 2004 to $55.2 million as at 31 December 2005.

Amount due to related parties (trade) remained relatively stable at $1.1 million as at 31 December 2005.

The provision for taxation increased by $3.2 million or 174.2% from $1.8 million as at 31 December 2004 to $5.0 million as at 31 December 2005 was generally in line with the higher business volume and the increase in profit contribution from certain PRC subsidiaries whose profits are entitled to full tax exemption in FY2004.

The lease obligations decreased by approximately $1.6 million or 84.5% from $1.9 million as at 31 December 2005 to $0.3 million as at 31 December 2005, due to repayment of certain lease liabilities.

The short-term bank loans of $4.9 million as at 31 December 2004 were fully repaid as at 31 December 2005.

The bank term loans (current portion) decreased by $10.2 million or 67.5% from $15.1 million as at 31 December 2004 to $4.9 million as at 31 December 2005 due mainly to repayment of certain bank term loans.

Non-current Liabilities

Non current liabilities decreased by approximately $0.9 million or 11.4% from $7.9 million as at 31 December 2004 to $7.0 million as at 31 December 2005. The decrease was due mainly to repayment of bank term loans (non current portion).

The bank term loans (non current portion) of $4.6 million as at 31 December 2004 were fully repaid as at 31 December 2005.

Shareholders' equity

Shareholders' equity increased by approximately $92.9 million or 34.5% from $268.9 million as at 31 December 2004 to $361.8 million as at 31 December 2005. The increase was mainly due to net profits attributable to shareholders of $89.0 million for FY2005, coupled with the increase in translation reserve of approximately $9.4 million. The accumulated profits took into account the deduction of dividends payment of $7.1 million.

(Amounts expressed in Singapore dollars)

The directors are pleased to present their report to the members together with the audited consolidated financial statements of Hi-P International Limited ("the Company") and its subsidiaries (collectively, "the Group") and the balance sheet for the financial year ended 31 December 2005.

Directors

The directors of the Company in office at the date of this report are:

Yao Hsiao Tung (Executive Chairman and Chief Executive Officer)
Wong Huey Fang
Yeo Tiong Eng
Dr Tan Khee Giap
Wong Meng Meng
Chester Lin Chien

Arrangements to enable directors to acquire shares and debentures

Except as described below, neither at the end of nor at any time during the financial year, was the Company a party to any arrangement whose objective was to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other corporations.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap.50, an interest in shares of the Company and related corporations, as stated below:

	Direct interest as at		**Deemed interest as at**	
	1 January 2005 or date of appointment	**31 December 2005**	**1 January 2005 or date of appointment**	**31 December 2005**
Hi-P International Limited				
Ordinary shares of $0.05 each				
Yao Hsiao Tung	489,029,200	485,918,800	-	-
Wong Huey Fang	-	-	489,029,200	485,918,800
Yeo Tiong Eng	400,000	400,000	-	-
Dr Tan Khee Giap	550,000	550,000	-	-
Wong Meng Meng	500,000	500,000	-	-
Chester Lin Chien	1,000,000	1,000,000	-	-

Directors' interests in shares and debentures (cont'd)

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2006.

By virtue of Section 7 of the Companies Act, Mr Yao Hsiao Tung is deemed to have an interest in the shares held by the Company in all its subsidiaries.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in any shares, share options or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Directors' contractual benefits

Since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit (other than as disclosed as directors' remuneration and fees in the accompanying financial statements or remuneration and benefits pursuant to the terms of the Service Agreement with Mr Yao Hsiao Tung included in the aggregate amount of emoluments shown in the financial statements, or any emoluments received from a related corporation) by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Share options

The Hi-P Employee Share Option Scheme ("the Option Scheme") was approved and adopted at the Company's Extraordinary General Meeting held on 7 October 2004. The Option Scheme applies to executive directors, employees of the Group, controlling shareholders and their associates. The Option Scheme is administered by the Remuneration Committee, comprising Messrs Wong Meng Meng (Chairman), Yao Hsiao Tung and Dr Tan Khee Giap.

Other information regarding the Option Scheme is set out below:

(i) The exercise price of the options is determined at the average of the last dealt price for the Company's shares on the Singapore Exchange Securities Trading Limited (SGX-ST) on the five business days immediately preceding the date of grant of such options.

(ii) 50% of the options vest one year after the grant date, and the remaining 50% vest two years after the grant date.

(iii) The options expire 8 years after the grant date, unless they have been cancelled or have lapsed prior to that date.

Share options (cont'd)

At the end of the financial year, details of the options granted under the Option Scheme on the unissued ordinary shares of $0.05 each of the Company are as follows:

Date of grant of options	Exercise price per share	Options outstanding as at 1 January 2005	Options granted	Options cancelled/ lapsed	Options exercised	Options outstanding as at 31 December 2005	Exercise period
19/07/2004	$1.39	4,009,000	-	(421,000)	(150,000)	3,438,000	20/07/2005 to 19/07/2012
22/11/2004	$1.73	130,000	-	(40,000)	-	90,000	22/11/2005 to 21/11/2012
24/02/2005	$1.54	-	50,000	-	-	50,000	24/02/2006 to 23/02/2013
12/05/2005	$1.47	-	130,000	(30,000)	-	100,000	12/05/2006 to to 11/05/2013
12/08/2005	$1.48	-	120,000	(40,000)	-	80,000	12/08/2006 to 11/08/2013
30/11/2005	$1.63	-	125,000	(40,000)	-	85,000	30/11/2006 to 29/11/2013

150,000 ordinary shares were issued at $1.39 upon the exercise of options granted pursuant to the Option Scheme.

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at the end of the financial year.

Details of Options granted to directors of the Company under the Option Scheme

Name of Directors	Options granted for financial ended 31 year December 2005	Aggregate options granted since commencement of scheme to 31 December 2005	Aggregate options exercised since commencement of scheme to 31 December 2005	Aggregate outstanding options as at 31 December 2005
Yao Hsiao Tung	-	1,300,000	-	1,300,000
Wong Huey Fang	-	300,000	-	300,000

Except as disclosed above, since the commencement of the scheme, no options have been granted to the directors, employees of the Group and the Company, controlling shareholders of the Company or their associates. No participant under the Option Scheme has been granted 5% or more of the total options available under the Option Scheme.

The options granted by the Company do not entitle the holders of the options by virtue of such holding, to any rights to participate in any share issue of any other company.

No options have been granted at a discount.

Audit committee

The Audit Committee performed the functions specified in the Companies Act. The functions performed are detailed in the Report on Corporate Governance.

Auditors

Ernst & Young have expressed their willingness to accept reappointment as auditors.

On behalf of the board of directors,

Yao Hsiao Tung
Executive Chairman
Chief Executive Officer

Yeo Tiong Eng
Director

15 March 2006

statement by directors

We, Yao Hsiao Tung and Yeo Tiong Eng, being two of the directors of Hi-P International Limited, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, consolidated profit and loss account, statements of changes in equity and consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005 and of the results, changes in equity and cash flows of the Group for the year ended on that date, and

(ii) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors,

Yao Hsiao Tung
Executive Chairman
Chief Executive Officer

Yeo Tiong Eng
Director

15 March 2006

auditors' report

to the Members of Hi-P International Limited and Subsidiaries

We have audited the financial statements of Hi-P International Limited ("the Company") and its subsidiaries (collectively, "the Group") for the year ended 31 December 2005 set out on pages 38 to 91. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

(a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap.50 ("the Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005 and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG
Certified Public Accountants

Singapore

15 March 2006

consolidated profit and loss accounts

for the year ended 31 December 2005

(Amounts expressed in Singapore dollars)

	NOTE	GROUP 2005 $'000	GROUP 2004 $'000
Revenue	3	632,954	560,931
Cost of sales		(491,078)	(421,040)
Gross profit		141,876	139,891
Other operating income	4	5,960	3,624
Selling expenses		(6,535)	(4,216)
Administrative expenses		(47,901)	(44,770)
Profit from operations	5	93,400	94,529
Financial expenses	7	(977)	(1,302)
Financial income	7	857	343
Foreign exchange loss, net		(39)	(1,548)
Profit before tax and share of results of associated companies		93,241	92,022
Share of results of associated companies		(114)	355
Profit before tax		93,127	92,377
Tax	8	(4,999)	(3,113)
Profit for the year		88,128	89,264
Attributable to :			
Equity holders of the parent		89,022	88,053
Minority interests		(894)	1,211
		88,128	89,264
Earnings per share (cents)	9		
Basic		10.04	9.93
Diluted		9.99	9.91

The accounting policies and explanatory notes on pages 45 through 91 form an integral part of the financial statements.

balance sheets
as at 31 December 2005

(Amounts expressed in Singapore dollars)

	NOTE	GROUP 2005 $'000	GROUP 2004 $'000	COMPANY 2005 $'000	COMPANY 2004 $'000
Non-current assets					
Fixed assets	10	236,476	168,965	27,573	22,205
Investment in subsidiaries	11	-	-	110,632	58,345
Investment in associated companies	12	2,450	2,073	1,384	903
Other non-current asset	13	12	12	12	12
Deferred tax asset	26	679	-	-	-
Amounts due from subsidiaries	18	-	-	10,639	-
Current assets					
Inventories	14	74,291	60,792	6,556	3,967
Trade receivables	15	156,235	102,591	13,083	10,396
Notes receivables	16	1,992	840	-	-
Other receivables, deposits and prepayments	17	20,155	17,500	975	308
Amounts due from subsidiaries	18	-	-	24,929	46,535
Amounts due from minority shareholders of subsidiaries	19	993	2,481	-	-
Cash and bank balances		44,082	48,128	3,399	15,723
Fixed deposits		29,115	40,067	29,115	40,067
		326,863	272,399	78,057	116,996
Current liabilities					
Trade payables	20	129,080	97,586	9,664	6,758
Other payables and accruals	21	55,210	46,867	10,420	11,444
Amounts due to subsidiaries	22	-	-	55,154	31,493
Amounts due to minority shareholders of subsidiaries	23	1,131	1,079	-	-
Lease obligations	24	362	1,879	228	1,442
Provision for income tax		5,020	1,831	275	374
Interest-bearing loans and borrowings	25	4,856	15,064	694	1,387
		195,659	164,306	76,435	52,898
Net current assets		131,204	108,093	1,622	64,098
Non-current liabilities					
Amounts due to minority shareholders of subsidiaries	23	4,028	-	-	-
Lease obligations	24	227	577	170	406
Interest-bearing loans and borrowings	25	-	4,574	-	694
Deferred tax liability	26	2,786	2,774	2,774	2,774
		363,780	271,218	148,918	141,689

The accounting policies and explanatory notes on pages 45 through 91 form an integral part of the financial statements.

(Amounts expressed in Singapore dollars)

	NOTE	GROUP 2005 $'000	GROUP 2004 $'000	COMPANY 2005 $'000	COMPANY 2004 $'000
Equity attributable to equity holders of the Company					
Share capital	27	44,357	44,350	44,357	44,350
Share premium		75,242	75,041	75,242	75,041
Other reserves	28	19,162	6,821	2,171	775
Accumulated profits		223,016	142,761	27,148	21,523
		361,777	268,973	148,918	141,689
Minority interests		2,003	2,245	-	-
Total Equity		363,780	271,218	148,918	141,689

The accounting policies and explanatory notes on pages 45 through 91 form an integral part of the financial statements.

consolidated statement of changes in equity

as at 31 December 2005

(Amounts expressed in Singapore dollars)

Group	Share capital $'000	Share premium $'000	Other Reserves (Note 26) $'000	Accumulated profits $'000	Minority interests $'000	Total equity $'000
	Attributable to equity holders of the Company					
Balance at 31 December 2003	44,350	75,041	7,011	64,962	2,367	193,731
Net profit for the year	-	-	-	88,053	1,211	89,264
Equity compensation expense	-	-	775	-	-	775
Transfer to other reserves	-	-	6,706	(6,706)	-	-
Currency translation differences	-	-	(7,671)	-	(109)	(7,780)
Dividend (Note 30)	-	-	-	(3,548)	(1,224)	(4,772)
Balance at 31 December 2004	44,350	75,041	6,821	142,761	2,245	271,218
Net profit for the year	-	-	-	89,022	(894)	88,128
Equity compensation expense	-	-	1,396	-	-	1,396
Transfer to other reserves	-	-	1,666	(1,666)	-	-
Currency translation differences	-	-	9,371	(5)	17	9,383
Dividend (Note 30)	-	-	-	(7,096)	(1,054)	(8,150)
Reclassification	-	-	(92)	-	92	-
Issuance of ordinary shares	7	201	-	-	-	208
Capital contribution	-	-	-	-	1,597	1,597
Balance at 31 December 2005	44,357	75,242	19,162	223,016	2,003	363,780

The accounting policies and explanatory notes on pages 45 through 91 form an integral part of the financial statements.

consolidated cash flow statement

for the year ended 31 December 2005

(Amounts expressed in Singapore dollars)

	GROUP	
	2005 $'000	2004 $'000
Cash flows from operating activities		
Profit before tax and share of results of associated companies	93,241	92,022
Adjustment for:		
Allowance for doubtful receivables - related parties	-	227
Allowance for doubtful trade receivables	-	5,573
Allowance for doubtful receivables written back	(1,320)	(14)
Equity compensation expense	1,396	775
Gain on disposal of fixed assets	(1,143)	(483)
Depreciation of fixed assets	25,755	18,841
Interest expense	977	1,302
Interest income	(857)	(343)
Translation difference	1,344	(1,718)
Operating profit before working capital changes	119,393	116,182
Decrease (increase) in:		
Inventories	(14,615)	(35,398)
Trade receivables	(52,636)	(57,398)
Notes receivables	(1,152)	374
Other receivables, deposits and prepayments	(2,654)	(1,196)
Increase (decrease) in:		
Trade payables	31,495	46,849
Other payables and accruals	(4,698)	(2,053)
Due from/to related parties (trade), net	5,574	(886)
Cash generated from operations	80,707	66,474
Dividends paid	(7,096)	(4,772)
Income taxes paid	(1,451)	(4,193)
Net cash generated from operating activities	72,160	57,509
Cash flows from investing activities		
Acquisition of equity interest in an associated company	(481)	-
Interest income received	857	343
Proceeds from disposal of fixed assets	3,064	3,204
Purchase of fixed assets (Note B)	(73,179)	(59,821)
Net cash used in investing activities	(69,739)	(56,274)

(Amounts expressed in Singapore dollars)

	GROUP 2005 $'000	GROUP 2004 $'000
Cash flows from financing activities		
Interest expense paid	(977)	(1,302)
Repayment of bank term loans	(11,537)	(9,454)
Repayment of short-term bank loans	(3,246)	(9,598)
Lease obligation repayments	(1,867)	(4,773)
Proceeds from issuance of shares	208	-
Net cash used in financing activities	(17,419)	(25,127)
Net decrease in cash and cash equivalents	(14,998)	(23,892)
Cash and cash equivalents at beginning of year	88,195	112,087
Cash and cash equivalents at end of year (Note A)	73,197	88,195

Notes to the Consolidated Cash Flow Statement

A. Cash and cash equivalents

Cash and cash equivalents comprise the following balance sheet amounts:

	GROUP 2005 $'000	GROUP 2004 $'000
Cash and bank balances	44,082	48,128
Fixed deposits	29,115	40,067
Cash and cash equivalents	73,197	88,195

Cash at banks earns interest at floating rates based on daily bank deposit rates ranging from 0.03% to 1.81% (2004: 0.06% to 0.34%) per annum. Fixed deposits are made for varying periods between 3 months and 12 months depending on the immediate cash requirements of the Group, and earn interests at the respective fixed deposit rates. The effective interest rates of fixed deposits range from 1.595% to 3.25% (2004: 1.1875% to 1.47%) per annum.

As at 31 December 2005, the Group had available, $130,838,000 (2004: $90,056,000) of undrawn committed borrowings facilities in respect of which all conditions precedent had been met.

(Amounts expressed in Singapore dollars)

B. Purchase of fixed assets

	GROUP	
	2005	**2004**
	$'000	**$'000**
Current year additions to fixed assets	86,220	63,226
Less:		
Payable to creditors	(22,505)	(23,442)
	63,715	39,784
Payments for prior year purchase of fixed assets	9,464	20,037
Net cash outflow for purchase of fixed assets	73,179	59,821

The accounting policies and explanatory notes on pages 45 through 91 form an integral part of the financial statements.

(Amounts expressed in Singapore dollars)

1. Corporate information

Hi-P International Limited ("the Company") is a limited liability company incorporated in Singapore and it is listed on the Singapore Exchange Securities Trading Limited.

The registered office of the Company is located at 11 International Business Park, Jurong East, Singapore 609926.

The principal activities of the Group are design and fabrication of mold ("MDF"), precision plastic injection molding ("PPIM"), assembly, provision of ancillary value-added services (mainly surface finishing services) and precision metal stamping. The principal activities of the subsidiaries are as shown in Note 11 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

2. Significant accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Companies Act.

The financial statements have been prepared on a historical cost basis, except for those as disclosed in the accounting policies below. The financial statements are presented in Singapore dollars and all values are rounded to the nearest thousand ($'000) except when otherwise indicated.

2.2 Changes in accounting policies

The accounting policies have been consistently applied by the Group and the Company and are consistent with those used in the previous financial year, except for the changes in accounting policies discussed below.

a) Adoption of new FRS

On 1 January 2005, the Group and the Company adopted the following standards mandatory for annual financial periods beginning on or after 1 January 2005.

- FRS 39, Financial Instruments: Recognition and Measurement
- FRS 103, Business Combinations, including amendments to FRS 36 *(revised)*, Impairment of Assets and FRS 38 *(revised)*, Intangible Assets
- FRS 105, Non-Current Assets Held For Sale and Discontinued Operations

i) FRS 39, Financial Instruments: Recognition and Measurement

The Group and the Company had adopted FRS 39 prospectively on 1 January 2005. At that date, financial assets within the scope of FRS 39 were classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. Financial assets that were classified as financial assets at fair value through profit or loss and available-for-sale financial assets were measured at fair value while loans and receivables and held-to-maturity investments were measured at amortised cost using the effective interest rate method.

2. Significant accounting policies (cont'd)

2.2 Changes in accounting policies (cont'd)

a) Adoption of new FRS (cont'd)

i) FRS 39, Financial Instruments: Recognition and Measurement (cont'd)

At 1 January 2005, financial liabilities (other than derivative financial instruments) within the scope of FRS 39 were measured at amortised costs using the effective interest rate method.

The adoption of FRS 39 did not result in substantial change in accounting policies.

ii) FRS 103, Business Combinations, FRS 36 (*revised*), Impairment of Assets and FRS 38 (*revised*), Intangible Assets

FRS 103 has been applied for business combinations on or after 1 January 2005. The adoption of FRS 103 and revised FRS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (unless an event occurs during the year which requires the goodwill to be tested more frequently) from 1 January 2005.

The adoption of FRS 103, *revised* FRS 36 and *revised* FRS 38 did not result in substantial change in accounting policies.

iii) FRS 105, Non-Current Assets Held for Sale and Discontinued Operations

The Group has applied FRS 105 prospectively in accordance with the transitional provisions of FRS 105. Under the superceded FRS 35, the Group would have recognised a discontinued operation at the earlier of:

- The date the Group enters into a binding sale agreement; and
- The date the board of directors have approved and announced a formal disposal plan.

A discontinued operation is a major line of business or geographical unit held for sale or has been disposed of. The effect of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than under FRS 35 due to stricter criteria in FRS 105.

The adoption of FRS 105 did not result in substantial change in accounting policies.

b) Adoption of revised FRS

In addition, the Group adopted the following revised standards which did not result in any significant change in accounting policies:

FRS 1 *(revised)*, Presentation of Financial Statements
FRS 2 *(revised)*, Inventories
FRS 8 *(revised)*, Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10 *(revised)*, Events after the Balance Sheet Date
FRS 16 *(revised)*, Property, Plant and Equipment
FRS 17 *(revised)*, Leases
FRS 21 *(revised)*, The Effects of Changes in Foreign Exchange Rates
FRS 24 *(revised)*, Related Party Disclosures
FRS 27 *(revised)*, Consolidated and Separate Financial Statements
FRS 28 *(revised)*, Investments in Associates
FRS 32 *(revised)*, Financial Instruments: Disclosure and Presentation
FRS 33 (revised), Earnings Per Share

2. Significant accounting policies (cont'd)

2.2 Changes in accounting policies (cont'd)

c) FRS and INT FRS not yet effective

The Group has not applied the following FRS and INT FRS that have been issued but are only effective for annual financial periods beginning on or after 1 January 2006:

i) FRS 40, Investment Property

This standard does not apply to the activities of the Group.

ii) FRS 19 (*revised*), Employee Benefits

This standard does not apply to the activities of the Group.

iii) FRS 106, Exploration for and Evaluation of Mineral Resources

This standard does not apply to the activities of the Group.

iv) FRS 107, Financial Instruments, Disclosures

The FRS requires disclosure of the significance of financial instruments for an entity's financial position and performance including qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

v) INT FRS 104, Determining Whether an Arrangement Contains a Lease

This interpretation requires the determination of whether an arrangement is, or contains a lease to be based on the substance of the arrangement and requires an assessment of whether the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the assets.

vi) INT FRS 105, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This interpretation is not expected to be relevant to the activities of the Group.

The Group expects that the adoption of the pronouncements listed above will have no impact on the financial statements in the period of the initial application.

2.3 Significant accounting estimates

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

2. Significant accounting policies (cont'd)

2.3 Significant accounting estimates (cont'd)

i) Depreciation of plant and machinery

The cost of plant and machinery for the manufacture of electronic components is depreciated on a straight-line basis over the plant and machinery's useful lives. Management estimates the useful lives of these plant and machinery to be within 3 to 10 years. These are common life expectancies applied in the electronics industry. The carrying amount of the Group's plant and machinery at 31 December 2005 was $179,423,000 (2004: $125,919,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

ii) Income taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables at 31 December 2005 was $7,806,000 (2004: $4,605,000).

2.4 Principles of consolidation of financial statements

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully 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.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised in the profit and loss account on the date of acquisition.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. They are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity, and are separately disclosed in the consolidated profit and loss account.

2. Significant accounting policies (cont'd)

2.5 Functional and foreign currency

a) Functional currency

The management has determined the currency of the primary economic environment in which the Company operates i.e. functional currency, to be SGD. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in SGD.

b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the profit and loss account except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognised in the consolidated profit and loss account on disposal of the subsidiary. In the Company's separate financial statements, such exchange differences are recognised in the profit and loss account.

Differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation are also taken directly to the foreign currency translation reserve until the disposal of the net investment, at which time they are recognised in the profit and loss account. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in the foreign currency translation reserve.

c) Foreign currency translation

The results and financial position of foreign operations are translated into SGD using the following procedures:

* Assets and liabilities for each balance sheet presented are translated at the closing rate ruling at that balance sheet date; and

* Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions.

All resulting exchange differences are recognised in a separate component of equity as foreign currency translation reserve.

2. Significant accounting policies (cont'd)

2.6 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment losses.

2.7 Associated companies

An associated company is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. This generally coincides with the Group having 20% or more of the voting power, or has representation on the board of directors.

The Group's investments in associated companies are accounted for using the equity method. Under the equity method, the investment in associated company is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associated company. The Group's share of the profit or loss of the associated company is recognised in the consolidated profit and loss account. Where there has been a change recognised directly in the equity of the associated company, the Group recognises its share of such changes. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associated company. The associated company is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associated company.

Goodwill relating to an associated company is included in the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the associated company's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associated company's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

The most recent available audited financial statements of the associated companies are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not co-terminous with those of the Group, the share of results is arrived at from the last audited financial statements available and un-audited management financial statements to the end of the accounting period. Consistent accounting policies are applied for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associated companies are accounted for at cost less impairment losses.

2. Significant accounting policies (cont'd)

2.8 Related parties

A related party is a company, not being a subsidiary or an associated company, in which the shareholders or directors of the Company have an equity interest or exercise control or significant influence over the operations of the company.

2.9 Fixed Assets

All items of fixed assets are initially recorded at cost. Subsequent to recognition, fixed assets are stated at cost or valuation less accumulated depreciation and any accumulated impairment losses.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset, is transferred directly to accumulated profits on retirement or disposal of the asset.

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis over the estimated useful life of the asset as follows:

Factory buildings and leasehold improvements	20 - 57 years
Renovation	3 - 10 years
Plant and machinery	3 - 10 years
Motor vehicles	5 - 6 years
Office equipment, furniture and fittings	3 - 10 years

Construction-in-progress are not depreciated as these assets are not available for use.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of fixed assets.

An item of fixed assets is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit and loss account in the year the asset is derecognised.

2.10 Other non-current asset

Other non-current asset relates to investment in a club membership stated at cost less any impairment loss.

2. Significant accounting policies (cont'd)

2.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset (i.e. an intangible asset with an indefinite useful life, an intangible asset not yet available for use, or goodwill acquired in a business combination) is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use 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 assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the profit and loss account as 'impairment losses' or treated as a revaluation decrease for assets carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for that same asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised in the profit and loss account unless the asset is carried at revalued amount, in which case the reversal in excess of impairment loss previously recognised through the profit and loss account is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The Group does not reverse in a subsequent period, any impairment loss recognised for goodwill.

2.12 Financial assets

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase 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 concerned.

2. Significant accounting policies (cont'd)

2.12 Financial assets (cont'd)

a) *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivative financial instruments 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 profit and loss account.

The Group does not designate any financial assets not held for trading as financial assets at fair value through profit and loss.

b) *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the assets to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, are subsequently measured at amortised cost using the effective interest method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount and minus any reduction for impairment or uncollectibility. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the profit and loss account when the investments are derecognised or impaired, as well as through the amortisation process.

c) *Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

d) *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for sale financial assets are measured at fair value with gains or losses being recognised in the fair value adjustment reserve 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 profit and loss account.

The fair value of investments that are actively traded in organised financial markets is determined by reference to the relevant Exchange's quoted market bid prices at the close of business on 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; discounted cash flow analysis and option pricing models.

2. Significant accounting policies (cont'd)

2.13 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.

a) *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments 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 through the use of an allowance account. The amount of the loss is recognised in the profit and loss account.

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 profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

b) *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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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. Such impairment losses are not reversed in subsequent periods.

c) *Available-for-sale financial assets*

If an available-for-sale financial 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 profit and loss account, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the profit and loss account. Reversals of impairment losses on debt instruments are reversed through the profit and loss account, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account.

2.14 Inventories

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

Costs incurred in bringing each product to its present location and condition are accounted as follows:

- Raw materials - purchase cost on a weighted average basis;
- Work-in-progress and finished goods - cost of direct raw materials and direct labour and an attributable proportion of manufacturing overheads based on normal operating capacity.

2. Significant accounting policies (cont'd)

2.14 Inventories (cont'd)

Provision is made for deteriorated, damaged, obsolete and slow-moving stocks.

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

2.15 Trade and other receivables

Trade and other receivables, including amounts due from subsidiaries, associated companies, related companies and loans to related companies are classified and accounted for as loans and receivables under FRS 39. Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. The accounting policy for this category of financial assets is stated in Note 2.12.

Notes receivables which have an average maturity of 2.5 to 6 months, are interest-bearing and backed by banks or commercial organisations. Notes receivables are carried at cost, being the fair value of the consideration given.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.13.

2.16 Cash and cash equivalents

Cash consists of cash on hand, cash at banks and fixed deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Cash and fixed deposits carried in the balance sheet are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.12.

2.17 Trade and other payables

Liabilities for trade and other amounts payable, which are non-interest bearing and normally settled on 30 to 90 days' terms, and payables to related parties are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

2.18 Interests bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

2. Significant accounting policies (cont'd)

2.19 Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

2.20 Derecognition of financial assets and liabilities

a) 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 contractual rights to receive cash flows from the asset have expired;
* The Group retains the contractual 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.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the profit and loss account.

b) Financial liabilities

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

Where 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 the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss account.

2. Significant accounting policies (cont'd)

2.21 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss account net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.22 Employee benefits

a) Defined contribution plan

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Singapore companies in the Group make contributions to the Central Provident Fund ("CPF") Scheme in Singapore, a defined contribution pension scheme. The subsidiaries incorporated and operating in the People's Republic of China ("PRC") are required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees. The subsidiary in Mexico maintains and administers a savings plan for its employees whereby the subsidiary and its permanent employees jointly contribute monthly to the savings plan. The funds collected under this savings plan are allocated to the relevant employees every year. In the event of a termination of employment, the relevant employee may withdraw his entitlement to the funds.

Contributions to national pension schemes are recognised as an expense in the period in which the related services are performed.

b) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

c) Equity compensation benefits

The Company accounts for the options issued under the Hi-P Employee Share Option Scheme ("the Option Scheme") as an equity-settled share-based compensation. The equity-settled share-based compensation is measured at fair value at the date of grant by applying an option-pricing model. The equity compensation expense is amortised and charged to the profit and loss statement using the straight-line method over the vesting periods of the underlying options and credited to capital reserve.

2. Significant accounting policies (cont'd)

2.23 Leases

a) Finance Lease

Finance leases, which effectively transfer to the Group and the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the amounts equal, at the inception of the lease, to the fair value of the leased item, or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability for each period. Finance charges are charged directly to the profit and loss account.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease.

b) Operating Lease

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.24 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

a) Sales of goods

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

b) Interest income

Interest income is recognised as interest accrues (using the effective interest method) unless collectibility is in doubt.

c) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

2.25 Income taxes

a) Current tax

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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

2. Significant accounting policies (cont'd)

2.25 Income taxes (cont'd)

b) Deferred tax

Deferred income tax is provided using the liability method on 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 the initial recognition of goodwill or 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 and associated companies, 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.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward 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 carry-forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference 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 and associated companies, deferred tax assets are recognised only 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 income 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 income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year 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.

Income tax relating to items recognised directly in equity is recognised in equity.

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.

2. Significant accounting policies (cont'd)

2.25 Income taxes (cont'd)

c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

* Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

* Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.26 Derivative financial instruments and hedging activities

The Group uses derivative financial instruments - interest rate swaps to hedge its risks associated with interest rate 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. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivative financial instruments that do not qualify for hedge accounting are taken to the profit and loss account for the year.

2.27 Research and development costs

Research and development costs are expensed as incurred, except for development costs which relate to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits.

3. Revenue

Revenue represents sales to customers net of discounts and returns. Intra-group transactions have been excluded from Group revenue.

4. Other operating income

	GROUP	
	2005 $'000	2004 $'000
Gain on disposal of fixed assets	1,143	483
(Loss)/gain on sale of raw materials	(337)	369
Sale of scrap materials	2,371	1,452
Tax refund on capital investments	1,033	1,080
Sale of molding samples	1,546	-
Others	204	240
	5,960	3,624

5. Profit from operations

	GROUP	
	2005 $'000	2004 $'000
This is determined after charging (crediting) the following:		
Non-audit fees paid to:		
- auditors of the Company	38	25
- other auditors	74	84
Depreciation of fixed assets	25,755	18,841
Directors' fees	384	338
Directors' remuneration (Note 6)		
- directors of the Company	3,713*	3,764*
- director of a subsidiary company	396	372
Equity compensation expense (Note 6)	1,396	775
Allowance for doubtful receivables - related parties	-	227
Allowance for doubtful trade receivables	-	5,573
Write back of allowance for doubtful trade receivables	(1,320)	(14)
Operating lease expenses	10,565	4,479
Research and development costs	2,656	2,329
Personnel expenses (Note 6)	96,063	75,911

* Amount includes performance bonus amounting to approximately $2,794,000 (2004: $2,906,000) pursuant to the Service Agreement entered into with a director. The amount is computed based on 3% of the Group's profit before tax and minority interest for the relevant financial year.

6. Personnel expenses

	GROUP 2005 $'000	GROUP 2004 $'000
Wages, salaries and bonus	82,028	67,575
Pension contributions	8,200	4,991
Other personnel expenses	9,944	7,481
Equity compensation expenses (Note 28)	1,396	775
	101,568	80,822

The personnel expenses are inclusive of executive directors' remuneration.

7. Financial (expenses) income

	GROUP 2005 $'000	GROUP 2004 $'000
Interest expense		
- bank term loans	(774)	(847)
- lease obligations	(203)	(453)
- bank overdrafts	-	(2)
	(977)	(1,302)
Interest income		
- bank balances	856	311
- fixed deposits	1	32
	857	343

8. Tax

a) Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2005 and 2004 are :

	GROUP	
	2005 $'000	2004 $'000
Current tax		
- current year	6,131	3,330
- over provision in respect of prior years	(465)	-
Deferred tax		
- current year	(667)	-
- over provision in respect of prior years	-	(287)
Share of tax of associated companies	-	70
	4,999	3,113

b) Relationship between tax expense and accounting profit

The reconciliation of the tax expense and that of accounting profit multiplied by the applicable tax rate is as follows:

	GROUP	
	2005 $'000	2004 $'000
Profit before tax and share of results of associated companies	93,241	92,022
Tax at the domestic rates applicable to profits in the countries concerned*	9,068	2,635
Tax effect of losses not available for offset against taxable profits	129	129
Tax effect of expenses that are not deductible in determining taxable profit	672	521
Tax effect of income that are not taxable in determining taxable profit	(4,306)	–
Over provision in respect of prior years	(465)	(287)
Tax rebate and exemption	(56)	44
Share of tax of associated companies	–	70
Group relief	(99)	–
Others	56	1
Tax expense	4,999	3,113

* This is computed by aggregating separate computations for each company in their respective countries.

A loss-transfer system of group relief (group relief system) for companies was introduced in Singapore with effect from year of assessment 2003. Under the group relief system, a company belonging to a group may transfer its current year unabsorbed capital allowances, current year unabsorbed trade losses and current year unabsorbed donations (loss items) to another company belonging to the same group, to be deducted against the assessable income of the latter company.

8. Tax (cont'd)

A subsidiary intends to transfer all its capital allowances and trade losses of approximately $312,000 (2004: Nil) and $1,172,000 (2004: Nil) respectively to the Company under the group relief system, subject to compliance with the relevant rules and procedures and agreement of the Inland Revenue Authority of Singapore.

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. Accordingly, the profits of these subsidiary companies are taxed at the following tax rates:

	2005 **%**	**2004** **%**
Hi-P Shanghai Electronics Co., Ltd.	15	15
Hi-P Camera Products Co., Ltd.	10	7.5
Hi-P Precision Plastic Manufacturing (Shanghai) Co., Ltd.	7.5	7.5
Hi-P (Chengdu) Precision Plastic Manufacturing Co., Ltd.	10	10
Hi-P (Chengdu) Mold Base Manufacturing Co., Ltd.	7.5	Tax exempt
Hi-P (Xiamen) Precision Plastic Manufacturing Co., Ltd.	7.5	7.5
Qingdao Haier Hi-P Science Technology Co., Ltd.	12	12
Hi-P Tianjin Electronics Co., Ltd.	7.5	Tax exempt
Hi-P (Shanghai) Industries Co., Ltd.	7.5	Tax exempt
Hi-P (Shanghai) Housing Appliance Co., Ltd	7.5	Tax exempt
Hi-P (Shanghai) Precision Mold & Die Co., Ltd.	7.5	Tax exempt
Hi-P (Suzhou) Technology Co., Ltd.	Tax exempt	Tax exempt
Hi-P (Tianjin) Precision Mold & Die Co., Ltd.	Tax exempt	Tax exempt
Hi-P (Suzhou) Electronics Co., Ltd	Tax exempt	*
Hi-P (Tianjin) Technology Co., Ltd	**	*
Hi-P (Shanghai) Technology Co., Ltd	Tax exempt	***
Hi-P Samkwang Technology (Shanghai) Co., Ltd	Tax exempt	***

* Subsidiary in loss position.
** Subsidiary has not commenced operations.
*** Subsidiary not incorporated yet.

High Precision Moulding and Tools, S.A. de C.V. is subject to the following types of income taxes:

(i) Asset tax: the 1.8% asset tax rate (which is a minimum income tax rate) is computed on the average value of most assets net of certain liabilities. Since asset tax may be credited against income tax, the former is actually payable only to the extent that it exceeds income tax and any amount actually paid may be recovered in any of the succeeding ten years in which income tax exceeds asset tax; and

(ii) Income tax: the applicable corporate income tax rate is 30% (2004: 33%).

There are no income tax consequences attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements.

8. Tax (cont'd)

Hi-P North America, Inc. is subject to the following types of income taxes:

(i) Federal tax: Graduated tax structure that begins at 15% to a maximum of 35%; and

(ii) State tax: Comprises corporate income tax rate of 4.8% and state replacement tax rate of 2.5%.

Hi-P Mauritius Ltd. is granted the Global Business Companies Category 1 Licence and is taxed at a flat rate of 15% (2004: 15%). However, the subsidiary is entitled to unilateral foreign tax credits under the Income Tax (Foreign Tax Credit) Regulations 1996, which would result in a maximum effective tax rate of 3%.

Hi-P Resources Ltd. is granted the Global Business Companies Category 2 Licence and is tax exempt.

Hi-P Finland Oy is subject to corporate income tax at 26% (2004: 29%).

9. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share amounts are calculated by dividing the profit for the year attributable to equity holders of the Company (after deducting dividends) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the profit and loss and share data used in the computation of basic and diluted earnings per share for the years ending 31 December.

	GROUP	
	2005	2004
Profit for the year attributable to equity holders of the Company ($'000)	89,022	88,053
Weighted average number of ordinary shares for basic earnings per share computations ('000)	887,013	887,000
Effects of dilution for number of unissued ordinary shares under share options ('000)	3,843	1,859
Weighted average number of ordinary shares for the effect of dilution ('000)	890,856	888,859
Basic earnings per share (cents)	10.04	9.93
Diluted earnings per share (cents)	9.99	9.91

There have been no transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

10. Fixed assets

(a) Group

	Factory buildings and leasehold improvements $'000	Construction-in-progress $'000	Renovation $'000	Plant and machinery $'000	Motor vehicles $'000	Office equipment, furniture and fittings $'000	Total $'000
Cost							
As at 1.1.2004	25,919	234	12,339	128,034	1,375	12,172	180,073
Additions	461	5,623	4,612	48,638	40	3,852	63,226
Reclassification	(1,547)	(1,378)	1,547	1,399	11	(32)	–
Disposals	(4,427)	(6)	–	(395)	(66)	–	(4,894)
Translation difference	(236)	(147)	(1,572)	(5,674)	(25)	(328)	(7,982)
As at 31.12.2004 and 1.1.2005	20,170	4,326	16,926	172,002	1,335	15,664	230,423
Additions	853	11,902	7,609	56,794	2,519	6,543	86,220
Reclassification	(4)	(10,110)	3	10,072	–	39	–
Disposals	(3,930)	–	–	(293)	–	(650)	(4,873)
Translation difference	219	2,132	614	7,238	58	559	10,820
As at 31.12.2005	17,308	8,250	25,152	245,813	3,912	22,155	322,590
Accumulated depreciation							
As at 1.1.2004	5,076	–	3,259	32,865	386	4,592	46,178
Charge for the year	437	–	2,356	13,547	220	2,281	18,841
Reclassification	118	–	(118)	18	(2)	(16)	–
Disposals	(1,405)	–	(660)	(40)	(28)	–	(2,133)
Translation difference	(162)	–	(681)	(307)	(7)	(271)	(1,428)
As at 31.12.2004 and 1.1.2005	4,064	–	4,156	46,083	569	6,586	61,458
Charge for the year	469	–	3,012	19,107	213	2,954	25,755
Disposals	(2,310)	–	(172)	(131)	–	(348)	(2,961)
Translation difference	109	–	213	1,331	12	197	1,862
As at 31.12.2005	2,332	–	7,209	66,390	794	9,389	86,114
Net carrying amount							
As at 31.12.2005	14,976	8,250	17,943	179,423	3,118	12,766	236,476
As at 31.12.2004	16,106	4,326	12,770	125,919	766	9,078	168,965

As at 31 December 2005, the Group's plant and machinery, motor vehicles and office equipment under finance leases were at net carrying values of approximately $181,000 (2004: $5,308,000), Nil (2004: $326,000) and $ 27,300 (2004: $70,000) respectively.

10. Fixed assets (cont'd)

(b) Company

	Factory buildings and leasehold improvements $'000	Renovation $'000	Plant and machinery $'000	Motor vehicles $'000	Office equipment, furniture and fittings $'000	Total $'000
Cost						
As at 1.1.2004	15,329	176	19,049	781	857	36,192
Additions	300	42	2,193	-	42	2,577
Disposals	-	-	(168)	(65)	-	(233)
As at 31.12.2004 and 1.1.2005	15,629	218	21,074	716	899	38,536
Additions	829	199	7,521	-	40	8,589
Disposals	-	-	(674)	-	(4)	(678)
As at 31.12.2005	16,458	417	27,921	716	935	46,447
Accumulated depreciation						
As at 1.1.2004	1,588	14	11,749	216	459	14,026
Charge for the year	272	33	1,948	125	82	2,460
Disposals	-	-	(128)	(27)	-	(155)
Reclassification	-	-	(3)	-	3	-
As at 31.12.2004 and 1.1.2005	1,860	47	13,566	314	544	16,331
Charge for the year	284	43	2,454	118	85	2,984
Disposals	-	-	(438)	-	(3)	(441)
As at 31.12.2005	2,144	90	15,582	432	626	18,874
Net carrying amount						
As at 31.12.2005	14,314	327	12,339	284	309	27,573
As at 31.12.2004	13,769	171	7,508	402	355	22,205

As at 31 December 2005, the Company's plant and machinery and motor vehicles under finance leases were at net carrying values of approximately $46,000 (2004: $54,000) and $253,000 (2004: $326,000) respectively.

11. Investments in subsidiaries

	COMPANY 2005 $'000	2004 $'000
Shares, at cost	89,966	66,845
Impairment loss	(8,500)	(8,500)
	81,466	58,345
Amounts due from subsidiaries	26,075	-
Additional capital contribution	3,091	-
	29,166	-
Carrying amount of investments	110,632	58,345

The additional capital contribution represents interest foregone on the interest-free long term loans granted by the Company to its subsidiaries (Note 18).

The amounts due from subsidiaries have no repayment terms and are repayable only when the cash flows of the subsidiaries permit. Accordingly, the fair value of these amounts is not determinable as the timing of the future cash flows arising from these amounts cannot be estimated reliably.

Details of subsidiaries are as follows:

Name of company	Principal activities	Country of incorporation and place of business	Equity interest held by the Group 2005 %	2004 %	Cost of investment 2005 $'000	2004 $'000
Held by the Company						
Hi-P Shanghai Electronics Co., Ltd. **	Manufacture of molds	People's Republic of China	100	100	3,530	3,530
High Precision Moulding and Tools, S.A. de C.V. **	Manufacture of plastic injection parts	Mexico	100	100	11,840	11,840
Hi-P (Chengdu) Precision Plastic Manufacturing Co., Ltd.**	Manufacture of plastic injection parts	People's Republic of China	100	100	4,935	3,871
Hi-P Camera Products Co., Ltd. **	Manufacture of camera products	People's Republic of China	100	100	8,489	8,489

11. Investments in subsidiaries (cont'd)

Name of company	Principal activities	Country of incorporation and place of business	Equity interest held by the Group 2005 %	2004 %	Cost of investment 2005 $'000	2004 $'000
Hi-P Precision Plastic Manufacturing (Shanghai) Co., Ltd. **	Spray painting	People's Republic of China	100	100	3,769	3,769
Hi-P (Xiamen) Precision Plastic Manufacturing Co., Ltd. **	Manufacture and sale of plastic product modules	People's Republic of China	100	100	4,548	4,548
Qingdao Haier Hi-P Science Technology Co., Ltd. **	Manufacture and sale of plastic product modules	People's Republic of China	70	70	2,544	2,544
Hi-P (Chengdu) Mold Base Manufacturing Co., Ltd. **	Manufacture of mold base and components	People's Republic of China	100	100	3,007	3,007
Hi-P (Shanghai) Housing Appliance Co., Ltd **	Manufacture of molds and related housing appliance plastic components	People's Republic of China	100	100	4,550	4,550
Hi-P Tianjin Electronics Co., Ltd. **	Manufacture of molds	People's Republic of China	100	100	4,519	4,519
Hi-P Management Services Pte Ltd *	Manufacture and sale of tools, molds and plastic components (dormant)	Singapore	100	100	- @	- @
Hi-P Industries Pte. Ltd. *	Manufacture of metal precision components	Singapore	100	100	1,500	1,500
Hi-P North America, Inc. ##	Provision of engineering support services	United States of America	100	100	580	2
Hi-P Finland Oy **	Provision of engineering support services	Finland	100	100	16	16
Hi-P (Shanghai) Precision Mold & Die Co., Ltd. **	Manufacture of molds	People's Republic of China	100	100	4,335	4,335

11. Investments in subsidiaries (cont'd)

Name of company	Principal activities	Country of incorporation and place of business	Equity interest held by the Group 2005 %	2004 %	Cost of investment 2005 $'000	2004 $'000
Hi-P (Suzhou) Technology Co., Ltd. **	Manufacture of plastic injection parts	People's Republic of China	100	100	4,258	2,949
Hi-P (Tianjin) Precision Mold & Die Co., Ltd. **	Manufacture of molds	People's Republic of China	100	100	2,431	2,431
Hi-P Mauritius Ltd **	International sales and marketing activities	Mauritius	100	100	85	85
Hi-P Resources Ltd ***	Provision of human resource to related companies	Mauritius	100	100	8	8
Hi-P (Suzhou) Electronics Co., Ltd **	Manufacture and sale of molds and plastic components	People's Republic of China	100	100	8,311	1,276
Hi-P (Tianjin) Technology Co., Ltd **	Manufacture and sale of molds and plastic components	People's Republic of China	100	100	2,536	2,536
Hi-P (Shanghai) Technology Co., Ltd **	Manufacture and sale of molds and plastic components	People's Republic of China	100	100	4,129	-
Hi-P Samkwang Technology (Singapore) Pte. Ltd. *	Manufacture and production of in-mold decoration lenses	Singapore	52	52	1,040	1,040
Hi-P Poland SP.Z0.0. #	Manufacture and sale of molds and plastic components	Poland	100	-	530	-
Hi-P Gmbh #	Development, design and sales of electro-mechanical components	Germany	100	-	51	-
Hi-P (Shanghai) Stamping Mold & Component Industries Co., Ltd #	Design and manufacture of metal and non-metal stamping, molds and electric components	People's Republic of China	100	-	8,425	-

11. Investments in subsidiaries (cont'd)

Name of company	Principal activities	Country of incorporation and place of business	Equity interest held by the Group 2005 %	2004 %	Cost of investment 2005 $'000	2004 $'000
Held by subsidiaries						
Hi-P (Shanghai) Industries Co., Ltd. **	Manufacture of precision stamped metal components and precision tools and die design and fabrication	People's Republic of China	100	100	-	-
Hi-P Samkwang Technology (Shanghai) Co., Ltd **	Manufacture and production of in-mold decoration lenses	People's Republic of China	100	100	-	-
					89,966	66,845

*   Audited by Ernst & Young, Singapore.
**   Audited by member firms of Ernst & Young Global in respective countries.
***   Not required to be audited by the laws of its country of incorporation.
\#   No statutory audited is required as the entity was incorporated towards the end of the financial year.
\##   Audited by Charles J. Gries & Company L.L.P. Certified Public Accountants.
@ $2 comprising two subscriber shares of $1 each.

12. Investments in associated companies

	GROUP 2005 $'000	GROUP 2004 $'000	COMPANY 2005 $'000	COMPANY 2004 $'000
Unquoted equity shares at cost	1,384	903	1,384	903
Share of post-acquisition profits				
- current year	(114)	355	-	-
- prior years	1,516	1,161	-	-
Share of tax				
- current year	-	(70)	-	-
- prior years	(314)	(244)	-	-
Share of translation reserve	(82)	(43)	-	-
Share of reserve fund	60	11	-	-
Goodwill	263	-	-	-
Impairment of goodwill	(263)	-	-	-
Carrying amount of investments	2,450	2,073	1,384	903

12. Investments in associated companies (cont'd)

Details of associated companies are as follows:

Name of company	Principal activities	Country of incorporation and place of business	Effective equity interest held by the Group 2005 %	Effective equity interest held by the Group 2004 %	Cost of investment by the Company 2005 $'000	Cost of investment by the Company 2004 $'000
Express Tech Mfg Pte Ltd*	Manufacture and sale of plastic products and engineering parts	Singapore	30	30	503	503
Hi-Tec Precision Mould Pte. Ltd. **	Manufacture and repair of machinery, machine tools and machine tool accessories and die-casting	Singapore	40	40	400	400
Design Exchange Pte Ltd ***	Provision of product design and development services from concept ideation to mass production support	Singapore	40	-	481	-
					1,384	903

* Audited by Deloitte & Touche, Singapore.
** Audited by Lau Chin Huat & Co.
*** Audited by Wong, Lee Associate.

The summarised financial information of the associated companies are as follows:

	2005 $'000	2004 $'000
Assets and liabilities:		
Current assets	9,368	8,752
Non-current assets	3,591	4,057
Total assets	12,959	12,809
Current liabilities	4,736	4,561
Non-current liabilities	944	1,771
Total liabilities	5,680	6,332

12. Investment in associated companies (cont'd)

	2005 $'000	2004 $'000
Results:		
Revenue	9,857	10,799
Profit for the year	84	1,134

13. Other non-current asset

This relates to investment in a club membership, stated at cost less impairment loss.

	GROUP AND COMPANY	
	2005 $'000	2004 $'000
At cost	36	36
Impairment loss	(24)	(24)
Carrying value	12	12

14. Inventories

	GROUP		COMPANY	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Work-in-progress	18,608	14,306	3,860	1,816
Raw materials	23,811	28,889	752	423
Finished goods	31,872	17,597	1,944	1,728
Total inventories at lower of cost and net realisable value	74,291	60,792	6,556	3,967

During the financial year, the Group wrote-down $1,240,000 (2004: $6,133,000) of inventories which are recognised as expense in the profit and loss account.

15. Trade receivables

	GROUP		COMPANY	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Trade receivables	160,604	107,969	13,136	10,431
Allowance for doubtful receivables	(4,369)	(5,378)	(53)	(35)
	156,235	102,591	13,083	10,396

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represents their fair values on initial recognition.

As at 31 December 2005, the following amounts are included in net trade receivables for the Group:

- $63,793,000 (2004: $33,632,000) denominated in Renminbi;
- $92,016,000 (2004: $67,912,000) denominated in US Dollars;
- $75,000 (2004: $234,000) denominated in Euros;

Allowance for doubtful receivables

For the year ended 31 December 2005, an impairment loss of Nil (2004: $5,559,000) and write back of allowance for doubtful receivables of $1,320,000 (2004: Nil) was recognised in the profit and loss account subsequent to a debt recovery assessment performed on trade receivables and other receivables as at 31 December 2005.

16. Notes receivables

Notes receivables were issued by customers for trade purchases. The notes receivables have an average maturity of 2.5 to 6 months and the weighted average effective interest rate is 0.3% (2004: 1%).

17. Other receivables, deposits and prepayments

	GROUP		COMPANY	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Advances to suppliers	7,570	6,068	806	121
Sales tax recoverable	3,858	2,399	–	–
Other receivables	3,512	6,476	–	–
Deposits	3,411	1,466	89	118
Prepayments	1,804	1,091	80	69
	20,155	17,500	975	308

18. Amounts due from subsidiaries

	COMPANY	
	2005 $'000	2004 $'000
Current:		
Trade	24,642	46,305
Non-Trade	287	230
	24,929	46,535
Non-current:		
Non-Trade	10,639	-
	35,568	46,535

The amounts due from subsidiaries are unsecured and are to be settled in cash.

Amounts due from subsidiaries (current) are non-interest bearing and repayable on demand.

Amounts due from subsidiaries (non-current) are non-interest bearing and repayable within 3 to 5 years (2004: Nil). The fair value of the amounts due from subsidiaries amounts to $10,109,000 (2004: Nil) based on the weighted average effective interest rates of 5.75% (2004: Nil) per annum.

The difference between the transaction price and the fair value of $3,091,000 (2004: Nil) has been recorded as an additional capital contribution in the subsidiaries (Note 11).

19. Amounts due from minority shareholders of subsidiaries

	GROUP	
	2005 $'000	2004 $'000
Trade	1,130	2,708
Allowance for doubtful receivables	(137)	(227)
	993	2,481

Amounts due from minority shareholders of subsidiaries are non-interest bearing, unsecured and repayable on demand in cash. They are recognised at their original invoice amounts which represents their fair values on initial recognition.

20. Trade payables

As at 31 December 2005, the following amounts are included in trade payables for the Group:

- $103,844,000 (2004: $79,419,000) denominated in Renminbi;
- $20,034,000 (2004: $9,467,000) denominated in US Dollars;
- $734,000 (2004: $2,612,000) denominated in Euros;
- $892,000 (2004: $474,000) denominated in Japanese Yen;
- $70,000 (2004: $19,000) denominated in New Taiwan Dollars; and
- $10,000 (2004: $1,018,000) denominated in Hong Kong Dollars.

21. Other payables and accruals

	GROUP		COMPANY	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
Other payables	36,112	27,141	2,788	3,035
Accrued operating expenses	19,098	19,726	7,632	8,409
	55,210	46,867	10,420	11,444

Other payables include amounts due to creditors in relation to the purchase of fixed assets.

Other payables are non-interest bearing and normally settled on 30 to 90 days' terms.

22. Amounts due to subsidiaries (trade and non-trade)

Amounts due to subsidiaries are non-interest bearing and are repayable within 12 months. These amounts are unsecured and are to be settled in cash.

23. Amounts due to minority shareholders of subsidiaries (non-trade)

These amounts are unsecured and are to be settled in cash.

Amount due to minority shareholders of subsidiaries are non-interest bearing and are repayable within 12 months.

Amount due to minority shareholders of subsidiaries (non-current) are non-interest bearing (2004: Nil) and are repayable in 3 years.

24. Lease obligations

	GROUP		COMPANY	
	Total minimum lease payments $'000	Present value of payments $'000	Total minimum lease payments $'000	Present value of payments $'000
2005				
Within one year	402	362	255	228
After one year but not more than five years	255	227	197	170
Total minimum lease payments	657	589	452	398
Less amounts representing finance charges	(68)	-	(54)	-
Present value of minimum lease payments	589	589	398	398
2004				
Within one year	1,998	1,879	1,518	1,442
After one year but not more than five years	728	577	541	406
Total minimum lease payments	2,726	2,456	2,059	1,848
Less amounts representing finance charges	(269)	-	(211)	-
Present value of minimum lease payments	2,457	2,456	1,848	1,848

The average discount rate implicit in the leases are 2.3% to 4.25% (2004: 2.3% to 4.25%) per annum. The effective interest rate in the finance leases are 9.2% to 13.8% (2004: 9.8% to 10.2%) per annum.

25. Interest-bearing loans and borrowings

	Effective interest rate	Maturities	GROUP 2005 $'000	GROUP 2004 $'000	COMPANY 2005 $'000	COMPANY 2004 $'000
(a) Bank term loan bearing interest at SWAP offer rate (6 months) plus 1.25% per annum and is repayable over 17 equal half-yearly instalments, commencing 30 June 1998	13.0%	2006	694	2,081	694	2,081
(b) Bank term loan bearing interest at SIBOR plus 1% per annum	7.7%	2006	1,665	4,413	-	-
(c) Bank term loan bearing interest at SIBOR plus 1% per annum	2.3%	2005	-	1,637	-	-
(d) Bank term loan bearing interest at SIBOR plus 1% per annum	4.3%	2006	2,497	2,456	-	-
(e) Bank term loan bearing interest at SIBOR plus 1% per annum	3.0%	2005	-	3,831	-	-
(f) Bank term loan bearing interest at 3.34% per annum, repayable over 11 equal quarterly instalments, commencing September 2004	4.9%	2005	-	203	-	-
(g) Bank term loan bearing interest at 3.34% per annum, repayable over 11 equal quarterly instalments commencing May 2004	5.7%	2005	-	106	-	-
(h) Short-term bank loan bearing interest at the rate of 2.04 % per annum	3.4%	2005	-	4,911	-	-
			4,856	19,638	694	2,081
Due after 12 months			-	4,574	-	694
Due within 12 months			4,856	15,064	694	1,387

The bank term loans are secured by a corporate guarantee from the Company.

26. Deferred tax

Deferred income tax as at 31 December relates to the following:

	GROUP				COMPANY	
	Consolidated balance sheet		Consolidated profit and loss account		Balance sheet	
	2005	2004	2005	2004	2005	2004
	$'000	$'000	$'000	$'000	$'000	$'000
Deferred tax liabilities						
Excess of net book value over tax written down value of fixed assets	(2,786)	(2,774)	(12)	-	(2,774)	(2,774)
Deferred tax assets	679	-	679	-	-	-
Deferred income tax expense			667	-		

No deferred tax was charged to equity during the year.

Unrecognised tax losses

The Group has tax losses of approximately $14,238,000 (2004: $3,264,000) that are available for offset against future taxable profits of the companies in which the losses arose for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

Unrecognised temporary differences relating to investments in subsidiary and associated companies

The temporary differences associated with investments in subsidiaries and associated companies for which deferred tax liability has not been recognised aggregate to $16,917,000 (2004: $16,300,000). The Group did not recognise the deferred tax liability arising from these temporary differences as the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

27. Share capital

	GROUP AND COMPANY	
	2005 $'000	2004 $'000
Authorised		
2,000,000,000 ordinary shares of $0.05 each	100,000	100,000
Issued and fully paid		
At beginning of year		
887,000,000 ordinary shares of $0.05 each	44,350	44,350
Issued for cash under employee share options (Note 29)	7	-
At end of year		
887,150,000 (2004: 887,000,000) ordinary shares of $0.05 each	44,357	44,350

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

The Company has an employee share option plan (Note 29) under which options to subscribe for the Company's ordinary shares have been granted to employees.

28. Other reserves

a) Reserve fund

Pursuant to the relevant laws in the People's Republic of China ("PRC"), the Group has set aside reserve fund, which may be utilised to offset accumulated losses or increase the capital of subsidiaries, subject to approval from the PRC authorities. The above fund is not available for dividend distribution to the shareholders.

	GROUP	
	2005 $'000	2004 $'000
At beginning of year	16,044	9,313
Transfer from accumulated profits	1,666	6,706
Currency translation difference	-	25
Reclassification	(92)	-
At end of year	17,618	16,044

28. Other reserves (cont'd)

b) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

	GROUP	
	2005 $'000	2004 $'000
At beginning of year	(10,035)	(2,339)
Net effect of exchange differences	9,371	(7,696)
At end of year	(664)	(10,035)

(c) Capital reserves

	GROUP	
	2005 $'000	2004 $'000
At beginning and end of year	37	37

(d) Employee share option reserve

Employee share option reserve represents the equity-settled share options granted to employees (Note 29). The reserve is made up of the cumulative value of services received from employees recorded on grant of equity-settled share options.

	GROUP	
	2005 $'000	2004 $'000
At beginning of year	775	-
Granted during the year	1,790	775
Forfeited during the year	(316)	-
Exercised during the year	(78)	-
Closing balance at 31 December	2,171	775
Total other reserves	19,162	6,821

29. Employee benefits

Equity compensation benefits

The Hi-P Employee Share Option Scheme ("the Option Scheme") was approved and adopted at the Company's Extraordinary General Meeting held on 7 October 2004. The Option Scheme applies to executive directors, employees of the Group, controlling shareholders and their associates. The Option Scheme is administered by the Remuneration Committee, comprising Messrs Wong Meng Meng (Chairman), Yao Hsiao Tung and Dr Tan Khee Giap.

Other information regarding the Option Scheme is set out below:

(i) The exercise price of the options is determined at the average of the last dealt price for the Company's shares on the Singapore Exchange Securities Trading Limited ("SGX-ST") on the five business days immediately preceding the date of grant of such options.

(ii) 50% of the options vest one year after the grant date, and the remaining 50% vest two years after the grant date.

(iii) The options expire 8 years after the grant date.

(iv) The options are only settled by equity.

At the end of the financial year, details of the options granted under the Option Scheme on the unissued ordinary shares of $0.05 each of the Company were as follows:

Date of grant of options	Exercise price per share	Options outstanding as at 1 January 2005	Options granted	Options cancelled/ lapsed	Options exercised	Options outstanding as at 31 December 2005	Exercise period
19/07/2004	$1.39	4,009,000	-	(421,000)	(150,000)	3,438,000	20/07/2005 to 19/07/2012
22/11/2004	$1.73	130,000	-	(40,000)	-	90,000	22/11/2005 to 21/11/2012
24/02/2005	$1.54	-	50,000	-	-	50,000	24/02/2006 to 23/02/2013
12/05/2005	$1.47	-	130,000	(30,000)	-	100,000	12/05/2006 to 11/05/2013
12/08/2005	$1.48	-	120,000	(40,000)	-	80,000	12/08/2006 to 11/08/2013
30/11/2005	$1.63	-	125,000	(40,000)	-	85,000	30/11/2006 to 29/11/2013

The weighted average share price at the date of exercise for the options exercised was $1.39 (2004: Nil).

The range of exercise prices for options outstanding at the end of the year was $1.39 to $1.73 (2004: $1.47 to $1.63). The weighted average remaining contractual life for these options is 6.67 years (2004: 7.58 years).

29. Employee benefits (cont'd)

Equity compensation benefits (cont'd)

The weighted average fair value of options granted during the year was $0.4248 (2004: $0.4886).

The fair value of share options as at the date of grant, is estimated by an external valuer using a binomial model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for the years ended 31 December 2005 and 31 December 2004 are shown below.

	2005	2004
Expected volatility (%)	42.63	49.21
Risk-free interest rate (%)	2.66	3.33
Expected dividend yield (%)	0.7	0.3
Expected life of options (years)	4	3
Weighted average share price ($)	1.55	1.43

To allow for the effects of early exercise, it was assumed that employees would exercise the options after vesting date when the share price was above the exercise price.

The expected life of the options is based on historical data and is not necessarily indicative of 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. No other features of the option grant were incorporated into the measurement of fair value.

The carrying amount of the liability recognised in the Group's and the Company's balance sheets relating to options granted under the Option Scheme at 31 December 2005 is $2,171,000 (2004: $775,000). The options granted under this plan which vested amounted to $920,000 (2004: $Nil) as at 31 December 2005.

30. Dividends

	GROUP AND COMPANY	
	2005 $'000	2004 $'000
Final dividend of 1.0 cents per share (2004: 0.5 cents per share) less tax at 20% (2004: 20%) amounting to $7,096,000 (2004: $3,548,000) is proposed and paid in respect of the previous financial year	7,096	3,548

After the balance sheet date, the directors proposed a first and final dividend of 1.0 (2004: 1.0) cent per ordinary share less tax at 20% (2004: 20%), amounting to $7,096,000 (2004: $7,096,000) for the financial year ended 31 December 2005. These dividends were not provided for as at year-end, as they are subject to approval by shareholders at the Annual General Meeting of the Company.

31. Contingent liabilities and commitments

(a) Capital expenditure commitments

	GROUP		COMPANY	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Commitments in respect of purchase of fixed assets	3,176	8,625	-	1,041

(b) Operating lease commitments

The Group and Company have entered into commercial leases on plant and machinery, motor vehicles, office equipment, factory sites, offices and staff accommodation. The lease terms range from 1 year to 7 years with options to purchase or renewal options at the end of the lease terms. Lease terms do not contain restrictions concerning dividends, additional debt or further leasing. Operating lease payments recognised in the consolidated profit and loss account during the year amount to $1,867,000 (2004: $4,773,000).

Future minimum rentals under non-cancellable leases are as follows:

	GROUP		COMPANY	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Future minimum lease payments				
- not later than 1 year	13,637	6,249	400	400
- 1 year through 5 years	32,802	12,239	1,601	1,601
- later than 5 years	24,031	19,097	17,847	18,680
	70,470	37,585	19,848	20,681

32. Related party information

An entity or individual is considered a related party of the Group for the purposes of the financial statements if: i) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the Group or vice versa; or ii) it is subject to common control or common significant influence.

a) Sale and purchase of goods and services

In addition to those related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties who are not members of the Group took place during the year at terms agreed between the parties:

	GROUP		COMPANY	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Income				
Sales to a corporate shareholder and companies related to the shareholder	575	1,018	-	-
Sales to a minority shareholder of a subsidiary and companies related to the shareholder	3,540	10,486	-	-
Sales to subsidiaries	-	-	3	167
Dividend income from subsidiaries	-	-	12,764	2,894
Sales of fixed assets to a subsidiary	-	-	234	-
Expenses				
Purchases of materials from a corporate shareholder and companies related to the shareholder	8,906	1,445	-	-
Purchases of materials from a minority shareholder of a subsidiary and companies related to the shareholder	-	7,258	-	-
Purchases from subsidiaries	-	-	1,012	98
Purchases from related companies	-	-	38	-
Purchase of fixed assets from holding company	-	-	234	-
Management fee paid to subsidiary	-	-	1,148	374

The Company granted corporate guarantees in favour to third party suppliers for purchases made by subsidiaries.

32. Related party information (cont'd)

b) Compensation of key management personnel

	GROUP	
	2005 $'000	2004 $'000
Short-term employee benefits	6,596	6,179
Equity compensation expense	784	615
Total compensation paid to key management personnel	7,380	6,794
Comprise amounts paid to :		
Directors of the Company	4,122	4,082
Other key management personnel	3,258	2,712
	7,380	6,794

The remuneration of key management personnel are determined by the Remuneration Committee having regard to the performance of individuals and market trends.

Directors' interests in the Hi-P Employee Share Option Scheme

At 1 January 2005, two of the Company's executive directors held 1,600,000 options to purchase ordinary shares of the Company under the Hi-P Employee Share Option Scheme (Note 29). These options entitle these executive directors to purchase 1,600,000 ordinary shares at a price of $1.39 each, exercisable between 20 July 2005 to 19 July 2012.

During the year ended 31 December 2005, no options were granted to the aforementioned executive directors.

No share options have been granted to the Company's non-executive directors.

33. Financial risk management objectives and policies

The Group's principal financial instruments, other than derivative financial instruments, comprise cash at banks, fixed deposits, bank loans and finance leases. 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 interest rate swap. The purpose is to manage the interest rate arising from the Group's sources of financing.

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

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The policies for managing each of these risks are summarised below.

33. Financial risk management objectives and policies (cont'd)

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations. The Group obtains additional financing through bank borrowings and leasing arrangements. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

The Group's policy is to manage its interest rate risks using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps. The interest rate swaps allow the Group to raise long term borrowings at either fixed or floating rates and swap them into floating and fixed rates respectively, with the objective of lowering the interest costs on these borrowings.

Information relating to the Group's interest rate exposure is also disclosed in the notes on the Group's borrowings, including leasing obligations.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, and finance leases.

Foreign exchange risk

As a result of significant investment operations in People's Republic of China ("PRC"), Mauritius and Mexico, the Group's balance sheet can be affected significantly by movements in the Renminbi ("RMB")/SGD, US Dollars/SGD and Mexican Peso/ SGD exchange rates.

The Group also has transactional currency exposures. Such exposures arise from sales or purchases by an operating unit in currencies other than the unit's functional currency.

The Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant measurement currency as and when management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider hedging any exposure where appropriate.

Credit risk

The Group trades only with recognised and creditworthy 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 ongoing basis with the results that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and bank balances, trade receivables and other receivables, the Group's exposure to credit risk arises from default of counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

34. Financial instruments

a) Credit risk

There are no significant concentrations of credit risk within the Group or the Company.

b) Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments carried at fair value

The Group and Company has carried all financial assets that are classified as held for trading or available-for-sale financial assets, and all derivative financial instruments, at their fair value as required by FRS 39.

Financial instruments whose carrying amount approximate fair value

Management has determined that the carrying amounts of cash and short term deposits, current trade and other receivables, current trade and other payables and current bank loans, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

35. Segment information

(a) Business segments

For management purposes, the Group is organised on a world-wide basis into three major operating activities. These operating activities are the basis on which the Group reports its primary segment information which are namely:

- Precision plastic injection molding ("PPIM")
- Mold design and fabrication ("MDF")
- Provision of sub-product assembly and full-product assembly services ("Assembly")

Segment revenue, expenses and results include transfers between business segments. Such transfers are accounted for on an arm's length basis.

Segment assets and liabilities cannot be directly attributable to individual business segments and it is impractical to allocate them to the business segments. Accordingly, it is not meaningful to disclose assets, liabilities and capital expenditure by business segments.

	PPIM $'000	MDF $'000	Assembly $'000	Eliminations $'000	Consolidated $'000
2005					
Segment revenue					
Sales to external customers	267,901	49,786	315,267	-	632,954
Inter-segment sales	13,925	-	-	(13,925)	-
	281,826	49,786	315,267	(13,925)	632,954

35. Segment information (cont'd)

(a) Business segments (cont'd)

	PPIM $'000	MDF $'000	Assembly $'000	Eliminations $'000	Consolidated $'000
Profit from operations	61,319	12,074	20,007	-	93,400
Financial expenses					(977)
Financial income					857
Foreign exchange loss, net					(39)
Share of results of associated companies					(114)
Tax					(4,999)
Net profit					88,128
Depreciation	19,846	4,123	1,786	-	25,755
Other non-cash income	700	138	229	-	1,067
2004					
Segment revenue					
Sales to external customers	248,140	41,447	271,344	-	560,931
Inter-segment sales	20,813	-	-	(20,813)	-
	268,953	41,447	271,344	(20,813)	560,931
Profit from operations	59,569	8,402	26,558	-	94,529
Financial expenses					(1,302)
Financial income					343
Foreign exchange loss, net					(1,548)
Share of results of associated companies					355
Tax					(3,113)
Net profit					89,264
Depreciation	11,873	1,675	5,293	-	18,841
Other non-cash expenses	3,829	547	1,702	-	6,078

35. Segment information (cont'd)

(b) Geographical segments

Revenue is based on the location of customers. Assets and additions to fixed assets are based on the location of those assets.

	Revenue		Assets		Capital expenditure	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Asia						
People's Republic of China	243,893	290,255	404,845	253,154	74,351	60,132
Singapore	110,150	80,075	89,702	146,277	8,706	2,874
Malaysia	8,166	4,949	-	-	-	-
Others	11,683	4,919	2,349	-	941	-
	373,892	380,198	496,896	399,431	83,998	63,006
Europe	218,398	156,100	2,580	127	2,172	-
United States and the rest of Americas	40,665	24,633	21,229	6,025	50	220
Others	-	-	45,775	37,866	-	-
	632,955	560,931	566,480	443,449	86,220	63,226

36. Restatement of comparatives

The prior year's comparative figures have been restated due to reclassification of assets from non-current to current. The restatement has no financial impact on the Group's financial performance.

	GROUP		COMPANY	
	31 December 2004 as restated	31 December 2004 as previously reported	31 December 2004 as restated	31 December 2004 as previously reported
Deferred expenditure	-	514	-	514
Inventories	60,792	60,278	3,967	3,453

37. Subsequent events

Subsequent to year end, the Company incorporated the following two subsidiaries:

Name of company	Principal activities	Country of incorporation and place of business	Equity interest held by the Group %	Registered capital $'000
Hi-P (Guangzhou) Technology Co., Ltd.	Design and fabrication of precision plastic injection molding parts, assembly and provide related advisory services	People's Republic of China	100	48,288
Hi-P (Guangzhou) Precision Mold & Die Co., Ltd	Design and fabrication of non-metal precision molds, assembly and provide related advisory services	People's Republic of China	100	34,968

38. Authorisation of financial statements

The financial statements for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the Directors on 15 March 2006.

15 March 2006

Distribution of Shareholdings

Size of Shareholding			No. of Shareholders	%	No. of Shares	%
1	-	999	4	0.4	840	0
1,000	-	10,000	759	75.67	3,774,415	0.42
10,001	-	1,000,000	223	22.33	19,570,000	2.20
1,000,001	and	above	16	1.6	863,804,745	97.38
Total			1,003	100	887,150,000	100

Twenty Largest Shareholders

No.	Name	No. of Shares	%
1	Yao Hsiao Tung	485,918,800	54.77
2	Molex International Inc	178,521,200	20.12
3	DBS Nominees Pte Ltd	88,675,000	10.00
4	Citibank Nominees Singapore Pte Ltd	26,734,093	3.01
5	DBSN Services Pte Ltd	24,101,000	2.72
6	HSBC (Singapore) Nominees Pte Ltd	23,730,907	2.68
7	Raffles Nominees Pte Ltd	12,238,745	1.38
8	United Overseas Bank Nominees Pte Ltd	8,928,000	1.01
9	Morgan Stanley Asia (S'pore) Securities Pte Ltd	3,656,000	0.41
10	Chan Hean Wee	2,140,000	0.24
11	Ho Hock Yong	1,690,000	0.19
12	The Asia Life Assurance Society Ltd - Par Fund	1,635,000	0.18
13	Tan Tor Howe	1,554,000	0.18
14	Ho Teck Heng	1,550,000	0.18
15	Chew Poh Chee	1,450,000	0.16
16	Szeto Tzen	1,282,000	0.14
17	Wee Bee Hoon	1,000,000	0.11
18	Ang Lien Peng	975,000	0.11
19	Kim Eng Securities Pte. Ltd.	799,000	0.09
20	Merrill Lynch (S'pore) Pte Ltd	795,000	0.09
Total		867,373,745	97.77

SHAREHOLDERS' INFORMATION AS AT 15 MARCH 2006

Number of shares	:	887,150,000
Class of shares	:	Ordinary shares
Voting rights	:	One vote per share

Substantial Shareholders

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as at 15 March 2006.

	No. of Ordinary shares of S$0.05 each			
Name	Direct Interest	%	Indirect Interest	%
Yao Hsiao Tung	485,918,800	54.77	-	-
Wong Huey Fang (Note 1)	-	-	485,918,800	54.77
Molex International Inc	181,074,800	20.41	-	-
Molex Incorporated (Note 2)	-	-	181,074,800	20.41

NOTES:

1. Mdm Wong Huey Fang is the spouse of Mr Yao Hsiao Tung. As such, Mdm Wong Huey Fang is deemed to have an interest in the 485,918,800 shares held by Mr Yao Hsiao Tung.

2. Molex International Inc is a subsidiary of Molex Incorporated. As such, Molex Incorporated is deemed to have an interest in the 181,074,800 shares held by Molex International Inc.

FREE FLOAT

As at 15 March 2006, approximately 24.4% of the issued share capital of the Company was held in the hands of the public (on the basis of information available to the Company).

Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Hi-P International Limited (the "Company") will be held at Albizia Room 1, Jurong Country Club, 9 Science Centre Rd, Singapore 609078 on Tuesday, 25 April 2006 at 5:30 p.m. for the following purposes:

Ordinary Business

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the year ended 31 December 2005 together with the Auditors' Report thereon.

   (Resolution 1)

2. To declare a first and final dividend of 1.0 Singapore cent per share less income tax for the year ended 31 December 2005.

   (Resolution 2)

3. To re-elect the following Directors retiring pursuant to Article 91 of the Company's Articles of Association:

   Mr Wong Meng Meng [Article 91] **(Resolution 3)**
   Mr Yeo Tiong Eng [Article 91] **(Resolution 4)**

   Mr Wong Meng Meng will, upon re-election as a Director of the Company, remain as the Chairman of the Audit Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

   Mr Yeo Tiong Eng will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and will not be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

4. To approve the payment of Directors' fees of S$338,000 for the year ended 31 December 2005. (2004: S$338,000.00)

   (Resolution 5)

5. To re-appoint Messrs Ernst & Young as the Company's Auditors and to authorise the Directors to fix their remuneration.

   (Resolution 6)

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

Special Business

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. Authority to allot and issue shares up to fifty per cent. (50%) of issued capital

   "That, pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual"), authority be and is hereby given to the Directors to: –

   (a) allot and issue shares in the Company; and

   (b) issue convertible securities and any shares in the Company pursuant to convertible securities (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors shall in their absolute discretion deem fit, provided that the aggregate number of shares (including any shares to be issued pursuant to the convertible securities) in the Company to be issued pursuant to such authority shall not exceed fifty per cent. (50%) of the issued share capital of the Company for the time being and that the aggregate number of shares in the Company to be issued other than on a pro-rata basis to the then existing shareholders of the Company shall not exceed twenty per cent. (20%) of the issued share capital of the Company for the time being. Unless revoked or varied by the Company in general meeting, such authority shall continue in full force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting is required by law to be held, whichever is earlier, except that the Directors shall be authorised to allot and issue new shares pursuant to the convertible securities notwithstanding that such authority has ceased.

For the purposes of this Resolution and Rule 806(3) of the Listing Manual, the percentage of issued share capital is based on the issued share capital of the Company at the time this Resolution is passed after adjusting for:-

(i) new shares arising from the conversion or exercise of convertible securities;

(ii) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the rules of the Listing Manual; and

(iii) any subsequent consolidation or subdivision of shares." [See Explanatory Note (i)]

(Resolution 7)

8. Authority to grant options and issue shares under the Hi-P Employee Share Option Scheme

"That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be and are hereby authorised to offer and grant options in accordance with the Hi-P Employee Share Option Scheme (the "Scheme") and to issue such shares as may be required to be issued pursuant to the exercise of the options granted under the Scheme provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed fifteen per cent. (15%) of the issued share capital of the Company from time to time." [See Explanatory Note (ii)]

(Resolution 8)

By Order of the Board

Yao Hsiao Tung
Executive Chairman
Chief Executive Officer

Singapore, 7 April 2006

Explanatory Notes:

(i) The Ordinary Resolution 7 proposed in item 7 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue shares and convertible securities in the Company. The aggregate number of shares (including any shares issued pursuant to the convertible securities) which the Directors may allot and issue under this Resolution will not exceed fifty per cent. (50%) of the issued share capital (as defined in Resolution 7) of the Company. For issues of shares other than on a pro rata basis to all shareholders, the aggregate number of shares to be issued shall not exceed twenty per cent. (20%) of the issued share capital (as defined in Resolution 7) of the Company. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. However, notwithstanding the cessation of this authority, the Directors are empowered to issue shares pursuant to any convertible securities issued under this authority.

(ii) The Ordinary Resolution 8 proposed in item 8 above, if passed, will empower the Directors of the Company, to grant options and to allot and issue shares upon the exercise of such options in accordance with the Hi-P Employee Share Option Scheme.

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint up to 2 proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the registered office of the Company at 11 International Business Park, Singapore 609926 not less than forty-eight (48) hours before the time for holding the Meeting.

HI-P INTERNATIONAL LIMITED
Company Registration Number 198004817H
(Incorporated in the Republic of Singapore)

proxy form

I/We ____ (Name)

of ____ (Address)

being a member/members of HI-P INTERNATIONAL LIMITED (the "Company") hereby appoint:

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

as my/our proxy/proxies to vote for me/us on my/our behalf, at the Annual General Meeting of the Company (the "Meeting") to be held at Albizia Room 1, Jurong Country Club, 9 Science Centre Rd, Singapore 609078 on Tuesday, 25 April 2006 at 5:30 p.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any matter arising at the Meeting.

NO.	RESOLUTIONS RELATING TO:	FOR	AGAINST
1.	Directors' Report and Accounts for the year ended 31 December 2005		
2.	Payment of proposed first and final dividend		
3.	Re-election of Mr Wong Meng Meng		
4.	Re-election of Mr Yeo Tiong Eng		
5.	Approval of Directors' fees		
6.	Re-appointment of Messrs Ernst & Young as Auditors		
7.	Authority to issue and allot shares pursuant to Section 161 of the Companies Act, Cap. 50		
8.	Authority to grant options and issue shares under the Hi-P Employee Share Option Scheme		

Dated this ____________ day of _________________ 2006

Total No. of Shares	No. of Shares
In CDP Register	
In Register of Members	

____
Signature(s) of Member(s)
or, Common Seal of Corporate Member

IMPORTANT: PLEASE READ NOTES OVERLEAF

NOTES

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or two proxies to attend and vote in his stead.

2. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his holding (expressed as a percentage of the whole) to be represented by each proxy.

3. A proxy need not be a member of the Company.

4. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all shares held by the member.

5. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 11 International Business Park, Singapore 609926, not less than 48 hours before the time set for the Meeting.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

7. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

GENERAL:

The Company shall be entitled to reject a proxy form which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the proxy form. In addition, in the case of shares entered in the Depository Register, the Company may reject a proxy form if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

corporate information

EXECUTIVE DIRECTORS

Yao Hsiao Tung
Executive Chairman
Chief Executive Officer
(Appointed 21 May 1983)
Wong Huey Fang
(Appointed 21 January 1988)

NON-EXECUTIVE DIRECTORS

Yeo Tiong Eng
(Appointed 1 April 1987)
Chester Lin Chien
(Appointed 4 August 2004)

INDEPENDENT DIRECTORS

Dr Tan Khee Giap
(Appointed 5 November 2003)
Wong Meng Meng
(Appointed 5 November 2003)

AUDIT COMMITTEE

Wong Meng Meng
Chairman

Dr Tan Khee Giap

Yeo Tiong Eng

REMUNERATION COMMITTEE

Wong Meng Meng
Chairman

Yao Hsiao Tung

Dr Tan Khee Giap

NOMINATING COMMITTEE

Dr Tan Khee Giap
Chairman

Yeo Tiong Eng
Wong Meng Meng

COMPANY SECRETARY

Tan Ping Ping

REGISTERED OFFICE

11 International Business Park
Jurong East
Singapore 609926
tel: 65-6268 5459
fax: 65-6564 1787
web-site: www.hi-p.com

SHARE REGISTRAR

Lim Associates (Pte) Ltd
10 Collyer Quay #19-08
Ocean Building
Singapore 049315

AUDITOR

Ernst & Young
Certified Public Accountants
10 Collyer Quay #21-01
Ocean Building
Singapore 049315

AUDIT PARTNER-IN-CHARGE

Tan Wee Khim
(Appointed since financial year ended
31 December 2005)

Hi-P INTERNATIONAL LIMITED
赫 比 国 际 有 限 公 司

11 International Business Park
Jurong East, Singapore 609926
Tel: 65. 6268 5459
www.hi-p.com
Company Registration No: 198004817H