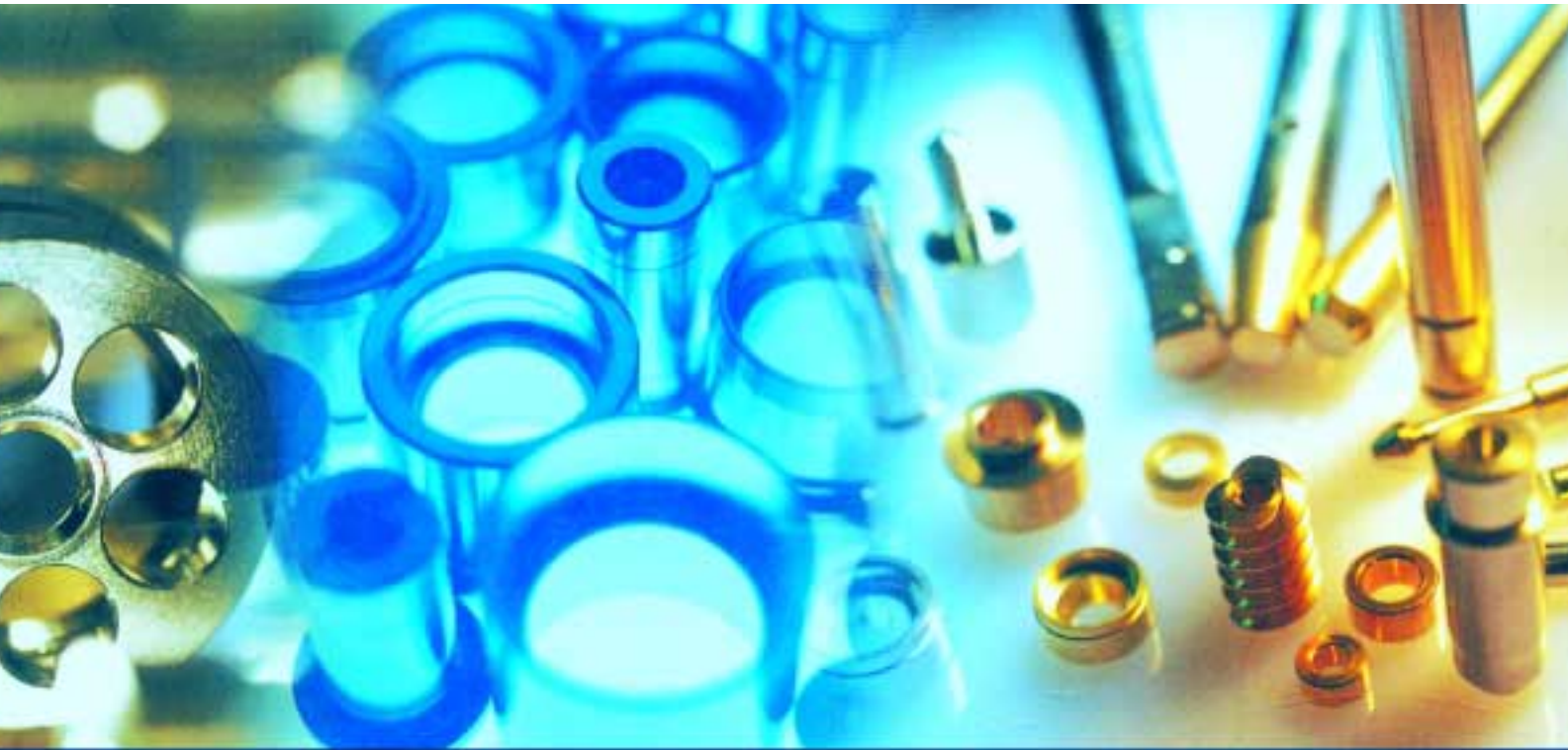




**IPE GROUP LIMITED**

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)



ANNUAL REPORT

**2004**

# Contents

---

<b>2</b>	Corporate Information
<b>3</b>	Group Profile
<b>4</b>	Corporate Milestones
<b>5</b>	Financial Highlights
<b>7</b>	Summary Financial Information
<b>8</b>	Chairman's Statement
<b>10</b>	Management Discussion and Analysis
<b>15</b>	Directors and Senior Management
<b>19</b>	Directors' Report
<b>24</b>	Auditors' Report
<b>25</b>	Consolidated Income Statement
<b>26</b>	Consolidated Balance Sheet
<b>28</b>	Balance Sheet
<b>29</b>	Consolidated Statement of Changes in Equity
<b>30</b>	Consolidated Cash Flow Statements
<b>32</b>	Notes to the Financial Statements

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Chui Siu On (*Chairman and Managing Director*)

Mr. Ng Kin Nam (*Vice Chairman*)

Mr. Ho Yu Hoi

Mr. Lai Man Kit

Mr. Li Chi Hang

### Independent Non-Executive Directors

Mr. Cheng Ngok

Mr. Choi Hon Ting, Derek

Mr. Wu Karl Kwok

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wan Tak Wing, Gary (FCPA)

## AUDIT COMMITTEE

Mr. Cheng Ngok (*Chairman*)

Mr. Choi Hon Ting, Derek

Mr. Wu Karl Kwok

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Dah Sing Bank, Limited

DBS Bank (Hong Kong) Limited

Bangkok Bank Public Co., Limited

Standard Chartered Bank (Hong Kong) Limited

## LEGAL ADVISERS TO THE COMPANY

*As to Hong Kong law*

So Keung Yip & Sin

*As to PRC law*

Everwin Law Office

## STOCK CODE

The shares of IPE Group Limited are listed for trading on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 0929)

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.

Butterfield House

68 Fort Street

P.O. Box 705

George Town

Grand Cayman

British West Indies

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

46th Floor Hopewell Centre

183 Queen's Road East

Hong Kong

## REGISTERED OFFICE

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681GT

George Town

Grand Cayman

British West Indies

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11th Floor, Block E1

Hoi Bun Industrial Building

No. 6 Wing Yip Street

Kwun Tong

Kowloon

Hong Kong

## WEBSITE

[www.ipegroup.com](http://www.ipegroup.com)

# GROUP PROFILE

IPE Group Limited (“the Company”) was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002, in preparation for the listing of the shares on the Main Board of The Stock Exchange of Hong Kong Limited. The Company is an investment holding company and its subsidiaries (collectively the “Group”) are engaged in manufactures and sales of high precision metal components.

The Group starts high precision components business in 1990 in Singapore and now develops into a multinational corporation with three production plants located in the Mainland China and one plant in Thailand, and various sales and logistics offices over the Southeast Asia region. By using specialized computerized numerical controlled machines, the Group produces high precision metal components used in hard disk drives (HDDs), hydraulic equipments, automotive components, fiber optic connectors and electronic devices.

The Group’s highly valued customers are top tier multinational corporations in the information technology, fluid power, automotive and household electronic sectors where extreme level of precision is vital. With these long term business partners, the Group grew steadily and became a listed company on the Main Board of The Stock Exchange of Hong Kong Limited on 1 November 2004.

Looking ahead, IPE Group will continue to further diversify its product variety and enhance the production capacity to meet the increasing customers’ needs while maintaining the Group’s persistent excellent product quality.

# CORPORATE MILESTONES

Year

1990

Integrated Precision Engineering Pte. Ltd. ("IPE Singapore") was established in Singapore

1994

Dongguan Koda Metal Products Co., Ltd. ("Dongguan Koda") was established in Mainland China as the Group's first production plant

Integrated Precision Engineering Company Limited was established in Hong Kong

1997

Integrated Precision Engineering (Thailand) Co., Ltd. ("IPE (Thailand)") was established in Thailand

IPE (Singapore) was awarded ISO 9002 certification

IPE (Singapore) was awarded the "Top 50 outstanding enterprise" for the first time by the Singapore Government

2000

Integrated Precision Engineering (Japan) Company Limited was established in Japan

Thailand production facility began operation

IPE (Singapore) was awarded the "Top 50 outstanding enterprise" for the second time by the Singapore Government

2001

IPE (Singapore) was awarded the "Top 50 outstanding enterprise" for the third time by the Singapore Government

2002

IPE's Thailand production facility was awarded with ISO 9001 certification

Dongguan Koda production facility was awarded with ISO 9001 and QS 9000 certification

Guangzhou Xing Hao Precision Metal Products Co., Ltd. ("Xing Hao") was established in Mainland China

2003

IPE acquired additional land to enlarge production facilities of Xing Hao

2004

IPE Macao Commercial Offshore Limited was established in Macau

IPE Group Limited was listed on the Main Board of The Stock Exchange of Hong Kong Limited

2005

First phase of Xing Hao's Zengcheng Development Project was completed and began operation

# FINANCIAL HIGHLIGHTS

		For the year ended 31 December			
		2004	2003	2002	2001
<b>OPERATING RESULTS</b>					
Turnover	(HK\$ million)	282	208	184	195
Earning before interest and taxation ( <i>EBIT</i> )	(HK\$ million)	59	50	53	38
Earning before interest, taxation, depreciation and amortisation ( <i>EBITDA</i> )	(HK\$ million)	84	67	64	68
Profit attributable to shareholders	(HK\$ million)	51	42	44	28
<b>FINANCIAL POSITION</b>					
Net cash generated from operating activities	(HK\$ million)	47	13	15	22
Net current assets	(HK\$ million)	22	8	1	32
Shareholders' funds	(HK\$ million)	294	161	114	93
<b>PER SHARE DATA</b>					
Earnings per share – basic	(HK cents)	12.9	11.4	11.8	7.6
Earnings per share – diluted	(HK cents)	12.8	N/A	N/A	N/A
<b>KEY STATISTICS</b>					
Earnings before interest, taxation, depreciation and amortization ( <i>EBITDA</i> ) margin	(%)	29.8	32.3	34.5	35.1
Net profit margin	(%)	18.0	20.4	23.9	14.6
Return on shareholders' equity ( <i>ROE</i> )	(%)	17.3	26.4	38.6	30.5
Net debt to equity ratio	(%)	39.0	44.3	36.5	23.6

## CONSOLIDATED RESULTS

### Turnover

YEAR	(HK\$'000)
2001	194,831
2002	184,201
2003	208,255
2004	281,672

### Gross Profit

YEAR	(HK\$'000)
2001	61,924
2002	78,110
2003	86,357
2004	94,636

### Profit attributable to shareholders

YEAR	(HK\$'000)
2001	28,472
2002	43,965
2003	42,403
2004	50,676

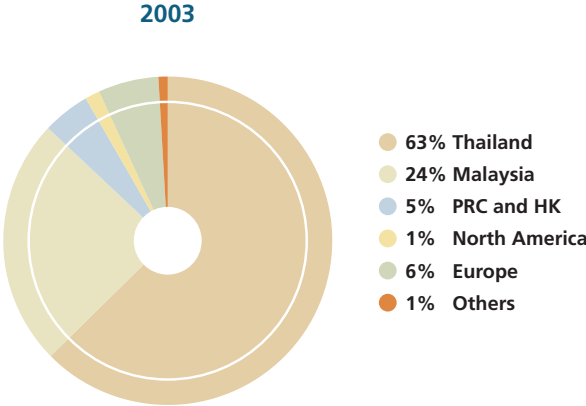
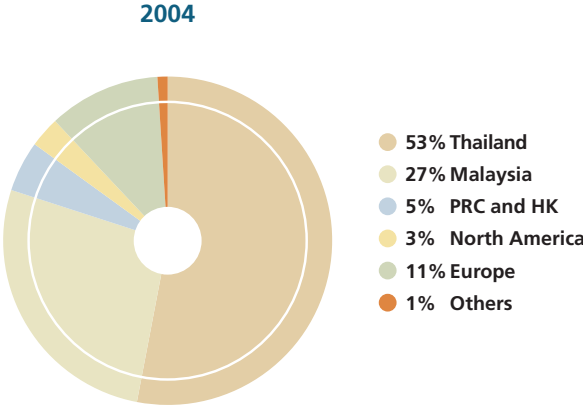
### Basic earnings per share

YEAR	(HK cents)
2001	7.6
2002	11.8
2003	11.4
2004	12.9

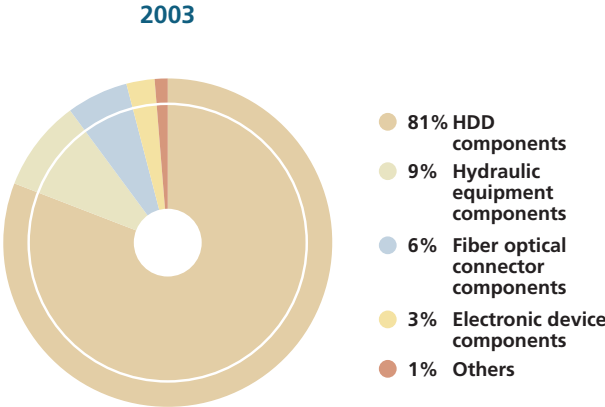
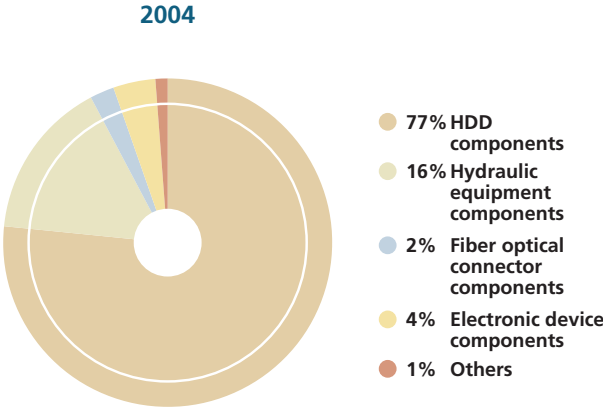
# FINANCIAL HIGHLIGHTS

## TURNOVER

### Geographical Segment



### Business Segment



# SUMMARY FINANCIAL INFORMATION

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>RESULTS</b>				
Turnover	<b>281,672</b>	208,255	184,201	194,831
Profit attributable to shareholders	<b>50,676</b>	42,403	43,965	28,472
Basic earnings per share	<b>12.9 cents</b>	11.4 cents	11.8 cents	7.6 cents
<b>CONSOLIDATED BALANCE SHEET</b>				
Non-current assets	<b>347,378</b>	209,981	153,272	85,760
Current assets	<b>210,589</b>	125,357	108,752	197,301
Current liabilities	<b>(188,573)</b>	(117,455)	(107,762)	(165,124)
Non-current liabilities	<b>(75,621)</b>	(56,971)	(40,707)	(24,446)
Minority interests	<b>(21)</b>	(18)	378	–
<b>Net Assets</b>	<b>293,752</b>	160,894	113,933	93,491
Share Capital	<b>50,000</b>	39	39	8,613
Reserves	<b>243,752</b>	160,855	113,894	84,878
<b>Shareholders' Funds</b>	<b>293,752</b>	160,894	113,933	93,491

## Shareholders' funds

YEAR

(HK\$'000)

2001		<b>93,491</b>
2002		<b>113,933</b>
2003		<b>160,894</b>
2004		<b>293,752</b>

## BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to reorganization in preparation for the listing of the shares on the Main Board of The Stock Exchange of Hong Kong Limited, the company acquired the entire issued share capital of Best Device Group Limited, the then holding company of other companies comprising the Group, through a share swap and became the holding company of the companies comprising the Group on 25 June 2004.

The financial information for the years ended 31 December 2004, 2003, 2002 and 2001 as contained in "Financial Highlights" and "Summary Financial Information" had been prepared on the basis that the current Group structure had been in place with effective from 1 January 2001.



# CHAIRMAN'S STATEMENT



## *"Quality is the Key to Success"*

I am pleased and honored to present my first annual report of IPE Group Limited for the year ended 31 December 2004 to all shareholders, following the initial public offer ("IPO") of the Company's shares on The Stock Exchange of Hong Kong Limited on 1st November 2004.

The consolidated turnover of the Group for the year 2004 was approximately HK\$281.7 million, representing an increase of 35% as compared to Year 2003; while profit attributable to shareholders was HK\$50.7 million, representing a significant growth of 20% compared to previous year. Basic earnings per share increased by 13% from HK\$0.114 in Year 2003 to HK\$0.129 in Year 2004. The

Group recorded a net cash inflow from operations of HK\$47.1 million, which is a big improvement from Year 2003's HK\$12.7 million.

Year 2004 is not a smooth year. First of all, the Company experienced a wild fluctuation of raw material prices, especially in the first half of the year. Besides the continuous inflation of Japanese Yen also gives some impact on our financial position as most of the Group's machinery, equipment and raw materials are imported from Japan. In the second half of the year, the situation becomes stable as we are able to diversify our sourcing risk and get longer term fixed price supplies contracts from suppliers. As a result, gross margin of the Group still dropped by approximately 7.9%



from Year 2003. However, thanks to the economic of scale effect and our continuous effort to monitor the fixed overhead, net profit margin only dropped by approximately 2.3% overall.

Looking forward, the Group needs to prepare for the possible further fluctuation of raw material prices in Year 2005. However the management has implemented lots of measures in order to reduce the exposure of the Group. We do not expect a further significant drop in gross profit margin in Year 2005. In Year 2005, we will continue to invest a lot in new plant expansion and bring in more high tech new machineries, mainly from Japan and Europe, in order to cater for

the increasing sales orders from existing customers and potential customers. We expect a higher gearing ratio in the next three years due to our rapid expansion strategy but we believe shareholders will eventually enjoy the fruit when operation of new plant commences.

The Company is penetrating into the hydraulic components industry and automotive components industry and we expect business from these industries will increase rapidly in the next few years and eventually becomes one of the cash cows of IPE Group.

*Sales from hydraulic components and automotive components will grow rapidly and eventually becomes one of the cash cows of IPE Group*



Quality is the key to success. For future business strategy, the Group will equip itself with more skillful labour, engineers and high tech machines so as to strengthen the Group.

At the right time the Board will consider other means of expansion possibilities and diversify our business further into other industries.

I would also like to thank our shareholders for their continued support and my colleagues working in IPE Group for their hard work and dedication in the past.

On Behalf of the Board  
**IPE Group Limited**

**Chui Siu On**  
*Chairman*

# MANAGEMENT DISCUSSION AND ANALYSIS



Multi Spindle Lathe

## Quality Control



### INDUSTRY REVIEW

The Group supplies high precision metal components to various industries such as HDD industry, fluid power industry and automotive industry.

#### Hard Disk Drive Industry

The Group is one of the world's leading suppliers of pivot shafts and housings and fluid dynamic bearing spindle motor metal components, which are key parts for the assembly of a HDD. HDDs are previously mainly used in computer related products such as desktop computers and notebook computers. Along with increasing storage capacity at an amazing pace, HDDs today are finding new homes in digital home appliances such as digital video device ("DVD") plus HDD players,

digital cameras and camcorders, game machines and Moving Picture Experts Group Audio Layer-3 ("MP3") players, beyond the traditional boundaries of personal computers ("PC(s)") and servers.

Analysts predict a stable PC shipment growth in near future, mainly fueled by the replacement cycle and strong demand from developing areas such as China, India and Latin America. Further, mini HDDs are expected to grow at a faster rate because of the popular demand for MP3 players.

Further, global HDD makers are developing a new generation of mini HDD which can be applied in mobile phones. The Group is expected to benefit from this move.

### Fluid Power Industry

Fluid power is the controlled transmission of energy by oil or air – hydraulics or pneumatic.

Fluid power provides the energy required to control a wide range of industrial machinery and equipment. The modern day applications of hydraulics and pneumatics are extremely diverse as follows:

- mobile applications
  - fork-lift trucks, cranes, tractors, diggers, tail lifts for commercial vehicles, truck brakes and suspensions
- industrial applications
  - plastics machinery, assembly equipment, machine tools and automatic handling equipment
- other applications
  - suspensions, brakes and steering used in automotive industry
  - aerospace equipments
  - dams and bridges



### Hydraulic Equipment Component



Reliable and precision metal components are needed in a wide range of industrial applications as mentioned above where consumers are increasingly demanding higher quality. The Group is currently supplying metal components and parts to multinational fluid power equipment companies for their assembly of fluid power devices.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Automotive Industry

According to the Organization Internationale des Constructeurs d' Automobiles, global automotive production reached approximately 60.6 million units in 2003. While traditional automotive markets in the United States ("US") and Europe continue to grow in a stable manner, China's automotive manufacturing business is one of the rapid growing industries in the world. According to analysts' estimate, China car market will grow at an annual average rate of 10% to 15% up to 2013. China's car market will reach 7.85 million units a year in 2013, up from 2004's 2.61 million units. All giant car makers are investing further in China and this move will definitely boost a rapid growth of high precision automotive parts and components industry in near future.



In the late 80's, big automotive companies realize the need for standardization of quality assurance requirement to reduce the redundant assessment and management of suppliers. The purpose is to support continuous improvement, reduce changing and lower the cost of suppliers in order to benefit customers and end-users. As a result, QS9000 was launched.

QS9000 is applicable to suppliers of production materials, production and service parts, and also to subcontractors of heat treatment, painting and plating as well as other finishing services.

In automotive and related industries, acquiring QS9000 certificate is a certain guarantee of market share.

The Group obtained QS9000 certification in Year 2002 and this gave the Group a platform to develop the automotive industry. Following the Group's awarded qualification of QS9000, the Group then started making contact with multinational automotive components makers and

eventually was certified as a qualified vendor with multinational automotive components makers and begins mass production of automotive parts in year 2005.

## OPERATIONS REVIEW

Founded in 1990 in Singapore, the Group is one of the leading suppliers of pivot shafts and sleeves for HDDs. The Group is estimated to have a 20% share of the worldwide market for pivot cartridge components for the HDD industry. In 1999, the Group began to diversify its business to hydraulic components. Further, the Group obtained QS9000 certification in year 2002 and began to penetrate the automotive components market.

While the industry outlook for HDD market is bright, especially thanks for its wide application in desktop computers and its recent application to MP3 and DVD recorders, sales generated from hydraulic components grow at a ever higher rate of 135.4%.

To cope with increasing sales orders, the Group decided to speed up its expansion of production facilities in late 2004. The first phase of a new plant in Guangzhou was completed in March 2005 and provides an additional 20,000 square metres of production facilities for expansion. By the end of year 2005, the second phase and third phase of this new plant should be ready and will provide at least another 40,000 square metres of production floor area for further expansion. In 2004, the Group invested approximately HK\$156.1 million in new plant and machinery to increase the Group's production capacity.

For year 2005 expansion plan, the Company has ordered new machinery of approximately HK\$103.6 million. By the end of year 2005, the Group's production capacity should be able to increase by 40%, as compared to the capacity in 2004.

## Liquidity and Financial Resources

The Group's cash position is improved from HK\$15.8 million to HK\$63.8 million while bank overdraft decreased from HK\$20.6 million to HK\$14.2 million during the year.

Net current assets of the Group increased from HK\$7.9 million to HK\$22.0 million. Current ratio improved from 1.07 times to 1.12 times. These were attributable to the working capital generated from listing proceeds and operation.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group's net debt to equity ratio dropped from last year's 44.3% to this year end's 39.0%, mainly due to the increase in equity as a result of IPO on 1 November 2004. Total outstanding bank borrowings as at 31 December 2004 is HK\$178.4 million (2003: HK\$87.1 million) and are denominated mainly in Hong Kong dollars, US dollars and Thailand Baht.

Interests of trade facilities are usually charged at floating rate associated with Hong Kong interbank offer rate or Hong Kong dollar prime rate.



Net cash generated from operations was HK\$47.1 million in year 2004, which was 3.7 times of year 2003's comparative figure. During the year the Group had net cash generated from financing activities amounting to approximately HK\$89.9 million, mainly attributable to fund generated from the IPO of approximately HK\$98.2 million and net proceeds from bank loans of approximately HK\$42.1 million.

The cash generated from the IPO and bank loans were mainly used to finance the purchase of fixed assets amounting to approximately HK\$82.4 million. Overall, the Group's cash position was improved by approximately HK\$52.5 million from last year.

## Successful Listing

The Group successfully listed on the Main Board of the Stock of Exchange of Hong Kong Limited on 1 November 2004, and raised approximately HK\$98.2 million. This marks the recognition and support of the Group by the public, and also accelerates the growth of the Group's business.

## Use of IPO Proceeds

The Company's shares were listed on the Stock Exchange on 1 November 2004. The gross proceeds from the IPO amounted to HK\$98.2 million and the net proceeds was approximately HK\$71.8 million after deducting relevant listing expenses.

As at 21 March 2005, the Group had applied the listing proceeds as follows:

	Planned as per prospectus dated 19 October 2004	Actual application as at 21 March 2005
	HK\$'million	HK\$'million
- As capital expenditure in relation to the development project in Zengcheng City	31.6	31.6
- As capital expenditure relating to the acquisition of new machineries for upgrading production capabilities	26.0	13.8
- Research and development of new product range	3.5	2.2
- Expansion of overseas and China market	1.5	1.1
- As general working capital for the Group	5.0	23.1
	<u>67.6</u>	<u>71.8</u>

## Capital Expenditure and Capital Commitments

During the year, the Group invested approximately HK\$156.1 million in fixed assets within which approximately HK\$78.4 million in factory and plant expansion, approximately HK\$74.6 million in machinery and equipment and the balance of approximately HK\$3.1 million in other fixed assets. To cope with increasing customers' orders in year 2005, the Group had contracted for HK\$138.9 million in new plant and machinery as at 31 December 2004 (31 December 2003: HK\$61.2 million).

## Exchange Risks

The Group operates globally and is thus exposed to foreign exchange risk. The major revenue generating currency continues to be the US dollar while major raw materials, machineries and manufacturing overheads are settled in Japanese yen, which is subject to foreign exchange risk. Apart from the US dollar and the Hong Kong dollar which

# MANAGEMENT DISCUSSION AND ANALYSIS

is pegged to the US dollar, certain open foreign exposures are hedged with currency contracts with a view to reducing the net exposure to currency fluctuations.

## Dividend Policy

The Company intends to distribute not less than 30% of the Group's distributable profit as dividend in each financial year, but the actual amount of dividend and its percentage to the profit will be at the discretion of the Board of Directors and will depend upon our future operation and earnings, general financial condition, capital expenditure demand, and other factors that the Board of Directors deem relevant.



## Human Resources and Remuneration Policies

As at 31 December 2004, the Group had 24 employees in Hong Kong and Macau (31 December 2003: 22) and 693 employees in Thailand (31 December 2003: 748) and 1,307 employees in China (31 December 2003: 979). The remuneration packages are generally structured with reference to market conditions and the qualifications of the employees. The salaries and wages of the Group's employees are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on individual's merits as well as the results of the respective companies for which the staff work.

A share option scheme was adopted by the Company on 12 October 2004 which enables our Board to offer to any eligible participants option scheme for the purpose of providing incentives and rewards for their contribution to the Group.

## Prospects

Precision components and parts can be found in homes, at workplace, in passenger cars and in buildings – in fact in almost every human environment. The Group has the expertise, know-how and experience to produce high precision components at worldwide recognised top standards for multinational enterprises in various industries for their assembling of industrial equipments and electronic devices.

Thanks to the increasingly high specifications and storage capabilities of HDD and its broadening application in consumer electronics such as MP3 and DVD plus HDD players, the Company expects that sales from precision components used for HDD industry will grow at a stable manner in future.

The Company is diversifying its business into fluid power industry and automotive industry which consume lots of precision components. Traditionally technology and know-how of manufacturing those high precision components as used in these industries are dominated by those multinational companies in the US and Europe. At present only limited manufacturers in Asia has the know how and experience to produce those high precision components in mass volume.

Following the Group's awarded QS9000 certification in 2002, the Group became a qualified supplier to several multinational hydraulic components makers and automotive components makers and sales to these industries are picking up.

To cope with customers' need, the Company started to develop some projects with existing customers that are more complicated and involve other technology and skill. Eventually the Company will supply more fully assembled parts or semi-assembled parts to customers, on top of the existing machining parts business.

With the increasing trend that foreign multinational companies are sourcing more precision and sophisticated parts and components from China or set up more joint ventures in China, there is a growing demand of the Group's high precision components and the Company will equip itself with more skilled labour and high tech machines so as to capture a fruitful return from this favorable trend.

# DIRECTORS AND SENIOR MANAGEMENT



Executive directors of the Board

From Left : Mr. Li Chi Hang, Mr. Chui Siu On, Mr. Ng Kin Nam, Mr. Lai Man Kit and Mr. Ho Yu Hoi

## DIRECTORS

### Executive Directors

**Mr. Chui Siu On**, aged 45, is the Chairman, an executive and managing Director and one of the founders of the Group. Mr. Chui is responsible for directing and reviewing long-term business development strategies of the Group and establishing operational objectives and assignments. Mr. Chui has 29 years of experience in the field of mechanical engineering and precision automation. From 1975 to 1981, Mr. Chui was a technician of two private companies both of which were specialised in manufacturing machinery parts. From 1981 to 1988, Mr. Chui further served as technologist and mechanical computer operator in several companies where he acquired extensive experience in design and manufacture of automation equipments, precision mechanical components and machinery parts. Mr. Chui also holds positions in a number of associations as follows:

Association	Position
Guangdong Chamber of Foreign Investors (廣東外商公會)	Director
Guangdong General Chamber of Commerce (廣東省總商會)	Vice Chairman
Guangdong Commercial Chamber of High-Tech Estate (廣東高科技產業商會)	Vice Chairman

**Mr. Ng Kin Nam**, aged 46, is the Vice Chairman, an executive Director and one of the founders of the Group. Mr. Ng is responsible for advising the Board in the overall strategic development of the Group. Mr. Ng has 30 years of experience in the electrical product manufacturing industry and is the founder of "Reputed Industrial Co., Ltd.", a manufacturer of connectors for electronic devices. From 1974 to 1984, Mr. Ng worked for a machinery parts manufacturer as a trainee and then being promoted as a manager. From 1984, Mr. Ng has been the chairman of a private company specialising in manufacturing electronic components devices. In August 2002, Mr. Ng was appointed as an executive director of Peaktop International Holdings Limited, a Main Board listed company engaging in design, manufacture and sale of decorative products. Mr. Ng also holds positions in a number of associations as follows:

Association	Position
Eastern District Industries & Commerce Association (東區工商業聯會)	Honorable President
Jin Jiang Clans Association (H.K.) Ltd. (香港晉江同鄉會)	Life Honorable President
Ng Clan's Association (香港吳氏宗親總會)	Vice President
The HK Fujian Charitable Education Fund (福建希望工程基金會)	Vice President
Guangdong Chamber of Foreign Investors (廣東外商公會)	Director



# DIRECTORS AND SENIOR MANAGEMENT

**Mr. Ho Yu Hoi**, Mark, aged 41, is an executive Director. He joined the Group in 1992 and has 21 years of experience in the field of computer aided design and manufacturing. From 1984 to 1992, Mr. Ho worked as an engineer, computer aided design/manufacturing manager and business manager in a private company engaging in the provision of mechanical equipment. Mr. Ho is currently responsible for assisting the Chairman of the Group in strategic planning, forecasting, monitoring and marketing management of the Group. He is also in charge of the production facilities in Thailand.

**Mr. Lai Man Kit**, aged 45, is an executive Director. He joined the Group in 1992 and is currently based in Xing Hao responsible for the overall management of the production facilities in China. He has 30 years of experience in the field of machine augmentation and manufacturing automation. Mr. Lai commenced his career as a trainee and then a technologist in a machinery parts manufacturer prior to joining the Group.

**Mr. Li Chi Hang**, aged 34, is an executive Director. Mr. Li has over 16 years of experience in the field of machine augmentation and manufacturing automation. Mr. Li worked as a trainee in a private company specialising in manufacturing automation from 1988 to 1992 and then joined IPE (Singapore) as an engineer from 1992 to 1995. He is currently based in China head quarter responsible for the overall management and co-ordination of research and development projects of the Group.

## Independent Non-Executive Directors

**Mr. Cheng Ngok**, aged 57, was appointed as an independent non-executive Director on 3 June 2003 and the chairman of the audit committee of the Company on 25 June 2004. Mr. Cheng graduated from the National Taiwan University with a Bachelor of Science degree in Medical Technology in 1970 and then obtained a Doctor degree of Medicine, Surgery and Obstetrics, a Diploma certification in Orthopaedic Surgery and a Philosophy degree (Doctor of Biomedical Science) from Catholic University of Leuven, Belgium in 1978, 1983 and 1984 respectively. After graduation, Mr. Cheng worked as an Orthopaedic Surgeon in Europe between 1978 and 1984. From 1985 to 1986, he returned to Hong Kong and took up the position of a lecturer in the Department of Orthopaedic and Traumatology in the Chinese University of Hong Kong. Mr. Cheng has been a member of the Hospital Governing Committee of Alice Ho Min Ling Nethersole Hospital from April 2002 to March 2004 and a member of the Cluster Tender Board in New Territories East Cluster, Hospital Authority in 2003. In addition, Mr. Cheng is also a medical practitioner in Hong Kong and holds directorship in two private companies engaging in medical diagnostic laboratory and trading of medical equipments and devices.

**Mr. Choi Hon Ting**, Derek, (formerly Choi Kwan Wai, Derek), aged 36, was appointed as an independent non-executive Director on 23 June 2004. Mr. Choi graduated from Purdue University in the US with a Bachelor degree in Engineering in Food Processing in 1991. After graduation, Mr. Choi worked as project manager, deputy general manager and executive director of Balama Prima Engineering Company Limited which businesses included highway construction, underground construction and environmental engineering. Since 1996, Mr. Choi has been a director of C&C Technology Inc. which is a company listed on the Toronto Stock Exchange. Mr. Choi was also a former vice-chairman, chairman and executive secretary of the China Hong Kong Society for Trenchless Technology. Mr. Choi elected as executive sub-committee member of international society for trenchless technology in 2004.

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. Wu Karl Kwok**, aged 40, was appointed as an independent non-executive Director on 23 June 2004. Mr. Wu holds a bachelor of arts degree in business administration from the University of Washington and is a Certified Public Accountant (USA). He has over 17 years of international working experience in accounting, financial planning and control, business development, logistic, project management and contract administration in various industries. Mr. Wu currently works in an international trust company. Prior to that, he had been a financial controller and company secretary for UDL Holdings Limited, a company listed on the Main Board, and the chief financial officer and company secretary of Innovis Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Wu also used to be a project director of a private engineering and construction company in Hong Kong and served there for seven years. Before that, he worked for a private trading company, an international architectural and interior consultancy firm and a manufacturing company for a total of nine years principally responsible for financial controlling and business development.

## SENIOR MANAGEMENT

**Mr. Wong Kwok Keung**, aged 41, is the General Manager of Dongguan Koda and Guangzhou Xing Hao. Mr. Wong joined the Group in 1996 and is now responsible for the day-to-day operations of China factories. He completed his study in Haking Wong Technology Institute in 1982 and has over 25 years of experience in the manufacturing industry.

**Mr. Cheng Ka Keung**, aged 32, is the Financial Controller of the Group. Mr. Cheng joined the Group in May 2004 and is responsible for assisting the Chief Financial Officer in the financial management of the Group. He holds a Bachelor degree in Business Administration from University of Lincoln and has more than 11 years' experience in accounting and financial management. Before joining the Company, he worked for over 9 years in a blue-chip listed company in Hong Kong responsible for accounting and financial management, system developments and implementation. Mr. Cheng is an associated member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants.

**Mr. Lim Koy Cheong**, aged 38, is the General Manager of IPE (Thailand). Mr. Lim joined the Group in 1994 and is responsible for the day-to-day operations of IPE (Thailand). He graduated from Singapore Ngee Ann Polytechnic with a diploma in Mechanical Engineering and has over 15 years of experience in the manufacturing industry.

# DIRECTORS AND SENIOR MANAGEMENT

**Ms. Chiu Tak Chun**, aged 39, is the General Manager of Integrated Precision Engineering Company Limited. Ms. Chiu joined the Group in 1996 and is responsible for the day-to-day operations of Integrated Precision Engineering Company Limited. She was granted a graduate diploma in management from the International Professional Managers Association, United Kingdom and has over 12 years of experience in office administration. Ms. Chiu is a fellow member of the International Professional Managers Association.

**Mr. Chui Siu Hung**, aged 36, is the Deputy General Manager of Dongguan Koda and Guangzhou Xing Hao. Mr. Chui is the brother of Mr. Chui Siu On, an executive Director and the Chairman of the Company. He joined the Group in 1994 and is responsible for the supervision and production operation of China Headquarter. He graduated from the Hong Kong Institute of Vocational Education with a certificate in Communication and Computer Studies and has over 12 years of experience in the manufacturing industry.

**Mr. Jiang Fei**, aged 32, is the Deputy General Manager of Xing Hao. He joined the Group in 1995 after graduation from 華南理工大學 (South China University of Technology) with a graduate diploma in Mechanical Engineering. He has 9 years of experience in the manufacturing industry and is now responsible for the day-to-day operations of Xing Hao.

**Mr. Lau Siu Chung**, aged 40, is the Sales Manager of the Group. Mr. Lau joined the Group in 1997 and is responsible for sales and marketing of the Group's hydraulic and automotive components and parts. Before joining the Group Mr. Lau has over 10 years' of experience in marketing and sales of precision components and industrial equipments.

## **COMPANY SECRETARY AND QUALIFIED ACCOUNTANT**

**Mr. Wan Tak Wing, Gary**, aged 38, is the Chief Financial Officer, Company Secretary and Qualified Accountant of the Company. He joined the Group in October 2003 and is responsible for the Group's financial, corporate and legal affairs. Mr. Wan holds a Bachelor degree in Accountancy and Finance from City of Birmingham Polytechnic of England and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Wan was an executive director of two publicly listed companies in Hong Kong and has over 16 years of experience in corporate finance, business development and investors relationship.

# DIRECTORS' REPORT

The board of directors (the "Board") have pleasure in submitting their annual report together with the audited consolidated financial statements of IPE Group Limited (the "Company") and its subsidiaries (collectively the "Group") to the shareholders for the year ended 31 December 2004.

## GROUP REORGANIZATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). Pursuant to reorganization (the "Reorganization") in preparation for the listing of the shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Best Device Group Limited, the then holding company of other companies comprising the Group, through a share swap and became the holding company of the companies comprising the Group on 25 June 2004. Further details of the reorganization are set out in note 1 to the financial statements.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and sales of high precision metal components used in a variety of applications. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	<b>Percentage of the Group's total sales</b>
The largest customer	26%
Five largest customers in aggregate	81%

	<b>Percentage of the Group's total purchases</b>
The largest supplier	48%
Five largest suppliers in aggregate	72%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## RESULTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 25 to 70.

The directors recommended the payment of a final dividend of HK\$0.018 per share in respect of the year, to the shareholders on the register of members on 3 June 2005.

# DIRECTORS' REPORT

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 31 May 2005 to Friday, 3 June 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Monday, 30 May 2005.

## TRANSFER TO RESERVES

The movements of the reserves of the Group and of the Company during the year are set out in note 30 to the financial statements.

## FIXED ASSETS

During the year, the Group acquired fixed assets for approximately HK\$156.1 million to improve the Group's production capacity. Details of these acquisitions and other movements in fixed assets are set out in note 14 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 28 to the financial statements.

## PROPERTIES

Properties interest held for investment by the Group are as follows:–

<u>Description</u>	<u>Lease expiring</u>	<u>Approx. floor area attributable to the Group</u>
Unit B, Golden Lake Villa, No. 29 Silver Cape Road, Sai Kung, New Territories, Hong Kong	2047	2,317 sq.ft.
Room E on Level 16, Shen Fang Commercial Building, amid An Zhen Xi Li Si Qu, Chaoyang District, Beijing, the PRC	2064	1,617 sq.ft.

## SHARE OPTION SCHEME

As at the date of this Annual Report, the Company has granted 35,000,000 options, representing 7% of the existing issued share capital of the Company, which have not yet been exercised. Accordingly, 15,000,000 options, representing 3% of the existing issued share capital of the Company, can be granted by the Company under the limit of the share option scheme.

Details of the share option scheme of the Company are set out in note 29 to the financial statements. The Directors consider that it is not appropriate to disclose the value of the share options granted during the year because any valuation of the options would be subject to a number of assumptions that would be subjective and uncertain. Owing to the reason set out above, the Directors believe that any calculation of the value of the Company's share options would not be meaningful and would be misleading to the shareholders.

# DIRECTORS' REPORT

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## DIRECTORS

The directors up to the date of this report were:

### Executive directors

Chui Siu On (*Chairman and Managing Director*)

Ng Kin Nam (*Vice Chairman*)

Ho Yu Hoi

Lai Man Kit

Li Chi Hang

### Independent non-executive directors

Cheng Ngok

Choi Hon Ting, Derek

Wu Karl Kwok

(appointed on 23 June 2004)

(appointed on 23 June 2004)

Messrs Chui Siu On and Ng Kin Nam will retire by rotation at the forthcoming annual general meeting in accordance with article 87 of the Company's articles of association and, being eligible, they will offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

At 31 December 2004, the interests of the directors of the Company in the shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:-

### (1) Interests in the shares of the Company

Name of director	Long/short position	Capacity	Number of shares of the Company	Percentage of the Company's issued share capital
Mr. Chui Siu On	Long	Interest of corporation	372,500,000 (Note)	74.5%

Note: These shares were owned by Tottenhill Limited, the substantial shareholder of the Company. The entire issued share capital of Tottenhill Limited was owned as to approximately 51.29% by Mr. Chui Siu On, as to approximately 25.01% by Mr. Ng Kin Nam, as to approximately 13.89% by Mr. Ho Yu Hoi, as to approximately 6.02% by Mr. Lai Man Kit and as to approximately 3.79% by Mr. Li Chi Hang. All the shareholders of Tottenhill Limited are executive directors of the Company.

By virtue of the 51.29% shareholding interests in Tottenhill Limited, Mr. Chui Siu On was deemed to be interested in the 372,500,000 shares of the Company owned by Tottenhill Limited pursuant to Part XV of the SFO.

# DIRECTORS' REPORT

## (2) Interests in the shares of an associated corporation – Tottenham Limited

Name of director	Long/short position	Capacity	Number of shares of Tottenham Limited	Percentage of the issued share capital of Tottenham Limited
Mr. Chui Siu On	Long	Beneficial owner	1,134	51.29%
Mr. Ng Kin Nam	Long	Beneficial owner	553	25.01%
Mr. Ho Yu Hoi	Long	Beneficial owner	307	13.89%
Mr. Lai Man Kit	Long	Beneficial owner	133	6.02%
Mr. Li Chi Hang	Long	Beneficial owner	84	3.79%

In addition to the above, at 31 December 2004, certain directors of the Company held shares in certain subsidiaries of the Company in a non-beneficial capacity, solely for the purpose of complying with the then minimum company membership requirements.

Save as disclosed above, at 31 December 2004, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

At 31 December 2004, the following interest of over 5% in the issued share capital of the Company was recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Long/Short position	Capacity	Number of shares	Percentage of the Company's issued share capital
Tottenham Limited (Note)	Long	Beneficial owner	372,500,000	74.5%

Note: The interest in Tottenham Limited was also disclosed as interests of Mr. Chui Siu On in the above section headed "Directors' interests in the shares of the Company and its associated corporation".

Save as disclosed above, at 31 December 2004, no persons, other than the Company's directors whose interests and short positions are set out in the above section headed "Directors' interests in the shares of the Company and its associated corporation", had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

# DIRECTORS' REPORT

## **DIRECTORS' INTERESTS IN CONTRACTS**

No contract of significance to which the company, its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The listing of the Company's shares on the Stock Exchange commenced on 1 November 2004. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from 1 November 2004 to 31 December 2004.

## **BANK LOANS AND OTHER BORROWINGS**

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2004 are set out in notes 22 to 24 on the financial statements.

## **SUMMARY FINANCIAL INFORMATION**

A summary of the results and of the assets and liabilities of the group for the last four financial years is set out on page 7 of the annual report.

## **RETIREMENT SCHEMES**

Particulars of these retirement schemes are set out in note 11 to the financial statements.

## **CODE OF BEST PRACTICE**

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to the accounting period commencing on 1 January 2005 throughout the accounting period currently under review.

## **AUDIT COMMITTEE**

The Audit Committee of the Company comprises three independent non-executive directors, namely Dr. Cheng Ngok (the Chairman of the Committee), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited accounts for the year ended 31 December 2004.

## **AUDITORS**

The financial statements have been audited by CCIF CPA Limited. A resolution to re-appoint CCIF CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the board

**Chui Siu On**

*Chairman*

Hong Kong, 21 March 2005



# AUDITORS' REPORT



**CCIF**

**CCIF CPA Limited**

37th Floor, Hennessy Centre  
500 Hennessy Road  
Causeway Bay, Hong Kong

## **AUDITORS' REPORT TO THE SHAREHOLDERS OF IPE GROUP LIMITED**

*(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)*

We have audited the financial statements on pages 25 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**CCIF CPA Limited**

*Certified Public Accountants*  
Hong Kong, 21 March 2005

**Chan Wai Dune, Charles**

Practising Certificate Number P00712

# Consolidated Income Statement

For the year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	3	281,672	208,255
Costs of sales		(187,036)	(121,898)
Gross profit		94,636	86,357
Other revenue	3	10,291	3,631
Distribution and selling expenses		(7,773)	(7,688)
General and administrative expenses		(36,034)	(30,868)
Other operating expenses	5	(2,517)	(1,010)
Profit from operations	6	58,603	50,422
Amortisation of negative goodwill		1,487	1,487
Finance costs	7	(5,109)	(3,942)
Profit before tax		54,981	47,967
Taxation	8	(4,302)	(5,397)
Profit before minority interests		50,679	42,570
Minority interests		(3)	(167)
Profit attributable to shareholders		50,676	42,403
Dividends	9	15,050	5,010
Earnings per share			
– basic	10(a)	HK12.9 cents	HK11.4 cents
– diluted	10(b)	HK12.8 cents	N/A

The notes on pages 32 to 70 form an integral part of these financial statements.

# Consolidated Balance Sheet

At 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	13	(25,326)	(26,813)
Fixed assets	14	371,923	235,309
Club debentures		607	607
Deferred tax assets	27	174	878
		<b>347,378</b>	209,981
<b>CURRENT ASSETS</b>			
Inventories	15	54,004	30,328
Value added tax recoverable		1,229	2,213
Trade receivables	17	77,452	63,375
Prepayments, deposits and other receivables		14,136	13,609
Pledged fixed deposits with banks		11,506	9,581
Cash and bank balances	18	52,262	6,251
		<b>210,589</b>	125,357
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade payables	19	36,141	24,678
Other payables and accruals		43,591	30,398
Due to directors	20	–	383
Tax payables	21	2,065	2,863
Short-term borrowings	22	75,960	37,705
Current portion of obligations under finance leases	23	15,979	6,329
Current portion of long-term borrowings	24	14,837	15,099
		<b>188,573</b>	117,455
<b>NET CURRENT ASSETS</b>		<b>22,016</b>	7,902
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>369,394</b>	217,883
<b>NON-CURRENT LIABILITIES</b>			
Long-term portion of obligations under finance leases	23	42,400	209
Long-term borrowings	24	29,212	27,758
Due to a director	25	–	17,000
Other payable	26	–	9,434
Deferred tax liabilities	27	4,009	2,570
		<b>75,621</b>	56,971

# Consolidated Balance Sheet

At 31 December 2004

	<i>Notes</i>	<b>2004 HK\$'000</b>	2003 HK\$'000
<b>MINORITY INTERESTS</b>		<b>21</b>	18
<b>NET ASSETS</b>		<b>293,752</b>	160,894
<b>CAPITAL AND RESERVES</b>			
Issued capital	28	<b>50,000</b>	39
Reserves	30(a)	<b>243,752</b>	160,855
<b>SHAREHOLDERS' FUNDS</b>		<b>293,752</b>	160,894

Approved and authorised for issue by the board of directors on 21 March 2005.

On behalf of the board

**Chui Siu On**  
*Director*

**Ng Kin Nam**  
*Director*

The notes on pages 32 to 70 form an integral part of these financial statements.

# Balance Sheet

At 31 December 2004

	<i>Notes</i>	<b>2004 HK\$'000</b>	2003 HK\$'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Interest in subsidiaries	16	71,209	–
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		76	–
Cash and bank balances	18	15,608	–
		<b>15,684</b>	–
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		483	–
<b>NET CURRENT ASSETS</b>		<b>15,201</b>	–
<b>NET ASSETS</b>		<b>86,410</b>	–
<b>CAPITAL AND RESERVES</b>			
Issued capital	28	50,000	–
Reserves	30(b)	36,410	–
<b>SHAREHOLDERS' FUNDS</b>		<b>86,410</b>	–

Approved and authorised for issue by the board of directors on 21 March 2005.

On behalf of the board

**Chui Siu On**  
*Director*

**Ng Kin Nam**  
*Director*

The notes on pages 32 to 70 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Share capital	Share premium	Investment property revaluation reserve	Statutory surplus reserve	Statutory public welfare fund	Merger reserve	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2003	39	-	-	574	287	8,842	(3,639)	107,830	113,933
Movement in exchange fluctuation reserve	-	-	-	-	-	-	4,558	-	4,558
Profit attributable to shareholders	-	-	-	-	-	-	-	42,403	42,403
Transfer from retained profits	-	-	-	1,772	-	-	-	(1,772)	-
As at 31 December 2003	39	-	-	2,346	287	8,842	919	148,461	160,894
As at 1 January 2004	39	-	-	2,346	287	8,842	919	148,461	160,894
Issue of share capital	9,961	16,996	-	-	-	-	-	-	26,957
Group reorganization	-	-	-	-	-	(9,958)	-	-	(9,958)
Issue of shares on listing	12,750	85,425	-	-	-	-	-	-	98,175
Capitalisation of share premium	27,250	(27,250)	-	-	-	-	-	-	-
Share issue expenses	-	(26,362)	-	-	-	-	-	-	(26,362)
Surplus on revaluation	-	-	2,559	-	-	-	-	-	2,559
Movement in exchange fluctuation reserve	-	-	-	-	-	-	1,871	-	1,871
Profit attributable to shareholders	-	-	-	-	-	-	-	50,676	50,676
Transfer from retained profits	-	-	-	2,315	-	-	-	(2,315)	-
Dividend paid									
- 2003 final dividend	-	-	-	-	-	-	-	(5,010)	(5,010)
- 2004 interim dividend	-	-	-	-	-	-	-	(6,050)	(6,050)
	-	-	-	-	-	-	-	(11,060)	(11,060)
As at 31 December 2004	50,000	48,809	2,559	4,661	287	(1,116)	2,790	185,762	293,752

The notes on pages 32 to 70 form an integral part of these financial statements.

# Consolidated Cash Flow Statements

For the year ended 31 December 2004

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Profit before tax	<b>54,981</b>	47,967
Depreciation	<b>25,203</b>	16,817
Amortisation of negative goodwill	<b>(1,487)</b>	(1,487)
Provision/(reversal of provision) for obsolete and slow moving inventories	<b>4,104</b>	(271)
Provision for doubtful debts	–	56
Gain on disposal of a subsidiary	–	(1,013)
Unrealised exchange difference	<b>364</b>	523
Net (gain)/loss on disposal of fixed assets	<b>(4)</b>	13
Interest income	<b>(69)</b>	(117)
Interest expenses	<b>5,109</b>	3,942
<b>Operating profit before working capital changes</b>	<b>88,201</b>	66,430
Increase in inventories	<b>(27,780)</b>	(1,482)
Increase in prepayments, deposits and other receivables	<b>(527)</b>	(5,526)
Increase in amounts due from related companies	–	(5,020)
Decrease/(increase) in valued added tax recoverable	<b>984</b>	(2,213)
Increase in trade receivables	<b>(14,077)</b>	(20,321)
Decrease in amounts due from directors	–	350
Increase in trade payables	<b>11,463</b>	4,647
Increase in trust receipt loans	<b>3,987</b>	1,062
Decrease in bills payable	<b>(1,521)</b>	(1,901)
Decrease in other payables and accruals	<b>(5,104)</b>	(1,621)
Decrease in amount due to minority shareholders	–	(1,122)
Increase in value added tax payable	<b>177</b>	217
Decrease in amounts due to directors	<b>(383)</b>	(9,313)
Increase in amounts due to related companies	–	3,762
<b>Cash generated from operations</b>	<b>55,420</b>	27,949

# Consolidated Cash Flow Statements

For the year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>CASH GENERATED FROM OPERATIONS</b>		<b>55,420</b>	27,949
Interest received		69	117
Interest paid		<b>(4,236)</b>	(3,418)
Interest element of finance lease rental payments		<b>(873)</b>	(524)
Income tax paid			
– Hong Kong		<b>(896)</b>	(3,473)
– Mainland China		<b>(905)</b>	(3,463)
– Thailand		<b>(906)</b>	(320)
– Japan		<b>(11)</b>	(39)
– Singapore		<b>(596)</b>	(4,098)
<b>Net cash generated from operating activities</b>		<b>47,066</b>	12,731
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets		<b>(82,424)</b>	(39,124)
Acquisition of club debentures		–	(310)
Disposal of a subsidiary, net of cash disposed	31(a)	–	(1,227)
(Increase)/decrease in pledged fixed deposits with banks		<b>(1,925)</b>	6,393
Proceeds from disposal of fixed assets		<b>4</b>	309
<b>Net cash used in investing activities</b>		<b>(84,345)</b>	(33,959)
<b>FINANCING ACTIVITIES</b>			
Issue of share capital		<b>98,175</b>	–
Share issue expenses		<b>(26,362)</b>	–
New bank and other loans		<b>170,607</b>	67,092
Repayment of bank loans		<b>(128,478)</b>	(52,314)
Capital element of finance lease rental payments		<b>(12,941)</b>	(9,512)
Dividend paid		<b>(11,060)</b>	–
<b>Net cash generated from financing activities</b>		<b>89,941</b>	5,266
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>52,662</b>	(15,962)
Cash and cash equivalents at beginning of year		<b>(14,374)</b>	1,520
Effect of foreign exchange rate changes, net		<b>(193)</b>	68
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	31(b)	<b>38,095</b>	(14,374)



# Notes to the Financial Statements

31 December 2004

## 1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 10 July 2002 and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Exchange") with effect from 1 November 2004.

Under a group reorganization scheme (the "Reorganization") to rationalize the structure of the Company and its subsidiaries (collectively referred as the "Group") in preparation for the listing of the Company's shares on the Exchange, the Company became the holding company of the Group on 25 June 2004. It was accomplished by acquiring the entire issued share capital of Best Device Group Limited ("Best Device"), the previous holding company of the Group, in consideration of and in exchange for the allotment and issue of a total of 99,999,999 shares of HK\$0.1 each of the share capital of the Company to the then sole shareholder of Best Device. Details of the Reorganization were set out in the Prospectus issued by the Company dated 19 October 2004.

The Group resulting from the Reorganization is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting in accordance with the Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared on the basis that the Company had been the holding company of the Group for both years presented, rather than 25 June 2004. The consolidated financial statements of the Group for the years ended 31 December 2003 and 2004 included the results of the Company and its subsidiaries since 1 January 2003 or since their respective dates of incorporation whichever was a shorter period as if the current Group structure had been in existence throughout the two years presented. The consolidated balance sheet at 31 December 2003 had been prepared on the basis that the current Group structure had been in place with effective from 1 January 2003.

The Company acted as an investment holding company. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

## 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable provisions of the Rules Governing the Listing of Securities on The Stock Exchange. The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties. A summary of the principal accounting policies adopted by the Group is set out below.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already assessed the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

# Notes to the Financial Statements

31 December 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (a) Revenue Recognition

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

- (i) sales of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers;
- (ii) service income is recognised as services are rendered;
- (iii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (iv) operating lease rental income is recognised on a straight-line basis over the periods of the respective leases.

### (b) Subsidiaries

A subsidiary is an entity in which the Group controls the composition of the board of directors, controls more than half of the voting power, or holds more than half of the issued share capital, or has power to govern the financial and operating policies.

### (c) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life on the following basis:

Freehold land	Nil
Leasehold land	Over the remaining lease period
Buildings	Over shorter of the remaining lease period and 50 years
Leasehold improvements	Over shorter of the remaining period of lease and 3 to 5 years
Plant and machinery	10% per annum
Furniture, fixtures and equipment	20% per annum
Motor vehicles	20% per annum

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

# Notes to the Financial Statements

31 December 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (d) Investment Properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential with rental income being negotiated at arm's length.

Investment properties are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Company. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

### (e) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate.

All material intercompany transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

# Notes to the Financial Statements

31 December 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisitions.

Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets on a straight line basis as follow:

Land and buildings	50 years
Office equipment	5 years
Plant and machinery	6 to 10 years
Motor vehicles	3 years

Negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

### (g) Construction-in-progress

Construction-in-progress is stated at cost which comprises construction costs, purchased costs and other related expenses incurred in connection with the construction of plant and machinery for own use, less any provision for impairment loss. No depreciation is provided for construction-in-progress until they are completed and put into production.

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials determined using the first-in, first-out method of costing and, in cases of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

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

### (i) Trade Receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet is stated net of such provision.

# Notes to the Financial Statements

31 December 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (j) Impairment of Assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised of an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### (k) Leases

#### (i) *Finance leases*

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

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

#### (ii) *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rental payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

# Notes to the Financial Statements

31 December 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (l) Employee Benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of assets and inventories not yet recognised as an expense.

Certain employees of the subsidiaries in the mainland China are members of a compulsory retirement benefit scheme operated by the government of the mainland China, the fund of which is held separately from those of the subsidiaries. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the scheme. The subsidiaries' employer contributions are fully vested once made.
- (iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.
- (iv) In relation to stock options granted by the Company, no employee benefit cost or obligation is recognised at the date of grant and the date of exercise.

### (m) Deferred Tax

Deferred tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets, unrealised profits resulting from intra-group transactions and tax losses carried forward. Taxation rates enacted at the balance sheet date are used to determine deferred tax.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

# Notes to the Financial Statements

31 December 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (n) Foreign Currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at the date. Exchange differences are dealt with in the income statement.

On consolidation, the results of foreign subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year. Balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting translated differences are included in the exchange fluctuation reserve.

### (o) Cash Equivalents

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

### (p) Segment Reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segment be presented as the primary reporting format and business segment is presented as the secondary reporting format.

Segment assets consist primarily of fixed assets, construction-in-progress, inventories, receivables, deposits, prepayments and operating cash and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain borrowings. Capital expenditure comprises additions to fixed assets and construction-in-progress.

### (q) Research and Development Costs

Research and development costs are expensed as incurred, except where the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; is technically feasible; the Group intends to produce and market, or use, the product or process; the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the company, can be demonstrated; and adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

# Notes to the Financial Statements

31 December 2004

## 2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

### **(r) Provisions and Contingent Liabilities**

A provision is recognised when there is present obligation, legal or constructive, as a result of past event and it is probable (i.e. more likely than not) than 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. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, they will then be recognised as a provision.

### **(s) Borrowing Costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

### **(t) Related Parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related party may be individuals or corporate entities.



# Notes to the Financial Statements

31 December 2004

## 3. TURNOVER AND OTHER REVENUE

The Group is principally engaged in the manufacture and sales of precision metal components used in a variety of applications. Turnover represents sales of precision metal components net of trade discounts and returns. Revenue recognised by the Group can be summarised as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>Turnover</b>		
Sales of precision metal components	<b>288,741</b>	212,529
Less: Trade discounts and returns	<b>(7,069)</b>	(4,274)
Net sales	<b>281,672</b>	208,255
<b>Other revenue</b>		
Gain on disposal of fixed assets	<b>4</b>	66
Interest income	<b>69</b>	117
Subcontracting income	<b>74</b>	–
Rental income	<b>424</b>	572
Gain on disposal of a subsidiary	<b>–</b>	1,013
Written back of other payables	<b>57</b>	–
Gain on sales of raw materials	<b>8</b>	–
Net compensation from a fire accident	<b>5,969</b>	–
Scrap sales	<b>2,820</b>	499
Service fee income	<b>–</b>	650
Sundry income	<b>866</b>	714
	<b>10,291</b>	3,631
<b>Total revenue</b>	<b>291,963</b>	211,886

# Notes to the Financial Statements

31 December 2004

## 4. SEGMENTAL REPORTING

### (a) Geographical segments

An analysis of the Group's results of operations by geographical location for the year is as follows:

	Year ended 31 December 2004							Total HK\$'000
	Thailand HK\$'000	Malaysia HK\$'000	Singapore HK\$'000	Mainland China and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	
Turnover	150,440	74,803	518	14,912	7,637	32,369	993	281,672
Other revenue	636	-	-	9,369	-	-	217	10,222
Total revenue	<b>151,076</b>	<b>74,803</b>	<b>518</b>	<b>24,281</b>	<b>7,637</b>	<b>32,369</b>	<b>1,210</b>	<b>291,894</b>
Segment results	17,288	19,938	(103)	10,364	2,281	9,686	567	60,021
Interest income								69
Interest expenses								(5,109)
Profit before tax								54,981
Taxation								(4,302)
Profit before minority interests								50,679
Minority interests								(3)
Profit attributable to shareholders								50,676
Segment assets	149,403	23,257	8	372,097	1,611	9,391	1,970	557,737
Unallocated assets								230
Total assets								557,967
Segment liabilities	43,013	-	79	141,382	-	-	27,359	211,833
Unallocated liabilities								52,361
Total liabilities								264,194
Capital expenditure	5,266	-	-	150,853	-	-	-	156,119
Depreciation	11,989	-	-	13,222	-	-	49	25,260

# Notes to the Financial Statements

31 December 2004

## 4. SEGMENTAL REPORTING *(Continued)* (a) Geographical segments *(Continued)*

	Year ended 31 December 2003							Total HK\$'000
	Thailand HK\$'000	Malaysia HK\$'000	Singapore HK\$'000	Mainland China and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	
Turnover	130,309	50,819	137	9,699	3,017	12,377	1,897	208,255
Other revenue	1,417	-	66	1,018	-	1,013	-	3,514
<b>Total revenue</b>	<b>131,726</b>	<b>50,819</b>	<b>203</b>	<b>10,717</b>	<b>3,017</b>	<b>13,390</b>	<b>1,897</b>	<b>211,769</b>
Segment results	32,914	7,519	10	5,312	735	4,733	569	51,792
Interest income								117
Interest expenses								(3,942)
<b>Profit before tax</b>								<b>47,967</b>
Taxation								(5,397)
<b>Profit before minority interests</b>								<b>42,570</b>
Minority interests								(167)
<b>Profit attributable to shareholders</b>								<b>42,403</b>
Segment assets	147,522	14,635	1,139	163,467	623	6,859	1,093	335,338
Unallocated assets								-
<b>Total assets</b>								<b>335,338</b>
Segment liabilities	56,671	-	2,416	85,492	8	146	12,310	157,043
Unallocated liabilities								17,383
<b>Total liabilities</b>								<b>174,426</b>
Capital expenditure	10,153	-	-	56,632	-	38	-	66,823
Depreciation	8,666	-	41	7,944	-	116	50	16,817

# Notes to the Financial Statements

31 December 2004

## 4. SEGMENTAL REPORTING (Continued)

### (b) Business segments

	Year ended 31 December 2004			
	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
HDD components	215,748	34,235	98,591	–
Hydraulic equipment components	44,150	13,447	23,595	–
Fibre optical connector components	6,702	2,038	1,689	–
Electronic device components	11,707	2,627	7,112	–
Others	3,365	1,310	469	–
	<b>281,672</b>	<b>53,657</b>	<b>131,456</b>	<b>–</b>
Unallocated income		7,394		
Interest income		69		
Unallocated expenses		(2,517)		
Profit from operations		<b>58,603</b>		
Unallocated items			426,511	156,119
Total			<b>557,967</b>	<b>156,119</b>

	Year ended 31 December 2003			
	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
HDD components	168,429	34,258	73,662	–
Hydraulic equipment components	18,754	7,524	10,523	–
Fibre optical connector components	12,633	4,019	2,946	–
Electronic device components	5,779	1,624	3,671	–
Others	2,660	282	2,901	–
	<b>208,255</b>	<b>47,707</b>	<b>93,703</b>	<b>–</b>
Unallocated income		3,514		
Interest income		117		
Unallocated expenses		(916)		
Profit from operations		<b>50,422</b>		
Unallocated items			241,635	66,823
Total			<b>335,338</b>	<b>66,823</b>

# Notes to the Financial Statements

31 December 2004

## 5. OTHER OPERATING EXPENSES

	2004 HK\$'000	2003 HK\$'000
Net exchange loss	2,397	769
Compensation paid	57	–
Loss on disposal of fixed assets	–	79
Provision for doubtful debts	–	56
Others	63	106
	<b>2,517</b>	<b>1,010</b>

## 6. PROFIT FROM OPERATIONS

Profit from operations is stated after charging/crediting the following:

	2004 HK\$'000	2003 HK\$'000
<b>Charging:</b>		
Auditors' remuneration	874	752
Cost of inventories sold	187,036	121,898
Depreciation		
– Owned assets	15,053	15,355
– Assets held under finance leases	10,207	1,462
	<b>25,260</b>	<b>16,817</b>
Less: Amount capitalized in construction in progress	<b>(57)</b>	–
	<b>25,203</b>	<b>16,817</b>
Minimum lease payments under operating leases:		
– Land and buildings	185	1,189
– Equipment	28	103
Provision for obsolete and slow-moving inventories	4,104	–
Staff costs (excluding directors' remuneration)		
– Salaries, bonuses, allowances and benefits in kind	38,020	31,808
– Retirement benefits scheme contribution	1,042	870
Research and development costs	5,561	3,921
<b>Crediting:</b>		
Rental income from investment properties less outgoings	424	572
Reversal of provision for obsolete and slow-moving inventories	–	271

Notes: Cost of inventories sold includes approximately HK\$46,409,000 (2003: HK\$35,103,000) relating to staff costs, depreciation and operating lease charges, the amount of which were also included in the respective total amounts disclosed separately above for each of these types of expenses.

# Notes to the Financial Statements

31 December 2004

## 7. FINANCE COSTS

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Interest on bank loan and overdrafts		
– wholly repayable within five years	<b>4,014</b>	2,871
– not wholly repayable within five years	–	546
Interest on finance leases	<b>873</b>	524
Other interest	<b>222</b>	1
	<b>5,109</b>	3,942

## 8. TAXATION

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Current tax – Hong Kong Profits Tax		
Provided for the year	<b>220</b>	2,383
Over-provision in prior years	–	(3)
	<b>220</b>	2,380
Current tax – Overseas		
Provided for the year	<b>2,081</b>	2,804
Over-provision in prior years	<b>(29)</b>	(1,322)
	<b>2,052</b>	1,482
Deferred tax		
Origination and reversal of temporary differences	<b>2,252</b>	1,666
Effect of decrease in tax rate on deferred tax	<b>(222)</b>	(131)
	<b>2,030</b>	1,535
Total income tax expense	<b>4,302</b>	5,397

# Notes to the Financial Statements

31 December 2004

## 8. TAXATION (Continued) By geographical area

	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax	220	2,383
Mainland China enterprise income tax	1,380	1,468
Thailand income tax	690	667
Singapore income tax	–	633
Japan corporation tax	11	36
Over-provision in prior years	(29)	(1,325)
	<b>2,272</b>	3,862
Deferred taxation	<b>2,030</b>	1,535
	<b>4,302</b>	5,397

A numerical reconciliation between income tax expense and the product of accounting profit multiplied by the applicable tax rates is as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before tax	<b>54,981</b>	47,967
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	<b>10,622</b>	8,945
Tax effect of non-deductible expenses	<b>339</b>	320
Tax effect of non-taxable revenue	<b>(5,989)</b>	(2,594)
Effect on opening deferred tax balances resulting from a change in tax rate during the year	<b>(222)</b>	(131)
Unrecognised tax losses	–	274
Utilisation of previously unrecognised tax losses	<b>(606)</b>	(92)
Over-provision in prior years	<b>(29)</b>	(1,325)
Others	<b>187</b>	–
Actual tax expense	<b>4,302</b>	5,397

# Notes to the Financial Statements

31 December 2004

## 8. TAXATION (Continued)

Hong Kong profits tax was provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong.

In accordance with the applicable enterprise income tax law of mainland China, 東莞科達五金製品有限公司 (“Dongguan Koda”) and 廣州市新豪精密五金製品有限公司 (“Xing Hao”) as wholly foreign-owned enterprises incorporated in Dongguan Coastal Economic Open Zone, are subject to mainland China enterprise income tax “EIT” at a rate of 24%. Pursuant to a letter of approval issued by the local tax authority on 16 September 2003, Dongguan Koda as a New and High Technology Enterprise (高新科技企業) was entitled to a preferential tax rate of 15% for the year ended 31 December 2003. Dongguan Koda and Xing Hao are exempted from EIT for the first two profitable years of operations after offsetting prior year losses and are entitled to a 50% reduction on the EIT for the following three years. Dongguan Koda began its first profitable year in the year ended 31 December 1999. Dongguan Koda was entitled to a 50% reduction on EIT, at an effective tax rate of 12% for 2001 and 2002 and 7.5% for 2003. On 13 November 2003, Dongguan Koda obtained an approval from the local tax authority and it is now subject to a tax rate of 10% for the three years ending 31 December 2006. Xing Hao was operating at a loss in 2003 and began profitable during the year ended 31 December 2004.

IPE Thailand, a company incorporated in Thailand is subject to income tax in Thailand at the rate of 30% on estimated assessable profits arising in or derived from Thailand. IPE Thailand has two production factories. IPE Thailand is exempted from income tax for a period of three years effective from 2 June 2000 to 1 June 2003 for income generated from factory I due to the promotion privileges granted under the Investment Promotion Act B.E. 2520 by the Board of Investment in Thailand. The Board of Investment also granted IPE Thailand an exemption from income tax for a period of three years effective from 3 January 2003 to 2 January 2006 for income generated from factory II. From 2 June 2003, IPE Thailand is subject to income tax at the rate of 30% for income generated from factory I.

IPE Singapore, a company incorporated in Singapore is subject to income tax in Singapore at the rate of 22%.

IPE Japan, a company incorporated in Japan is subject to corporation tax in Japan at the rate of 22%.

Under Decree-Law no.58/99/M, a Macau company incorporated under that Law (called “58/99/M Company”) is exempted from Macau complementary tax (Macau income tax) as long as the 58/99/M Company does not sell its products to a Macau resident company. IPE Macao Commercial Offshore Limited, a subsidiary of the Group in Macau, is qualified as 58/99/M Company.



# Notes to the Financial Statements

31 December 2004

## 9. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend paid of HK6.05 cents per share (Note (i))	6,050	–
Final dividend proposed after the balance sheet date of HK1.8 cents per share (Note (ii))	9,000	–
Dividend paid by the Company's subsidiary to its then sole shareholder (Note (iii))	–	5,010
	<b>15,050</b>	5,010

- (i) Pursuant to a resolution passed at the board of directors' meeting held on 30 August 2004, an interim dividend of HK\$6,050,000 was paid by the Company to its then sole shareholder. The calculation of dividend per share was based on the dividend of HK\$6,050,000 and 100,000,000 shares in issue as at that date.
- (ii) At a meeting held on 21 March 2005, the directors proposed a final dividend of HK\$0.018 per share of the Company, which will be subject to the approval of the shareholders at the Company's forthcoming Annual General Meeting scheduled to be held on 3 June 2005. The proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.
- (iii) Pursuant to a resolution passed at the board of directors' meeting held on 2 April 2004, a final dividend of HK\$5,010,000 was declared by the Company's subsidiary to its then shareholder. The dividend rate and the number of shares ranking for the dividend are not presented as such information is not considered meaningful for the purpose of the financial statements.

## 10. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of approximately HK\$50,676,000 (2003: HK\$42,403,000) and the weighted average number of 393,808,219 (2003: 372,500,000) ordinary shares in issue during the year. The weighted average number of shares used to calculate the last year's earnings per share included the pro-forma ordinary shares in issue calculated based on the assumption that the Reorganisation, as set out in note 1 to the financial statements, had been completed on 1 January 2003.

# Notes to the Financial Statements

31 December 2004

## 10. EARNINGS PER SHARE (Continued)

### (b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to shareholders of approximately HK\$50,676,000 and the weighted average number of 394,693,548 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

There were no dilutive potential ordinary shares in existence during the year ended 31 December 2003, and therefore, diluted earnings per share is not presented for last year.

	<b>2004</b>
	<i>Number of shares</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	393,808,219
Effect of dilutive potential shares from the share option scheme	885,329
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>394,693,548</u>

## 11. EMPLOYEE RETIREMENT BENEFITS

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the subsidiary operating in Hong Kong participates in the defined contribution Mandatory Provident Fund since 1 December 2000. Both IPE Hong Kong and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions of the employer and the employees are subject to a cap of monthly earnings of HK\$20,000 and thereafter contributions are voluntary. The aggregate amount of employer's contributions made by IPE Hong Kong amounted to approximately HK\$184,000 and HK\$160,000 for the years ended 31 December 2004 and 2003 respectively. The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers.

As stipulated by the regulations in mainland China, Dongguan Koda and Xing Hao, being wholly owned subsidiaries, are required to contribute to a state-sponsored retirement plan for all of its employees in mainland China at a rate of 11% of the basic salary of its employees. The state-sponsored retirement plan is responsible for the entire pension obligation payable to all retired employees and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. For the years ended 31 December 2004 and 2003, the Group provided for retirement plan contributions of approximately HK\$365,000 and HK\$280,000 respectively.

IPE Singapore is required to contribute 16% of the basic salary of the Singapore employees to the Singapore government for social security purposes. There was no contribution made by IPE Singapore for the year ended 31 December 2004. The aggregate amount of contribution made by IPE Singapore for the year ended 31 December 2003 amounted to approximately HK\$430,000.

# Notes to the Financial Statements

31 December 2004

## 12. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

(a) Details of directors' remuneration are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	1,700	–
Other emoluments:		
Salaries, bonuses, allowance and benefits in kind	3,156	3,789
Retirement benefits scheme contributions	43	130
	<b>3,199</b>	3,919
	<b>4,899</b>	3,919

Directors' fee disclosed above include HK\$30,000 (2003: Nil) paid to the independent non-executive directors during the year.

The remuneration of the directors fell within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	5	4
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$1,500,001 to HK\$2,000,000	1	1
	<b>8</b>	5

# Notes to the Financial Statements

31 December 2004

## 12. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

(b) The five highest paid individuals in the Group for the year ended 31 December 2004 as stated below included three (2003: three) directors, the details of their remuneration have also been disclosed in Note 12(a) above. The emoluments of the five highest paid individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
<b>Directors</b>		
Fees	1,110	–
Salaries, bonuses, allowance and benefits in kind	2,823	3,313
Retirement benefit scheme contributions	26	123
	<b>2,849</b>	3,436
	<b>3,959</b>	3,436
<b>Employees</b>		
Fees	–	–
Salaries, bonuses, allowance and benefits in kind	1,585	1,445
Retirement benefits scheme contributions	12	25
	<b>1,597</b>	1,470
	<b>1,597</b>	1,470
<b>Total</b>		
Fees	1,110	–
Salaries, bonuses, allowance and benefits in kind	4,408	4,758
Retirement benefits scheme contributions	38	148
	<b>4,446</b>	4,906
	<b>5,556</b>	4,906

# Notes to the Financial Statements

31 December 2004

## 12. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

(b) (Continued)

The remuneration of the five highest paid individuals fell within the following band:

	Number of individuals	
	2004	2003
<b>Directors</b>		
Nil to HK\$1,000,000	–	2
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$1,500,001 to HK\$2,000,000	1	1
	<b>3</b>	<b>3</b>
<b>Employees</b>		
Nil to HK\$1,000,000	2	2
	<b>5</b>	<b>5</b>

During the years ended 31 December 2004 and 2003, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13. INTANGIBLE ASSETS

	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
<b>Cost</b>			
At 1 January 2004 and 31 December 2004	1,301	(28,920)	(27,619)
<b>Accumulated amortisation and impairment loss</b>			
At 1 January 2004	(1,301)	2,107	806
Charge for the year	–	1,487	1,487
At 31 December 2004	(1,301)	3,594	2,293
<b>Net book value</b>			
<b>At 31 December 2004</b>	–	<b>(25,326)</b>	<b>(25,326)</b>
At 31 December 2003	–	(26,813)	(26,813)

# Notes to the Financial Statements

31 December 2004

## 14. FIXED ASSETS

	Land and buildings HK\$'000	Investment properties HK\$'000	Construction in-progress HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost or valuation</b>								
At 1 January 2004	80,312	11,493	9,231	220,878	3,733	3,667	8,571	337,885
Exchange movement	819	-	-	3,242	58	-	48	4,167
Additions	914	-	78,381	74,649	1,206	62	907	156,119
Reclassification	1,470	-	(15,174)	13,676	28	-	-	-
Surplus on revaluation	-	1,277	-	-	-	-	-	1,277
Disposal	-	-	-	-	-	-	(151)	(151)
Written off	-	-	-	-	-	-	(111)	(111)
At 31 December 2004	83,515	12,770	72,438	312,445	5,025	3,729	9,264	499,186
At cost	83,515	-	72,438	312,445	5,025	3,729	9,264	486,416
At valuation	-	12,770	-	-	-	-	-	12,770
At 31 December 2004	83,515	12,770	72,438	312,445	5,025	3,729	9,264	499,186
<b>Accumulated depreciation and impairment loss</b>								
At 1 January 2004	4,266	1,282	-	84,690	2,187	2,664	7,487	102,576
Exchange movement	68	-	-	849	25	-	29	971
Eliminated on revaluation	-	(1,282)	-	-	-	-	-	(1,282)
Provided for the year	2,441	-	-	21,000	689	491	639	25,260
Disposal	-	-	-	-	-	-	(151)	(151)
Written off	-	-	-	-	-	-	(111)	(111)
At 31 December 2004	6,775	-	-	106,539	2,901	3,155	7,893	127,263
<b>Net book value</b>								
At 31 December 2004	<b>76,740</b>	<b>12,770</b>	<b>72,438</b>	<b>205,906</b>	<b>2,124</b>	<b>574</b>	<b>1,371</b>	<b>371,923</b>
At 31 December 2003	76,046	10,211	9,231	136,188	1,546	1,003	1,084	235,309

# Notes to the Financial Statements

31 December 2004

## 14. FIXED ASSETS (Continued)

- (a) Investment properties were revalued at 31 August 2004 on the basis of their open market value by Vigers Appraisal & Consulting Limited. The revaluation surplus of approximately HK\$2,559,000 was credited to the investment property revaluation reserve. In the opinion of the directors, there was no material change in the open market value of the investment properties as at 31 December 2004 and 31 August 2004.

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
(b) Net book value of assets held under finance leases		
– Plant and machinery	<b>68,210</b>	10,196
– Furniture, fixtures and equipment	<b>161</b>	120
– Construction in progress	<b>8,179</b>	–
– Motor vehicles	<b>321</b>	64
	<b>76,871</b>	10,380
(c) Net book value of assets charged for banking facilities		
– Land and buildings	<b>21,950</b>	34,863
– Plant and machinery	<b>50,552</b>	49,238
– Investment properties	<b>10,600</b>	8,711
	<b>83,102</b>	92,812
	<b>159,973</b>	103,192

- (d) The Group's land and buildings and investment properties at their net book values are analysed as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
In Hong Kong, held on:		
Lease of 10 to 50 years	<b>12,152</b>	10,327
Outside Hong Kong, held on:		
Freehold	<b>21,950</b>	21,794
Leases of over 50 years	<b>3,048</b>	2,396
Leases of 10 to 50 years	<b>52,360</b>	51,740
	<b>89,510</b>	86,257

# Notes to the Financial Statements

31 December 2004

## 14. FIXED ASSETS (Continued)

(e) The assets held for use in operating leases are as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>Cost or valuation</b>		
Investment properties	<b>12,770</b>	11,493
<b>Accumulated depreciation</b>		
Investment properties	–	1,282

## 15. INVENTORIES

Inventories consisted of:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Raw materials	<b>15,043</b>	5,853
Consumables	<b>5,280</b>	4,067
Work-in-progress	<b>29,677</b>	13,638
Finished goods	<b>13,982</b>	12,644
	<b>63,982</b>	36,202
Less: Provision for obsolete and slow-moving inventories	<b>(9,978)</b>	(5,874)
	<b>54,004</b>	30,328

The amount of inventories that was carried at net realisable value amounted to approximately HK\$2,252,000 (2003: HK\$3,457,000).



# Notes to the Financial Statements

31 December 2004

## 16. INTEREST IN SUBSIDIARIES

Unlisted shares, at cost  
Due from subsidiaries

2004 HK\$'000	2003 HK\$'000
43	–
<b>71,166</b>	–
<b>71,209</b>	–

The amounts due from subsidiaries were unsecured, non-interest bearing and without pre-determined terms of repayment.

Details of the subsidiaries as at 31 December 2004 were as follows:

Name	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Best Device Group Limited	British Virgin Islands/ Hong Kong SAR	USD5,528	100%	–	Investment holding
Cyber Starpower Limited	British Virgin Islands/ Hong Kong SAR	US\$1,000	–	100%	Investment holding
Anglo Dynamic Limited	British Virgin Islands/ Hong Kong SAR	US\$2,000	–	100%	Investment holding
Tai Situpa Group Limited	British Virgin Islands/ Hong Kong SAR	US\$2,000	–	100%	Investment holding
Lewiston Group Limited	British Virgin Islands/ Hong Kong SAR	US\$1,000	–	100%	Investment holding
Integrated Precision Engineering (Thailand) Company Limited	Thailand	THB150,000,000	–	99.99%	Trading and manufacturing of precision metal components
Integrated Precision Engineering Pte. Limited ("IPE Singapore")	Singapore	S\$1,200,000	–	100%	Dormant
Integrated Precision Engineering Company Limited	Hong Kong SAR	HK\$3,000,000	–	100%	Trading of precision metal components and investment holding

# Notes to the Financial Statements

31 December 2004

## 16. INTEREST IN SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Integrated Precision Engineering (Japan) Company Limited	Japan	¥3,000,000	–	90%	Trading of precision metal components
IPE Macao Commercial Offshore Limited	Macau SAR	MOP100,000	–	100%	Trading of precision metal components
東莞科達五金製品有限公司 (Dongguan Koda Metal Products Company Ltd.)	Mainland China	HK\$121,109,869 <i>Note (i)</i>	–	100%	Manufacturing of precision metal components
廣州市新豪精密五金製品有限公司	Mainland China	HK\$56,950,113 <i>Note (ii)</i>	–	100%	Manufacturing of precision metal components

### Notes:

- (i) Dongguan Koda Metal Products Company Limited is a wholly foreign-owned enterprise with registered capital of HK\$133,000,000. The remaining capital contribution of HK\$11,890,131 should be contributed before 15 February 2007.
- (ii) Xing Hao is a wholly foreign-owned enterprise with registered capital of HK\$140,000,000. The remaining capital contribution of HK\$7,500,000, HK\$33,049,887 and HK\$42,500,000 should be contributed before 9 December 2004, 24 February 2006 and 9 September 2006 respectively.

## 17. TRADE RECEIVABLES

The credit terms granted to customers normally ranges from 30 to 120 days. The aging analysis of the Group's trade receivables, based on invoice date, is as follows:

	2004 HK\$'000	2003 HK\$'000
0 to 30 days	28,458	21,509
31 to 60 days	26,907	20,961
61 to 90 days	15,670	12,023
91 to 120 days	4,650	2,333
121 to 365 days	1,767	6,485
1 to 2 years	–	64
	<b>77,452</b>	<b>63,375</b>

# Notes to the Financial Statements

31 December 2004

## 18. CASH AND BANK BALANCES

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Non-pledged fixed deposit with a bank	7,095	–	–	–
Cash and bank balances	45,167	6,251	15,608	–
	<b>52,262</b>	6,251	<b>15,608</b>	–

Included in the cash and bank balances of the Group as at 31 December 2004 were amounts of approximately HK\$5,842,000 (2003: HK\$5,195,000) denominated in Renminbi not freely convertible to other currencies.

## 19. TRADE PAYABLES

The aging analysis of the trade payables is as follows:

	2004 HK\$'000	2003 HK\$'000
0 to 30 days	11,810	7,109
31 to 60 days	12,917	8,889
61 to 90 days	9,192	6,468
91 to 120 days	960	931
121 to 365 days	1,150	1,274
1 to 2 years	112	7
	<b>36,141</b>	24,678

## 20. DUE TO DIRECTORS

	2004 HK\$'000	2003 HK\$'000
Mr. Ho Yu Hoi	–	264
Mr. Li Chi Hang	–	119
	–	383

The balances were unsecured, interest-free and had no pre-determined terms of repayment.

# Notes to the Financial Statements

31 December 2004

## 21. TAX PAYABLES

	2004 HK\$'000	2003 HK\$'000
Income tax	1,561	2,536
Value added tax	504	327
	<b>2,065</b>	<b>2,863</b>

## 22. SHORT-TERM BORROWINGS

	2004 HK\$'000	2003 HK\$'000
Trust receipt loans, secured	6,011	2,024
Bills payable, secured	–	1,521
Bank overdrafts, secured	14,167	20,625
Short-term bank loans, secured	55,782	13,535
	<b>75,960</b>	<b>37,705</b>

## 23. OBLIGATIONS UNDER FINANCE LEASES

The total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts repayable:				
Within one year	18,190	6,488	15,979	6,329
In the second year	17,957	215	16,460	209
In the third to fifth years, inclusive	26,991	–	25,940	–
Total minimum finance lease payments	<b>63,138</b>	6,703	<b>58,379</b>	6,538
Less: Future finance charges	<b>(4,759)</b>	(165)		
Total net finance lease payable	<b>58,379</b>	6,538		
Less: Portion classified as current liabilities	<b>(15,979)</b>	(6,329)		
Long-term portion	<b>42,400</b>	209		

# Notes to the Financial Statements

31 December 2004

## 24. LONG-TERM BORROWINGS

	2004 HK\$'000	2003 HK\$'000
Bank loans		
Wholly repayable within five years	36,390	33,230
Not wholly repayable within five years	7,659	9,627
	<b>44,049</b>	42,857
Amount due within one year or on demand included under current liabilities	<b>(14,837)</b>	(15,099)
	<b>29,212</b>	27,758
The Group's bank loans were repayable as follows:		
Due within one year or on demand	14,837	15,099
Due in the second year	14,644	9,897
Due in the third to fifth years	12,097	14,486
Due after the fifth year	2,471	3,375
	<b>44,049</b>	42,857

On 31 January 2004, the bank has agreed to refinance the short-term loan facilities as at 31 December 2003 into long-term facilities. Therefore, the repayment of loan of approximately HK\$15,564,000 was deferred and classified as non-current liabilities as at 31 December 2003.

## 25. DUE TO A DIRECTOR

	2004 HK\$'000	2003 HK\$'000
Mr. Chui Siu On ("Mr. Chui")	-	17,000

On 31 December 2003, IPE Hong Kong signed an agreement with Mr. Chui. The amount was unsecured, interest-free and repayment after one year. Under the terms of the agreement, Mr. Chui agreed not to demand for repayment on or before 31 December 2005, therefore, the amount had been reclassified from current liabilities to non-current liabilities as at 31 December 2003. In June 2004, the amount was capitalised so that 528 shares of Best Device were issued and allotted to Mr. Chui.

## 26. OTHER PAYABLE

As at 31 December 2003, the amount represented balance of payment on acquisition of land by a subsidiary. The balance was unsecured and interest-free and not repayable within one year.

# Notes to the Financial Statements

31 December 2004

## 27. DEFERRED TAX ASSETS AND LIABILITIES

### (a) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet are as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Deferred tax liabilities:		
Depreciation allowances in excess of related depreciation	<b>3,980</b>	2,081
Deferred tax assets:		
Provision for slow-moving inventories, costs and expenses not yet deductible for tax purposes	<b>(742)</b>	(389)
Items not taxable until taken up in the statutory accounts of subsidiary in mainland China	<b>597</b>	–
	<b>3,835</b>	1,692
Net deferred tax assets recognised on the balance sheet	<b>(174)</b>	(878)
Net deferred tax liabilities recognised on the balance sheet	<b>4,009</b>	2,570
	<b>3,835</b>	1,692

### (b) Deferred tax assets not recognised

As at 31 December 2003, the Group had tax losses of approximately HK\$2,526,000 that were available to carry forward for offsetting against future taxable profits. There is no expiry date for utilisation of the tax losses under current tax legislation. The tax losses had been utilized during the year ended 31 December 2004.

# Notes to the Financial Statements

31 December 2004

## 28. ISSUED CAPITAL

	(Note)	2004		2003	
		Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:					
At beginning of the year	(a)	1,000,000	100	1,000,000	100
Addition	(b)	1,199,000,000	119,900	–	–
At end of the year		1,200,000,000	120,000	1,000,000	100
Issued and fully paid:					
At beginning of the year	(a)	1	–	1	–
Ordinary shares issued for the acquisition of the entire issued share capital of Best Device	(c)	99,999,999	10,000	–	–
Ordinary shares issued pursuant to placing and public offer	(d)	127,500,000	12,750	–	–
Ordinary shares issued pursuant to a capitalization issue	(e)	272,500,000	27,250	–	–
At end of the year		500,000,000	50,000	1	–

- (a) On 10 July 2002, the Company was incorporated with an authorized share capital of HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.1 each. On 29 July 2002, one share was allotted and issued to the initial subscriber, fully paid at par, and such share was subsequently transferred to Tottenham on the same date.
- (b) Pursuant to a resolution in writing of the sole shareholder of the Company passed on 25 June 2004, the authorized share capital of the Company was increased from HK\$100,000 to HK\$120,000,000 by the creation of additional 1,199,000,000 shares of HK\$0.1 each ranking pari passu with the existing shares in all respects.
- (c) On 25 June 2004, pursuant to the Reorganisation described in note 1 to the financial statements, the Company allotted and issued 99,999,999 ordinary shares of HK\$0.1 each, credited as fully paid, to Tottenham as consideration for acquisition of the entire issued share capital of Best Device. The difference between the nominal value of the share capital of Best Device and the Company has been debited to the merger reserve account as set out in note 30 to the financial statements.
- (d) On 1 November 2004, 127,500,000 ordinary shares of HK\$0.1 each were issued through a placing and public offer (the "New Issue") of the Company's shares at HK\$0.77 each for a total cash consideration of HK\$98,175,000 before the related issue expenses.

# Notes to the Financial Statements

31 December 2004

## 28. ISSUED CAPITAL *(Continued)*

- (e) Immediately after the New Issue, share premium of HK\$27,250,000 was capitalised for the issuance of 272,500,000 shares of HK\$0.1 each on pro-rata basis to the Company's shareholders before the New Issue. The Company underwent a capitalization issue pursuant to which the credit standing of the share premium account was applied to pay up 272,500,000 ordinary shares of HK\$0.1 each.

The share capital in the consolidated balance sheet as at 31 December 2003 represented the issued share capital of Best Device prior to the Reorganisation.

## 29. SHARE OPTION SCHEME

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

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

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

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

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

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

The exercise price in respect of any particular option shall be such price as determined by the board in its absolute discretion at the time of the making of the offer but in any case the exercise price shall be at least the highest of (i) the official closing price of the shares as stated in the daily quotation sheets of the Exchange on the offer date; (ii) the average of the official closing price of the shares as stated in the daily quotation sheets of the Exchange for the five (5) business days immediately preceding the offer date; and (iii) the nominal value of a share.



# Notes to the Financial Statements

31 December 2004

## 29. SHARE OPTION SCHEME (Continued)

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

The movements in the share options of the Company during the year ended 31 December 2004 were as follows:

Grantees	Date of grant	Exercisable period	Exercise price	Closing price before the date of grant	Number of share options			
					At 1/1/2004	Granted during the year	Cancelled/lapsed/exercised during the year	Outstanding at 31/12/2004
Directors	N/A	N/A	N/A	N/A	-	-	-	-
Employees	30 November 2004	30 November 2004 to 31 December 2008	HK\$0.78	HK\$0.78	-	23,250,000	-	23,250,000
Service providers	30 November 2004	30 November 2004 to 31 December 2008	HK\$0.78	HK\$0.78	-	1,750,000	-	1,750,000
<b>Total</b>					-	25,000,000	-	25,000,000

Notes:

- (i) The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.
- (ii) On 27 January 2005, a total of 3,000,000 and 7,000,000 share options were granted to the employees and service providers respectively at the exercise price of HK\$1.09 per share.

# Notes to the Financial Statements

31 December 2004

## 30. RESERVES (a) The Group

	Share premium	Investment property revaluation reserve	Statutory surplus reserve	Statutory public welfare fund	Merger reserve	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	-	-	574	287	8,842	(3,639)	107,830	113,894
Movement in exchange fluctuation reserve	-	-	-	-	-	4,558	-	4,558
Profit attributable to shareholders	-	-	-	-	-	-	42,403	42,403
Transfer from retained profits	-	-	1,772	-	-	-	(1,772)	-
At 31 December 2003	-	-	2,346	287	8,842	919	148,461	160,855
At 1 January 2004	-	-	2,346	287	8,842	919	148,461	160,855
Issue of share capital	16,996	-	-	-	-	-	-	16,996
Group Reorganization	-	-	-	-	(9,958)	-	-	(9,958)
Issue of shares on listing	85,425	-	-	-	-	-	-	85,425
Capitalisation of share premium	(27,250)	-	-	-	-	-	-	(27,250)
Share issue expenses	(26,362)	-	-	-	-	-	-	(26,362)
Surplus on revaluation	-	2,559	-	-	-	-	-	2,559
Movement in exchange fluctuation reserve	-	-	-	-	-	1,871	-	1,871
Profit attributable to shareholders	-	-	-	-	-	-	50,676	50,676
Transfer from retained profits	-	-	2,315	-	-	-	(2,315)	-
Dividend paid								
- 2003 final dividend	-	-	-	-	-	-	(5,010)	(5,010)
- 2004 interim dividend	-	-	-	-	-	-	(6,050)	(6,050)
	-	-	-	-	-	-	(11,060)	(11,060)
At 31 December 2004	48,809	2,559	4,661	287	(1,116)	2,790	185,762	243,752

# Notes to the Financial Statements

31 December 2004

## 30. RESERVES (Continued) (b) The Company

	Share premium HK\$'000	Statutory surplus reserve HK\$'000	Statutory public welfare fund HK\$'000	Merger reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003	-	-	-	-	-	-	-
Profit attributable to shareholders	-	-	-	-	-	-	-
At 31 December 2003	-	-	-	-	-	-	-
At 1 January 2004	-	-	-	-	-	-	-
Group reorganization	-	-	-	(9,958)	-	-	(9,958)
Issue of shares on listing	85,425	-	-	-	-	-	85,425
Capitalisation of share premium	(27,250)	-	-	-	-	-	(27,250)
Share issue expenses	(26,362)	-	-	-	-	-	(26,362)
Profit attributable to shareholders	-	-	-	-	-	20,605	20,605
2004 interim dividend paid	-	-	-	-	-	(6,050)	(6,050)
At 31 December 2004	31,813	-	-	(9,958)	-	14,555	36,410

Mainland China laws and regulations require Dongguan Koda and Xing Hao to provide for statutory surplus reserve which are appropriated from the net profit as reported in the statutory financial statements prepared in accordance with the generally accepted accounting principles in mainland China but before dividend distribution. They are required to allocate 10% of its net profit to statutory surplus reserve until the balance of such fund has reached 50% of their registered capital. The reserve can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

The transfer of net profit to statutory public welfare fund is made at the discretion of the directors at 5% of the net profit of the subsidiaries. The statutory public welfare fund can be used for employees welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the year ended 31 December 2003 and 2004.

# Notes to the Financial Statements

31 December 2004

## 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

### (a) Disposal of a subsidiary

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Fixed assets	–	1,700
Inventories	–	1,018
Prepayments, deposits and other receivables	–	465
Due from related companies	–	532
Trade receivables	–	3,884
Cash and bank balances	–	1,360
Bank overdrafts	–	(133)
Trade payables	–	(690)
Other payables and accruals	–	(122)
Value added tax payable	–	(122)
Due to related companies	–	(8,638)
Minority interest	–	229
	–	(517)
Gain on disposal ( <i>Note 3</i> )	–	1,013
	–	496
Satisfied by:		
Set off with other payable	–	496

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Cash and cash equivalents disposed of with the subsidiary		
Cash and bank balances	–	1,360
Bank overdrafts	–	(133)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	1,227

# Notes to the Financial Statements

31 December 2004

## 31. NOTES TO THE COMBINED CASH FLOW STATEMENTS (Continued)

### (b) Analysis of balances of cash and cash equivalents

	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	45,168	6,251
Non-pledged fixed deposit with a bank	7,094	–
	<b>52,262</b>	6,251
Bank overdrafts	(14,167)	(20,625)
Cash and cash equivalents	<b>38,095</b>	(14,374)

### (c) Major non-cash transactions

The Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of approximately HK\$64,776,000 for the year ended 31 December 2004 (2003: Nil).

## 32. CAPITAL COMMITMENTS

The capital commitments of the Group were as follows:

	2004 HK\$'000	2003 HK\$'000
Authorised but not contracted for		
– Purchase of machinery	1,764	–
Contracted but not provided for		
– Purchase of machinery	103,576	59,300
– Construction in progress	35,318	1,867
	<b>138,894</b>	61,167
	<b>140,658</b>	61,167

The Company did not have any commitments during the years ended 31 December 2004 and 2003.

# Notes to the Financial Statements

31 December 2004

## 33. OPERATING LEASE ARRANGEMENTS

### (a) The Group as lessor

The total future minimum lease payments to be received by the Group for assets leased out under non-cancellable operating leases are as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	–	540
Later than one year and not later than five years	–	203
	–	743

### (b) The Group as lessee

The Group's total minimum lease payments under non-cancellable operating lease agreements are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	56	55
Later than one year and not later than five years	151	–
	207	55

The Group leases land and buildings under operating leases with lease terms of 1 to 2 years. None of these leases includes contingent rentals.

## 34. CONTINGENT LIABILITIES

### (a) The Group

	2004 HK\$'000	2003 HK\$'000
Guarantees to an electricity company	458	235

### (b) The Company

As at 31 December 2004, the Company had issued guarantees of approximately HK\$210 million (2003: Nil) to bankers to secure general banking and leasing facilities granted to certain subsidiaries of which approximately HK\$129 million was utilised as at 31 December 2004 (2003: Nil).

# Notes to the Financial Statements

31 December 2004

## **35. BANKING FACILITIES**

The Group had aggregate banking facilities of approximately HK\$206,000,000 and HK\$121,750,000 as at 31 December 2004 and 2003 respectively, for loans, overdrafts and trade financing. Unused facilities as at 31 December 2004 and 2003 amounted to approximately HK\$85,991,000 and HK\$42,683,000 respectively. During the year, these facilities were secured by:

- (a) guarantees provided by directors of the Company;
- (b) corporate guarantee provided by the Company;
- (c) properties owned by a director and his wife;
- (d) pledged fixed deposits with banks of approximately HK\$11,506,000 as at 31 December 2004 (2003: HK\$9,581,000);
- (e) fixed assets with net book value of approximately HK\$83,102,000 (2003: HK\$92,812,000), the details are set out in note 14(c) to the financial statements.

In addition, the Group is required to comply with certain restrictive financial covenants with certain banks.

The security in respect of the properties respectively owned by a director and his wife above was released and replaced by a corporate guarantee upon the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited in November 2004.

## **36. ULTIMATE HOLDING COMPANY**

The directors of the Company consider Tottenhill Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.