ANNUAL REPORT 2005

IPE GROUP LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)
(STOCK CODE : 0929)

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chui Siu On *(Chairman and Managing Director)*
Mr. Ho Yu Hoi
Mr. Lai Man Kit
Mr. Li Chi Hang
Mr. Wong Kwok Keung

Non-Executive Director

Mr. Ng Kin Nam *(Vice Chairman)*

Independent Non-Executive Directors

Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wan Tak Wing, Gary (FCPA)

AUDIT COMMITTEE

Dr. Cheng Ngok *(Chairman)*
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok

REMUNERATION COMMITTEE

Mr. Chui Siu On *(Chairman)*
Mr. Lai Man Kit
Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok

PRINCIPAL BANKERS

Bangkok Bank Public Company Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited
Standard Chartered Bank (Hong Kong) Limited
United Overseas Bank Limited

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong law
Michael Li & Co

As to PRC law
Everwin Law Office

AUDITORS

Ernst & Young
Certified Public Accountants

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

Butterfield Fund Services (Cayman) Limited
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
Rooms 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

11th Floor, Block E1
Hoi Bun Industrial Building
No. 6 Wing Yip Street
Kwun Tong
Kowloon
Hong Kong

GROUP HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Yue Hu Cun
Zengcheng, Guangzhou
Guangdong Province, the PRC

WEBSITE

www.ipegroup.com

Corporate Profile

IPE Group Limited (the "Company" or "IPE Group") 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 "Stock Exchange"). The Company is an investment holding company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of high precision metal components.

The Group started high precision components business in 1990 in Singapore and now develops into a multinational corporation with four production plants located in the Mainland China and one plant in Thailand. By using specialised computer numerical controlled machines, the Group produces high precision metal components used in hard disk drives ("HDDs"), hydraulic equipments, automotive parts, fibre optical connectors, electronic and other 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 Stock Exchange on 1 November 2004.

Looking ahead, IPE Group will continue to 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 Milestone

Year	
1990	Established Integrated Precision Engineering Pte. Ltd. ("IPE (Singapore)") in Singapore
1994	Established Integrated Precision Engineering Company Limited ("IPE (Hong Kong)") in Hong Kong Established Dongguan Koda Metal Products Co., Ltd. ("Dongguan Koda") in Mainland China
1997	Established Integrated Precision Engineering (Thailand) Co., Ltd. ("IPE (Thailand)") in Thailand IPE (Singapore) was awarded the "Top 50 outstanding enterprise" by the Singapore Government
2002	IPE (Thailand)'s production facility was accredited ISO 9001 certification Dongguan Koda's production facility was accredited ISO 9001 and QS 9000 certifications Established Guangzhou Xing Hao Precision Metal Products Co., Ltd. ("Xing Hao") in Mainland China
2003	Acquired additional land of 166,667 square metres to enlarge production facilities of Xing Hao and construction of the new Guangzhou plant commenced
2004	Established IPE Macao Commercial Offshore Limited ("IPE Macao") in Macao Listed on the Main Board of The Stock Exchange of Hong Kong Limited on 1 November 2004
2005	Qualified by Bosch, Delphi, Siemens VDO and TRW as an qualified automotive components vendor Xing Hao Factory No. 1 was put into operation in March 2005
2006	Xing Hao was accredited TS16949 certification

Summary Financial Information

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements. The amounts for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in the accounting policy affecting investment properties, as detailed in note 2.4 to the financial statements.

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**405,977**	281,672	208,255	184,201	194,831
Cost of sales	**(282,348)**	(187,036)	(121,898)	(106,091)	(132,907)
Gross profit	**123,629**	94,636	86,357	78,110	61,924
Other income and gains	**18,127**	14,337	5,118	5,967	18,040
Selling and distribution costs	**(13,652)**	(7,773)	(7,688)	(7,436)	(10,122)
Administrative expenses	**(48,113)**	(36,034)	(30,868)	(22,372)	(30,102)
Other expenses	**(614)**	(2,517)	(1,010)	(1,660)	(2,009)
Finance costs	**(12,216)**	(5,109)	(3,942)	(3,150)	(4,753)
PROFIT BEFORE TAX	**67,161**	57,540	47,967	49,459	32,978
Tax	**(2,763)**	(4,302)	(5,397)	(5,378)	(4,506)
PROFIT FOR THE YEAR	**64,398**	53,238	42,570	44,081	28,472
Attributable to:					
Equity holders of the parent company	**64,398**	53,235	42,403	43,965	28,472
Minority interests	**–**	3	167	116	–
	64,398	53,238	42,570	44,081	28,472
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**1,134,261**	557,967	335,338	262,024	283,061
TOTAL LIABILITIES	**(649,518)**	(264,194)	(174,426)	(148,469)	(189,570)
MINORITY INTERESTS	**–**	(21)	(18)	378	–
	484,743	293,752	160,894	113,933	93,491

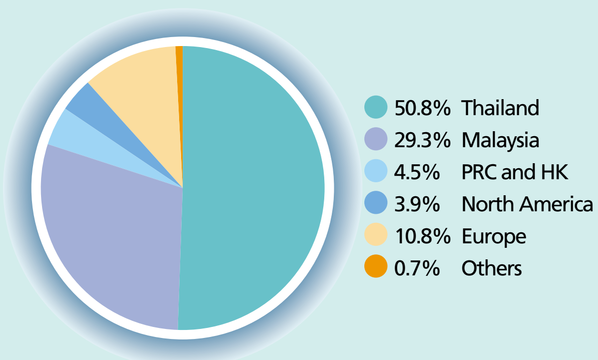
Financial Highlights

		Year ended 31 December				
		2005	2004	2003	2002	2001
OPERATING RESULTS						
Turnover	(HK$ million)	**406**	282	208	184	195
Earnings before interest and taxation *(EBIT)*	(HK$ million)	**79**	59	50	53	38
Earnings before interest, taxation, depreciation and amortisation *(EBITDA)*	(HK$ million)	**126**	86	67	64	68
Profit attributable to shareholders	(HK$ million)	**64**	53	42	44	28
FINANCIAL POSITION						
Net cash generated from operating activities	(HK$ million)	**31**	43	13	15	22
Net current assets	(HK$ million)	**16**	23	8	1	32
Shareholders' funds	(HK$ million)	**485**	294	161	114	93
PER SHARE DATA						
Earnings per share – basic	(HK cents)	**11.4**	13.5	11.4	11.8	7.6
Earnings per share – diluted	(HK cents)	**10.6**	13.5	N/A	N/A	N/A
KEY STATISTICS						
Earnings before interest, taxation, depreciation and amortization *(EBITDA)* margin	(%)	**31.0**	30.7	32.3	34.5	35.1
Net profit margin	(%)	**15.9**	18.9	20.4	23.9	14.6
Return on shareholders' equity *(ROE)*	(%)	**13.3**	18.1	26.4	38.6	30.5
Net debt to equity ratio	(%)	**41.5**	26.7	44.3	36.5	23.6

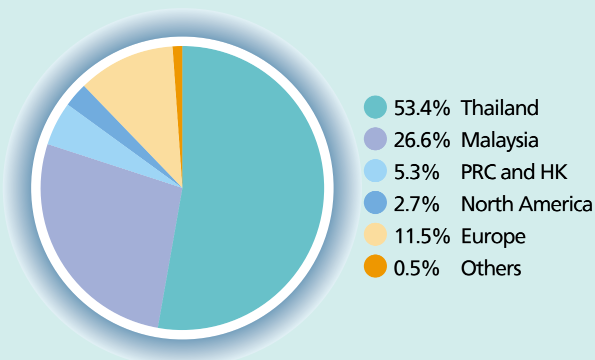
TURNOVER

Geographical Segment

2005

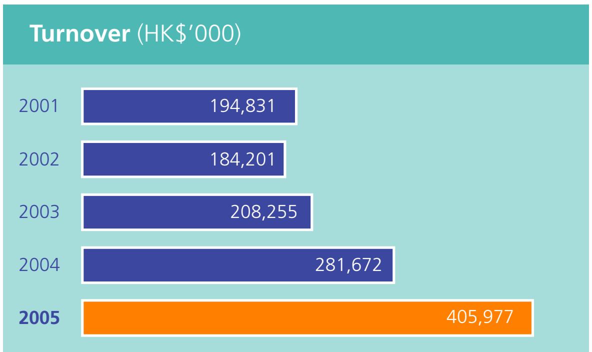


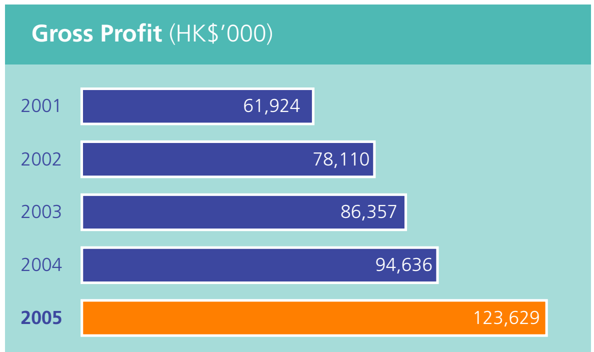
2004

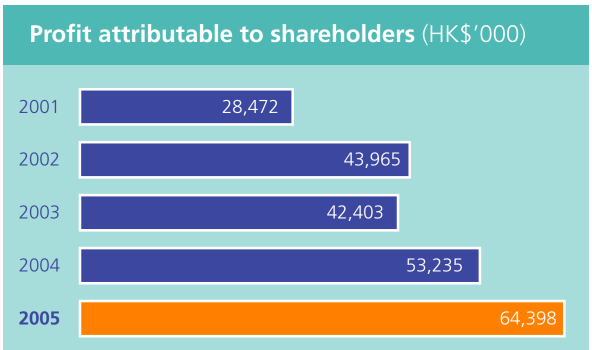


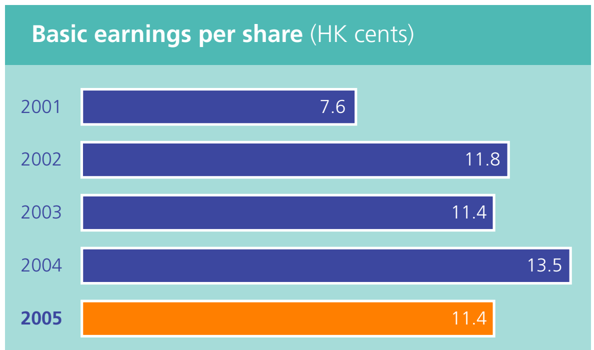
Financial Highlights

CONSOLIDATED RESULTS



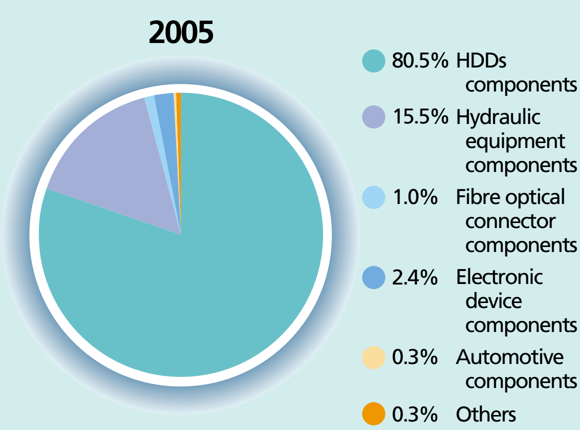


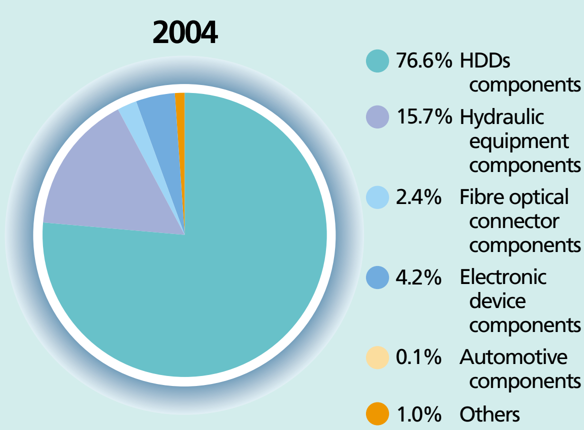




TURNOVER

Business Segment





Chairman's Statement

"Quality is the Key to Success"

LAYING THE FOUNDATION FOR FUTURE GROWTH

Immediately after our listing in 2004, we decided to accelerate the execution of our expansion programme given in our prospectus to benefit from the strong growth in demand for precision metal components from the three main industries we serve. We made remarkable progress in 2005 laying the foundation for sustained strong growth into the forseeable future.

During 2005 we made excellent progress developing our business. It has been our experience that gaining the confidence of potential customers is a lengthy process. To qualify as an approved supplier we must prove the reliability of our products given their "mission critical" nature. Reflecting the results of sustained marketing and engineering efforts over several years, IPE Group was qualified by Bosch, Delphi, Siemens VDO and TRW as a qualified vendor in 2005. In addition, we secured two long-term contracts with a total value of approximately US$10 million for the supply of automotive components over the next 3 to 5 years. Based on the orders we have, we expect our sales of automotive components will jump significantly in 2006.

To cater for the growth we expected, last year we invested HK$387 million in plant, equipment and new production facilities, up 148% from the HK$156 million we invested in 2004. This year our planned capital expenditure is HK$200 million. We shall commence production in Phase 2 and Phase 3 of our Guangzhou plant this year which will bring our total production capacity at the end of this year to approximately 600 million pieces per annum.

With the increased capacity that will be coming on stream, we shall have greater flexibility to schedule production efficiently. We shall be devoting all the production capacity in Phase 2 of our Guangzhou facility to the production of HDD components. Phase 3 of our Guangzhou facility will be dedicated to the production of hydraulic and automotive components and will give us the ability to "tune" different parts of the plant to the efficient production of different types of components. The impact of more efficient production and of operating leverage should be seen in operating profit margins in 2006 and beyond.

To cater for the growth we anticipated we also had to invest in human resources and we continue to do so just as we continue to invest aggressively in plant and equipment. It is not just a matter of hiring more workers and engineers to enable us to increase production, we also had to increase our management staff and strenghten our management systems to ensure good corporate governance. An example of our action in this regard is our decision last year to appoint Ernst & Young as our auditors.

We are operating in a high precision industry and our components are "mission critical" parts of the end products of which they form part. A fault in one of our components can result in costly failure of the end product so we must invest in training our staff, not just in production but also in R&D and in ensuring stringent quality control. Apart from new product development and research on cost reduction for existing products, our R&D team also develops certain proprietary production machinery and we also make part of the toolings we use in our production processes. Investments in staff training have costs and having made these investments, we must make the additional investment to provide the working environment and other incentives including, where appropriate, share options, to ensure we are able to retain staff. The cost of share options granted have reduced our reported profits in year 2005 but we consider the benefit will be spread over many years in the future and reflected in the future growth of the Company. Last year our total number of employees grew from 2,024 to 3,044 of which 444 are employed in quality control and R&D. We are proud that we have just been accredited with the demanding TS16949 quality standard in March 2006.

In 2005, sales of HDD components recorded a year-on-year growth of 51.5%. We maintained our position as the world's second largest manufacturer of HDD pivot shafts and housing with an estimated global market share of over 20%. Sales of hydraulic components rose 42.7% in 2005. Sales of auto-components jumped 215.7%, but this was from a very low base as this business segment is at a start up stage and orders were more of a trial nature. As mentioned above, we expect sales of auto-components to be much more meaningful this year and we shall be devoting more engineering and financial resources to develop new automotive components projects.

We are very excited about the future growth prospects of our automotive components business. The jump in orders we have received is a major step forward in the diversification of our Group's business. Our longer term target is that the three main industry sectors we service should each account for about one-third of sales in value terms.

HDDs are the dominant form of storage in computers and demand for storage continues to grow dramatically with the growing use of broadband connectivity and more sophisticated software. Furthermore, HDDs, are finding new applications in a wide range of consumer electronic products such as music players, digital video recorders video-game consoles, digital cameras and global-positioning systems in automobiles. For most applications, storage capacity, particularly for video data, is most cost effectively met using HDDs rather than flash memory. HDD manufacturers are innovating at such a rate that the price per gigabyte of HDD memory is falling at least as fast as flash so the cost advantage of HDDs is maintained. Worldwide shipments of HDDs are forecast to grow at a compound rate of 15% per year.

Chairman's Statement

The strong growth in demand we expect from the hydraulic and auto-components sectors stem from the outsourcing trend underway in these two industries. In particular, the China Association of Automobile Manufacturer forecasts that auto parts exports from China will grow 35% per year during 2005-2010.

Based on the information we have from our clients and by reference to market research reports, the three industry sectors we service are expected to maintain a strong growth in demand for many years.

Our very rapid expansion has been funded by a combination of debt and equity. Furthermore, we have also tried to strike a balance between short term and long term debt. Last year, we raised HK$111 million in the form of equity through a share placement in May 2005 and we also drew down a HK$200 million term loan facility in August 2005. As at the end of 2005 our net debt to equity ratio was 42%. On 12 April 2006, the Company announced a share placement of 120,000,000 shares at the placing price of HK$1.87 per placing share to institutional investors through a top-up placing exercise. The net proceeds of approximately HK$212.5 million will be applied as to approximately HK$96 million for acquisition of new plant and machineries and as to the remaining for general working capital uses to cope with the increase in the Group's production capacity. We expect we shall be able to fund future capital expenditure by a combination of bank borrowings, equipment lease financing and retained earnings in near future.

I would like to express my deepest gratitude to all our shareholders, customers, business partners and suppliers for their continuous support to the Group. I also sincerely appreciate the efforts of our management and staff and thank them for their contribution and commitment to the Company. I believe that last year we laid a solid foundation for future strong growth and I sincerely thank all our stakeholders helping us build on that foundation.

Chui Siu On
Chairman

BUSINESS REVIEW & OUTLOOK

The Group is principally engaged in manufacturing high precision metal components for HDDs, hydraulic equipments and automotive parts. Equipped with fully automatic Computer Numerical Control ("CNC") lathe, grinding machines, die casting machines and heat treatment equipment, the Group is able to adjust its production lines, tooling and equipment to manufacture various kinds of high precision components according to customer's different specifications.

The Group's consistently high quality products continued to gain support from its customers during the year with the aggregate sales volume increased substantially by 48.5% as follows:

	Sales Volume		
	2005	2004	Growth
	million pieces	million pieces	%
HDD components	**299.43**	185.38	61.5%
Hydraulic equipment components	**14.19**	10.51	35.0%
Automotive components	**0.41**	0.05	720.0%
Other components	**34.57**	38.87	(11.1%)
	348.60	234.81	48.5%

CNC tool grinding line

Management Discussion and Analysis

HDD components

Market demand for HDDs grew significantly during the year, with worldwide HDDs shipment amounting to 377 million units, a 24.8% surge from 2004 (Source: TSR). The tremendous increase in demand was attributable to the emerging application of HDDs in the consumer electronics sector such as personal digital video recorder, set top box, game console and DVD-HDD recorder. In particular, broadband, online broadcasting and video-on-demand services require more storage capacity at the centralised network. High-definition programmes, which require 5 times more data volume than standard-definition programmes, should accelerate the scarcity of storage capacity. As such, the Group's sales of HDDs components in 2005 experienced strong growth with its sales surged 51.5% to HK$326,903,000 over the previous year.

HDDs business coming from consumer electronics devices will continue to grow and it is expected that in the next two to three years there might be more of a 50-50 split between personal computers and other consumer products for HDDs application. IDC, a market research specialist, sees a compounded annual growth rate of 15% for HDDs in the longer term from now on until 2009.

80% of the Group's HDD components are 3.5" HDD components and the remaining 18% and 2% go to 2.5" HDDs and 1" HDDs, respectively.

Looking forward, demand for desktop computers and notebook computers will grow steadily and the high-capacity solutions as offered by HDDs should stimulate the computers and HDDs replacement market. On the other hand, although the MP3 segment is dominated by flash-based options, HDD-enabled products such as the Video iPod continue to show promise. History shows a remarkable rate of capacity expansion of mainstream HDDs. The 3.5" HDDs jumped from less than 5 GB (gigabyte) to 500 GB in 10 years and 2.5" HDDs leapt from just 1 GB to 120 GB in the same period. With the introduction of "perpendicular" recording technology for HDDs, it could lift capacity of HDDs by 10 times. As such, the Group believes that sale of HDDs components will continue to provide a stable stream of income for the Group in the near future.

Hydraulic Equipment Components

Sale of hydraulic equipment components continue to generate stable and growing income for the Group. The Group is currently producing turning parts such as shafts, spools, cartridges, pistons, poppet, plungers and caps which are the critical components usually found in industrial valves, pumps and gear boxes. In 2005, the Group successfully secured new customers in hydraulic components sector, and therefore sales increased by 42.7% from 2004 to HK$62,986,000.

Growth in hydraulic equipment components business is mainly fuelled by the general outsourcing trend in China and the Group believes that growth in revenue is sustainable in near future.

Automotive Components

The Group began concentrating on automotive components market since 2002 when it was awarded QS9000 certification. In 2005, the Group achieved significant progress in penetrating the automotive components industry and has been qualified by global automotive component makers, Siemens VDO, Bosch, Delphi and TRW as a qualified vendor.

Furthermore, during the year under review the Group was able to secure 3 to 5 years' long term supplier contracts which the Group was committed to delivering components to customers from 2006 to 2010. Such long term supplier contracts laid down a solid foundation for the Group to penetrate automotive components industry in future. In addition, the Group became a TS16949 qualified vendor in March 2006.

Though sale of automotive components only accounted for 0.3% of the Group's turnover for the year ended 31 December 2005, the Group believes that sale of automotive components will become a significant part of the Group's turnover in 2006 and in near future, in view of the secured long term contracts with major automotive parts makers and the prevailing open projects currently under negotiation.

Management Discussion and Analysis

Production Facilities

During the year under review, the Group has put the production facilities in its new Guangzhou Factory No. 1 into mass operation in March 2005. Besides, the Group also further renovated the existing facilities in Bangkok, Thailand and Dongguan, China. The increase in production facilities during 2005 and the expected further increase in production floor area in 2006 is estimated as follows:

	As at 31 Dec 2006 Expected production floor area Square metres	As at 31 Dec 2005 Actual production floor area Square metres	As at 31 Dec 2004 Actual production floor area Square metres
Bangkok Factory	**7,495**	7,495	7,495
Dongguan Factory	**10,630**	10,630	5,359
Guangzhou Xing Hao Factory No.1	**19,902**	19,902	–
Guangzhou Xing Hao Factory No.2	**19,902**	–	–
Guangzhou Xing Hao Factory No.3	**19,902**	–	–
Other auxiliary facilities	**54,827**	37,457	14,364
	132,658	75,484	27,218

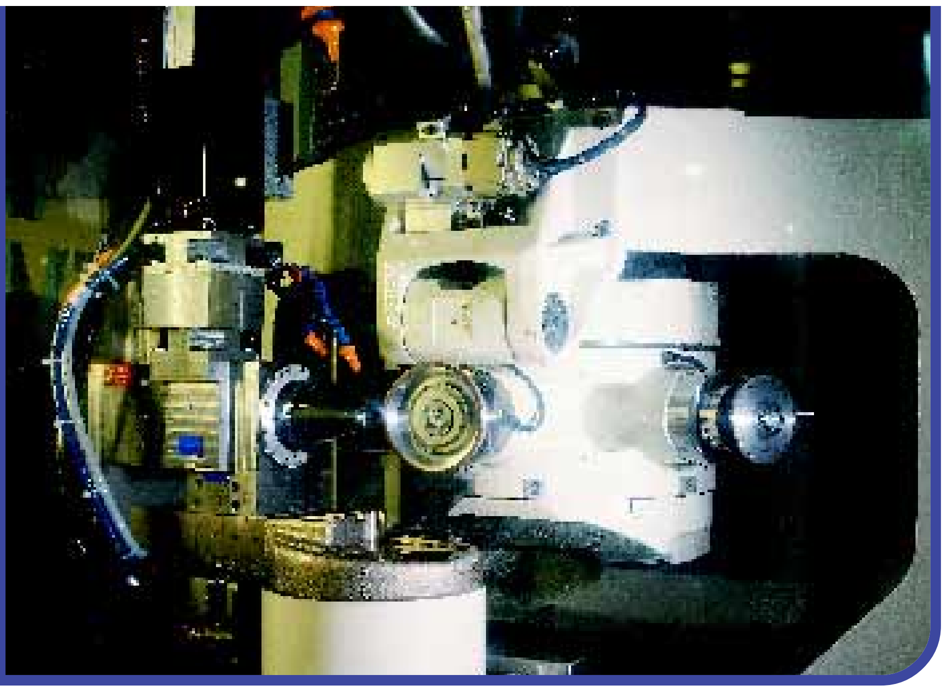
Induction heat treatment machine

Management Discussion and Analysis

Machinery and Equipment

During the year under review, the Group has added new machinery and equipment amounting to HK$221,433,000 to cope with the growing customers' orders and the following table illustrates the increase in the pool of machinery during the year:

	Machinery and equipment as at 31 Dec 2005 Units	Increase of new machinery and equipment during the year Units	Machinery and equipment as at 31 Dec 2004 Units
CNC automatic lathe	**975**	352	623
Processing centres	**105**	14	91
Grinding machines	**72**	26	46
Die-casting machines	**2**	2	–
Heat treatment lines	**10**	5	5
	1,164	399	765



CNC tool grinding line

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

During the year under review, the Group recorded an increase of consolidated turnover by 44.1% to HK$405,977,000. This substantial increase was attributable to the newly added production facilities in Guangzhou plant, coupled with the enhancement of facilities in Dongguan plant and Thailand plant, which led to an increase of the Group's average monthly production capacity by over 40%, so that the Group has extra production capacity to cater for customers' orders.

Turnover analysis by product categories is shown as follows:

	2005 HK$'000	%	2004 HK$'000	%	Growth %
HDD pivot components	**225,447**	**55.5%**	138,643	49.2%	62.6%
HDD spindle motor components	**101,456**	**25.0%**	77,105	27.4%	31.6%
	326,903	**80.5%**	215,748	76.6%	51.5%
Hydraulic equipment components	**62,986**	**15.5%**	44,150	15.7%	42.7%
Automotive components	**1,026**	**0.3%**	325	0.1%	215.7%
Others	**15,062**	**3.7%**	21,449	7.6%	(29.8%)
	405,977	**100%**	281,672	100%	44.1%

CNC automatic lathe

Gross Profit and Gross Profit Margin

During the year under review, the Group experienced wide fluctuation in prices of stainless steel and alloyed steel bar by around 5-10%, which has imposed pressure on the Group's production cost. Besides the increase in minimum wage level proclaimed by the Guangzhou Municipal Government as well as the rise in Renminbi denominated expenses due to its appreciation during the year had brought significant pressure on the Group's profitability. Further, the upsurge in depreciation cost of the Group by 86.9% to HK$45,834,000, as a result of the substantial investment in new machinery and equipment during the year to cater for future orders, also led to a drop in gross profit margin. Nevertheless the Group was able to secure longer raw material supplier contracts to protect itself from the wide fluctuation of raw material prices. Together with the continuous implementation of cost saving measures and improvement in the production process, the Group was able to maintain a gross profit margin at 30.5% (2004: 33.6%).

Other Income and Gains

During the year under review, the Group recorded a foreign exchange gain of HK$7,747,000 as a result of settlement paid in Japanese Yen while Japanese Yen was weakening during the year against US dollars (2004: net exchange loss of HK$2,397,000).

Other major income and gains comprised bank interest income of HK$2,411,000 (2004: HK$69,000), scrap sales of materials of HK$2,170,000 (2004: HK$2,828,000) and the revaluation gain on investment properties of HK$3,216,000 (2004: HK$2,559,000).

Selling and Distribution Costs

During the year under review, selling and distribution expenses increased by 75.6% to HK$13,652,000 (2004: HK$7,773,000), which was mainly attributable to the significant increase in outward bound freight and handling costs by approximately HK$3.7 million and marketing expenses of HK$1.7 million as a result of 44.1% increase in turnover.

Administrative Expenses

Administrative expenses increased by 33.5% to HK$48,113,000 (2004: HK$36,034,000), which was mainly caused by the recognition of share option costs of HK$7,577,000 during the year (2004: nil) as a result of the adoption of HKFRS 2 starting from 1 January 2005. The administrative expenses would have increased by only 12.5% from 2004 if the effect of recognition of share option expenses was not taken into account.

Finance Costs

For the year ended 31 December 2005, the Group recorded finance costs of HK$12,216,000 as compared to HK$5,109,000 in 2004, representing an increase of 139%. The significant increase in finance costs was mainly due to the draw down of a 3-year term loan facilities of HK$200,000,000 in August 2005. Besides, the continuous increase in HIBOR and the draw down of other finance lease loans during the year also contributed to the significant increase in finance costs.

To reduce the finance costs in year 2006, the Company placed 120,000,000 shares to institutional investors at the placing price of HK$1.87 per share on 12 April 2006, through a top-up placing exercise. The net proceeds of the subscription of approximately HK$212.5 million will be applied as to approximately HK$96 million for acquisition of new machinery and equipment and as to the remaining for general working capital uses. It is expected that further debt financing can be reduced.

Net Profit Attributable to Shareholders

Net profit attributable to shareholders increased from HK$53,235,000 for the corresponding previous year to HK$64,398,000 for the year ended 31 December 2005. This was mainly attributable to the increase in turnover of 44.1% over last year. Net profit margin dropped from 18.9% for the previous year to 15.9% for the year ended 31 December 2005 which was mainly attributable to the drop in gross profit margin caused by the fluctuation of raw material costs, the increase in depreciation costs arising from the rapid investment in machinery and the increase in share option expenses of HK$7,577,000 as a result of the adoption of HKFRS 2 starting from 1 January 2005.

Details of Charges on the Group's Assets

As at 31 December 2005 the Group's total secured borrowings of approximately HK$3,143,000 were secured by machineries, land and investment property of the Group with total net book value of approximately HK$56,312,000.

Currency Exposure and Management

The Group operates globally and is thus exposed to foreign exchange risk. Its revenue is mainly denominated in US dollars, while major raw materials, machineries and manufacturing overhead are settled in Japanese Yen, Renminbi, Thai Baht and Hong Kong dollars. Apart from US dollars and Hong Kong dollars which are pegged to US dollars, the Company entered into forward currency contracts, mainly for Japanese Yen, with a view to reducing the potential exposure to currency fluctuations.

Capital Expenditure

To cater for the business growth, the Group is building up more production capacity to facilitate greater flexibility to schedule production efficiently and has invested HK$387,474,000 in land and buildings, plant and machinery during the year (2004: HK$156,119,000).

In particular, the Group, through Integrated Precision Engineering Company Limited (a wholly-owned subsidiary) and Integrated Precision Engineering (Thailand) Co., Ltd. (a 99.99% owned subsidiary), has entered into various contracts with Kowloon Engineering Limited ("KEL") for the acquisition of machineries comprising CNC automatic lathes, grinding machineries and their related accessories to increase the production capacity of the Group in Bangkok, Dongguan and Zengcheng of the PRC since the Listing Date, details of which are set out in the announcement and circular of the Company dated 7 March 2006 and 29 March 2006, respectively.

KEL has been the exclusive dealer for certain well known Japanese made CNC automatic lathe such as "Miyano" and "Tsugami" which are commonly used by the Group in its production and the Group has been purchasing machineries from KEL for more than 13 years. KEL and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

As disclosed in the prospectus of the Company dated 19 October 2004, the Group's manufacturing process basically consists of the following stages: (i) primary process which involves raw materials inspection and CNC turning; (ii) secondary process which involves drilling, tapping, slotting or milling plane; (iii) finishing process which involves visual checking, packing and storage. The machineries acquired from KEL were all CNC machines which enable the Group to manufacture the metal parts and components with high degree of precision and quality that are suitable for various kinds of equipment and devices. These machineries are all standard ones for mass production, they are not tailor-made to the Group's individual customer's needs and the existing machineries of the Group will still continue to be applied to its production process and therefore the value of the existing machineries would not be affected by the acquisition. Except for those machineries acquired by Integrated Precision Engineering (Thailand) Co., Ltd., to be located in the production plant in Thailand, all other machineries purchased from KEL are all located in the PRC. All relevant approvals have been obtained for the import of the machineries into the PRC and Thailand and the payment for the acquisition. The import of the machineries in the PRC was recognised as an increase in the registered capital of the relevant members of the Group in the PRC.

When the relevant contracts for the acquisition of machineries are entered into by the Group, the amount will be treated as a capital commitment. Upon the machineries have been delivered to the Group, the costs of the machineries would be capitalised as fixed assets of the Group and the Group would therefore be liable to pay the costs within the credit period.

It is expected that the Group will continue to purchase similar machineries from KEL and from other suppliers of not less than HK$200 million in the following 12 months to match with the expansion plan of the Group. After the completion of the second phase and third phase of the development project in Zengcheng, Guangzhou city in the PRC, the Group's production capacity will increase by approximately 50% in 2006 and a further 50% in 2007.

Assets and Liabilities

As at 31 December 2005, the Group had total assets of HK$1,134,261,000 (2004: HK$557,967,000), total liabilities of HK$649,518,000 (2004: HK$264,194,000) and shareholders' equity of HK$484,743,000 (2004: HK$293,773,000). The net assets increased by 65% (2004: 82.6%) to HK$484,743,000 as at 31 December 2005 (2004: HK$293,773,000) which was mainly attributable to a share placement of 100,000,000 shares to institutional investors and individual investors at HK$1.15 per share in May 2005 and the increase in retained profits in year 2005.

Liquidity, Financial Resources and Financial Ratios

As at 31 December 2005, cash per share was HK26 cents (2004: HK10.5 cents) and net asset per share was HK80.6 cents (2004: HK58.8 cents), based on 601,070,000 issued ordinary shares (2004: 500,000,000 issued ordinary shares).

The Group had cash to current liabilities ratio of 0.39 (2004: 0.28) as at 31 December 2005.

Net debt (all interest-bearing bank and other borrowings less cash) to equity ratio was 0.42 (2004: 0.27) as at 31 December 2005.

Human Resources and Remuneration Policies

In line with the Group's business expansion, experienced engineers and skillful talents were recruited during the year. As at 31 December 2005, the total headcount of the Group was 3,044 (2004: 2,024).

We place high value on own employees as they are our greatest assets to grow with the Group. We encourage on-job training in diversified fields that address to both personal developments and work skills. We also provide workshops for staff at different level to improve work safety and build up team spirit. Our staff were rewarded based on performance of the Company as well as their personal performance and contributions.

A share option scheme was adopted for selected participants (including full-time employees) as incentives or rewards for their contributions to the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

Directors and Senior Management

Board of Directors – Executive Directors
From Left : Mr. Li Chi Hang, Mr. Chui Siu On, Mr. Wong Kwok Keung, Mr. Lai Man Kit and Mr. Ho Yu Hoi

DIRECTORS

Executive Directors

Mr. Chui Siu On, aged 46, is the Chairman, an executive and managing Director and one of the founders of the Group. Mr. Chui is responsible for the overall strategic planning of the Group and establishes operational objectives and assignments. Mr. Chui has 30 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. Ho Yu Hoi, Mark, aged 42, is an executive Director. He joined the Group in 1992 and has 22 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 marketing, planning, sales forecasting and implementation of the strategic plans and goals of the Group. He is also in charge of the production facilities in Thailand.

Mr. Lai Man Kit, aged 46, is an executive Director. He joined the Group in 1992 and is currently based in China headquarter responsible for the overall management of the production facilities in China. He has 31 years of experience in the field of machine augmentation and manufacturing automation.

Directors and Senior Management

Mr. Li Chi Hang, aged 35, is an executive Director. Mr. Li has over 17 years of experience in the field of machine augmentation and manufacturing automation. Mr. Li joined the Group in 1992. He is currently based in China headquarter responsible for the Group's product development and new projects.

Mr. Wong Kwok Keung, aged 43, was appointed as the Group's executive Director on 1 January 2006. Mr. Wong joined the Group in 1996 and is now responsible for the Group's product engineering operations and handling all technical issues arising from daily operation. He completed his study in Haking Wong Technology Institute in 1982 and has over 26 years of experience in the manufacturing industry.

Non-Executive Director

Mr. Ng Kin Nam, aged 47, is the Vice Chairman and the non-executive Director of the Group. Mr. Ng does not involve in the day-to-day management of the Group. Mr. Ng has 31 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 company listed on the Main Board of the Stock Exchange 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)	Honorable President
Guangdong Chamber of Foreign Investors (廣東外商公會)	Director

Independent Non-Executive Directors

Dr. Cheng Ngok, aged 60, was appointed as an independent non-executive Director since 3 June 2003 and the chairman of the audit committee of the Company since 25 June 2004. Dr. 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 PH.D. degree (Doctor of Biomedical Science) from Catholic University of Leuven, Belgium in 1978, 1983 and 1984 respectively. After graduation, Dr. Cheng worked as an Orthopaedic Surgeon in Europe between 1978 and 1984. Then, 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 until 1986. Dr. Cheng has been a member of the Hospital Governing Committee of Alice Ho Min Ling. Nethersole Hospital since April 1997 and a member of the Cluster Tender Board in New Territories East Cluster, Hospital Authority since 2003. In addition, Dr. Cheng is also a medical practitioner in Hong Kong and holds directorship in two private companies engaging in medical diagnostic laboratory and manufacturing of medical devices.

Mr. Choi Hon Ting, Derek, aged 37, 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 42, 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 of the Stock Exchange, 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. Lim Koy Cheong, aged 39, 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 17 years of experience in the manufacturing industry.

Mr. Chui Siu Hung, aged 37, is the Deputy General Manager of Dongguan Koda and Guangzhou Xing Hao. He joined the Group in 1994 and is responsible for the supervision of engineering department in China. He graduated from the Hong Kong Institute of Vocational Education with a certificate in Communication and Computer Studies and has over 13 years of experience in the manufacturing industry.

Directors and Senior Management

Mr. Jiang Fei, aged 33. 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 10 years of experience in the manufacturing industry and is now the manager in charge of the research and product development department in China headquarter.

Mr. Lau Siu Chung, aged 41, 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 components and parts. Before joining the Group Mr. Lau has over 11 years' of experience in marketing and sales of precision components and industrial equipments.

Ms. Chiu Tak Chun, aged 40, is the General Manager of Integrated Precision Engineering Company Limited. Ms. Chiu joined the Group in 1996. She was granted a graduate diploma in management from the International Professional Managers Association, United Kingdom and has over 13 years of experience in office administration. Ms. Chiu is a fellow member of the International Professional Managers Association.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wan Tak Wing, Gary, aged 39, 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, investor relationship, company secretarial 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 18 years of experience in corporate finance, business development and investors relationship.

Corporate Governance Report

Remuneration Committee members
From Left : Mr. Wu Karl Kwok, Dr. Cheng Ngok, Mr. Chui Siu On, Mr. Lai Man Kit and Mr. Choi Hon Ting, Derek

The Board of Directors of the Company (the "Board") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2005.

Good corporate governance has always been recognized as vital to the Group's success and to sustain development of the Group. The Company is committed to a high standard of corporate governance as an essential component of quality and has introduced corporate governance practices appropriate to the conduct and growth of its business.

In November 2004, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") promulgated the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which sets out corporate governance principles (the "Principles") and code provisions (the "Code Provisions") with which listed issuers are expected to follow and comply.

The Company has applied the Principles set out in the CG Code and complied with most of the Code Provisions save for (i) the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code and (ii) the Code Provision A.2.1 which requires the separation of the roles of Chairman and Chief Executive Officer. The details of such deviation of the Code Provision A.2.1 will be explained below.

Corporate Governance Report

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised as follows:–

A. THE BOARD

(1) Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board undertakes responsibility for decision making in major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Executive Committee, the Managing Director/Chief Executive Officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

(2) Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board comprises the following directors:–

Executive directors:–

Mr. Chui Siu On, *Chairman of the Board*, *the Remuneration Committee and the Executive Committee & Chief Executive Officer/Managing Director*
Mr. Ho Yu Hoi, *member of the Executive Committee*
Mr. Lai Man Kit, *member of the Remuneration Committee & the Executive Committee*
Mr. Li Chi Hang, *member of the Executive Committee*
Mr. Wong Kwok Keung, *member of the Executive Committee*

Non-executive director:–

Mr. Ng Kin Nam, *Vice Chairman*

Independent non-executive directors:–

Dr. Cheng Ngok, *Chairman of the Audit Committee and member of the Remuneration Committee*
Mr. Choi Hon Ting, Derek, *member of the Audit Committee and the Remuneration Committee*
Mr. Wu Karl Kwok, *member of the Audit Committee and the Remuneration Committee*

A. THE BOARD *(Continued)*

(2) Composition *(Continued)*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

There is no relationship (including financial, business, family, or other material/relevant relationship(s)) among the Board members.

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from all the independent non-executive directors of their independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

(3) Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Mr. Ng Kin Nam, a non-executive director of the Company, has been appointed for a term of 3 years from 29 August 2005. The term of office of Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, being all the independent non-executive directors of the Company, is up to the date of holding of the Company's 2007 annual general meeting.

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

A. THE BOARD *(Continued)*

(3) Appointment and Succession Planning of Directors *(Continued)*

Up to the date of this Report, the Board met once (with the presence of Mr. Chui Siu On, Mr. Lai Man Kit, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok) and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

In accordance with the Company's Articles of Association, Mr. Wong Kwok Keung, having been appointed as an executive director of the Company with effect from 1 January 2006, shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company. In addition, Mr. Ho Yu Hoi, Mr. Lai Man Kit and Dr. Cheng Ngok shall retire by rotation and, being eligible, offer themselves for re-election at the Company's forthcoming annual general meeting. The Board recommended the re-appointment of these directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular dated 28 April 2006 contains detailed information of such directors standing for re-election.

(4) Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

(5) Board Meetings

Number of Meetings and Directors' Attendance

Regular board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

A. THE BOARD *(Continued)*

(5) Board Meetings *(Continued)*

Number of Meetings and Directors' Attendance (Continued)

During the year ended 31 December 2005, 9 Board meetings were held. The individual attendance record of each director at the Board meetings during the year ended 31 December 2005 is set out below:–

Name of Directors	Attendance/Number of Meetings
Mr. Chui Siu On	9/9
Mr. Ng Kin Nam	7/9
Mr. Ho Yu Hoi	8/9
Mr. Lai Man Kit	9/9
Mr. Li Chi Hang	8/9
Dr. Cheng Ngok	8/9
Mr. Choi Hon Ting, Derek	5/9
Mr. Wu Karl Kwok	7/9

Practices and Conduct of Meetings

Draft agendas of the meetings of the Board and the Board committees are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Financial Officer, Qualified Accountant and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Chui Siu On is the Chairman of the Board and the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

C. BOARD COMMITTEES

The Board has established 3 committees, namely, the Remuneration Committee (the "Remuneration Committee"), the Audit Committee (the "Audit Committee") and the Executive Committee (the "Executive Committee"), for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request.

The majority of the members of the Remuneration Committee are independent non-executive directors, all the members of the Audit Committee are independent non-executive directors and the Executive Committee is composed of all the executive directors. The list of the chairman and members of the Audit Committee and the Remuneration Committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(1) Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets annually for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

C. BOARD COMMITTEES *(Continued)*

(1) Remuneration Committee *(Continued)*

Up to the date of this Report, the Remuneration Committee met once and discussed the remuneration related matters of the Company. The individual attendance record of each member at the Remuneration Committee meeting is set out below:–

Name of Directors	Attendance/Number of Meeting
Mr. Chui Siu On	1/1
Mr. Lai Man Kit	1/1
Dr. Cheng Ngok	1/1
Mr. Choi Hon Ting, Derek	1/1
Mr. Wu Karl Kwok	1/1

(2) Audit Committee

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year ended 31 December 2005, 2 Audit Committee meetings were held to review the financial results and reports, financial reporting and compliance procedures, risk management review and processes and the appointment of the external auditors. The individual attendance record of each member at the Audit Committee meetings is set out below:–

Name of Directors	Attendance/Number of Meetings
Dr. Cheng Ngok	2/2
Mr. Choi Hon Ting, Derek	2/2
Mr. Wu Karl Kwok	2/2

C. BOARD COMMITTEES *(Continued)*

(2) Audit Committee *(Continued)*

The Company's annual results for the year ended 31 December 2005 have been reviewed by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

(3) Executive Committee

The Executive Committee comprises all the executive directors of the Company, with Mr. Chui Siu On acting as the Chairman. The main duties of the Executive Committee include the following:

(a) To monitor the execution of the Company's strategic plans and operations of all business units of the Company;

(b) To discuss and make decisions on matters relating to the management and operations of the Company;

(c) To appoint and remove the operating management;

(d) To approve any changes to the scope of the authority delegated to the operational management and the corporate management;

(e) To approve any excess in authority delegated to the corporate and operating management;

(f) To exercise the functions and responsibilities of the Board between its regular meetings; and

(g) To review and discuss any other matters as may from time to time be delegated to it by the Board.

D. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2005.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") in respect of the dealings in the Company's securities by employees who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

D. MODEL CODE FOR SECURITIES TRANSACTIONS *(Continued)*

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

E. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Auditors' Report" on page 41.

The remuneration of the external auditors of the Company in respect of audit services for the year ended 31 December 2005 amounted to HK$1,522,000. The non-audit services provided by the Company's auditors to the Company for the year ended 31 December 2005 amounted to HK$55,000 in aggregate, which covered provision of accounting, tax and consultancy services.

F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Results on any voting conducted by poll will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the Board committees or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are normally available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated executive directors and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

To promote effective communication, the Company also maintains a website at www.ipegroup.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

Report of the Directors

The directors of IPE Group Limited (the "Company") are pleased to present their report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 108.

An interim dividend of HK1.5 cents per ordinary share was paid on 20 September 2005. The directors recommend the payment of a final dividend of HK1.8 cents per ordinary share in respect of the year to shareholders on the register of members on 22 May 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet. Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on 22 May 2006, the said final dividend will be paid to the Company's shareholders on 25 May 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 16 May 2006 to Monday, 22 May 2006 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 December 2005 and for attending the annual general meeting of the Company to be held on Monday, 22 May 2006, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms 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 not later than 4:00 p.m. on Monday, 15 May 2006.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 15 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 29 and 30 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$118,784,000, of which HK$10,867,000 has been proposed as a final dividend for the year. The Company's share premium account, with a balance of HK$124,067,000 at 31 December 2005, which may be distributed provided that immediately following the date on which such reserve is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Report of the Directors

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, has purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contributions (2004: HK$1,000,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 83% of the total sales for the year and sales to the largest customer included therein amounted to 26%. Purchases from the Group's five largest suppliers accounted for less than 68% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Chui Siu On	
Mr. Ho Yu Hoi	
Mr. Lai Man Kit	
Mr. Li Chi Hang	
Mr. Ng Kin Nam	(redesignated as a non-executive director on 29 August 2005)

Non-executive directors:

Mr. Ng Kin Nam	(redesignated as a non-executive director on 29 August 2005)
Dr. Cheng Ngok*	
Mr. Choi Hon Ting, Derek*	
Mr. Wu Karl Kwok*	

* *Independent non-executive directors*

Subsequent to the balance sheet date, on 1 January 2006, Mr. Wong Kwok Keung was appointed as an executive director of the Company.

In accordance with clause 86(3) of the Company's articles of association, Mr. Wong Kwok Keung who was appointed by the board of directors of the Company will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election at the said meeting.

In accordance with clause 87 of the Company's articles of association, Mr. Ho Yu Hoi, Mr. Lai Man Kit and Dr. Cheng Ngok, the existing directors of the Company, will retire as directors of the Company by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the said meeting.

The Company has received annual confirmations of independence from Messrs. Cheng Ngok, Choi Hon Ting, Derek and Wu Karl Kwok, and as at the date of this report, still considers them to be independent.

Report of the Directors

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 21 to 24 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except for Mr. Wong Kwok Keung, has entered into a service agreement with the Company for an initial term of three years commencing on 1 January 2004 until terminated by not less than three months' notice in writing served by either party to the other.

The Company has issued a letter of appointment to Mr. Wong Kwok Keung in respect of his acting as executive director of the Company for an initial term of three years commencing on 1 January 2006.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, the interests and short positions of the directors, in the share capital and underlying shares of the Company or its associated corporations (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 pursuant to Section 352 of the SFO, or as otherwise notified to the Company and Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(A) **Long positions in the ordinary shares of the Company:**

Name of director	**Capacity and nature of interest**	*Notes*	**Number of ordinary shares in the Company**	**Percentage of the Company's issued share capital**
Mr. Chui Siu On	Through controlled corporation	*1*	352,500,000	58.645%
	Directly beneficially owned		3,465,000	0.576%
	Through spouse	2	100,000	0.017%
			356,065,000	59.238%
Mr. Ng Kin Nam	Directly beneficially owned		4,140,000	0.689%
Mr. Ho Yu Hoi	Directly beneficially owned		3,990,000	0.664%
Dr. Cheng Ngok	Through spouse	3	100,000	0.017%

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

(A) Long positions in the ordinary shares of the Company: *(Continued)*

Notes:

1. These shares were owned by Tottenhill Limited, the entire issued share capital of which was owned as to 51.3% by Mr. Chui Siu On, 25% by Mr. Ng Kin Nam, 13.9% by Mr. Ho Yu Hoi, 6.0% by Mr. Lai Man Kit and 3.8% by Mr. Li Chi Hang. By virtue of his 51.3% shareholding interest in Tottenhill Limited, Mr. Chui Siu On was deemed to be interested in the entire 352,500,000 shares owned by Tottenhill Limited pursuant to Part XV of the SFO.

2. Shares held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On, was also disclosed as Ms. Leung's personal interest in the following section headed "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares" below. Mr. Chui Siu On was deemed to be interested in these 100,000 shares by his wife pursuant to Part XV of the SFO.

3. Dr. Cheng Ngok was deemed to be interested in 100,000 shares of the Company held by his wife, Ms. Ye Wei Juan, pursuant to Part XV of the SFO.

(B) Long positions in the ordinary shares of associated corporation – Tottenhill Limited, the Company's holding company:

Name of director	Capacity and nature of interest	Number of ordinary shares in Tottenhill Limited	Percentage of Tottenhill Limited's issued share capital
Mr. Chui Siu On	Directly beneficially owned	513,000	51.3%
Mr. Ng Kin Nam	Directly beneficially owned	250,000	25.0%
Mr. Ho Yu Hoi	Directly beneficially owned	139,000	13.9%
Mr. Lai Man Kit	Directly beneficially owned	60,000	6.0%
Mr. Li Chi Hang	Directly beneficially owned	38,000	3.8%

(C) Long positions in the underlying shares of the Company - physically settled unlisted equity derivatives:

Name of director	Capacity and nature of interest	Number of underlying shares in respect the share options granted	Percentage of the underlying shares over the Company's issued share capital
Mr. Chui Siu On	Directly beneficially owned	3,000,000	0.499%
Mr. Ng Kin Nam	Directly beneficially owned	500,000	0.083%
Mr. Ho Yu Hoi	Directly beneficially owned	5,000,000	0.832%
Mr. Lai Man Kit	Directly beneficially owned	5,000,000	0.832%
Mr. Li Chi Hang	Directly beneficially owned	5,000,000	0.832%
Dr. Cheng Ngok	Directly beneficially owned	500,000	0.083%
Mr. Choi Hon Ting, Derek	Directly beneficially owned	500,000	0.083%
Mr. Wu Karl Kwok	Directly beneficially owned	500,000	0.083%

Note: Details of the above share options as required to be disclosed by the Listing Rules have been disclosed in note 30 to the financial statements.

In addition to the above, as at 31 December 2005, 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, as at 31 December 2005, none of the directors or chief executive officer of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' interests and short positions in shares and underlying shares" above and in the "Share option scheme" below and in the share option scheme disclosures in note 30 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The directors have estimated the values of the share options granted during the year, calculated using the binomial option pricing model as at the date of grant of the options:

Grantee	**Number of options granted during the year**	**Theoretical value of share options** *HK$*
Mr. Chui Siu On	3,000,000	600,400
Mr. Ho Yu Hoi	5,000,000	990,200
Mr. Lai Man Kit	5,000,000	990,200
Mr. Li Chi Hang	5,000,000	990,200
Mr. Ng Kin Nam	500,000	118,000
Dr. Cheng Ngok	500,000	118,000
Mr. Wu Karl Kwok	500,000	118,000
Mr. Choi Hon Ting, Derek	500,000	118,000
Other employees	21,250,000	4,348,260
Service providers	8,750,000	1,715,240
	50,000,000	10,106,500

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Dividend yield (%)	3.74% to 4.41%
Expected volatility (%)	31.64% to 36.41%
Historical volatility (%)	31.64% to 36.41%
Risk-free interest rate (%)	0.89% to 3.48%
Expected life of option (year)	1.08 to 2.93
Weighted average share price (HK$)	0.80 to 1.39

The binomial model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were as set out as above. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

At the date of approval of these financial statements, the total number of the Company's shares available for issue under the Scheme is 20,010,500 shares, being approximately 3.3% of the issued share capital of the Company as at that date.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the following persons (not being Directors or Chief Executive of the Company) with interests of more than 5% of the issued share capital of the Company were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

(A) Long positions in the ordinary shares of the Company:

Name of substantial shareholder	*Notes*	Capacity and nature of interest	Number of ordinary shares in the Company	Percentage of the Company's issued share capital
Tottenhill Limited	*(a)*	Directly beneficially owned	352,500,000	58.645%
Ms. Leung Wing Yi	*(b)*	Directly beneficially owned	100,000	0.017%
		Through spouse	355,965,000	59.221%
			356,065,000	59.238%

Notes:

(a) The interest of Tottenhill Limited was also disclosed as the interest of Mr. Chui Siu On in the above section headed "Directors' interests and short positions in the shares and underlying shares" above.

(b) These shares were disclosed as the personal and corporate interests of Mr. Chui Siu On, the husband of Ms. Leung Wing Yi, in the section headed "Directors' interests and short positions in the shares and underlying shares" above. Ms. Leung Wing Yi was deemed to be interested in these shares owned by her husband pursuant to Part XV of the SFO.

(B) Long positions in the underlying shares of the Company – physically settled unlisted equity derivatives:

Name of substantial shareholder	Capacity and nature of interest	Number of underlying shares in respect the share options granted	Percentage of the underlying shares over the Company's issued share capital
Ms. Leung Wing Yi	Through spouse	3,000,000	0.499%

Note: Ms. Leung Wing Yi was deemed to be interested in 3,000,000 share options of the Company owned by her husband, Mr. Chui Siu On, pursuant to Part XV of the SFO. Details of such share options as required to be disclosed by the Listing Rules have been disclosed in note 30 to the financial statements.

Save as disclosed above, as at 31 December 2005, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CORPORATE GOVERNANCE

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

GENERAL DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

As detailed in the Company's press announcement dated 24 June 2005, a loan facility was arranged by Standard Chartered Bank (Hong Kong) Limited as the coordinating arranger and accepted by Integrated Precision Engineering Company Limited, a subsidiary of the Company, as the borrower (the "Loan Facility"). Pursuant to the Loan Facility, a term loan facility of the sum of HK$200,000,000 was made available to the Group for a term of three years commencing from 24 June 2005.

It is one of the conditions of the Loan Facility that Mr. Chui Siu On, Mr. Ng Kin Nam and Mr. Ho Yu Hoi, the directors of the Company, must beneficially own (directly or indirectly) in aggregate at least 45% of the issued share capital of the Company; Mr. Chui Siu On must be (directly or indirectly) the single largest beneficial shareholder of the Company; and Mr. Chui Siu On must maintain control of the Company throughout the life of the Loan Facility. A breach of the aforesaid condition will constitute an event of default under the Loan Facility and cancel all or any part of the commitments under the Loan Facility and all amounts outstanding under the Loan Facility will immediately become due and payable.

As the above specific performance obligation as imposed under the Loan Facility continues to exist as at 31 December 2005, the Company is required to make the above disclosure pursuant to Rule 13.21 of the Listing Rules. In addition, the above performance obligation has been duly satisfied up to the date of the approval of these financial statements.

AUDITORS

During the year, CCIF CPA Limited resigned as auditors of the Company and Ernst & Young were appointed by the shareholders of the Company to fill the casual vacancy so arising. There have been no other changes of auditors in the past three years. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed as the forthcoming annual general meeting.

On behalf of the Board

Chui Siu On
Chairman and Managing director

Hong Kong
10 April 2006

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

To the members
IPE Group Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 42 to 108 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 2005 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.

Ernst & Young
Certified Public Accountants

Hong Kong
10 April 2006

Consolidated Income Statement

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
REVENUE	*5*	**405,977**	281,672
Cost of sales		**(282,348)**	(187,036)
Gross profit		**123,629**	94,636
Other income and gains	*5*	**18,127**	14,337
Selling and distribution costs		**(13,652)**	(7,773)
Administrative expenses		**(48,113)**	(36,034)
Other expenses		**(614)**	(2,517)
Finance costs	*7*	**(12,216)**	(5,109)
PROFIT BEFORE TAX	*6*	**67,161**	57,540
Tax	*10*	**(2,763)**	(4,302)
PROFIT FOR THE YEAR		**64,398**	53,238
Attributable to:			
Equity holders of the parent company	*11*	**64,398**	53,235
Minority interests		**–**	3
		64,398	53,238
DIVIDENDS	*12*		
Interim		**9,009**	6,050
Final paid in respect of the previous year		**1,803**	–
Proposed final		**10,867**	9,000
		21,679	15,050
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY	*13*		
Basic		**11.36 cents**	13.52 cents
Diluted		**10.63 cents**	13.49 cents

Consolidated Balance Sheet

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Negative goodwill	*14*	**–**	(25,326)
Property, plant and equipment	*15*	**664,043**	324,494
Investment properties	*16*	**15,986**	12,770
Prepaid land lease payments	*17*	**35,246**	33,883
Other non-current assets		**381**	607
Deferred tax assets	*28*	**–**	174
Total non-current assets		**715,656**	346,602
CURRENT ASSETS			
Inventories	*19*	**127,035**	54,004
Trade receivables	*20*	**124,666**	77,452
Derivative financial instruments	*25*	**1,186**	–
Prepayments, deposits and other receivables	*21*	**7,275**	16,141
Pledged deposits	*22*	**–**	11,506
Cash and cash equivalents	*22*	**158,443**	52,262
Total current assets		**418,605**	211,365
CURRENT LIABILITIES			
Trade and bills payables	*23*	**83,067**	83,824
Other payables and accruals	*24*	**200,037**	44,095
Derivative financial instruments	*25*	**2,921**	–
Tax payable		**1,750**	1,561
Interest-bearing bank and other borrowings	*26*	**115,184**	59,093
Total current liabilities		**402,959**	188,573
NET CURRENT ASSETS		**15,646**	22,792
TOTAL ASSETS LESS CURRENT LIABILITIES		**731,302**	369,394
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*26*	**244,648**	71,612
Deferred tax liabilities	*28*	**1,911**	4,009
Total non-current liabilities		**246,559**	75,621
Net assets		**484,743**	293,773

Consolidated Balance Sheet *(Continued)*

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
EQUITY			
Equity attributable to equity holders of the parent company			
Issued capital	*29*	**60,107**	50,000
Reserves	*31(a)*	**413,769**	234,752
Proposed final dividend	*12*	**10,867**	9,000
		484,743	293,752
Minority interests		**–**	21
Total equity		**484,743**	293,773

Chui Siu On
Director

Lai Man Kit
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

		Attributable to equity holders of the parent company												
	Notes	Issued share capital HK$'000 *(note 29)*	Share premium account HK$'000	Contributed surplus HK$'000 *(note 31(a))*	Statutory surplus reserve HK$'000 *(note 31(a))*	Statutory public welfare fund HK$'000 *(note 31(a))*	Asset revaluation reserve HK$'000 *(Restated)*	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000 *(Restated)*	Proposed final dividend HK$'000 *(note 12)*	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2004		39	–	8,842	2,346	287	–	–	919	143,451	5,010	160,894	18	160,912
Exchange realignment		–	–	–	–	–	–	–	1,871	–	–	1,871	–	1,871
Total income and expense for the year recognised directly in equity		–	–	–	–	–	–	–	1,871	–	–	1,871	–	1,871
Net profit for the year (as restated)		–	–	–	–	–	–	–	–	53,235	–	53,235	3	53,238
Total income and expense for the year		–	–	–	–	–	–	–	1,871	53,235	–	55,106	3	55,109
Issue of share capital		9,961	16,996	–	–	–	–	–	–	–	–	26,957	–	26,957
Contributed surplus arising on acquisition of Best Device Group Limited and its subsidiaries		–	–	(9,958)	–	–	–	–	–	–	–	(9,958)	–	(9,958)
Issue of shares	*29(c)*	12,750	85,425	–	–	–	–	–	–	–	–	98,175	–	98,175
Capitalisation of share premium	*29(d)*	27,250	(27,250)	–	–	–	–	–	–	–	–	–	–	–
Share issue expenses	*29(c)*	–	(26,362)	–	–	–	–	–	–	–	–	(26,362)	–	(26,362)
Final 2003 dividend declared		–	–	–	–	–	–	–	–	–	(5,010)	(5,010)	–	(5,010)
Interim 2004 dividend	*12*	–	–	–	–	–	–	–	–	(6,050)	–	(6,050)	–	(6,050)
Proposed final 2004 dividend	*12*	–	–	–	–	–	–	–	–	(9,000)	9,000	–	–	–
Transfer from retained profits		–	–	–	2,315	–	–	–	–	(2,315)	–	–	–	–
At 31 December 2004		50,000	48,809	(1,116)	4,661	287	–	–	2,790	179,321	9,000	293,752	21	293,773

Consolidated Statement of Changes in Equity *(Continued)*

Year ended 31 December 2005

		Attributable to equity holders of the parent company												
	Notes	Issued share capital HK$'000 *(note 29)*	Share premium account HK$'000	Contributed surplus HK$'000 *(note 31(a))*	Statutory surplus reserve HK$'000 *(note 31(a))*	Statutory public welfare fund HK$'000 *(note 31(a))*	Asset revaluation reserve HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000 *(note 12)*	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2005														
As previously reported		50,000	48,809	(1,116)	4,661	287	2,559	–	2,790	176,762	9,000	293,752	21	293,773
Prior year adjustment	*2.4(b)*	–	–	–	–	–	(2,559)	–	–	2,559	–	–	–	–
Opening adjustment	*2.4(b)*	–	–	–	–	–	–	–	–	25,326	–	25,326	–	25,326
As restated		50,000	48,809	(1,116)	4,661	287	–	–	2,790	204,647	9,000	319,078	21	319,099
Exchange realignment		–	–	–	–	–	–	–	1,183	–	–	1,183	–	1,183
Total income and expense for the year recognised directly in equity		–	–	–	–	–	–	–	1,183	–	–	1,183	–	1,183
Net profit for the year		–	–	–	–	–	–	–	–	64,398	–	64,398	–	64,398
Total income and expense for the year		–	–	–	–	–	–	–	1,183	64,398	–	65,581	–	65,581
Final 2004 dividend declared		–	–	–	–	–	–	–	–	(1,803)	(9,000)	(10,803)	–	(10,803)
Issue of shares	*29(e)*	10,000	105,000	–	–	–	–	–	–	–	–	115,000	–	115,000
Share issue expenses	*29(e)*	–	(3,516)	–	–	–	–	–	–	–	–	(3,516)	–	(3,516)
Exercise of share options	*29(f)*	107	728	–	–	–	–	–	–	–	–	835	–	835
Equity-settled share option scheme	*30*	–	–	–	–	–	–	7,577	–	–	–	7,577	–	7,577
Disposal of a subsidiary	*32*	–	–	–	–	–	–	–	–	–	–	–	(21)	(21)
Interim 2005 dividend	*12*	–	–	–	–	–	–	–	–	(9,009)	–	(9,009)	–	(9,009)
Proposed final 2005 dividend	*12*	–	–	–	–	–	–	–	–	(10,867)	10,867	–	–	–
Transfer from retained profits		–	–	–	2,262	–	–	–	–	(2,262)	–	–	–	–
At 31 December 2005		60,107	151,021	(1,116)	6,923	287	–	7,577	3,973	245,104	10,867	484,743	–	484,743

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**67,161**	57,540
Adjustments for:			
Depreciation	*6*	**45,834**	24,518
Amortisation of other non-current assets		**226**	–
Recognition of prepaid land lease payments	*6*	**776**	742
Provision/(write-back of provision) for inventory obsolescence		**(4,961)**	4,104
Gain/(Loss) on disposal of items of property, plant and equipment	*6*	**338**	(4)
Loss on disposal of a subsidiary	*6, 32*	**173**	–
Negative goodwill recognised as income	*5*	**–**	(1,487)
Changes in fair value of investment properties	*5,16*	**(3,216)**	(2,559)
Derivative financial instruments – transactions not qualifying as hedges	*6*	**1,735**	–
Unrealised exchange (gains)/losses, net		**(1,050)**	364
Equity-settled share option expenses	*6, 30*	**7,577**	–
Finance costs	*7*	**12,216**	5,109
Interest income	*5, 6*	**(2,411)**	(69)
Operating profit before working capital changes		**124,398**	88,258
Increase in inventories		**(68,070)**	(27,780)
Increase in trade receivables		**(47,441)**	(14,077)
Decrease in prepayment, deposits and other receivables		**8,699**	457
Increase/(decrease) in trade and bills payables		**(757)**	9,942
Increase/(decrease) in other payables and accruals		**28,083**	(4,927)
Decrease in amounts due to directors		**–**	(383)
Cash generated from operations		**44,912**	51,490
Interest received		**2,411**	69
Interest paid		**(8,312)**	(4,236)
Interest element on finance lease rental payments		**(3,487)**	(873)
Income taxes paid		**(4,260)**	(3,314)
Net cash inflow from operating activities		**31,264**	43,136

Consolidated Cash Flow Statement *(Continued)*

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Net cash inflow from operating activities		**31,264**	43,136
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(199,269)**	(82,481)
Prepaid land lease payments	*17*	**(1,537)**	–
Proceeds from disposal of items of property, plant and equipment		**–**	4
Disposal of a subsidiary	*32*	**(173)**	–
(Increase)/decrease in pledged fixed deposits with banks		**11,506**	(1,925)
Net cash outflow from investing activities		**(189,473)**	(84,402)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**115,835**	98,175
Share issue expenses		**(3,516)**	(26,362)
New bank loans and other loans		**226,890**	170,607
Repayment of bank loans		**(22,740)**	(128,478)
Capital element of finance lease rental payments		**(19,373)**	(12,941)
Dividend paid		**(19,812)**	(11,060)
Increase/(decrease) in trust receipt loan		**(6,011)**	3,987
Net cash inflow from financing activities		**271,273**	93,928
NET INCREASE IN CASH AND CASH EQUIVALENTS		**113,064**	52,662
Cash and cash equivalents at beginning of year		**38,095**	(14,374)
Effect of foreign exchange rate changes, net		**1,181**	(193)
CASH AND CASH EQUVALENTS AT END OF YEAR		**152,340**	38,095
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	**95,591**	45,167
Non-pledged time deposits with original maturity of less than three months when acquired	*22*	**62,852**	7,095
Bank overdrafts	*26*	**(6,103)**	(14,167)
		152,340	38,095

Balance Sheet

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Interests in subsidiaries	*18*	**43**	43
CURRENT ASSETS			
Prepayments, deposits and other receivables	*21*	**424**	76
Amounts due from subsidiaries	*18*	**185,717**	71,166
Cash and cash equivalents	*22*	**284**	15,608
Total current assets		**186,425**	86,850
CURRENT LIABILITIES			
Other payables and accruals	*24*	**–**	483
NET CURRENT ASSETS		**186,425**	86,367
Net assets		**186,468**	86,410
EQUITY			
Issued capital	*29*	**60,107**	50,000
Reserves	*31(b)*	**115,494**	27,410
Proposed final dividend	*12*	**10,867**	9,000
Total equity		**186,468**	86,410

Chui Siu On
Director

Lai Man Kit
Director

Notes to Financial Statements

31 December 2005

1. CORPORATE INFORMATION

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

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

Principal activities of the Group were manufacture and sale of precision metal components for hard disk drives ("HDDs"), hydraulic equipment, fiber optic connectors, electronic device, automotive parts and other applications.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidation financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 33, 36, 37, 38, HKFRS 5, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

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

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) **HKAS 17 – Leases**

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts in the consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

(b) **HKASs 32 and 39 – Financial Instruments**

Derivative financial instruments – Forward currency contracts

Forward currency contracts held to hedge firm future commitments are designated as cash flow hedges from 1 January 2005 and are recorded at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, until the transaction which is being hedged is itself recognised in the financial statements. The ineffective portion of the hedge (if any) is recognised immediately in the income statement. Previously, forward currency contracts held to hedge firm future commitments were deferred on the balance sheet until the item being hedged was itself recognised.

The Group's forward currency contracts do not qualify for hedge accounting and the gains or losses arising from changes in fair value on the forward currency contracts are taken directly to net profit or loss for the year.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

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

(c) **HKAS 40 – Investment Property**

In the prior year, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. In accordance with the transitional provisions of HKAS 40, the opening balances of retained profits as at 31 December 2005 and the results for the comparative period have been restated to reflect this change retrospectively. As the Group has not previously disclosed publicly the fair value of the investment properties as at 1 January 2004, the opening balances of retained profits as at 1 January 2004 has not been restated. The effects of the above changes are summarised in note 2.4 to the financial statements.

(d) **HKFRS 2 – Share-based Payment**

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 on the Group's share options granted to employees after 7 November 2002 but had not vested by 1 January 2005 are summarised in note 2.4 to the financial statements.

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

(e) HKFRS 3 – Business Combinations

In prior years, negative goodwill arising on acquisitions was carried in the balance sheet and was recognised in the income statement on a systematic basis over the remaining average useful life of the acquired amortisable assets.

Upon the adoption of HKFRS 3, any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in the asset revaluation reserve) against retained profits.

The effect of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006.

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Explorations for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) – Int 4	Determining whether an Arrangement contains a Lease
HK (IFRIC) – Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

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

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC) - Int 5 and HK(IFRIC) - Int 6 do not apply to the activities of the Group. HK(IFRIC) - Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting			
At 1 January 2005	**HKAS 1#**	**HKAS 17#**	**HKAS 40#**	
Effect of new policies (Increase/(decrease))	**Presentation**	**Prepaid land lease payments**	**Surplus on revaluation of investment properties**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Assets				
Property, plant and equipment	(12,770)	(34,659)	–	(47,429)
Investment properties	12,770	–	–	12,770
Prepaid land lease payments	–	33,883	–	33,883
Prepayments, deposits and other receivables	–	776	–	776
				–
Liabilities/equity				
Asset revaluation reserve	–	–	2,559	2,559
Retained profits	–	–	(2,559)	(2,559)
				–

#: *Adjustments/presentation taken effect retrospectively*

2.4 SUMMARY OF IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect on the consolidated balance sheet *(Continued)*

	Effect of adopting						
	HKAS 1	HKAS 17	HKASs 32 &39	HKAS 40	HKFRS 2	HKFRS 3	
At 31 December 2005		Prepaid land	Fair value-derivative	Surplus on revaluation of	Equity-settled	Derecognition of	
Effect of new policies (Increase/(decrease))	Presentation	lease payments	financial instruments	investment properties	share option scheme	negative goodwill	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets							
Property, plant and equipment	(15,986)	(36,032)	–	–	–	–	(52,018)
Investment properties	15,986	–	–	3,216	–	–	19,202
Prepaid land lease payments	–	35,246	–	–	–	–	35,246
Negative goodwill	–	–	–	–	–	25,326	25,326
Prepayments, deposits and other receivables	–	786	–	–	–	–	786
Derivative financial instruments	–	–	1,186	–	–	–	1,186
							29,728
Liabilities/equity							
Derivative financial instruments	–	–	2,921	–	–	–	2,921
Share option reserve	–	–	–	–	7,577	–	7,577
Retained profits	–	–	(1,735)	3,216	(7,577)	25,326	19,230
							29,728

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

	Effect of adopting		
	HKAS 40	HKFRS 3	
Effect of new policies (Increase/(decrease))	**Surplus on revaluation of investment properties**	**Negative goodwill**	**Total**
	HK$'000	HK$'000	HK$'000
1 January 2004	–	–	–
			–
1 January 2005			
Asset revaluation reserve	2,559	–	2,559
Retained profits	(2,559)	(25,326)	(27,885)
			(25,326)

2.4 SUMMARY OF IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Effect on the consolidated income statement for the years ended 2005 and 2004

	Effect of adopting				
Effect of new policies	**HKASs 32&39 Fair value-derivative financial instruments**	**HKAS 40 Surplus on revaluation of investment properties**	**HKFRS 2 Employee share option scheme**	**HKFRS 3 Recognition negative goodwill as income**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005					
Increase/(decrease) in other income and gains	1,186	3,216	–	(1,487)	2,915
Decrease in administrative expenses	–	–	(7,577)	–	(7,577)
Decrease in other expenses	(2,921)	–	–	–	(2,921)
Total increase/(decrease) in profit	(1,735)	3,216	(7,577)	(1,487)	(7,583)
Increase/(decrease) in basic earnings per share (HK cents)	(0.31)	0.57	(1.34)	(0.26)	(1.34)
Increase/(decrease) in diluted earnings per share (HK cents)	(0.29)	0.53	(1.25)	(0.25)	(1.26)
Year ended 31 December 2004					
Increase in other income and gains	–	2,559	–	–	2,559
Total increase in profit	–	2,559	–	–	2,559
Increase in basic earnings per share (HK cents)	–	0.649	–	–	0.649
Increase in diluted earnings per share (HK cents)	–	0.648	–	–	0.648

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of a subsidiary (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flow are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

Investment properties

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

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

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

Research and development costs

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

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

Leases

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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

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

Financial assets (applicable to the year ended 31 December 2005)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets (applicable to the year ended 31 December 2005) *(Continued)*

Fair value

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

Impairment of financial assets (applicable to the year ended 31 December 2005)

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

Assets carried at amortised cost

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

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

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

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005) *(Continued)*

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

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

Interest-bearing loans and borrowings

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

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

Gain or losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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

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

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits with banks and which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

Revenue recognition

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

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

(b) rental income, on a time proportion basis over the lease terms; and

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

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is calculated by using a binomial model, further details of which are given in note 30. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("markets conditions"), if applicable.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions (Continued)

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

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

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

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

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

Pension schemes and other retirement benefits

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

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

Borrowing costs

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

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

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

Foreign currencies

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

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

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

Comparative amounts

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment. For financial instruments, in accordance with the transitional provisions of the relevant accounting standard, comparative amounts have not been restated.

3. SIGNIFICANT ACCOUNTING AND JUDGEMENTS AND ESTIMATES

Judgement

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

Classification between investment properties and owner-occupied properties

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

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

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

Estimation uncertainty

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

Impairment of assets

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

4. SEGMENT INFORMATION

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

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

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

The locations of the geographical segments are as follows:

(a) Thailand;

(b) Malaysia;

(c) Singapore;

(d) Mainland China, Macau and Hong Kong;

(e) North America;

(f) Europe; and

(g) Other countries.

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

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

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Year ended 31 December 2005	Thailand HK$'000	Malaysia HK$'000	Singapore HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:									
Sales to external customers	206,245	119,104	–	18,136	16,013	44,029	2,450	–	405,977
Intersegment sales	13,474	–	–	168,116	–	–	–	(181,590)	–
Other revenue	3,630	–	–	11,325	–	–	761	–	15,716
Total revenue	223,349	119,104	–	197,577	16,013	44,029	3,211	(181,590)	421,693
Segment results	33,952	23,586	–	175,311	3,527	9,712	1,302	(171,180)	76,210
Interest income									2,411
Interest expense									(11,460)
Profit before tax									67,161
Tax									(2,763)
Profit for the year									64,398
Attributable to:									
Equity holders of the parent company									64,398
Minority interests									–
									64,398
Assets and liabilities									
Segment assets	237,210	42,759	15	876,886	3,206	12,665	1,995	(40,475)	1,134,261
Unallocated assets									–
Total assets									1,134,261
Segment liabilities	48,100	–	1,577	396,367	65	755	43,092	(40,475)	449,481
Unallocated liabilities									200,037
Total liabilities									649,518
Other segment information:									
Capital expenditure	60,813	–	–	328,198	–	–	–	–	389,011
Depreciation and amortisation	12,581	–	–	34,029	–	–	–	–	46,610
Fair value gains on investment properties	–	–	–	3,216	–	–	–	–	3,216
Changes in fair value of derivative financial instruments:									
interest rate swap	–	–	–	1,186	–	–	–	–	1,186
forward currency contracts	–	–	–	(2,921)	–	–	–	–	(2,921)

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments *(Continued)*

Year ended 31 December 2004	Thailand HK$'000	Malaysia HK$'000	Singapore HK$'000	Mainland China, Macau and Hong Kong HK$'000 (Restated)	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000 (Restated)
Segment revenue:									
Sales to external customers	150,440	74,803	518	14,912	7,637	32,369	993	–	281,672
Intersegment sales	690	–	–	19,095	–	–	–	(19,785)	–
Other revenue	636	–	–	13,415	–	–	217	–	14,268
Total revenue	151,766	74,803	518	47,422	7,637	32,369	1,210	(19,785)	295,940
Segment results	(6,806)	19,938	(103)	(2,543)	2,281	9,686	567	39,560	62,580
Interest income									69
Interest expense									(5,109)
Profit before tax									57,540
Tax									(4,302)
Profit for the year									53,238
Attributable to:									
Equity holders of the parent company									53,235
Minority interests									3
									53,238
Assets and liabilities									
Segment assets	163,590	23,257	8	372,097	1,611	9,391	1,970	(14,187)	557,737
Unallocated assets									230
Total assets									557,967
Segment liabilities	43,013	–	79	155,569	–	–	27,359	(14,187)	211,833
Unallocated liabilities									52,361
Total liabilities									264,194
Other segment information:									
Capital expenditure	5,266	–	–	150,853	–	–	–	–	156,119
Depreciation and amortisation	11,989	–	–	13,222	–	–	49	–	25,260
Fair value gains on investment properties	–	–	–	2,559	–	–	–	–	2,559

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

(b) Business segments

The following tables present revenue and certain asset and capital expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Year ended 31 December 2005	HDDs components HK$'000	Hydraulic equipment components HK$'000	Fibre optical connector components HK$'000	Electronic device components HK$'000	Automotive components HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:								
Sales to external customers	326,903	62,986	3,922	9,926	1,026	1,214	–	405,977
Other segment information:								
Segment assets	164,568	59,881	8,728	8,209	9,232	1,083	–	251,701
Unallocated assets								882,560
Total assets								1,134,261
Capital expenditure	–	–	–	–	–	–	–	–
Corporate and other unallocated amounts								389,011
Total capital expenditure								389,011

Year ended 31 December 2004	HDDs components HK$'000	Hydraulic equipment components HK$'000	Fibre optical connector components HK$'000	Electronic device components HK$'000	Automotive components HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:								
Sales to external customers	215,748	44,150	6,702	11,707	325	3,040	–	281,672
Other segment information:								
Segment assets	98,591	23,595	1,689	7,112	123	346	–	131,456
Unallocated assets								426,511
Total assets								557,967
Capital expenditure	–	–	–	–	–	–	–	–
Corporate and other unallocated amounts								156,119
Total capital expenditure								156,119

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and gross rental income received and receivable from investment properties during the year.

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

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Revenue			
Sale of goods		**405,977**	281,672
Other income			
Bank interest income		**2,411**	69
Sub-contracting income		**–**	74
Rental income		**–**	424
Sundry income		**1,397**	866
		3,808	1,433
Gains			
Fair value gains on investment properties	*16*	**3,216**	2,559
Foreign exchange gains, net		**7,747**	–
Negative goodwill recognised as income		**–**	1,487
Gain on disposal of items of property, plant and equipment		**–**	4
Write-back of other payables		**–**	57
Fair value gains, net-derivative financial instruments – transactions not qualifying as hedges		**1,186**	–
Net compensation from a fire accident		**–**	5,969
Scrap sales		**2,170**	2,828
		14,319	12,904
		18,127	14,337

6. PROFIT BEFORE TAX

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

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold*		**282,348**	187,036
Depreciation	*15*	**45,834**	24,518
Recognition of prepaid land lease payments	*17*	**776**	742
Equity-settled share option expenses	*30*	**7,577**	–
Auditors' remuneration		**1,522**	874
Employee benefits expense**			
(excluding directors' remuneration *(note 8)*):			
Wages and salaries		**46,500**	38,020
Equity-settled share option expenses**		**3,798**	–
Pension scheme contributions***		**1,284**	1,042
		51,582	39,062
Minimum lease payments under operating leases:			
Land and buildings		**106**	185
Equipment		**216**	28
		322	213
Research and development costs		**8,168**	5,561
Rental income		**–**	(424)
Foreign exchange (gains)/losses, net		**(7,747)**	2,397
Fair value (gains)/losses, net:			
Derivative financial instruments			
– transactions not qualifying as hedges:			
Interest rate swap	*25*	**(1,186)**	–
Forward currency contracts	*25*	**2,921**	–
Negative goodwill recognised as income****		**–**	(1,487)
Loss on disposal of a subsidiary	*32*	**173**	–
Gain/(Loss) on disposal of items of property, plant and equipment	*15*	**338**	(4)
Changes in fair value of investment properties	*16*	**(3,216)**	(2,559)
Bank interest income		**(2,411)**	(69)

6. PROFIT BEFORE TAX *(Continued)*

Notes:

* The cost of inventories sold includes approximately HK$67,542,000 (2004: HK$46,409,000) relating to employee benefits expense, depreciation and operating lease charges, the amount of which were also included in the respective total amounts disclosed separately above for each of these types of expenses.

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

The equity-settled share option expense includes approximately HK$3,798,000 (2004: Nil) relating to employee benefits expense which was also included in the employee benefits expense separately disclosed above.

*** At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in the future years (2004: Nil).

**** The negative goodwill recognised as income in the consolidated income statement for the year is included in "Other income and gains" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank loan and overdrafts wholly repayable within five years	**7,955**	4,014
Financial arrangement fees	**756**	–
Interest on finance leases	**3,487**	873
Other interest	**18**	222
	12,216	5,109

8. DIRECTORS' REMUNERATION

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

	Group	
	2005	2004
	HK$'000	HK$'000
Fees:	**2,157**	1,700
Other emoluments:		
Salaries, allowances and benefits in kind	**2,924**	3,156
Employee share option benefits	**2,034**	–
Retirement benefits scheme contributions	**48**	43
	5,006	3,199
	7,163	4,899

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in the note 30 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of grant and included in the above directors' remuneration disclosures.

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

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

2005

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

8. DIRECTORS' REMUNERATION *(Continued)*

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

2004

	Fees HK$'000	Group Employee share option benefits HK$'000	Total remuneration HK$'000
Dr. Cheng Ngok	10	–	10
Mr. Choi Hon Ting, Derek	10	–	10
Mr. Wu Karl Kwok	10	–	10
	30	–	30

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors and non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005					
Executive directors:					
Mr. Chui Siu On	**390**	**1,220**	**257**	**12**	**1,879**
Mr. Ho Yu Hoi	**667**	**857**	**435**	**–**	**1,959**
Mr. Lai Man Kit	**360**	**628**	**435**	**12**	**1,435**
Mr. Li Chi Hang	**200**	**219**	**435**	**12**	**866**
Mr. Ng Kin Nam*	**240**	**–**	**79**	**8**	**327**
	1,857	**2,924**	**1,641**	**44**	**6,466**
Non-executive director:					
Mr. Ng Kin Nam*	**120**	**–**	**39**	**4**	**163**
	1,977	**2,924**	**1,680**	**48**	**6,629**

* *During the year, Mr. Ng Kin Nam was redesignated as a non-executive director with effect from 29 August 2005.*

8. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2004					
Executive directors:					
Mr. Chui Siu On	390	1,259	–	12	1,661
Mr. Ho Yu Hoi	360	937	–	–	1,297
Mr. Lai Man Kit	360	628	–	14	1,002
Mr. Li Chi Hang	200	332	–	11	543
Mr. Ng Kin Nam	360	–	–	6	366
	1,670	3,156	–	43	4,869

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2004: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2004: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2004: two) non-director, highest paid employee for the year are as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Salaries, allowances and benefits in kind	**780**	1,585
Employee share option benefits	**450**	–
Retirement benefits scheme contributions	**12**	12
	1,242	1,597

9. FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The number of non-director, highest paid employee whose remuneration fell within the following band is as follows:

	Number of employees	
	2005	2004
	HK$'000	HK$'000
Nil to HK$1,000,000	**1**	2

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of grant and was included in the above non-director, highest paid employees' remuneration disclosures.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005	2004
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**1,250**	220
Overprovision in prior years	**–**	–
Current – Elsewhere		
Charge for the year	**3,618**	2,081
Overprovision in prior years	**(370)**	(29)
Deferred *(note 28)*	**(1,735)**	2,030
Total tax charge for the year	**2,763**	4,302

10. TAX *(Continued)*

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

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Profit before tax	**67,161**	57,540
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**15,710**	11,070
Expenses not deductible for tax	**20,527**	23,339
Income not subject to tax	**(34,315)**	(29,437)
Effect on opening deferred tax of increase in rates	**–**	(222)
Utilisation of previously unrecognised tax losses	**–**	(606)
Overprovision in the prior year	**(370)**	(29)
Adjustments in respect of current tax of previous years	**1,159**	–
Tax losses not recognised	**52**	–
Others	**–**	187
At the effective income tax rate of 4.1% (2004: 7.8%)	**2,763**	4,302

According to the income tax law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises, Dongguan Koda Metal Products Company Ltd. ("Dongguan Koda") and Guangzhou Xing Hao Precision Metal Products Co., Ltd ("Xing Hao"), two wholly-owned subsidiaries of the Company established in the Dongguan Coastal Economic Open Zone and Zengcheng Xiancun LanTian Economic Open Zone, respectively, are subject to corporate income tax at a rate of 24%, and are exempt from PRC corporate income tax for the first two profitable years of their operations, and thereafter, are eligible for 50% relief from PRC corporate income tax for the following three years. On 13 November 2003, Dongguan Koda obtained a further approval from the local tax authority that it would be subject to a tax rate of 10% for the three years ending 31 December 2006. Dongguan Koda began its first profitable year in the year ended 31 December 1999 and it is subject to a tax rate of 10% during the year ended 31 December 2005 (2004: 10%). Xing Hao began its first profitable year in the year ended 31 December 2004 and its profit was not subject to tax in the year ended 31 December 2005 (2004: Nil).

10. TAX *(Continued)*

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

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

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

The net loss from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$26,000 (2004: net profit of HK$20,605,000) (note 31(b)).

12. DIVIDENDS

	2005	2004
	HK$'000	HK$'000
Interim – HK1.5 cents (2004: HK6.05 cents per ordinary share)	**9,009**	6,050
Final dividend paid in respect of the previous financial year on shares issued under the Company's share option scheme and placement of new shares subsequent to the balance sheet date and before the close of the Register of Members of the Company, of HK1.8 cents (2004: Nil)	**1,803**	–
Proposed final – HK1.8 cents (2004: HK1.8 cents per ordinary share)	**10,867**	9,000
	21,679	15,050

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

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

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

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

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

	2005 HK$'000	2004 HK$'000 (Restated)
Earnings		
Net profit attributable to ordinary equity holders of the parent company	**64,398**	53,235

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**567,115,000**	393,808,219
Effect of dilution – weighted average number of ordinary shares: Share options	**38,898,198**	885,329
	606,013,198	394,693,548

14. NEGATIVE GOODWILL

Negative Goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisitions. Upon the adoption of HKFRS 3 on 1 January 2005, such negative goodwill of HK$25,326,000 was derecognised with a corresponding adjustment to the opening balance of retained profits.

15. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold Land and Buildings HK$'000 (Restated)	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
At 1 January 2005							
Cost	47,455	3,729	312,445	5,025	9,264	72,438	450,356
Accumulated depreciation	(5,374)	(3,155)	(106,539)	(2,901)	(7,893)	–	(125,862)
Net carrying amount	42,081	574	205,906	2,124	1,371	72,438	324,494
At 1 January 2005, net of accumulated depreciation	42,081	574	205,906	2,124	1,371	72,438	324,494
Additions	706	–	86,794	1,084	347	298,543	387,474
Disposals	–	–	(95)	(48)	(3)	(192)	(338)
Disposal of a subsidiary (note 32)	–	–	–	–	(57)	–	(57)
Provided during the year	(5,783)	(501)	(37,817)	(867)	(866)	–	(45,834)
Transfers	77,248	–	134,639	1,588	2,920	(216,395)	–
Exchange realignment	(1,071)	–	(1,846)	(58)	(34)	1,313	(1,696)
At 31 December 2005, net of Accumulated depreciation	113,181	73	387,581	3,823	3,678	155,707	664,043
At 31 December 2005							
Cost	124,148	3,729	530,008	7,409	11,766	155,707	832,767
Accumulated depreciation	(10,967)	(3,656)	(142,427)	(3,586)	(8,088)	–	(168,724)
Net carrying amount	113,181	73	387,581	3,823	3,678	155,707	664,043
At 1 January 2004							
Cost	44,433	3,667	220,878	3,733	8,571	9,231	290,513
Accumulated depreciation	(3,610)	(2,664)	(84,690)	(2,187)	(7,487)	–	(100,638)
Net carrying amount	40,823	1,003	136,188	1,546	1,084	9,231	189,875
At 1 January 2004, net of accumulated depreciation	40,823	1,003	136,188	1,546	1,084	9,231	189,875
Additions	914	62	74,649	1,206	907	78,381	156,119
Provided during the year	(1,699)	(491)	(21,000)	(689)	(639)	–	(24,518)
Transfers	1,470	–	13,676	28	–	(15,174)	–
Exchange realignment	573	–	2,393	33	19	–	3,018
At 31 December 2004, net of Accumulated depreciation	42,081	574	205,906	2,124	1,371	72,438	324,494
At 31 December 2004							
Cost	47,455	3,729	312,445	5,025	9,264	72,438	450,356
Accumulated depreciation	(5,374)	(3,155)	(106,539)	(2,901)	(7,893)	–	(125,862)
Net carrying amount	42,081	574	205,906	2,124	1,371	72,438	324,494

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

The net book values of the Group's property, plant and equipment held under finance leases included in the total amount of respective categories of property, plant and equipment as at 31 December 2005 are:

(i) plant and machinery amounting to HK$144,307,000 (2004: HK$68,210,000);

(ii) construction in progress amounting to HK$5,541,000 (2004: HK$8,179,000); and

(iii) motor vehicles amounting to HK$220,000 (2004: HK$321,000).

At 31 December 2004, furniture and fixtures of the Group with net book value amounting to HK$161,000 were also held under finance leases. As at 31 December 2005, no furniture and fixtures were held under finance leases.

At 31 December 2005, certain of the Group's plant and machinery with a net book value of approximately HK$39,400,000 (2004: HK$50,552,000) were pledged to secure general banking facilities granted to the Group (note 26).

At 31 December 2005, certain of the Group's land and buildings with a net book value of approximately HK$2,370,000 (2004: HK$21,950,000) were pledged to secure general banking facilities granted to the Group (note 26).

16. INVESTMENT PROPERTIES

	2005 **HK$'000**	2004 HK$'000 (Restated)
Carrying amount at 1 January	**12,770**	10,211
Net profit from a fair value adjustment *(note 5)*	**3,216**	2,559
Carrying amount 31 December	**15,986**	12,770

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

	HK$'000
Long term leases	1,786
Medium term leases	14,200
Carrying amount 31 December	15,986

The Group's investment properties were revalued on 31 December 2005 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at HK$15,986,000 on an open market value, existing use basis.

At 31 December 2005, the Group's investment properties with a value of HK$14,200,000 (2004: HK$10,600,000) were pledged to secure general banking facilities granted to the Group (note 26).

16. INVESTMENT PROPERTIES *(Continued)*

Further particulars of the Group's investment properties are as follows:

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

17. PREPAID LAND LEASE PAYMENTS

	Group	
	2005 **HK$'000**	2004 HK$'000 (Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.4)*	**34,659**	35,223
As restated	**34,659**	35,223
Additions during the year*	**1,537**	–
Recognised during the year	**(776)**	(742)
Exchange realignment	**612**	178
Carrying amount at 31 December	**36,032**	34,659
Current portion included in prepayments, deposits and other receivables	**(786)**	(776)
Non-current portion	**35,246**	33,883

* *The Group is in the process of obtaining the land use rights certificate of this piece of land acquired during the year.*

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

18. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000 (Restated)
Unlisted shares, at cost	**43**	43
Due from subsidiaries	**185,717**	71,166
	185,760	71,209

The amounts due from subsidiaries included in the Company's current assets HK$185,717,000 (2004: HK$71,166,000), are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries were as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Best Device Group Limited ("Best Device")	British Virgin Islands/ Hong Kong	US$5,528	100%	–	Investment holding
Cyber Starpower Limited	British Virgin Islands/ Hong Kong	US$1,000	–	100%	Investment holding
Anglo Dynamic Limited	British Virgin Islands/ Hong Kong	US$2,000	–	100%	Investment holding
Tai Situpa Group Limited	British Virgin Islands/ Hong Kong	US$2,000	–	100%	Investment holding
Lewiston Group Limited	British Virgin Islands/ Hong Kong	US$1,000	–	100%	Investment holding
Integrated Precision Engineering (Thailand) Company Limited	Thailand	THB150,000,000	–	99.99%	Trading and manufacturing of precision metal components
Integrated Precision Engineering Pte. Limited ("IPE Singapore")	Singapore	S$1,200,000	–	100%	Dormant

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Integrated Precision Engineering Company Limited	Hong Kong	HK$3,000,000	–	100%	Trading of precision metal components and investment holding
IPE Macao Commercial Offshore Limited	Macau	MOP100,000	–	100%	Trading of precision metal components
Dongguan Koda Metal Products Company Ltd.*	PRC/Mainland China	HK$169,099,081	–	100%	Manufacturing of precision metal component
Guangzhou Xing Hao Precision Metal Products Co., Ltd. ("Xing Hao")**	PRC/Mainland China	HK$193,606,271	–	100%	Manufacturing of precision metal component
IPE Precision Machinery Limited	Hong Kong	HK$100,000	–	100%	Investment holding
廣州科裕機械設備有限公司 ("Ke Yu")***	PRC/Mainland China	US$309,637	–	100%	Not yet commenced business

* *Dongguan Koda is a wholly-foreign-owned enterprise with a registered capital of HK$213,000,000. The remaining capital of HK$43,900,919 should be contributed before 22 December 2008.*

** *Xing Hao is a wholly-foreign-owned enterprise with a registered capital of HK$193,606,271. The remaining capital of HK$336,393,729 should be contributed before 27 December 2008.*

*** *Ke Yu is a wholly-foreign-owned enterprise with a registered capital of USD2,000,000. The remaining capital of USD1,690,363 should be contributed before 30 September 2006.*

During the year, the Group disposed of Integrated Precision Engineering (Japan) Company Limited. Further details of this disposal are included in note 32 to the financial statements.

19. INVENTORIES

	Group 2005 HK$'000	2004 HK$'000
Raw materials	**53,917**	15,043
Consumables	**14,452**	5,280
Work-in-progress	**51,160**	29,677
Finished goods	**12,523**	13,982
	132,052	63,982
Less: provision for inventory obsolescence	**(5,017)**	(9,978)
	127,035	54,004

20. TRADE RECEIVABLES

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

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

	Group 2005 HK$'000	2004 HK$'000
Within 1 month	**41,984**	28,458
1 to 2 months	**40,513**	26,907
2 to 3 months	**27,091**	15,670
3 to 4 months	**10,507**	4,650
4 to 12 months	**4,571**	1,767
	124,666	77,452

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Prepayments	**2,025**	3,764	**422**	76
Deposits and other receivables	**5,250**	12,377	**2**	–
	7,275	16,141	**424**	76

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

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**95,591**	45,167	**284**	15,608
Time deposits	**62,852**	18,601	**–**	–
	158,443	63,768	**284**	15,608
Less: Pledged time deposits for bank borrowings	**–**	(11,506)	**–**	–
Cash and cash equivalents	**158,443**	52,262	**284**	15,608

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$9,615,000 (2004: HK$5,842,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

At 31 December 2005, the Group had no pledged deposits (2004: HK$11,506,000) to secure its banking facilities.

23. TRADE AND BILLS PAYABLES

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

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Within 1 month	**31,448**	59,493
1 to 2 months	**27,114**	12,917
2 to 3 months	**14,175**	9,192
3 to 4 months	**8,152**	960
4 to 12 months	**2,178**	1,150
Over 1 year	**–**	112
	83,067	83,824

The trade payables are non-interest-bearing and are normally settled on terms ranging from 60 to 90 days. The carrying amounts of trade and bills payables approximate to their fair values.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Other payables	**191,138**	38,910	**–**	483
Accruals	**8,899**	5,185	**–**	–
	200,037	44,095	**–**	483

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2005 HK$'000	Group 2004 HK$'000
Derivative financial instruments – transactions not qualifying as hedges		
Assets		
Interest rate swap*	**1,186**	–
Liabilities		
Forward currency contracts**	**2,921**	–

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

* *As at 31 December 2005, the Group had an interest rate swap agreement with a bank to manage its interest rate exposure in connection with the Group's long term banking facilities which did not meet the criteria for hedge accounting. A notional amount of HK$100,000,000 (2004: Nil) with the floating rate was swapped into fixed rate. The agreement lasts for three years and will expire in August 2008.*

** *As at 31 December 2005, the Group had entered into forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. The agreement requires the Group to buy Japanese Yen with US$ at a pre-agreed exchange rate on pre-determined dates up to May 2006.*

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Current				
Finance lease payables *(note 27)*	2.95~9.4	2006	**30,249**	15,979
Bank overdrafts – unsecured	4.01~5.25	On demand	**6,103**	14,167
Bank loans – unsecured	5.01~5.27	2006	**75,000**	13,844
Bank loans – secured	Prime rate minus 2.6%	2006	**992**	993
Trust receipt loans – unsecured	1.38~5.63		**–**	6,011
Other loans – unsecured	3~5.5	2006	**2,840**	8,099
			115,184	59,093
Non-current				
Financial lease payables *(note 27)*	2.95~9.4	2007~2009	**68,694**	42,400
Bank loans – secured	Prime rate minus 2.6%	2008	**2,151**	3,126
Bank loans – unsecured	5.01~5.27	2007~2011	**173,803**	26,086
			244,648	71,612
			359,832	130,705

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

	Group	
	2005	2004
	HK$'000	HK$'000
Analysis into:		
Bank loans and overdrafts repayables:		
Within one year or on demand	**82,095**	35,015
In the second year	**82,547**	4,350
In the third to fifth years, inclusive	**92,051**	22,419
Beyond five years	**1,356**	2,443
	258,049	64,227
Other borrowings repayable:		
Within one year	**33,089**	24,078
In the second year	**28,956**	16,460
In the third to fifth years, inclusive	**39,738**	25,940
	101,783	66,478
	359,832	130,705

Notes:

(a) Certain of the Group's banking facilities were secured by:

(i) Charges over certain of the Group's land and buildings which had an aggregate net book value at the balance sheet date of approximately HK$2,376,000 (2004: HK$21,950,000);

(ii) Charges over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$14,200,000 (2004: HK$10,600,000);

(iii) Charges over certain of the Group's plant and machinery which had an aggregate net book value at the balance sheet date of approximately HK$39,736,000 (2004: HK$50,552,000); and

(iv) Time deposits of approximately HK$11,506,000 as at 31 December 2004. As at 31 December 2005, no time deposits of the Group were pledged as security.

(b) Except for the unsecured bank loans with interest rates ranging from 5.5% to 6.75% which are denominated in Thai Baht, all other borrowings are in Hong Kong dollars.

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

27. FINANCE LEASE PAYABLES

The Group leases certain of its machineries for its high precision metal component business. These leases are classified as finance leases and have remaining lease terms ranging from two to four years.

At 31 December 2005, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments 2005 HK$'000**	Minimum lease payments 2004 HK$'000	**Present value of minimum lease payments 2005 HK$'000**	Present value of minimum lease payments 2004 HK$'000
Amounts payable:				
Within one year	**35,967**	18,190	**30,249**	15,979
In the second year	**32,652**	17,957	**28,956**	16,460
In the third to fifth years, inclusive	**41,922**	26,991	**39,738**	25,940
Total minimum finance lease payments	**110,541**	63,138	**98,943**	58,379
Future finance charges	**(11,598)**	(4,759)		
Total net finance lease payables	**98,943**	58,379		
Portion classified as current liabilities *(note 26)*	**(30,249)**	(15,979)		
Non-current portion *(note 26)*	**68,694**	42,400		

Notes to the Financial Statements

31 December 2005

28. DEFERRED TAX

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

Deferred tax liabilities

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

Deferred tax assets

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

28. DEFERRED TAX *(Continued)*

Deferred tax liabilities

Group	2004 Accelerated tax depreciation HK$'000
At 1 January 2004	2,570
Deferred tax charged to the income statement during the year *(note 10)*	1,326
Exchange realignment	113
Gross deferred tax liabilities at 31 December 2004	4,009

Deferred tax assets

Group	2004 Deductible temporary differences HK$'000	Items not taxable until taken up in the statutory accounts of a subsidiary in Mainland China HK$'000	Total HK$'000
At 1 January 2004	(878)	–	(878)
Deferred tax charged to the income statement during the year *(note 10)*	136	568	704
Gross deferred tax assets at 31 December 2004	(742)	568	(174)

The Group has tax losses arising in Hong Kong of HK$60,000 (2004: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

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

29. SHARE CAPITAL

Shares	2005 HK$'000	2004 HK$'000
Authorised:		
1,200,000,000 (2004: 1,200,000,000) ordinary shares of HK$0.1 each	**120,000**	120,000
Issued and fully paid:		
601,070,000 (2004: 500,000,000) ordinary shares of HK$0.1 each	**60,107**	50,000

The movements in share capital for the years ended 31 December 2005 and 2004 were as follows:

(a) On 10 July 2002, the Company was incorporated with an authorised 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 Tottenhill on the same date.

(b) On 25 June 2004, pursuant to the group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company allotted and issued 99,999,999 ordinary shares of HK$0.1 each, credited as fully paid, to Tottenhill as a consideration for the acquisition of the entire issued share capital of Best Device, the previous holding company of the Group. The difference between the nominal value of the share capital of Best Device and that at the Company has been debited to the contributed surplus as set out in note 31(b) to the financial statements.

(c) 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 a price of HK$0.77 each per share for a total cash consideration of HK$98,175,000 before the related issue expenses.

(d) 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 a pro rata basis to the Company's shareholders before the New Issue. The Company underwent a capitalisation 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.

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

(f) The subscription rights attaching to 1,070,000 share options were exercised at the subscription price of HK$0.78 per share (note 30), resulting in the issue of 1,070,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$834,600.

29. SHARE CAPITAL *(Continued)*

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

	Notes	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2004	*(a)*	1	–	–	–
Ordinary shares issued for the acquisition of the entire issued share capital of Best Device	*(b)*	99,999,999	10,000	16,996	26,996
Ordinary shares issued pursuant to the placing and public offer	*(c)*	127,500,000	12,750	85,425	98,175
Ordinary shares issued pursuant to a capitalisation issue	*(d)*	272,500,000	27,250	(27,250)	–
Share issue expenses	*(c)*	–	–	(26,362)	(26,362)
At 31 December 2004 and 1 January 2005		500,000,000	50,000	48,809	98,809
Placement of new shares	*(e)*	100,000,000	10,000	105,000	115,000
Share options exercised	*(f)*	1,070,000	107	728	835
		601,070,000	60,107	154,537	214,644
Share issue expenses	*(e)*	–	–	(3,516)	(3,516)
At 31 December 2005		**601,070,000**	**60,107**	**151,021**	**211,128**

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

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

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

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

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

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue 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% 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 Stock 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 Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company.

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

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

30. SHARE OPTION SCHEME *(Continued)*

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

	Number of share options									Price of Company's shares***		
Name or category of participant	At 1 January 2005	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	At grant date of options	Immediately before the exercise date	At exercise date of options
									HK$	HK$	HK$	HK$
Directors												
Mr. Chui Siu On	–	800,000	–	–	–	800,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	800,000	–	–	–	800,000	27-07-05	01-07-06 to 31-12-08	1.41	1.39	–	–
	–	1,400,000	–	–	–	1,400,000	27-07-05	01-07-07 to 31-12-08	1.41	1.39	–	–
	–	3,000,000	–	–	–	3,000,000						
Mr. Ho Yu Hoi	–	1,400,000	–	–	–	1,400,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	1,400,000	–	–	–	1,400,000	27-07-05	01-07-06 to 31-12-08	1.41	1.39	–	–
	–	2,200,000	–	–	–	2,200,000	27-07-05	01-07-07 to 31-12-08	1.41	1.39	–	–
	–	5,000,000	–	–	–	5,000,000						
Mr. Lai Man Kit	–	1,400,000	–	–	–	1,400,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	1,400,000	–	–	–	1,400,000	27-07-05	01-07-06 to 31-12-08	1.41	1.39	–	–
	–	2,200,000	–	–	–	2,200,000	27-07-05	01-07-07 to 31-12-08	1.41	1.39	–	–
	–	5,000,000	–	–	–	5,000,000						
Mr. Li Chi Hang	–	1,400,000	–	–	–	1,400,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	1,400,000	–	–	–	1,400,000	27-07-05	01-07-06 to 31-12-08	1.41	1.39	–	–
	–	2,200,000	–	–	–	2,200,000	27-07-05	01-07-07 to 31-12-08	1.41	1.39	–	–
	–	5,000,000	–	–	–	5,000,000						
Mr. Ng Kin Nam	–	500,000	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	1.39	–	–
Dr. Cheng Ngok	–	500,000	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	1.39	–	–
Mr. Wu Karl Kwok	–	500,000	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	1.39	–	–
Mr. Choi Hon Ting, Derek	–	500,000	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	1.39	–	–

30. SHARE OPTION SCHEME *(Continued)*

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

	Number of share options									Price of Company's shares***		
Name or category of participant	At 1 January 2005	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	At grant date of options HK$	Immediately before the exercise date HK$	At exercise date of options HK$
Members of senior Management and other Employees of the Group												
In aggregate	5,710,000	–	(1,020,000)	–	–	4,690,000	30-11-04	30-11-04 to 31-12-08	0.78	–	1.41	1.40
	5,840,000	–	–	–	(180,000)	5,660,000	30-11-04	01-01-06 to 31-12-08	0.78	–	–	–
	5,840,000	–	–	–	(305,000)	5,535,000	30-11-04	01-01-07 to 31-12-08	0.78	–	–	–
	5,860,000	–	–	–	(325,000)	5,535,000	30-11-04	01-01-08 to 31-12-08	0.78	–	–	–
	–	3,000,000	–	–	–	3,000,000	04-02-05	04-02-05 to 31-12-07	1.09	1.22	–	–
	–	1,500,000	–	–	–	1,500,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	3,720,000	–	–	–	3,720,000	27-07-05	01-01-06 to 31-12-08	1.41	1.39	–	–
	–	5,580,000	–	–	(160,000)	5,420,000	27-07-05	01-01-07 to 31-12-08	1.41	1.39	–	–
	–	7,450,000	–	–	(240,000)	7,210,000	27-07-05	01-01-08 to 31-12-08	1.41	1.39	–	–
	23,250,000	21,250,000	(1,020,000)	–	(1,210,000)	42,270,000						
Suppliers of services												
In aggregate	400,000	–	(50,000)	–	–	350,000	30-11-04	30-11-04 to 31-12-08	0.78	–	1.61	1.57
	450,000	–	–	–	–	450,000	30-11-04	01-01-06 to 31-12-08	0.78	–	–	–
	450,000	–	–	–	–	450,000	30-11-04	01-01-07 to 31-12-08	0.78	–	–	–
	450,000	–	–	–	–	450,000	30-11-04	01-01-08 to 31-12-08	0.78	–	–	–
	–	7,000,000	–	–	–	7,000,000	04-02-05	04-02-05 to 31-12-07	1.09	1.22	–	–
	–	500,000	–	–	–	500,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	280,000	–	–	–	280,000	27-07-05	01-01-06 to 31-12-08	1.41	1.39	–	–
	–	420,000	–	–	–	420,000	27-07-05	01-01-07 to 31-12-08	1.41	1.39	–	–
	–	550,000	–	–	–	550,000	27-07-05	01-01-08 to 31-12-08	1.41	1.39	–	–
	1,750,000	8,750,000	(50,000)	–	–	10,450,000						
	25,000,000	50,000,000	(1,070,000)	–	(1,210,000)	72,720,000						

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

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

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

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

30. SHARE OPTION SCHEME *(Continued)*

The fair value of the share options granted during the year was HK$7,577,000.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Dividend yield (%)	3.74% to 4.41%
Expected volatility (%)	31.64% to 36.41%
Historical volatility (%)	31.64% to 36.41%
Risk-free interest rate (%)	0.89% to 3.48%
Expected life of option (year)	1.08 to 2.93
Weighted average share price (HK$)	0.80 to 1.39

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

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

The 1,070,000 share options exercised during the year resulted in the issue of 1,070,000 ordinary shares of the Company and new share capital of HK$107,000 and share premium of HK$727,600 (before issue expenses), as further detailed in note 29 to the financial statements.

At the balance sheet date, the Company had 72,720,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 72,720,000 additional ordinary shares of the Company and additional share capital of HK$7,272,000 and share premium of HK$77,497,600 (before issue expenses).

At the date of approval of these financial statements, the Company had 70,015,000 share options outstanding under the Scheme, which represented approximately 11.6% of the Company's shares in issue as at that date.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 45 to 46 of the financial statements.

The Group's contributed surplus originally represented the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation set out in note 29(b) prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

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

The transfer of net profit to the statutory public welfare fund is made at the discretion of the director at 5% of the net profit of the Company's subsidiaries. The statutory public welfare fund can be used for employees' welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the years ended 31 December 2005 and 2004.

31. RESERVES *(Continued)*

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2004		–	–	–	–	–	–
Contributed surplus arising on acquisition of Best Device Group Limited and its subsidiaries	*29(b)*	–	–	(9,958)	–	–	(9,958)
Issue of shares	*29(c)*	85,425	–	–	–	–	85,425
Capitalisation of share premium	*29(d)*	(27,250)	–	–	–	–	(27,250)
Share issue expenses	*29(c)*	(26,362)	–	–	–	–	(26,362)
Net profit for the year		–	–	–	–	20,605	20,605
Interim 2004 dividend	*12*	–	–	–	–	(6,050)	(6,050)
Proposed final 2004 dividend	*12*	–	–	–	–	(9,000)	(9,000)
At 31 December 2004		31,813	–	(9,958)	–	5,555	27,410
Issue of shares	*29(e)*	105,000	–	–	–	–	105,000
Share issue expenses	*29(e)*	(3,516)	–	–	–	–	(3,516)
Exercise of share options	*29(f)*	728	–	–	–	–	728
Equity-settled share option scheme	*30*	–	7,577	–	–	–	7,577
Net loss for the year		–	–	–	–	(26)	(26)
Final 2004 dividend	*12*	–	–	–	–	(1,803)	(1,803)
Interim 2005 dividend	*12*	–	–	–	–	(9,009)	(9,009)
Proposed final 2005 dividend	*12*	–	–	–	–	(10,867)	(10,867)
		134,025	7,577	(9,958)	–	(16,150)	115,494

The Company's contributed surplus represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation referred to in note 29(b), over the nominal value of the Company's shares issued in exchange therefor.

32. DISPOSAL OF A SUBSIDIARY

	Note	2005 HK$'000	2004 HK$'000
Net assets disposed of:			
Property, plant and equipment		**57**	–
Cash and bank balances		**173**	–
Trade receivables		**227**	–
Prepayments and other receivables		**177**	–
Accruals and other payables		**(403)**	–
Tax payable		**(37)**	–
Minority interests		**(21)**	–
		173	–
Loss on disposal of a subsidiary	6	**(173)**	–
		–	–

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

	2005 HK$'000	2004 HK$'000
Cash consideration	**–**	–
Cash and bank balances disposed of	**173**	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(173)**	–

The results of the subsidiary disposed of in the year ended 31 December 2005 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of plant and machinery with a total capital value at the inception of the leases of HK$60,015,000 (2004: HK$64,776,000).

34. CONTINGENT LIABILITIES

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**602,856**	210,000
Guarantees given to an electricity company	**662**	458	**–**	–
Guarantees given to the Customs Department of Thailand in connection with import of machineries	**3,017**	–	**–**	–
	3,679	458	**602,856**	210,000

35. PLEDGED ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 26 to the financial statements.

36. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**119**	56
In the second to fifth years, inclusive	**52**	151
After five years	**–**	–
	171	207

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	HK$'000
Authorised, but not contracted for		
Plant and machinery	**831**	1,764
Contracted, but not provided for		
Plant and machinery	**40,408**	103,576
Construction in progress	**18,609**	35,318
	59,017	138,894
	59,848	140,658

The Company did not have any significant commitments during the years ended 31 December 2005 and 2004.

38. RELATED PARTY TRANSACTIONS

The Group had following transactions with related parties during the year:

Compensation of key management personnel of the Group:

	2005	2004
	HK$'000	HK$'000
Short term employee benefits	**8,666**	9,262
Post-employment benefits	**119**	114
Share-based payments	**3,924**	–
Total compensation paid to key management personnel	**12,709**	9,376

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

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board reviews and agrees policies for the managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements. Management manages and monitors these exposures to ensure that appropriate measures are implemented in a timely and effective manner.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchase by certain subsidiaries in currencies other than the subsidiaries' functional currency. Approximately 61% (2004: 59%) of the Group's sales are denominated in currencies other than the functional currency of the subsidiaries making the sale, whilst almost 46% (2004: 48%) of costs are denominated in the subsidiaries' functional currency. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

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

Interest rate risk

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

Besides, the Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and obligations under finance leases. The interest rates and terms of repayment of bank borrowings and obligations under the finance leases of the Group are disclosed in note 26.

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

Credit risk

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

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

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

Liquidity risk

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 April 2006.