IPE GROUP LIMITED

ANNUAL REPORT 2008

(Incorporated in the Cayman Islands with Limited Liability) (Stock Code: 929)

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 Directors
Mr. Ng Kin Nam *(Vice Chairman)*
Mr. Wan Tak Wing, Gary

Independent Non-Executive Directors
Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok

COMPANY SECRETARY

Mr. Tam Yiu Chung

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

Michael Li & Co

AUDITORS

Ernst & Young
Certified Public Accountants

LISTING VENUE

Main Board of The Stock Exchange of Hong Kong Limited

STOCK CODE

929

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

GROUP HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Yue Hu Cun
Zengcheng, Guangzhou
Guangdong Province, the PRC
Post code: 511335
Tel: (86) 20 8294 5929
Fax: (86) 20 8294 6929

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
Tel: (852) 2688 5920
Fax: (852) 2688 6155

PRINCIPAL PLACE OF BUSINESS IN MACAU

Alameda Dr. Calos D' Assumpcao,
No. 398, 9 Andar F, Macau
Tel: (853) 2875 0516
Fax: (853) 2875 0515

PRINCIPAL PLACE OF BUSINESS IN THAILAND

99/1 Mu Phaholyothin Road, Sanubtueb,
Wangnoi, Ayutthaya 13170, Thailand
Tel: (66) 3572 3333
Fax: (66) 3572 3003

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

WEBSITE

http://www.ipegroup.com

Corporate Profile

IPE Group Limited (the "Company" or "IPE") was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002. 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.

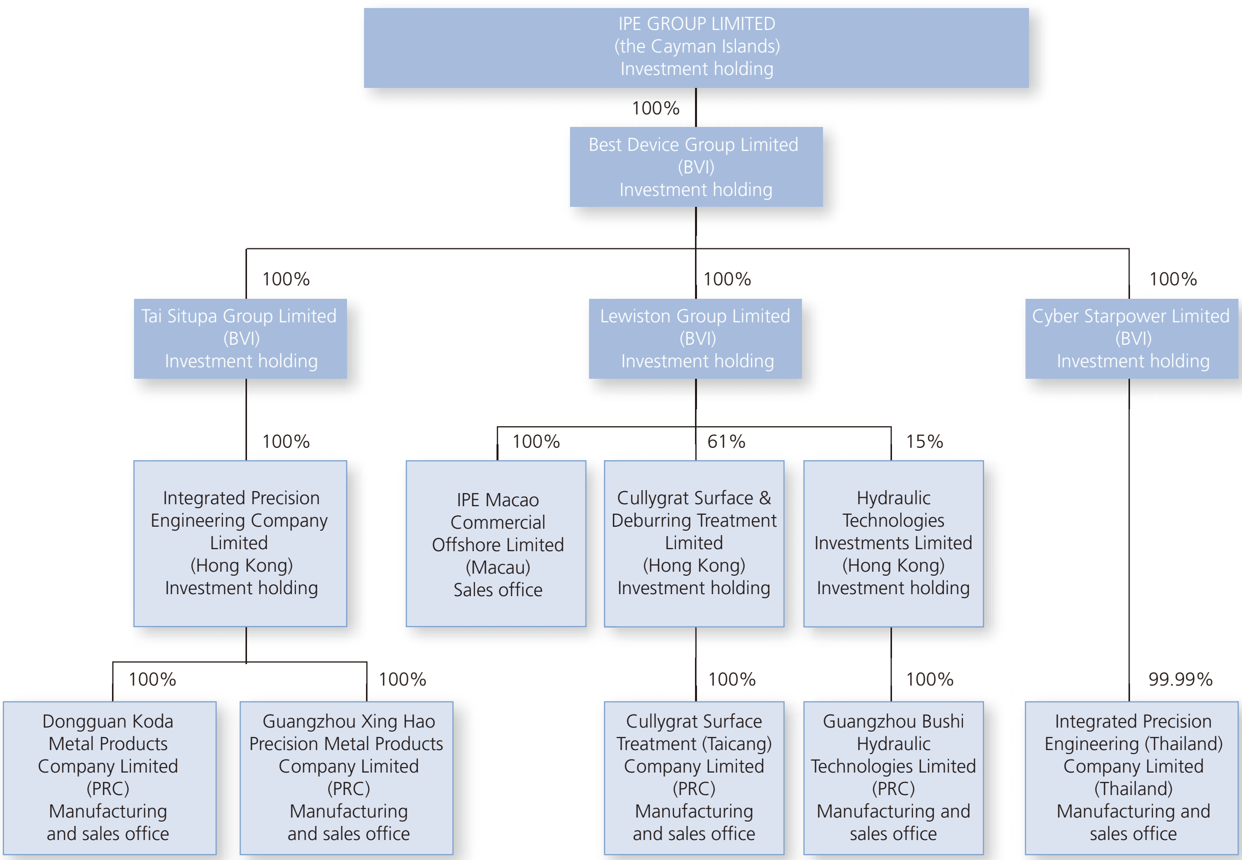
The Group started its high precision components business in 1990 in Singapore and now produces high precision metal components and assembled parts used in hard disk drives ("HDD"), hydraulic equipment, automotive parts, electronic and other devices.

The Group's highly valued customers are top-tier multinational corporations in the information technology, fluid power, automotive and household electronic sectors where optimal precision is vital.

Apart from supplying high volume precision components according to customer specifications, we are providing solutions to our global partners and working very closely with them in implementing new projects. Such projects typically take longer time to come to fruition as they involve development of many metal and plastic parts, and electronic circuits and the necessary know-how in final assembly and testing of the assembled device before shipment to the end customers can take place. The Group has developed a team of high caliber engineers which are able to provide solutions to our global partners.

GROUP STRUCTURE

Principal subsidiaries and the joint venture of the Company as at 31 December 2008



Corporate Milestone

2008

IPE (Hong Kong) was accredited with "Preferred Supplier of the Bosch Group"

IPE (Thailand) was accredited with TS16949 certification

2007

IPE (Thailand) was accredited with ISO14001:2004 certification

Participated in the Sino-Italian joint venture, Hydraulic Technologies Investments Limited and its wholly owned subsidiary, Guangzhou Bushi Hydraulic Technologies Limited, which is engaged in the assembly of hydraulic valves and devices in China. IPE Group owns 15% interests in this joint venture

2006

Xing Hao was accredited with TS16949 certification

2005

Qualified by Bosch, Delphi, Siemens VDO and TRW as an qualified automotive components vendor

Xing Hao Factory was put into operation in March 2005

2004

Established IPE (Macao) in Macau

Listed on the Main Board of The Stock Exchange of Hong Kong Limited on 1 November 2004

2003

Acquired additional land to enlarge production facilities of Xing Hao and construction of the new Guangzhou plant commenced

2002

IPE (Thailand)'s production facility was accredited ISO 9001 certification

Koda's production factory was accredited ISO 9001:2000 and QS 9000 certifications

Established Xing Hao in Mainland China

1997

Established IPE (Thailand) in Thailand

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

1994

Established IPE (Hong Kong) in Hong Kong

Established Koda in Mainland China

1990

Established IPE (Singapore) in Singapore

Financial Highlights

RESULTS

	Year ended 31 December									
	2008		2007		2006		2005		2004	
	HK$'000	**%**	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
REVENUE	**861,716**	**100%**	791,179	100%	581,642	100%	405,977	100%	281,672	100%
Cost of sales	**(656,845)**	**76%**	(588,606)	74%	(411,427)	71%	(282,348)	70%	(187,036)	66%
Gross profit	**204,871**	**24%**	202,573	26%	170,215	29%	123,629	30%	94,636	34%
Other income and gains	**2,759**	**0%**	25,696	3%	21,354	4%	18,127	5%	14,337	5%
Selling and distribution costs	**(24,244)**	**3%**	(18,730)	2%	(16,742)	3%	(13,652)	3%	(7,773)	3%
Administrative expenses	**(69,995)**	**8%**	(62,520)	8%	(53,257)	9%	(48,113)	12%	(36,034)	13%
Other expenses	**(21,432)**	**2%**	(6,763)	1%	(8,924)	2%	(614)	0%	(2,517)	1%
Finance costs	**(23,319)**	**3%**	(27,423)	4%	(23,497)	4%	(12,216)	3%	(5,109)	2%
PROFIT BEFORE TAX	**68,640**	**8%**	112,833	14%	89,149	15%	67,161	17%	57,540	20%
Tax	**(8,256)**	**1%**	(7,352)	1%	(4,391)	1%	(2,763)	1%	(4,302)	1%
PROFIT FOR THE YEAR	**60,384**	**7%**	105,481	13%	84,758	14%	64,398	16%	53,238	19%
Attributable to:										
Equity holders of the Company	**61,149**	**7%**	105,739	13%	84,758	14%	64,398	16%	53,235	19%
Minority interests	**(765)**	**0%**	(258)	0%	–	–	–	–	3	0%
	60,384	**7%**	105,481	13%	84,758	14%	64,398	16%	53,238	19%

CONDENSED CONSOLIDATED BALANCE SHEET

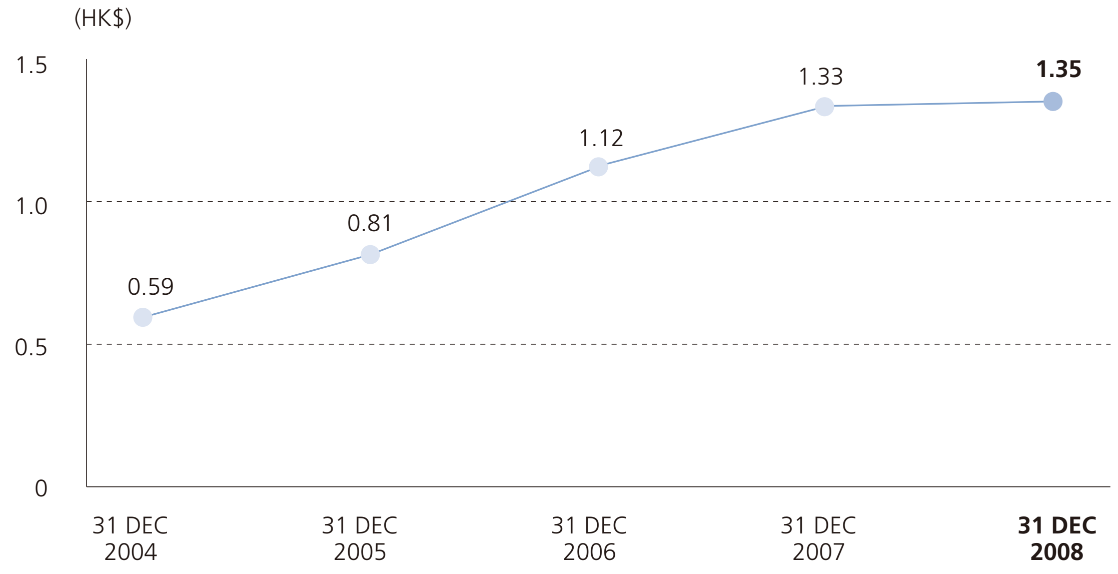
	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	**1,184,782**	1,004,138	891,623	715,656	346,602
Total current assets	**580,711**	681,461	514,760	418,605	211,365
Total current liabilities	**551,372**	526,712	377,792	402,959	188,573
Net current assets	**29,339**	154,749	136,968	15,646	22,792
Total non-current liabilities	**268,956**	204,597	221,408	246,559	75,621
Total equity	**945,165**	954,290	807,183	484,743	293,773

Financial Highlights

RATIO ANALYSIS

	Year ended 31 December				
	2008	2007	2006	2005	2004
KEY STATISTICS:					
Current ratio	**1.05**	1.29	1.36	1.04	1.12
Gearing ratio (net debt/capital & net debt)	**0.41**	0.34	0.36	0.50	0.41
Gross profit margin	**23.8%**	25.6%	29.3%	30.5%	33.6%
EBITDA margin	**26.0%**	32.2%	32.5%	31.0%	30.7%
Net profit margin	**7.0%**	13.3%	14.6%	15.9%	18.9%
Average days of debtor turnover	**85 days**	92 days	92 days	91 days	91 days
PER SHARE DATA:					
Net asset value per share (HK$)	**1.35**	1.33	1.12	0.81	0.59
Earnings per share – basic	**HK8.65 cents**	HK14.61 cents	HK12.40 cents	HK11.36 cents	HK13.52 cents
Earnings per share – diluted	**N/A**	HK14.47 cents	HK12.11 cents	HK10.63 cents	HK13.49 cents

NET ASSET VALUE PER SHARE (HK$)

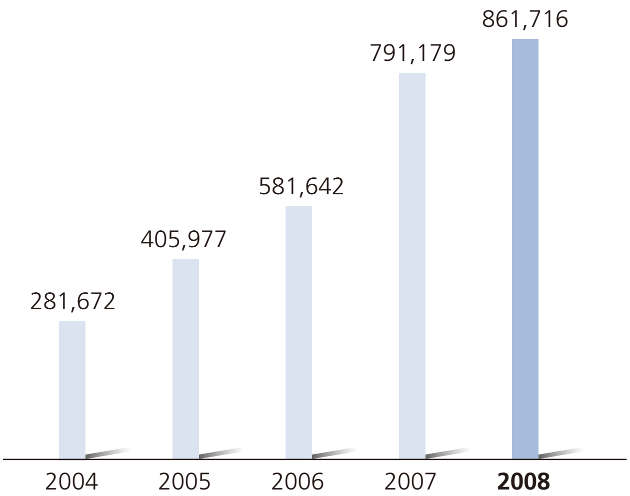


Financial Highlights

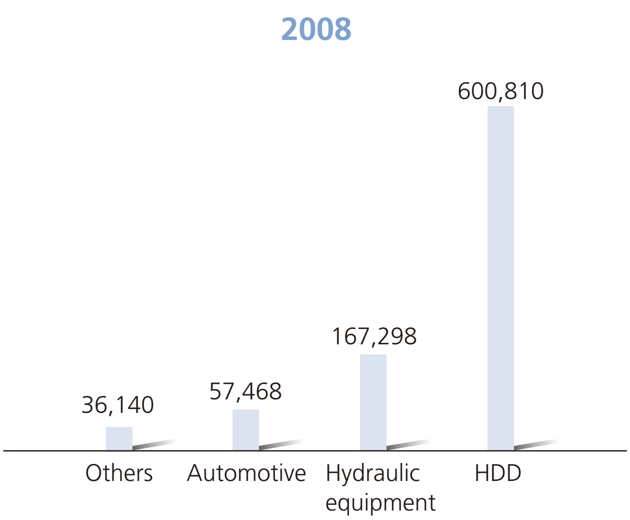
TURNOVER AND SEGMENT INFORMATION

	2008		2007		2006		2005		2004	
	HK$'000	**%**	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
HDD pivot components	**349,214**	**41%**	315,141	40%	315,263	54%	225,447	56%	138,643	49%
HDD spindle motor components	**251,596**	**29%**	218,010	27%	152,565	26%	101,456	25%	77,105	27%
HDD Components	**600,810**	**70%**	533,151	67%	467,828	80%	326,903	81%	215,748	76%
Hydraulic equipment components	**167,298**	**19%**	165,932	21%	91,151	16%	62,986	16%	44,150	16%
Automotive components	**57,468**	**7%**	44,365	6%	11,252	2%	1,026	0%	325	0%
Others	**36,140**	**4%**	47,731	6%	11,411	2%	15,062	3%	21,449	8%
	861,716	**100%**	791,179	100%	581,642	100%	405,977	100%	281,672	100%

TURNOVER (HK$'000)



PRODUCT SEGMENTS (HK$'000)



Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present to Shareholders the annual results of IPE Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group" or "IPE Group") for the year ended 31 December 2008.

BUSINESS REVIEW

The year 2008 was a challenging and difficult year for almost every sector of the global economy. With the financial crisis sparked by the sub-prime mortgage problem in the US spreading very rapidly across the world, most business sectors have been hit hard, particularly manufacturing industries and of course IPE Group could not be unaffected.

For IPE Group, the year started well and in the first half of 2008 both our turnover and profits recorded satisfactory growth. But in the latter part of 2008, our business slowed down notably and turnover dropped compared to the corresponding period of 2007. However, we did manage to record a profit for the period, albeit much reduced compared to the second half of 2007. The profit attributable to equity holders of the Company for the full year decreased to HK$61,149,000, representing a drop of 42.2% as compared with 2007.

Turnover increased by 8.9% to HK$861,716,000 during the year. Each of our three main business segments, HDD components, hydraulic equipment components, and automotive components, recorded an increase in sales during 2008, notwithstanding the substantial drop in orders in the latter part of the year as the global financial crisis deepened and economic growth slowed down or actually reversed in those countries which slipped into recession.

The Group's revenue by business segment is as follows:

	2008		2007		YoY
	HK$'000	**%**	HK$'000	%	%
HDD components	**600,810**	**70%**	533,151	67%	+13%
Hydraulic equipment components	**167,298**	**19%**	165,932	21%	+1%
Automotive components	**57,468**	**7%**	44,365	6%	+30%
Others	**36,140**	**4%**	47,731	6%	-24%
	861,716	**100%**	791,179	100%	+9%

The growing use, both at the workplace and at home, of more powerful computers which have become more and more affordable together with the greater availability of fast internet connections have resulted in strong demand for data storage capacity as computer users download music, videos, online games and other data. A hard disk is the most cost efficient medium of storage and demand for HDDs was strong in 2008. As a market leader in the supply of certain HDD components, IPE Group benefited from the growth in demand. Growth in the sales of HDD components was strong in the first half of 2008. However, the demand for HDD components dropped in the second half year due to the impact of the financial crisis, with the drop being particularly sharp in the fourth quarter. For the year as a whole, sales of HDD components rose by 12.7% from HK$533,151,000 in 2007 to HK$600,810,000.

In the hydraulic equipment components market, many customers in US and Europe have chosen to outsource the manufacture of components to manufacturers in low cost countries and conduct final assembly only in the home country. Benefiting from this outsourcing trend, IPE Group gained new customers and with increased orders from existing customers, sales of our hydraulic equipment components business in the first half year rose by 19.9% compared to the first half of 2007. Nevertheless, due to the drop in sales in the second half year under the impact of the financial crisis, sales for the full year increased by only 0.8% when compared to 2007.

Chairman's Statement

The impact of the financial crisis meant that the growth of sales of automotive components, which was 116.7% at the first half year stage, was restricted to only 29.5% for the year as a whole with sales rising to HK$57,468,000 from HK$44,365,000 in 2007.

PROSPECTS

Looking ahead, the severity of the financial crisis means that the global economy will take some time to recover. A considerable period of time may be needed for a full recovery.

All our customers have been affected by a sharp drop in demand. In response, they have become very cautious in their ordering, preferring to run down their existing inventories. As a result, the business environment continues to be difficult and the Group expects the result may not be satisfactory in the first half of 2009.

Recently, the downward trend in orders received by the Group has reversed. Initially, this pick-up in orders simply represented the receipt of orders from our customers to replenish those parts of their inventories that have been run down. However, we now see the improvement as possibly the start of a gradual recovery which we believe can be sustained.

Governments in a number of countries have introduced various measures to stimulate their economies and in some countries there is already evidence of improvement in certain economic data. It may therefore be reasonable to expect that the operating environment for the Group will improve as economic stimulus policies take effect.

To cope with the financial crisis, the Group will reinforce its cash flow management strategy of maintaining adequate liquidity. While we are confident that the current pick-up in sales will continue, we do not expect that sales will quickly return to pre-crisis levels. The Group will also further streamline its production processes and tighten cost control to safeguard its competitive edge so as to benefit from a recovery in demand. In addition, to strengthen its competitive position, the Group is continuing to develop further its sub-assembly capability where we do not simply manufacture discrete components but we also assemble such components to form higher value added sub-assemblies, thus providing a "one-stop" service in supplying quality precision metal parts to customers.

Having said that, the Group is optimistic about its long term prospects, particularly as the current difficult trading environment weed out weak competitors, some of whom have already ceased operations or are likely to do so.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to all staff for their devotion and hard work in the past year.

Chui Siu On
Chairman

17 April 2009

Management Discussion and Analysis

FINANCIAL REVIEW

With the prices of raw materials rising persistently high until the latter part of the year, and with other cost pressures including rising labour cost, the gross profit margin of the Group was under notable pressure. The Group uses metals such as stainless steel bars, copper and brass bars, alloy steel bars and aluminum ingots as major materials in manufacturing. In 2008, climbing high prices of metal costs pushed up direct material costs of the Group. Fortunately, the Group was at times able to pass on some of its higher cost to customers. In addition, the Group was able to improve production efficiency and benefited from economies of scale in the first half year when the volume of sales was growing. Gross profit of the Group for the year was HK$204,871,000, representing an increase of HK$2,298,000 or of 1.1% when compared to HK$202,573,000 in 2007. The gross profit margin slightly decreased from 25.6% in 2007 to 23.8% in 2008.

Other income of the Group recorded a decrease of HK$22,937,000 in 2008 when compared to 2007. In 2007, other income of the Group mainly comprised foreign exchange gains on settlement of Japanese Yen and Thai Baht, fair value gains on investment properties and interest income from bank deposits. In 2008, owing to continuous appreciation of Japanese Yen in the second half year, the Group recorded an exchange loss of HK$5,120,000 while in 2007 the Group recorded an exchange gain of HK$17,695,000. Furthermore, with the decline of the property market in 2008, the Group's investment property recorded a fair value loss of HK$3,000,000 as compared to a gain of HK$4,291,000 in 2007.

In 2008, selling and distribution costs amounted to HK$24,244,000 and the percentage to turnover was 2.8%, a minimal increase when compared to the percentage to turnover of 2.4% in 2007.

Major administrative expenses included directors' remuneration, staff salaries and benefits, general depreciation and general overhead costs. During the year, administrative expenses amounted to HK$69,995,000, an increase of 12.0% from HK$62,520,000 in 2007. This was mainly due to the increase in staff costs and miscellaneous administrative costs to support the development of the Group's business.

Finance costs decreased by 15.0% to HK$23,319,000 during the year. The decrease was due to the decline in interest rates and a reduction in interest-bearing bank loans and other borrowings.

The profit attributable to equity holders of the Company for the year ended 31 December 2008 amounted to HK$61,149,000, representing a decrease of 42.2% when compared to that of the previous year (2007: HK$105,739,000). The net profit margin of the Group decreased to 7.0% in 2008 as compared to 13.3% in 2007. The decrease in profitability was mainly due to the increase in staff costs and appreciation of Japanese Yen against US dollar and Hong Kong dollar during the year.

Basic earnings per share for the year under review came to HK8.65 cents, representing a decrease of 40.8% when compared to HK14.61 cents in 2007.

DETAILS OF CHARGES ON THE GROUP'S ASSETS

As at 31 December 2008, the Group had total borrowings of HK$517,183,000 (2007: HK$566,910,000) secured by corporate guarantee made by the Group, and net borrowings (total borrowings less cash and bank balances) were HK$380,715,000 (2007: HK$331,861,000). The Group had no charge on any of its assets for its banking facilities as at 31 December 2008.

CURRENCY EXPOSURE AND MANAGEMENT

The Group is exposed to fluctuations in foreign exchange rates. Since most of the Group's revenue is denominated in US dollars, whereas most of the Group's expenses, such as costs of major raw materials and machineries and production expenses, are denominated in Japanese Yen, Renminbi, Thai Baht and Hong Kong dollars, fluctuations in exchange rates can materially affect the Group; in particular, an appreciation in value of Japanese Yen will adversely affect the Group's profitability. Accordingly, the Group has entered into forward exchange contracts to reduce potential exposure to currency fluctuations.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

The Group generally finances its operations with internally generated cash flow as well as bank facilities provided by its bankers.

In June 2008, the Group successfully entered into a loan facility agreement with Standard Chartered Bank (Hong Kong) Limited as coordinating arranger in the sum of HK$225,000,000 made available to the Group for a term of four years. This facility has substantially enhanced the Group's cash flow liquidity.

As at 31 December 2008, cash per share was HK$0.20 (2007: HK$0.33) and net asset value per share was HK$1.35 (2007: HK$1.33), based on the 697,795,000 ordinary shares in issue (2007: 718,425,000 ordinary shares in issue).

During the year under review, the Group recorded a net cash inflow from operating activities of HK$142,634,000 (2007: HK$140,153,000). Due to the expansion of production capacity, the Group paid HK$142,429,000 for new machineries and equipment during the year (2007: HK$189,618,000) and a net cash outflow from investing activities of HK$139,361,000 (2007: HK$187,431,000) was recorded. Due to repayment of bank loans, payment of dividends and repurchase of shares, a net cash outflow from financing activities of HK$98,300,000 was recorded after taking account of new bank loans. As at 31 December 2008, the Group had cash and cash equivalents of HK$136,468,000 (2007: HK$235,049,000).

As at 31 December 2008, total bank borrowings of the Group amounted to HK$517,183,000 (2007: HK$566,910,000), representing a decrease of 8.8% as compared to that of 2007. The gearing ratio defined as net debt (represented by total bank borrowings minus cash and bank balances) divided by shareholders' equity was 40.3% as at 31 December 2008 when compared to 34.8% as at 31 December 2007.

HUMAN RESOURCES AND REMUNERATION POLICIES

Responding to the challenging business environment, the Group streamlined its structure during the year. The Company, together with its subsidiaries, had 3,192 employees as at 31 December 2008, a decrease of 20.2% when compared to 3,998 employees as at 31 December 2007.

The Group has a share option scheme in place for selected participants as incentive and reward for their contributions to the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also offered to employees.

The Group encourages employees to seek training to sharpen their work skills and for personal development. The Group also provides workshops for staff at different levels to enhance their knowledge on work safety and to build team spirit among them. All staff are rewarded based on performance of the Group as well as their individual performance and contributions.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Chui Siu On, aged 49, is the Chairman, an executive and managing director and the chairman of both the executive committee and remuneration committee of the Company. He is also a director of certain subsidiaries of the Company. Besides, he is the director and shareholder of Tottenhill Limited, the controlling shareholder of the Company. Mr. Chui is one of the founders of the Group. He is responsible for the overall strategic planning of the Group and establishes operational objectives and assignments. He has over 33 years of experience in the field of mechanical engineering and precision automation and has extensive experience in design and manufacture of automation equipment, precision mechanical components and machinery parts. He is the elder brother of Mr. Chui Siu Hung, the Deputy General Manager of Xing Hao. Mr. Chui also holds positions in the following associations:

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

Mr. Ho Yu Hoi, Mark, aged 45, is an executive director and a member of the executive committee of the Company and a director of certain subsidiaries of the Company. Besides, he is a director and shareholder of Tottenhill Limited, the controlling shareholder of the Company. He joined the Group in 1992 and has 26 years of experience in the field of computer aided design and manufacturing. Mr. Ho is currently responsible for overall marketing strategies and implementation of the strategic plans and goals of the Group. He also oversees the personnel and administration affairs of the Group.

Mr. Lai Man Kit, aged 49, is an executive director and a member of both the executive committee and remuneration committee of the Company. He is also a director of certain subsidiaries of the Company. Besides, he is a director and shareholder of Tottenhill Limited, the controlling shareholder of the Company. Mr. Lai joined the Group in 1992 and is currently based in Mainland China headquarters responsible for the overall management of the production facilities in Mainland China. He has 34 years of experience in the field of machine augmentation and manufacturing automation.

Mr. Li Chi Hang, aged 38, is an executive director and a member of the executive committee of the Company and a director of certain subsidiaries of the Company. Besides, he is a director and shareholder of Tottenhill Limited, the controlling shareholder of the Company. Mr. Li joined the Group in 1992 and is currently based in Mainland China headquarters responsible for the Group's product development and new projects implementation. He has over 20 years of experience in the field of machine augmentation and manufacturing automation.

Mr. Wong Kwok Keung, aged 46, is an executive director and a member of the executive committee of the Company and a director of a subsidiary of the Company. He joined the Group in 1996 and is now responsible for the Group's new projects implementation and handling all technical issues arising from daily operation. Mr. Wong completed his study in Haking Wong Technical Institute in 1982 and has over 29 years of experience in the manufacturing industry.

Directors and Senior Management

DIRECTORS *(Continued)*

Non-Executive Directors

Mr. Ng Kin Nam, aged 50, is a non-executive director and the Vice Chairman and a director of certain subsidiaries of the Company. Besides, he is a director and shareholder of Tottenhill Limited, the controlling shareholder of the Company. He joined the Group in 1990. Mr. Ng does not involve in the day-to-day management of the Group. He has 34 years of experience in the electrical product manufacturing industry and is the founder of "Reputed Industrial Company Limited", a manufacturer of connectors for electronic devices. Mr. Ng was re-designated from executive director to non-executive director of Peaktop International Holdings Limited (Stock Code: 925), a company listed on the Main Board of the Stock Exchange on 1 December 2008. 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.) Limited (香港晉江同鄉會有限公司)	Life Honorable President
Ng Clan's Association (香港吳氏宗親總會)	Vice President
The Hong Kong Fujian Charitable Education Fund (香港福建希望工程基金會)	Honorable President
Guangdong Chamber of Foreign Investors (廣東外商公會)	Director

Mr. Wan Tak Wing, Gary, aged 42, joined the Group in October 2003. He has resigned as the chief financial officer, secretary and qualified accountant of the Company and has been appointed as a non-executive director of the Company on 27 February 2009. Except for holding the office of a non-executive director of the Company, currently he does not hold any other position with the Company or with any other member of the Group. 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. Mr. Wan has about 20 years of experience in audit, corporate finance, business development and investor relations.

Independent Non-Executive Directors

Dr. Cheng Ngok, aged 63, is an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of the Company. He joined the Group in 2003. 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, he 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 Orthopaedics 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 Miu 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, he 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 40, is an independent non-executive director and a member of both the audit committee and remuneration committee of the Company. He joined the Group in 2004. Mr. Choi graduated from Purdue University in the US with a Bachelor degree in Engineering in Food Processing in 1991. Since his graduation, he has been working as project manager, deputy general manager and executive director of Balama Prima Engineering Company Limited, the businesses of which included highway construction, underground construction and environmental engineering. He was a director of C&C Technology Inc. (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 was elected as executive sub-committee member of International Society for Trenchless Technology in 2004.

Mr. Wu Karl Kwok, aged 45, is an independent non-executive director and a member of both the audit committee and remuneration committee of the Company. He joined the Group in 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 21 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 (currently known as Sino Haijing 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.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Yip Mie Leong, Chester, aged 47, is the Business Development Director of the Group. Mr. Yip joined the Group in September 2006 and is responsible for the implementation of new projects and formulation of quality assurance strategies of the Group. Mr. Yip holds a Bachelor Degree in Engineering. He has served 19 years in Storage and OEM Industries and has accumulated extensive marketing and technical knowledge in mechanical component manufacturing process and assembly of electro-mechanical components.

Mr. Lim Koy Cheong, aged 43, is the Manufacturing Director of the Group. Mr. Lim joined the Group in 1994 and is responsible for the overall management of Integrated Precision Engineering (Thailand) Company Limited. He graduated from Singapore Ngee Ann Polytechnic with a diploma in Mechanical Engineering and has over 21 years of experience in the manufacturing industry.

Mr. Lau Siu Chung, aged 44, is the Sales and Marketing Director of the Group. Mr. Lau joined the Group in 1997 and has over 14 years of experience in marketing and sales of precision components and industrial equipments.

Mr. Yuen Chi Ho, aged 41, is the Chief Financial Officer of the Company and is responsible for the overall financial management of the Group. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in February 2009, Mr. Yuen had worked for several listed companies in Hong Kong as executive director or as financial controllers. He had over 18 years of experience in audit, accounting and financial management.

Ms. Chiu Tak Chun, aged 43, 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 15 years of experience in office administration. Ms. Chiu is a fellow member of the International Professional Managers Association.

Mr. Chui Siu Hung, aged 40, is the Deputy General Manager of Guangzhou Xing Hao Precision Metal Products Company Limited. He joined the Group in 1994 and is responsible for the supervision of engineering department in China and implementation of special hydraulic equipment components projects. He graduated from the Hong Kong Institute of Vocational Education with a certificate in Communication and Computer Studies and has over 16 years of experience in the manufacturing industry. He is the younger brother of Mr. Chui Siu On, the Chairman of the Group.

Mr. Jiang Fei, aged 36, is the Manager of Guangzhou Xing Hao Precision Metal Products Company Limited supervising the Group's heat treatment division. 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 over 12 years of experience in the manufacturing industry and is now the manager in charge of the heat treatment projects in Mainland China headquarters.

Mr. Lei Ting Yong, aged 33, is the Manager of Guangzhou Xing Hao Precision Metal Products Company Limited supervising the Group's research and product development department. He joined the group in 1995 and is responsible for projects development and the development of information control devices for production efficiency.

COMPANY SECRETARY

Mr. Tam Yiu Chung, aged 38, is the Financial Controller and Company Secretary of the Company. He joined the Group in October 2007. He holds a Master degree in professional accounting and is a member of the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2008.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group endeavours to attain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

The Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") sets out the principles of good corporate governance and two levels of corporate governance practices, being (i) the code provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and (ii) the recommended best practices, for guidance only, which listed issuers are encouraged to comply with.

The Company has complied with the code provisions set out in the CG Code throughout the year with the exception of the Code Provision A.2.1 which requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Key corporate governance principles and practices of the Company as well as details of the said deviation are summarized below.

The Company will continue to review and improve its corporate governance practices from time to time to ensure that its corporate governance practices comply with the regulatory requirements and meet the rising expectations of shareholders and investors.

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.

Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

Every director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

A. THE BOARD *(Continued)*

2. Board Composition

The following chart illustrates the structure and membership of the Board and the Board Committees:

Board of Directors

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

Non-executive Directors
Mr. Ng Kin Nam, *Vice Chairman*
Mr. Wan Tak Wing, Gary*

Independent Non-executive Directors
Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok

Executive Committee
Mr. Chui Siu On, *Chairman*
Mr. Ho Yu Hoi
Mr. Lai Man Kit
Mr. Li Chi Hang
Mr. Wong Kwok Keung

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

* Mr. Wan Tak Wing, Gary was appointed as a non-executive director of the Company on 27 February 2009.

None of the members of the Board is related to one another.

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. The biographical details of the directors are disclosed under the section headed "Directors and Senior Management" in this annual report.

The composition of the Board reflects the necessary balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement. The non-executive director brings a wide range of business and financial expertise, experiences and independent judgement to the Board. Through participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, the non-executive directors make various contributions to the effective direction of the Company.

During the year ended 31 December 2008, 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 one independent non-executive director, being Mr. Wu Karl Kwok, possessing appropriate professional qualifications and accounting and related financial management expertise.

A. THE BOARD *(Continued)*

2. Board Composition *(Continued)*

The Company has received written annual confirmation from each independent non-executive director of his 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.

3. 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.

At present, Mr. Chui Siu On is both the Chairman of the Board and Chief Executive Officer of the Company. As one of the founders of the Group, he has extensive experience in the design and manufacture of automation equipment, precision mechanical components and machinery parts. The Board believes that it is in the best interest of the Group to have Mr. Chui taking up both roles for continuous effective management and business development of the Group.

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.

4. Appointment and re-election of directors

Mr. Ng Kin Nam, a non-executive director of the Company, has been appointed for a term of 3 years; whereas Mr. Wan Tak Wing, Gary, the other non-executive director of the Company, is appointed at an initial term of one year. 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 the forthcoming 2009 annual general meeting of the Company. Such terms of office are subject to early termination or renewal upon expiration.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. 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 next general meeting after appointment.

Pursuant to the aforesaid, Mr. Lai Man Kit, Mr. Wong Kwok Keung, Mr. Wan Tak Wing, Gary and Dr. Cheng Ngok shall retire and, being eligible, offer themselves for re-election at the Company's forthcoming 2009 annual general meeting. The Board recommends their re-appointment. The Company's circular, being sent to all the Shareholders together with this annual report, contains detailed information of the four retiring directors pursuant to the Listing Rules.

A. THE BOARD *(Continued)*

4. Appointment and re-election of directors *(Continued)*

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, re-appointment and succession planning of directors and assessing the independence of independent non-executive directors. In addition, the Company has adopted "Directors Nomination Procedures" as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. 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.

During the year under review, the Board met once, with the presence of Mr. Chui Siu On, Mr. Ho Yu Hoi, Mr. Lai Man Kit, Mr. Li Chi Hang, Mr. Wong Kwok Keung, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok for (i) reviewing the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Company; (ii) recommending the re-appointment of those directors standing for re-election at the 2008 annual general meeting of the Company; and (iii) assessment of the independence of the independent non-executive directors of the Company.

5. Induction and Continuing Development of Directors

Each newly appointed director receives comprehensive 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.

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors will be arranged whenever necessary.

6. Board meetings

Board Practices and Conduct of Meetings

Schedules for regular board meeting are normally agreed with directors in advance to facilitate the attendance. 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.

Draft agenda of each meeting are normally made available to directors in advance. In addition, board papers together with all appropriate, complete and reliable information are sent to all directors 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 Chairman, Chief Financial Officer, Company Secretary and all other relevant senior management normally 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.

A. THE BOARD *(Continued)*

6. Board meetings *(Continued)*

Board Practices and Conduct of Meetings (Continued)

The Company Secretary is responsible to 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.

The Company's Articles of Association 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. 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.

Directors' Attendance Records

During the year ended 31 December 2008, 6 Board meetings were held, out of which 4 were regular meetings held 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.

The individual attendance records of each director at the Board meetings during the year ended 31 December 2008 are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. Chui Siu On	6/6
Mr. Ho Yu Hoi	6/6
Mr. Lai Man Kit	6/6
Mr. Li Chi Hang	6/6
Mr. Wong Kwok Keung	6/6
Mr. Ng Kin Nam	0/6
Dr. Cheng Ngok	6/6
Mr. Choi Hon Ting, Derek	6/6
Mr. Wu Karl Kwok	6/6

Note: Mr. Wan Tak Wing, Gary was appointed as a non-executive director of the Company on 27 February 2009, after the financial year ended 31 December 2008.

7. Model Code for Securities Transactions

The Company has adopted its own code of conduct governing directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the directors and all of them have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2008.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for governing the securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

B. DELEGATION BY THE BOARD

The Board reserves for its decision all 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 that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

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

In order to increase the efficiency for the business decision, the Board established an Executive Committee with written terms of reference. The Executive Committee comprises all the executive directors of the Company. The principal duties of the Executive Committee include monitoring the execution of the Group's strategic plans and operations of all business units of the Group and discussing and making decisions on matters relating to the day-to-day management and operations of the Group.

The Board has also delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the control systems.

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of directors and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2008 are set out in note 8 to the financial statements of the Company.

Remuneration Committee

The Remuneration Committee comprises 5 members, namely Mr. Chui Siu On (Chairman), Mr. Lai Man Kit, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, the majority of them are independent non-executive directors. The primary objectives of the Remuneration Committee include:

- To make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive directors and the senior management, such policy shall ensure that no director or any of his/her associates will participate in deciding his/her own remuneration;

- To make recommendations on the remuneration packages of the directors and the senior management; and

- To review and approve the remuneration packages of the executive directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions.

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Remuneration Committee *(Continued)*

The Remuneration Committee normally meets annually for reviewing and discussing the remuneration policy and structure and determination of the annual remuneration packages of the 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 consults with the Chairman/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

During the year ended 31 December 2008, the Remuneration Committee met once and reviewed and discussed the remuneration packages of directors of the Company. The individual attendance record of each member at the Remuneration Committee meeting is set out below:–

Name of Remuneration Committee Member	Attendance/ Number of Meeting
Mr. Chui Siu On	1/1
Mr. Lai Man Kit	0/1
Dr. Cheng Ngok	1/1
Mr. Choi Hon Ting, Derek	1/1
Mr. Wu Karl Kwok	1/1

D. ACCOUNTABILITY AND AUDIT

1. Directors' responsibilities for financial reporting

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 2008.

The senior management has provided explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

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.

D. ACCOUNTABILITY AND AUDIT *(Continued)*

2. Internal controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and the Company's assets and reviewing the effectiveness of such system.

The Board has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 December 2008. Such review covered the financial, operational, compliance and risk management aspects of the Group. The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

3. Audit Committee

The Audit Committee comprises a total of three members, namely Dr. Cheng Ngok (Chairman), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok. All of the members are independent non-executive directors, with one independent non-executive director, Mr. Wu Karl Kwok, possessing 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:

- To review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board.

- 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, reappointment and removal of external auditors.

- 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 under review, the Audit Committee has held two meetings with the Company's external auditors and/or the senior management and performed the following major tasks:–

- Review and discussion of the Group's financial statements, results announcements and reports for the year ended 31 December 2007 and for the six months ended 30 June 2008 and the Group's auditing, internal control and financial reporting processes; and

- Discussion and recommendation of the re-appointment of the external auditors.

D. ACCOUNTABILITY AND AUDIT *(Continued)*

3. Audit Committee *(Continued)*

The attendance records of members at the two said Audit Committee meetings during the year under review are set out below:–

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

4. External auditors and auditors' remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on page 36.

A summary of audit and non-audit services provided by the external auditors for the year ended 31 December 2008 and their corresponding remuneration is as follows:

Type of services provided by the external auditors	Fees paid/payable (HK$)
Audit services:	
Audit of the annual financial statements for the year ended 31 December 2008	2,067,000
Non-audit services:	
Tax services	1,227,000
Other	78,000
TOTAL:	3,372,000

E. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide a good channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee, or in their absence, other members of the respective Committees normally attend the annual general meeting and other relevant shareholders' meetings to answer questions raised.

E. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS *(Continued)*

The Company also maintains a website at "www.ipegroup.com" as a communication platform for shareholders and investors, where information and updates on the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains 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.

F. SHAREHOLDER RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the Company's Articles of Association contain rights of shareholder(s) to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in the requisition.

Upon the implementation of the amendments to the Listing Rules with effect from 1 January 2009, all resolutions proposed at shareholders' meetings will be voted by poll. The poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ipegroup.com) respectively immediately after the relevant general meetings.

Report of the Directors

The board of directors ("the Board") 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 2008.

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 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 114.

An interim dividend of HK2.4 cents per ordinary share was paid on 23 September 2008.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2008 (2007: HK2.4 cents per ordinary share).

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 audited financial statements and restated/reclassified as appropriate, is set out on pages 5 to 7 of the annual report. This summary does not form part of the audited financial statements.

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 14 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 31 and 32 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law (2001 Second Revision) of the Cayman Islands, amounting to HK$517,641,000. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$304,141,000 at 31 December 2008, which may be distributed provided that immediately following the date on which such reserves are 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.

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

The Company repurchased its 31,285,000 listed shares on the Stock Exchange during the year ended 31 December 2008. These shares were cancelled upon repurchase and accordingly the issued capital of the Company was reduced by the nominal value of these shares.

Details of the repurchase are summarised as follows:

Month of repurchase	Total number of shares repurchased	Repurchase price per share Highest HK$	Repurchase price per share Lowest HK$	Aggregate consideration HK$'000
January 2008	3,380,000	1.03	0.85	3,096
February 2008	3,465,000	0.99	0.88	3,191
March 2008	2,750,000	0.94	0.86	2,490
April 2008	180,000	0.93	0.90	164
May 2008	2,055,000	1.07	0.93	2,109
June 2008	2,265,000	1.08	1.00	2,342
July 2008	2,215,000	1.05	1.00	2,292
August 2008	555,000	0.97	0.93	527
September 2008	8,740,000	1.04	0.88	8,364
October 2008	5,680,000	0.94	0.30	4,452
	31,285,000			29,027

Except as disclosed above, neither the Company, nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Subsequent to year end, the Company has not repurchased any of listed shares on the Stock Exchange from 1 January 2009 to 17 April 2009.

The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 (b) to the financial statements and in the consolidated statement of changes in equity, respectively.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$118,000 (2007: HK$213,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 61% of the total sales for the year and sales to the largest customer included therein amounted to 18%. Purchases from the Group's five largest suppliers accounted for 59% of the total purchases for the year and purchases from the largest supplier included therein amounted to 29%.

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 capital) had any beneficial interest in the Group's five largest customers and suppliers.

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. Wong Kwok Keung

Non-executive directors:
Mr. Ng Kin Nam
Dr. Cheng Ngok*
Mr. Choi Hon Ting, Derek*
Mr. Wu Karl Kwok*

* *Independent non-executive directors*

Subsequent to the balance sheet date, on 27 February 2009, Mr. Wan Tak Wing, Gary was appointed as a non-executive director of the Company.

In accordance with Article 86(3) of the Company's articles of association, Mr. Wan Tak Wing, Gary will retire at the forthcoming annual general meeting. In addition, pursuant to Article 87 of the Company's articles of association, Mr. Lai Man Kit, Mr. Wong Kwok Keung 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. All the above retiring directors, being eligible, will offer themselves for re-election at the said meeting.

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

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 13 to 15 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 a term of three years until terminated by not less than three months' notice in writing served by either party to the other.

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 2008, 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 the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(A) Long positions in 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*	353,100,000	50.60%
	Directly beneficially owned		5,505,000	0.79%
	Through spouse	*2*	100,000	0.01%
			358,705,000	51.40%
Mr. Ng Kin Nam	Directly beneficially owned		7,670,000	1.10%
	Through spouse	*3*	800,000	0.11%
			8,470,000	1.21%
Mr. Ho Yu Hoi	Directly beneficially owned		4,550,000	0.65%

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(Continued)

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

Notes:

1. These shares were owned by Tottenhill Limited, the entire issued capital of which was owned as to 51.3% by Mr. Chui Siu On, 25.0% 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 in Tottenhill Limited, Mr. Chui Siu On was deemed to be interested in the entire 353,100,000 shares of the Company owned by Tottenhill Limited pursuant to Part XV of the SFO.

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

3. These shares were held by Ms. Angeleslao, Jocelyn O, the wife of Mr. Ng Kin Nam, accordingly, Mr. Ng Kin Nam was deemed to be interested in these 800,000 shares of the Company held by his wife 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 capital
Mr. Chui Siu On	Directly beneficially owned	180,832,500	51.3%
Mr. Ng Kin Nam	Directly beneficially owned	88,125,000	25.0%
Mr. Ho Yu Hoi	Directly beneficially owned	48,997,500	13.9%
Mr. Lai Man Kit	Directly beneficially owned	21,150,000	6.0%
Mr. Li Chi Hang	Directly beneficially owned	13,395,000	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 of the share options granted	Percentage of underlying shares over the Company's issued capital
Mr. Ng Kin Nam	Directly beneficially owned	500,000	0.072%
Dr. Cheng Ngok	Directly beneficially owned	500,000	0.072%
Mr. Choi Hon Ting, Derek	Directly beneficially owned	500,000	0.072%
Mr. Wu Karl Kwok	Directly beneficially owned	500,000	0.072%

Note: Details of the above share options granted by the Company are set out in the section "Share option scheme" below and note 32 to the financial statements.

In addition to the above, as at 31 December 2008, 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 previous requirements of a minimum of two shareholders.

Save as disclosed above, as at 31 December 2008, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code; nor had there been any grant or exercise of rights during the year ended 31 December 2008.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above and in the section "Share option scheme" below, 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 Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 32 to the financial statements.

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

	Number of share options								
Name or category of participant	At 1 January 2008	Granted during the year***	Exercised during the year***	Expired during the year	Forfeited during the year	At 31 December 2008	Date of grant of share options	Exercise period of share options*	Exercise price of share options** HK$ per share
Directors									
Mr. Chui Siu On	800,000	–	–	(800,000)	–	–	27-07-05	27-07-05 to 31-12-08	1.41
	800,000	–	–	(800,000)	–	–	27-07-05	01-07-06 to 31-12-08	1.41
	1,400,000	–	–	(1,400,000)	–	–	27-07-05	01-07-07 to 31-12-08	1.41
	3,000,000	–	–	(3,000,000)	–	–			
Mr. Ho Yu Hoi	1,400,000	–	–	(1,400,000)	–	–	27-07-05	27-07-05 to 31-12-08	1.41
	1,400,000	–	–	(1,400,000)	–	–	27-07-05	01-07-06 to 31-12-08	1.41
	2,200,000	–	–	(2,200,000)	–	–	27-07-05	01-07-07 to 31-12-08	1.41
	5,000,000	–	–	(5,000,000)	–	–			
Mr. Lai Man Kit	1,400,000	–	–	(1,400,000)	–	–	27-07-05	27-07-05 to 31-12-08	1.41
	1,400,000	–	–	(1,400,000)	–	–	27-07-05	01-07-06 to 31-12-08	1.41
	2,200,000	–	–	(2,200,000)	–	–	27-07-05	01-07-07 to 31-12-08	1.41
	5,000,000	–	–	(5,000,000)	–	–			
Mr. Li Chi Hang	1,400,000	–	–	(1,400,000)	–	–	27-07-05	27-07-05 to 31-12-08	1.41
	1,400,000	–	–	(1,400,000)	–	–	27-07-05	01-07-06 to 31-12-08	1.41
	2,200,000	–	–	(2,200,000)	–	–	27-07-05	01-07-07 to 31-12-08	1.41
	5,000,000	–	–	(5,000,000)	–	–			

SHARE OPTION SCHEME *(Continued)*

Name or category of participant	At 1 January 2008	Granted during the year***	Exercised during the year***	Expired during the year	Forfeited during the year	At 31 December 2008	Date of grant of share options	Exercise period of share options*	Exercise price of share options** HK$ per share
	Number of share options								
Directors *(Continued)*									
Mr. Wong Kwok Keung	400,000	–	(400,000)	–	–	–	30-11-04	30-11-04 to 31-12-08	0.78
	450,000	–	(450,000)	–	–	–	30-11-04	01-01-06 to 31-12-08	0.78
	450,000	–	(300,000)	(150,000)	–	–	30-11-04	01-01-07 to 31-12-08	0.78
	450,000	–	–	(450,000)	–	–	30-11-04	01-01-08 to 31-12-08	0.78
	280,000	–	–	(280,000)	–	–	27-07-05	01-01-06 to 31-12-08	1.41
	600,000	–	–	(600,000)	–	–	27-07-05	01-01-07 to 31-12-08	1.41
	920,000	–	–	(920,000)	–	–	27-07-05	01-01-08 to 31-12-08	1.41
	3,550,000	–	(1,150,000)	(2,400,000)	–	–			
Mr. Ng Kin Nam	500,000	–	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41
Dr. Cheng Ngok	500,000	–	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41
Mr. Wu Karl Kwok	500,000	–	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41
Mr. Choi Hon Ting, Derek	500,000	–	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41
	23,550,000	–	(1,150,000)	(20,400,000)	–	2,000,000			

SHARE OPTION SCHEME *(Continued)*

Name or category of participant	Number of share options: At 1 January 2008	Granted during the year***	Exercised during the year***	Expired during the year	Forfeited during the year	At 31 December 2008	Date of grant of share options	Exercise period of share options*	Exercise price of share options** HK$ per share
Members of senior management and other employees of the Group									
In aggregate	2,935,000	–	(1,995,000)	(940,000)	–	–	30-11-04	30-11-04 to 31-12-08	0.78
	4,120,000	–	(2,210,000)	(1,785,000)	(125,000)	–	30-11-04	01-01-06 to 31-12-08	0.78
	4,940,000	–	(2,905,000)	(1,895,000)	(140,000)	–	30-11-04	01-01-07 to 31-12-08	0.78
	5,000,000	–	(2,395,000)	(2,465,000)	(140,000)	–	30-11-04	01-01-08 to 31-12-08	0.78
	1,215,000	–	–	(1,090,000)	(125,000)	–	27-07-05	27-07-05 to 31-12-08	1.41
	3,055,000	–	–	(2,900,000)	(155,000)	–	27-07-05	01-01-06 to 31-12-08	1.41
	4,665,000	–	–	(4,450,000)	(215,000)	–	27-07-05	01-01-07 to 31-12-08	1.41
	6,135,000	–	–	(5,890,000)	(245,000)	–	27-07-05	01-01-08 to 31-12-08	1.41
	3,000,000	–	–	–	–	3,000,000	13-09-06	01-01-08 to 31-12-12	1.35
	700,000	–	–	–	–	700,000	28-09-07	01-01-08 to 31-12-10	1.20
	35,765,000	–	(9,505,000)	(21,415,000)	(1,145,000)	3,700,000			
Suppliers of services									
In aggregate	350,000	–	–	(350,000)	–	–	30-11-04	30-11-04 to 31-12-08	0.78
	450,000	–	–	(450,000)	–	–	30-11-04	01-01-06 to 31-12-08	0.78
	450,000	–	–	(450,000)	–	–	30-11-04	01-01-07 to 31-12-08	0.78
	450,000	–	–	(450,000)	–	–	30-11-04	01-01-08 to 31-12-08	0.78
	500,000	–	–	(500,000)	–	–	27-07-05	27-07-05 to 31-12-08	1.41
	280,000	–	–	(280,000)	–	–	27-07-05	01-01-06 to 31-12-08	1.41
	420,000	–	–	(420,000)	–	–	27-07-05	01-01-07 to 31-12-08	1.41
	550,000	–	–	(550,000)	–	–	27-07-05	01-01-08 to 31-12-08	1.41
	2,000,000	–	–	–	–	2,000,000	28-09-07	01-01-08 to 31-12-12	1.20
	3,000,000	–	–	–	–	3,000,000	28-09-07	01-01-09 to 31-12-12	1.20
	8,450,000	–	–	(3,450,000)	–	5,000,000			
	67,765,000	–	(10,655,000)	(45,265,000)	(1,145,000)	10,700,000			

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

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

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

*** The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$0.93.

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

As at 31 December 2008, the following persons (not being directors or chief executives of the Company) with interest of more than 5% in the shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the ordinary shares of the Company:

Name of substantial shareholders	*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	353,100,000	50.60%
Ms. Leung Wing Yi		Directly beneficially owned	100,000	0.01%
	(b)	Through spouse	358,605,000	51.39%
			358,705,000	51.40%
DJE Investment S.A.	*(c)*	Investment manager	57,155,755	8.19%
Fidelity International Limited		Investment manager	36,440,000	5.22%

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 shares and underlying shares".

(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 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.

(c) These shares were held by DJE Investment S.A. which was 81% controlled by Dr. Jens Ehrhardt Kapital AG which in turn was 68.5% controlled by Dr. Jens Alfred Karl Ehrhardt. Accordingly, Dr. Jens Ehrhardt Kapital AG and Dr. Jens Alfred Karl Ehrhardt were deemed to be interested in the 57,155,755 shares pursuant to Part XV of the SFO.

Save as disclosed above, as at 31 December 2008, 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 a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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 capital was held by the public as at the date of this report.

CORPORATE GOVERNANCE

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

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chui Siu On
Chairman and Managing Director

Hong Kong
17 April 2009

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements of IPE Group Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 37 to 114, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

17 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	**861,716**	791,179
Cost of sales		**(656,845)**	(588,606)
Gross profit		**204,871**	202,573
Other income and gains	5	**2,759**	25,696
Selling and distribution costs		**(24,244)**	(18,730)
Administrative expenses		**(69,995)**	(62,520)
Other expenses		**(21,432)**	(6,763)
Finance costs	7	**(23,319)**	(27,423)
PROFIT BEFORE TAX	6	**68,640**	112,833
Tax	10	**(8,256)**	(7,352)
PROFIT FOR THE YEAR		**60,384**	105,481
Attributable to:			
Equity holders of the Company	11	**61,149**	105,739
Minority interests		**(765)**	(258)
		60,384	105,481
DIVIDENDS	12		
Interim dividend		**16,824**	14,459
Proposed final dividend		**–**	17,014
		16,824	31,473
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**HK 8.65 cents**	HK 14.61 cents
Diluted		**N/A**	HK 14.47 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**1,122,805**	941,806
Prepaid land lease payments	*15*	**38,582**	37,496
Investment properties	*16*	**17,000**	21,046
Loan to an unlisted equity investment	*19*	**5,000**	2,850
Available-for-sale investment	*20*	**150**	150
Other non-current assets		**95**	191
Deferred tax assets	*30*	**1,150**	599
Total non-current assets		**1,184,782**	1,004,138
CURRENT ASSETS			
Inventories	*21*	**259,220**	198,232
Trade receivables	*22*	**165,325**	233,704
Derivative financial instruments	*27*	**–**	69
Prepayments, deposits and other receivables	*23*	**19,698**	14,407
Cash and cash equivalents	*24*	**136,468**	235,049
Total current assets		**580,711**	681,461
CURRENT LIABILITIES			
Trade and bills payables	*25*	**68,702**	95,576
Other payables and accruals	*26*	**219,805**	60,287
Derivative financial instruments	*27*	**–**	292
Tax payable		**5,201**	6,073
Interest-bearing bank and other borrowings	*28*	**257,664**	364,484
Total current liabilities		**551,372**	526,712
NET CURRENT ASSETS		**29,339**	154,749
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,214,121**	1,158,887
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*28*	**259,519**	202,426
Deferred tax liabilities	*30*	**2,408**	2,171
Other payables and accruals	*26*	**472**	–
Derivative financial instruments	*27*	**6,557**	–
Total non-current liabilities		**268,956**	204,597
Net assets		**945,165**	954,290

Consolidated Balance Sheet (Continued)

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*31*	**69,780**	71,843
Reserves	*33(a)*	**874,287**	863,666
Proposed final dividend	*12*	**–**	17,014
		944,067	952,523
Minority interests		**1,098**	1,767
Total equity		**945,165**	954,290

CHUI SIU ON
Director

LAI MAN KIT
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the Company												
	Notes	Issued share capital HK$'000 (note 31)	Share premium account HK$'000	Contributed surplus HK$'000 (note 33(a))	Statutory surplus reserve HK$'000 (note 33(a))	Statutory public welfare fund HK$'000 (note 33(a))	Capital redemption reserve HK$'000 (note 31)	Share option reserve HK$'000 (note 32)	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000 (note 12)	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008		71,843	348,132	(1,116)	10,236	287	556	12,497	116,869	376,205	17,014	952,523	1,767	954,290
Exchange realignment		–	–	–	–	–	–	–	(15,615)	–	–	(15,615)	96	(15,519)
Total income and expense for the year recognised directly in equity		–	–	–	–	–	–	–	(15,615)	–	–	(15,615)	96	(15,519)
Profit for the year		–	–	–	–	–	–	–	–	61,149	–	61,149	(765)	60,384
Total income and expense for the year		–	–	–	–	–	–	–	(15,615)	61,149	–	45,534	(669)	44,865
Final 2007 dividend declared	12	–	–	–	–	–	–	–	–	–	(17,014)	(17,014)	–	(17,014)
Exercise of share options	31(c)	1,066	8,861	–	–	–	–	(1,615)	–	–	–	8,312	–	8,312
Repurchase of shares	31(d)	(3,129)	–	–	–	–	–	–	–	–	–	(3,129)	–	(3,129)
Premium on repurchase of shares	31(d)	–	(25,898)	–	–	–	–	–	–	–	–	(25,898)	–	(25,898)
Capital redemption reserve arising from repurchase of shares	31(d)	–	–	–	–	–	3,129	–	–	(3,129)	–	–	–	–
Equity-settled share option arrangements	32	–	–	–	–	–	–	563	–	–	–	563	–	563
Forfeiture and expiry of options		–	–	–	–	–	–	(8,804)	–	8,804	–	–	–	–
Interim 2008 dividend	12	–	–	–	–	–	–	–	–	(16,824)	–	(16,824)	–	(16,824)
Proposed final 2008 dividend	12	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	2,019	–	–	–	–	(2,019)	–	–	–	–
At 31 December 2008		69,780	331,095*	(1,116)*	12,255*	287*	3,685*	2,641*	101,254*	424,186*	–	944,067	1,098	945,165

* These reserve accounts comprise the consolidated reserves of HK$874,287,000 (2007: HK$863,666,000) in the consolidated balance sheet.

Consolidated Statement of Changes in Equity (Continued)

Year ended 31 December 2008

		Attributable to equity holders of the Company												
	Notes	Issued share capital HK$'000 *(note 31)*	Share premium account HK$'000	Contributed surplus HK$'000 *(note 33(a))*	Statutory surplus reserve HK$'000 *(note 33(a))*	Statutory public welfare fund HK$'000 *(note 33(a))*	Capital redemption reserve HK$'000 *(note 31)*	Share option reserve HK$'000 *(note 32)*	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000 *(note 12)*	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007		72,296	352,527	(1,116)	8,045	287	86	11,492	47,921	302,632	13,013	807,183	–	807,183
Exchange realignment		–	–	–	–	–	–	–	68,948	–	–	68,948	75	69,023
Total income and expense for the year recognised directly in equity		–	–	–	–	–	–	–	68,948	–	–	68,948	75	69,023
Profit for the year		–	–	–	–	–	–	–	–	105,739	–	105,739	(258)	105,481
Total income and expense for the year		–	–	–	–	–	–	–	68,948	105,739	–	174,687	(183)	174,504
Final 2006 dividend declared		–	–	–	–	–	–	–	–	–	(13,013)	(13,013)	–	(13,013)
Acquisition of a subsidiary	*34*	–	–	–	–	–	–	–	–	–	–	–	1,950	1,950
Exercise of share options	*31(a)*	17	103	–	–	–	–	–	–	–	–	120	–	120
Repurchase of shares	*31(b)*	(470)	–	–	–	–	–	–	–	–	–	(470)	–	(470)
Premium on repurchase of shares	*31(b)*	–	(4,498)	–	–	–	–	–	–	–	–	(4,498)	–	(4,498)
Capital redemption reserve arising from repurchase of shares	*31(b)*	–	–	–	–	–	470	–	–	(470)	–	–	–	–
Equity-settled share option arrangements	*32*	–	–	–	–	–	–	2,973	–	–	–	2,973	–	2,973
Forfeiture and expiry of options		–	–	–	–	–	–	(1,968)	–	1,968	–	–	–	–
Interim 2007 dividend	*12*	–	–	–	–	–	–	–	–	(14,459)	–	(14,459)	–	(14,459)
Proposed final 2007 dividend	*12*	–	–	–	–	–	–	–	–	(17,014)	17,014	–	–	–
Transfer from retained profits		–	–	–	2,191	–	–	–	–	(2,191)	–	–	–	–
At 31 December 2007		71,843	348,132*	(1,116)*	10,236*	287*	556*	12,497*	116,869*	376,205*	17,014	952,523	1,767	954,290

* These reserve accounts comprise the consolidated reserves of HK$863,666,000 (2006: HK$721,874,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**68,640**	112,833
Adjustments for:			
Depreciation	*6, 14*	**131,311**	113,559
Amortisation of other non-current assets		**95**	95
Recognition of prepaid land lease payments	*6*	**922**	875
Provision/(write-back of provision) against inventory obsolescence	*6*	**2,124**	(4,679)
(Gain)/loss on disposal of items of property, plant and equipment, net	*6*	**(133)**	599
Impairment of items of property, plant and equipment	*6*	**–**	4,744
Fair value losses/(gains) on investment properties	*6, 16*	**3,000**	(4,291)
Fair value losses/(gains), net:			
Derivative financial instruments			
– transactions not qualifying as hedges	*6*	**6,334**	(723)
Equity-settled share option expense	*6, 32*	**563**	2,973
Finance costs	*7*	**23,319**	27,423
Bank interest income	*5*	**(1,993)**	(1,404)
Impairment of goodwill	*17*	**–**	1,950
Impairment of trade receivables	*22*	**3,938**	–
		238,120	253,954
Decrease/(increase) in inventories		**(63,112)**	2,541
Decrease/(increase) in trade receivables		**37,077**	(66,711)
Increase in prepayments, deposits and other receivables		**(5,281)**	(1,376)
Increase in a loan to an unlisted equity investment		**(2,150)**	(1,500)
Decrease in trade and bills payables		**(41,422)**	(5,340)
Increase/(decrease) in other payables and accruals		**9,094**	(11,373)
Cash generated from operations		**172,326**	170,195
Interest received		**1,993**	1,404
Interest paid		**(20,901)**	(22,543)
Interest element of finance lease rental payments		**(1,434)**	(4,047)
Income taxes paid		**(9,350)**	(4,856)
Net cash inflow from operating activities		**142,634**	140,153

Consolidated Cash Flow Statement (Continued)

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Net cash inflow from operating activities		**142,634**	140,153
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(142,429)**	(189,618)
Proceeds from disposal of items of property, plant and equipment		**2,022**	2,187
Proceeds from disposal of investment property		**1,046**	–
Net cash outflow from investing activities		**(139,361)**	(187,431)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares	*31(b) & (d)*	**(29,027)**	(4,968)
Share options exercised	*31(a) & (c)*	**8,312**	120
New bank loans and other borrowings		**402,592**	363,555
Repayment of bank loans and other borrowings		**(416,691)**	(162,198)
Capital element of finance lease rental payments		**(29,648)**	(30,806)
Dividends paid		**(33,838)**	(27,472)
Net cash (outflow)/inflow from financing activities		**(98,300)**	138,231
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(95,027)**	90,953
Cash and cash equivalents at beginning of year		**233,950**	138,670
Effect of foreign exchange rate changes, net		**(2,455)**	4,327
CASH AND CASH EQUIVALENTS AT END OF YEAR		**136,468**	233,950
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*24*	**98,439**	163,512
Non-pledged time deposits with original maturity of less than three months when acquired	*24*	**38,029**	71,537
		136,468	235,049
Bank overdrafts	*28*	**–**	(1,099)
		136,468	233,950

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*18*	**43**	43
CURRENT ASSETS			
Prepayments, deposits and other receivables	*23*	**210**	305
Amounts due from subsidiaries	*18*	**570,834**	610,638
Cash and cash equivalents	*24*	**22,682**	10,294
Total current assets		**593,726**	621,237
CURRENT LIABILITIES			
Other payables and accruals	*26*	**22**	64
NET CURRENT ASSETS		**593,704**	621,173
Net assets		**593,747**	621,216
EQUITY			
Issued capital	*31*	**69,780**	71,843
Reserves	*33(b)*	**523,967**	532,359
Proposed final dividend	*12*	**–**	17,014
Total equity		**593,747**	621,216

CHUI SIU ON
Director

LAI MAN KIT
Director

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.

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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 and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of a subsidiary during prior year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combination to the fair value of the identifiable assets acquired, at the date of acquisition. The cost of the acquisition is measured at the fair value of the assets given, plus costs directly attributable to the acquisition.

Minority interests represent the interests of an outside shareholder not held by the Group in the results and net assets of a subsidiary of the Company.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 HKFRS 2 – *Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The adoption of this interpretation has had no impact on the financial position or results of operations of the Group.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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 are not yet effective, in these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 1 (Revised)	*First-time Adoption of HKFRS* [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	*Reassessment of Embedded Derivatives* [2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* [2]

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

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

Further information about those changes that are expected to significantly affect the Group is as follows:

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rate*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

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

The amendments to HKFRS 7 shall be effective for annual periods beginning on or after 1 January 2009. They require enhanced disclosures about fair value measurements and liquidity risk.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. This is expected to have little impact on entities.

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The Interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Balance Sheet Date* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HKFRS 1, HKAS 39 Amendment, IFRIC 9 and HKAS 39 Amendments, IFRIC 13, IFRIC 15, IFRIC 16 and IFRIC 18 shall be applied for annual periods beginning on or after 1 July 2009, 1 July 2009, 1 July 2009, 1 July 2008, 1 January 2009, 1 October 2008 and 1 July 2009, respectively. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group anticipates that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is 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 flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment losses is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but 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 an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Investment properties

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

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

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

Research and development costs

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

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

Leases

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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

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

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedging

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

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

(c) dividend income, when the shareholders' right to receive payment has been established.

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 32 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions (Continued)

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

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

Pension schemes and other retirement benefits

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

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

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty

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

Impairment of assets

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was nil (2007: nil). More details are given in note 17.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred assets relating to recognised tax losses at 31 December 2008 and 2007. The amount of unrecognised tax losses at 31 December 2008 was HK$6,150,000 (2007: HK$17,119,000). Further details are set out in note 30 to the financial statements.

Share-based payments

The Group measures the costs of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for the estimation of fair value for share-based payments are disclosed in note 32.

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

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

The locations of the geographical segments are as follows:

(a) Thailand;

(b) Malaysia;

(c) Mainland China, Macau and Hong Kong;

(d) North America;

(e) Europe; and

(f) Other countries

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

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

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:								
Sales to external customers	300,135	217,990	135,867	76,341	95,074	36,309	–	861,716
Intersegment sales	83,272	–	20	–	–	–	(83,292)	–
Other revenue	205	–	561	–	–	–	–	766
Total revenue	383,612	217,990	136,448	76,341	95,074	36,309	(83,292)	862,482
Segment results	30,672	23,018	33,325	8,061	10,039	3,834	(18,983)	89,966
Interest income								1,993
Interest expense								(23,319)
Profit before tax								68,640
Tax								(8,256)
Profit for the year								60,384
Assets and liabilities								
Segment assets	226,904	45,908	1,510,216	20,787	11,369	8,773	(59,478)	1,764,479
Unallocated assets								1,014
Total assets								1,765,493
Segment liabilities	109,841	–	711,592	1,220	3,426	53,512	(59,478)	820,113
Unallocated liabilities								215
Total liabilities								820,328

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments *(Continued)*

Year ended 31 December 2008	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000
Other segment information:								
Capital expenditure	23,752	–	270,943	–	–	–	–	294,695
Depreciation and amortisation	21,940	–	110,388	–	–	–	–	132,328
Changes in fair value of derivative financial instruments:								
Interest rate swap	–	–	6,265	–	–	–	–	6,265
Forward currency contracts	–	–	69	–	–	–	–	69
Gain on disposal of items of property, plant and equipment	–	–	(133)	–	–	–	–	(133)
Fair value loss on investment property	–	–	3,000	–	–	–	–	3,000

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments *(Continued)*

Year ended 31 December 2007	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:								
Sales to external customers	320,737	155,285	101,902	68,633	110,600	34,022	–	791,179
Intersegment sales	60,293	–	114	–	–	–	(60,407)	–
Other revenue	1,943	–	22,349	–	–	–	–	24,292
Total revenue	382,973	155,285	124,365	68,633	110,600	34,022	(60,407)	815,471
Segment results	64,840	24,441	30,057	10,802	17,408	5,354	(14,883)	138,019
Interest income								1,404
Interest expense								(26,590)
Profit before tax								112,833
Tax								(7,352)
Profit for the year								105,481
Assets and liabilities								
Segment assets	350,580	48,827	1,276,868	30,586	27,284	32,605	(81,409)	1,685,341
Unallocated assets								258
Total assets								1,685,599
Segment liabilities	135,253	648	89,175	121	8,680	50,161	(81,409)	202,629
Unallocated liabilities								528,680
Total liabilities								731,309

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments *(Continued)*

Year ended 31 December 2007	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000
Other segment information:								
Capital expenditure	14,408	–	134,526	–	–	–	–	148,934
Depreciation and amortisation	24,550	–	89,979	–	–	–	–	114,529
Fair value gains on investment properties	–	–	(4,291)	–	–	–	–	(4,291)
Changes in fair value of derivative financial instruments:								
Interest rate swap	–	–	256	–	–	–	–	256
Forward currency contracts	–	–	(979)	–	–	–	–	(979)
Loss on disposal of items of property, plant and equipment	–	–	599	–	–	–	–	599
Impairment of items of property, plant and equipment	–	–	4,744	–	–	–	–	4,744
Impairment of goodwill	–	–	1,950	–	–	–	–	1,950

4. SEGMENT INFORMATION *(Continued)*

(b) Business segments

The following tables present revenue and certain asset and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008	**HDD components HK$'000**	**Hydraulic equipment components HK$'000**	**Automotive components HK$'000**	**Others HK$'000**	**Eliminations HK$'000**	**Total HK$'000**
Segment revenue:						
Sales to external customers	**600,810**	**167,298**	**57,468**	**36,140**	**–**	**861,716**
Other segment information:						
Segment assets	**466,574**	**162,803**	**56,113**	**65,459**	**–**	**750,949**
Unallocated assets						**1,014,544**
Total assets						**1,765,493**
Capital expenditure	**–**	**–**	**–**	**–**	**–**	**–**
Corporate and other unallocated amounts						**294,695**
Total capital expenditure						**294,695**

Year ended 31 December 2007	HDD components HK$'000	Hydraulic equipment components HK$'000	Automotive components HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:						
Sales to external customers	533,151	165,932	44,365	47,731	–	791,179
Other segment information:						
Segment assets	468,290	135,824	50,366	73,198	–	727,678
Unallocated assets						957,921
Total assets						1,685,599
Capital expenditure	–	–	–	–	–	–
Corporate and other unallocated amounts						148,934
Total capital expenditure						148,934

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Note	2008 HK$'000	2007 HK$'000
Revenue			
Sale of goods and materials		**861,716**	791,179
Other income			
Bank interest income		**1,993**	1,404
Others		**633**	1,327
		2,626	2,731
Gains			
Foreign exchange gains, net		**–**	17,695
Fair value gains:			
Derivative financial instruments – transactions not qualifying as hedges:			
Forward currency contracts		**–**	979
Fair value gains on investment properties, net	*16*	**–**	4,291
Gain on disposal of items of property, plant and equipment		**133**	–
		133	22,965
		2,759	25,696

6. PROFIT BEFORE TAX

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

	Notes	2008 HK$'000	2007 HK$'000
Cost of inventories sold*		**656,845**	588,606
Depreciation	*14*	**131,311**	113,559
Recognition of prepaid land lease payments	*15*	**922**	875
Equity-settled share option expense**	*32*	**563**	2,973
Auditors' remuneration		**2,067**	1,962
Employee benefits expense (excluding directors' remuneration (*note 8*)):			
Wages and salaries		**100,229**	80,286
Equity-settled share option expense**		**–**	1,789
Pension scheme contributions***		**2,505**	1,978
		102,734	84,053
Impairment of goodwill****	*17*	**–**	1,950
Minimum lease payments under operating leases:			
Land and buildings		**1,084**	527
Equipment		**39**	59
		1,123	586
Foreign exchange differences, net		**5,120**	(17,695)
Research and development costs******		**12,638**	11,133
Changes in fair value of investment properties	*16*	**3,000**	(4,291)
Fair value losses/(gains), net:			
Derivative financial instruments – transactions not qualifying as hedges:			
Interest rate swap	*27*	**6,265**	256
Forward currency contracts	*27*	**69**	(979)
		6,334	(723)
(Gain)/loss on disposal of items of property, plant and equipment		**(133)**	599
Impairment of items of property, plant and equipment*****	*14*	**–**	4,744
Impairment of trade receivables	*22*	**3,938**	–
Provision/(write-back of provision) against inventory obsolescence		**2,124**	(4,679)

6. PROFIT BEFORE TAX *(Continued)*

Notes:

* The cost of inventories sold includes an amount of approximately HK$201,016,000 (2007: HK$147,736,000) relating to the employee benefits expense, depreciation and operating lease charges, the amounts 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 for the year 2007 includes an amount of approximately HK$1,789,000 relating to the employee benefit expense which is also included in the employee benefit expense separately disclosed above. The equity-settled share option expense for the current year does not include amount relating to employee benefit expense.

*** At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2007: Nil).

**** The impairment of goodwill is included in "Other expenses" on the face of the consolidated income statement.

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

****** The research and development costs is included in "Cost of sales" and "Other expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
	2008	2007
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**20,879**	22,502
Interest on finance leases	**1,434**	4,047
Financial arrangement fees	**984**	833
Other interest expense	**22**	41
	23,319	27,423

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	
	2008	2007
	HK$'000	HK$'000
Fees	**2,061**	2,063
Other emoluments:		
Salaries, allowances and benefits in kind	**3,835**	3,919
Equity-settled share option expense	**–**	627
Pension scheme contributions	**51**	51
	3,886	4,597
	5,947	6,660

During the year 2005, all of the directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for prior year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees and equity-settled share option expense paid to independent non-executive directors during the year were as follows:

	Group		
2008	**Fees**	**Equity-settled share option expense**	**Total remuneration**
	HK$'000	**HK$'000**	**HK$'000**
Dr. Cheng Ngok	**100**	**–**	**100**
Mr. Choi Hon Ting, Derek	**100**	**–**	**100**
Mr. Wu Karl Kwok	**100**	**–**	**100**
	300	**–**	**300**

8. DIRECTORS' REMUNERATION *(Continued)*

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

2007	Fees HK$'000	Group Equity-settled share option expense HK$'000	Total remuneration HK$'000
Dr. Cheng Ngok	80	–	80
Mr. Choi Hon Ting, Derek	80	–	80
Mr. Wu Karl Kwok	80	–	80
	240	–	240

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2008					
Executive directors:					
Mr. Chui Siu On	**390**	**1,220**	**–**	**12**	**1,622**
Mr. Ho Yu Hoi	**391**	**1,228**	**–**	**–**	**1,619**
Mr. Lai Man Kit	**360**	**628**	**–**	**12**	**1,000**
Mr. Li Chi Hang	**200**	**219**	**–**	**12**	**431**
Mr. Wong Kwok Keung	**360**	**540**	**–**	**12**	**912**
	1,701	**3,835**	**–**	**48**	**5,584**
Non-executive director:					
Mr. Ng Kin Nam	**60**	**–**	**–**	**3**	**63**
	1,761	**3,835**	**–**	**51**	**5,647**

8. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007					
Executive directors:					
Mr. Chui Siu On	390	1,220	88	12	1,710
Mr. Ho Yu Hoi	453	1,185	139	–	1,777
Mr. Lai Man Kit	360	628	139	12	1,139
Mr. Li Chi Hang	200	346	139	12	697
Mr. Wong Kwok Keung	360	540	122	12	1,034
	1,763	3,919	627	48	6,357
Non-executive director:					
Mr. Ng Kin Nam	60	–	–	3	63
	1,823	3,919	627	51	6,420

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: 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 (2007: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2007: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2007: one) non-director, highest paid employee for the year are as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Salaries, allowances and benefits in kind	**934**	780
Equity-settled share option expense	**–**	246
Pension scheme contributions	**–**	12
	934	1,038

9. FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

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

	Number of employee	
	2008	2007
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**–**	1
	1	1

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

10. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2008	2007
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**–**	2,100
Current – Elsewhere		
Charge for the year	**8,479**	4,525
Deferred *(note 30)*	**(223)**	727
Total tax charge for the year	**8,256**	7,352

10. TAX *(Continued)*

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

	Group	
	2008	2007
	HK$'000	HK$'000
Profit before tax	**68,640**	112,833
Tax at the applicable tax rates	**2,910**	28,823
Lower tax rate for local authorities	**(1,604)**	(7,980)
Expenses not deductible for tax	**19,315**	33,530
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**879**	–
Income not subject to tax	**(18,198)**	(48,695)
Tax losses not recognised	**4,954**	1,674
Tax charge at the Group's effective rate of 12.0% (2007: 6.5%)	**8,256**	7,352

According to the then income tax law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises, Dongguan Koda Metal Products Company Limited ("Dongguan Koda") and Guangzhou Xing Hao Precision Metal Products Company Limited ("Xing Hao"), two wholly-owned subsidiaries of the Company established in the Dongguan Coastal Economic Open Zone and Zengcheng Xiancun Lantian Economic Open Zone, respectively, were subject to corporate income tax at a rate of 24%, and were exempt from PRC corporate income tax for the first two profitable years of their operations, and thereafter, were eligible for a 50% relief from PRC corporate income tax for the following three years. Subsequent to completion of a tax relief period of three years at a rate of 10%, Dongguan Koda further obtained an approval from the local tax authority that it would be subject to a tax rate of 15% for the year 2007 because it was recognised as a High-New Technology Enterprise (高新技術企業), which is entitled to enjoy certain tax favourable policies according to the local tax regime.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which became effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to Enterprises with Foreign Investment from 1 January 2008 increases to 25% after cessation of existing tax favourable policies. The implementation of the New CIT Law directly affects the Group's effective tax rate prospectively from 2008.

Pursuant to the New CIT Law, Dongguan Koda was subject to a tax rate of 25% for the year ended 31 December 2008 (2007: 15%). Xing Hao began its first profitable year in the year ended 31 December 2004 and it was subject to a tax rate of 12.5% during the year ended 31 December 2008 (2007: 12%).

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% (2007: 30%). IPE Thailand has three production factories, Factory I and Factory II (Phase 1) and Factory II (Phase 2). Factory II (Phase 2) is currently enjoying an exemption from income tax granted by the Board of Investment, a government authority in Thailand, for a period of eight years from 1 July 2005 to 30 June 2013 for income generated therefrom. Factory II (Phase 2) is also entitled to tax exemption for one additional year after the aforementioned tax holiday if certain conditions are met.

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

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of HK$26,521,000 (2007: HK$160,472,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. DIVIDENDS

	2008 **HK$'000**	2007 HK$'000
Interim dividend – HK2.4 cents (2007: HK2.0 cents) per ordinary share	**16,824**	14,459
Proposed final dividend – Nil (2007: HK2.4 cents per ordinary share)	**–**	17,014
	16,824	31,473

The board of directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2008 (2007: HK2.4 cents per share).

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

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

A diluted earnings per share for the year ended 31 December 2008 has not been disclosed as the share options outstanding during the year have an anti-dilutive effect on the basic earnings per share for the year.

The calculation of diluted earnings per share for the year ended 31 December 2007 was based on the profit for that year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during that 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:

	2008	2007
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**61,149**	105,739

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**707,148,750**	723,807,083
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	7,056,475
	707,148,750	730,863,558

14. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At 1 January 2008	276,579	5,240	957,608	25,743	15,787	44,081	1,325,038
Additions	5,021	29	21,577	4,397	2,327	261,344	294,695
Transfer in/(out)	10,025	1,125	133,770	3,374	3,228	(151,522)	–
Disposals	–	–	(11,427)	(357)	(1,516)	–	(13,300)
Exchange realignment	6,109	–	5,111	451	185	2,225	14,081
At 31 December 2008	297,734	6,394	1,106,639	33,608	20,011	156,128	1,620,514
Accumulated depreciation and impairment:							
At 1 January 2008	(38,687)	(3,892)	(320,502)	(9,597)	(10,554)	–	(383,232)
Depreciation provided during the year	(18,541)	(606)	(103,819)	(6,070)	(2,275)	–	(131,311)
Disposals – depreciation	–	–	9,746	321	1,344	–	11,411
Exchange realignment	(116)	–	5,530	94	(85)	–	5,423
At 31 December 2008	(57,344)	(4,498)	(409,045)	(15,252)	(11,570)	–	(497,709)
At 31 December 2008							
Cost	297,734	6,394	1,106,639	33,608	20,011	156,128	1,620,514
Accumulated depreciation	(57,344)	(4,498)	(409,045)	(15,252)	(11,570)	–	(497,709)
Net carrying amount	240,390	1,896	697,594	18,356	8,441	156,128	1,122,805
At 31 December 2007:							
Cost	276,579	5,240	957,608	25,743	15,787	44,081	1,325,038
Accumulated depreciation	(38,687)	(3,892)	(320,502)	(9,597)	(10,554)	–	(383,232)
Net carrying amount	237,892	1,348	637,106	16,146	5,233	44,081	941,806

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

Group	Freehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At 1 January 2007	228,518	5,240	765,479	15,765	13,990	55,191	1,084,183
Additions	876	–	18,277	1,434	320	128,027	148,934
Transfer in/(out)	26,733	–	107,559	7,558	982	(142,832)	–
Disposals	(729)	–	(11,537)	(437)	(239)	(21)	(12,963)
Exchange realignment	21,181	–	77,830	1,423	734	3,716	104,884
At 31 December 2007	276,579	5,240	957,608	25,743	15,787	44,081	1,325,038
Accumulated depreciation and impairment:							
At 1 January 2007	(19,698)	(3,532)	(210,231)	(5,525)	(8,771)	–	(247,757)
Depreciation provided during the year	(17,000)	(360)	(90,553)	(3,935)	(1,711)	–	(113,559)
Impairment	–	–	(4,744)	–	–	–	(4,744)
Disposals – depreciation	72	–	4,791	392	178	–	5,433
Disposals – impairment	–	–	4,744	–	–	–	4,744
Exchange realignment	(2,061)	–	(24,509)	(529)	(250)	–	(27,349)
At 31 December 2007	(38,687)	(3,892)	(320,502)	(9,597)	(10,554)	–	(383,232)
At 31 December 2007							
Cost	276,579	5,240	957,608	25,743	15,787	44,081	1,325,038
Accumulated depreciation	(38,687)	(3,892)	(320,502)	(9,597)	(10,554)	–	(383,232)
Net carrying amount	237,892	1,348	637,106	16,146	5,233	44,081	941,806

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

The freehold land amounting to Thai Baht19,201,000 (equivalent to HK$4,282,000) included in freehold land and buildings is situated in Thailand (2007: Thai Baht19,201,000 (equivalent to HK$5,007,000)).

The net book values of the Group's property, plant and equipment held under finance leases included in the total amount of the respective categories of property, plant and equipment as at 31 December 2008 are:

(i) plant and machinery amounting to HK$67,612,000 (2007: HK$121,049,000); and

(ii) there was no construction in progress held under finance leases (2007: HK$1,965,000).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**38,371**	36,495
Recognised during the year *(note 6)*	**(922)**	(875)
Exchange realignment	**2,055**	2,751
Carrying amount at 31 December	**39,504**	38,371
Current portion included in prepayments, deposits and other receivables	**(922)**	(875)
Non-current portion	**38,582**	37,496

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

16. INVESTMENT PROPERTIES

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**21,046**	16,755
Net (loss)/gain from a fair value adjustment *(note 5 ,6)*	**(3,000)**	4,291
Disposal of an investment property	**(1,046)**	–
Carrying amount at 31 December	**17,000**	21,046

The Group's investment properties are situated in Hong Kong and in Mainland China and are held under the following lease terms:

	2008	2007
	HK$'000	HK$'000
Long term leases	**–**	1,046
Medium term leases	**17,000**	20,000
	17,000	21,046

The Group's investment properties were revalued on 31 December 2008 by Centaline Surveyors Limited, independent professionally qualified valuers, at HK$17,000,000 on an open market, existing use basis.

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%

* *This investment property has been disposed of at its carrying amount during the year.*

17. GOODWILL

Group

	HK$'000
At 1 January 2007:	
Cost	–
Accumulated impairment	–
Net carrying amount	–
Cost at 1 January 2007, net of accumulated impairment	–
Acquisition of a subsidiary *(note 34)*	1,950
Impairment during the year	(1,950)
Exchange realignment	–
At 31 December 2007	–
At 31 December 2007:	
Cost	1,950
Accumulated impairment	(1,950)
Net carrying amount	–
At 31 December 2008:	
Cost	1,950
Accumulated impairment	(1,950)
Net carrying amount	–

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**43**	43

The amounts due from subsidiaries of HK$570,834,000 (2007: HK$610,638,000) included in the Company's current assets are unsecured, interest-free and repayable on demand.

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

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

18. INVESTMENTS 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	Percentage of equity attributable to the Company Indirect	Principal activities
Dongguan Koda Metal Products Company Limited ("Dongguan Koda")*	PRC/ Mainland China	HK$168,604,176	–	100%	Manufacture of precision metal components
Guangzhou Xing Hao Precision Metal Products Company Limited ("Xing Hao")**	PRC/ Mainland China	HK$563,840,292	–	100%	Manufacture of precision metal components
IPE Precision Machinery Limited	Hong Kong	HK$100,000	–	100%	Investment holding

* *Dongguan Koda is a wholly-foreign-owned enterprise with a registered capital of HK$213,000,000. Up to 31 December 2008, HK$168,604,176 has been contributed.*

** *Xing Hao is a wholly-foreign-owned enterprise with a registered capital of HK$959,000,000. Up to 31 December 2008, HK$563,840,292 has been contributed.*

During the prior year, the Group acquired a subsidiary, Cullygrat Surface & Deburring Treatment Limited, which was incorporated in Hong Kong. Further details of this acquisition are included in note 34 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. LOAN TO AN UNLISTED EQUITY INVESTMENT

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

20. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2008	2007
	HK$'000	HK$'000
Unlisted equity investment, at cost	**150**	150

As at 31 December 2008, an unlisted equity investment with a carrying amount of HK$150,000 (2007: HK$150,000) was stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably.

21. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**114,548**	81,078
Consumables	**43,461**	42,414
Work in progress	**49,982**	46,915
Finished goods	**58,365**	32,837
	266,356	203,244
Less: Provision against inventory obsolescence	**(7,136)**	(5,012)
	259,220	198,232

22. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**169,263**	233,704
Impairment	**(3,938)**	–
	165,325	233,704

The Group's trading terms with its customers are mainly on credit, except for new customers where payments in advance are normally required. The credit period generally ranges from 30 to 120 days, but longer credit terms will be granted to certain major customers with the approval of the 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 aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within 1 month	**31,409**	91,976
1 to 2 months	**49,888**	73,224
2 to 3 months	**59,569**	47,744
3 to 4 months	**20,889**	13,715
4 to 12 months	**6,420**	6,221
Over 12 months	**1,088**	824
	169,263	233,704

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**–**	–
Impairment losses recognised *(note 6)*	**3,938**	–
	3,938	–

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$3,938,000 (2007: nil) with a carrying amount of HK$3,938,000 (2007: nil). The individually impaired trade receivables relate to customers that were in dispute and only a portion of the receivables is expected to be recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

22. TRADE RECEIVABLES *(Continued)*

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**81,297**	165,200
Less than 90 days past due	**80,458**	61,459
90 to 180 days past due	**3,562**	6,221
Over 180 days past due	**8**	824
	165,325	233,704

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancement over these balances.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**5,497**	5,492	**163**	305
Deposits and other receivables	**14,201**	8,915	**47**	–
	19,698	14,407	**210**	305

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**98,439**	163,512	**2,682**	10,294
Non-pledged time deposits	**38,029**	71,537	**20,000**	–
Cash and cash equivalents	**136,468**	235,049	**22,682**	10,294

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$24,684,915 (2007: HK$14,497,487). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and non-pledged time deposits are deposited with creditworthy banks with no recent history of default.

25. TRADE AND BILLS PAYABLES

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within 1 month	**12,584**	41,774
1 to 2 months	**20,485**	28,189
2 to 3 months	**17,480**	11,667
3 to 4 months	**11,721**	8,922
4 to 12 months	**6,418**	4,924
Over 1 year	**14**	100
	68,702	95,576

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 90 days.

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables *(Note)*	**212,424**	55,032	**–**	–
Accruals	**7,853**	5,255	**22**	64
	220,277	60,287	**22**	64
Portion classified as non-current:				
Other payable *(Note)*	**(472)**	–	**–**	–
Current portion	**219,805**	60,287	**22**	64

Note: Other payables include an amount of HK$747,000 which represents a payable for the water pipeline construction project of Integrated Precision Engineering (Thailand) Company Limited in Thailand. This amount is unsecured, interest-free and repayable within three years. Of this amount, HK$275,000 is repayable within one year, the remaining HK$472,000 is repayable in the second to third years. The remaining other payables are unsecured, interest-free and are repayable on demand.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Derivative financial instruments – transactions not qualifying as hedges		
Assets		
Forward currency contracts**	**–**	69
Liabilities		
Interest rate swap*		
– current portion	**–**	292
– non-current portion	**6,557**	–
	6,557	292

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

* *At 31 December 2008, the Group had an interest rate swap agreement with Standard Chartered 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$125,000,000 (2007: HK$100,000,000) with a floating rate was swapped for a fixed rate. The agreement lasts for four years and will expire in April 2012.*

** *During the prior year, 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 required the Group to buy Japanese Yen with US dollar or Hong Kong dollar at a pre-agreed exchange rate on pre-determined dates up to January 2008. All the contracts expired during the year.*

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2008 Effective contractual interest rate (%)	2008 Maturity	2008 HK$'000	2007 Effective contractual interest rate (%)	2007 Maturity	2007 HK$'000
Current						
Finance lease payables *(note 29)*	1.54-10.2	2009	14,056	4.50-6.25	2008	29,636
Unsecured						
Bank overdrafts	–	On demand	–	7.1-7.5	On demand	1,099
Bank revolving loans	2.00-2.75	On demand	60,000	4.68-6.18	On demand	48,968
Bank loans	1.60-6.80	2009	132,491	4.40-7.25	2008	196,572
Other loans	1.99-5.54	2009	51,117	2.08-8.75	2008	88,209
			257,664			364,484
Non-current						
Finance lease payables *(note 29)*	1.54-10.2	2010-2011	77	4.50-6.25	2009-2010	14,063
Unsecured						
Bank loans	1.60-6.80	2010-2011	259,442	4.40-7.25	2009-2011	188,363
			259,519			202,426
			517,183			566,910

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

	Group	
	2008	2007
	HK$'000	HK$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**192,491**	246,639
In the second year	**136,370**	119,155
In the third to fifth years, inclusive	**123,072**	69,208
	451,933	435,002
Other borrowings repayable:		
Within one year	**65,173**	117,845
In the second year	**49**	14,063
In the third to fifth years, inclusive	**28**	–
	65,250	131,908
	517,183	566,910

Notes:

(a) As at 31 December 2008 and 2007, all the interest-bearing bank and other borrowings were unsecured.

(b) As at 31 December 2008, except for the unsecured bank loans of HK$29,825,000 which were denominated in Thai Baht (2007: bank loans of HK$40,499,000 were denominated in Thai Baht and revolving bank loans of HK$38,969,000 were denominated in US dollars), all borrowings were in Hong Kong dollars.

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

29. FINANCE LEASE PAYABLES

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

At 31 December 2008, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments 2008 HK$'000**	Minimum lease payments 2007 HK$'000	**Present value of minimum lease payments 2008 HK$'000**	Present value of minimum lease payments 2007 HK$'000
Amounts payable:				
Within one year	**14,349**	31,370	**14,056**	29,636
In the second year	**58**	14,518	**49**	14,063
In the third to fifth years, inclusive	**29**	–	**28**	–
Total minimum finance lease payments	**14,436**	45,888	**14,133**	43,699
Future finance charges	**(303)**	(2,189)		
Total net finance lease payables	**14,133**	43,699		
Portion classified as current liabilities *(note 28)*	**(14,056)**	(29,636)		
Non-current portion *(note 28)*	**77**	14,063		

30. DEFERRED TAX

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

Deferred tax liabilities

Group	2008			
	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Withholding tax for distributable profits of the PRC subsidiaries HK$'000	Total HK$'000
At 1 January 2008	1,279	892	–	2,171
Deferred tax charged to the income statement during the year *(note 10)*	(264)	(198)	879	417
Exchange realignment	(180)	–	–	(180)
At 31 December 2008	835	694	879	2,408

Deferred tax assets

Group	2008		
	Write-off of other receivables HK$'000	Provision against inventory obsolescence HK$'000	Total HK$'000
At 1 January 2008	50	549	599
Deferred tax charged to the income statement during the year *(note 10)*	18	622	640
Exchange realignment	(9)	(80)	(89)
At 31 December 2008	59	1,091	1,150

30. DEFERRED TAX *(Continued)*

Deferred tax liabilities

Group

	2007			
	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Withholding tax for distributable profits of the PRC subsidiaries HK$'000	Total HK$'000
At 1 January 2007	867	877	–	1,744
Deferred tax charged to the income statement during the year *(note 10)*	160	15	–	175
Exchange realignment	252	–	–	252
At 31 December 2007	1,279	892	–	2,171

Deferred tax assets

Group

	2007		
	Write-off of other receivables HK$'000	Provision against inventory obsolescence HK$'000	Total HK$'000
At 1 January 2007	52	923	975
Deferred tax charged to the income statement during the year *(note 10)*	(9)	(543)	(552)
Exchange realignment	7	169	176
At 31 December 2007	50	549	599

30. DEFERRED TAX *(Continued)*

Deferred tax assets *(Continued)*

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**6,150**	17,119	**4,921**	3,165
Deductible temporary differences	**35,952**	30,250	**–**	–
	42,102	47,369	**4,921**	3,165

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

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investor. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

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

31. SHARE CAPITAL

Shares

	2008	2007
	HK$'000	HK$'000
Authorised:		
1,200,000,000 (2007: 1,200,000,000) ordinary shares of HK$0.1 each	**120,000**	120,000
Issued and fully paid:		
697,795,000 (2007: 718,425,000) ordinary shares of HK$0.1 each	**69,780**	71,843

31. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

The movements in share capital for the years ended 31 December 2008 and 2007 were as follows:

	Notes	**Number of shares in issue**	**Issued capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2007		722,960,000	72,296	352,527	424,823
Share options exercised	*(a)*	165,000	17	103	120
Repurchase of shares	*(b)*	(4,700,000)	(470)	(4,498)	(4,968)
At 31 December 2007 and 1 January 2008		718,425,000	71,843	348,132	419,975
Share options exercised	*(c)*	10,655,000	1,066	8,861	9,927
Repurchase of shares	*(d)*	(31,285,000)	(3,129)	(25,898)	(29,027)
At 31 December 2008		**697,795,000**	**69,780**	**331,095**	**400,875**

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

(a) The subscription rights attaching to 165,000 share options were exercised in 2007 at the subscription price of HK$0.78 per share, resulting in the issue of 165,000 shares of HK$0.1 each for a total cash consideration, before expenses, of approximately HK$0.13 million.

(b) The Company repurchased its own shares on the Stock Exchange during the year ended 31 December 2007. The shares were cancelled upon repurchase and accordingly the issued capital of the Company was reduced by the nominal value of these shares. The premium on the repurchase was charged against share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

(c) The subscription rights attaching to 10,655,000 share options were exercised in 2008 at the subscription price of HK$0.78 per share (note 32), resulting in the issue of 10,655,000 shares of HK$0.1 each for a total cash consideration, before expenses, of approximately HK$8.31 million. The corresponding share option reserve for the share options exercised was also transferred to the share premium account accordingly.

(d) The Company repurchased its own shares on the Stock Exchange during the year ended 31 December 2008. The shares were cancelled upon repurchase and accordingly the issued capital of the Company was reduced by the nominal value of these shares. The premium on the repurchase was charged against share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

Details of the repurchases of shares are set out in the Report of the Directors on page 27.

31. SHARE CAPITAL *(Continued)*

Share options

Details of the Company's share option scheme and the share options issued under the scheme are set out in note 32 to the financial statements.

32. 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 members of the Group and any advisors, consultants, distributors, contributors, suppliers, agents, customers, joint venture business partners, promoters, service providers of any members of the Group who are eligible to participate in the Scheme, to take up options to subscribe for shares in the Company.

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

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

As at the date of approval of these financial statements, the maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme was 63,682,000 shares, which represented approximately 9.13% of the Company's shares in issue as at that date.

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

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

32. SHARE OPTION SCHEME *(Continued)*

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

The offer of a grant of share options must be accepted no later than 28 days after the date of offer, upon payment of a consideration of HK$1 by the grantee. Share options may be exercised during the period commencing on the date upon which the share options are accepted and expiring on the last day of a five-year period from such acceptance date or the last day of the period of the Scheme, whichever is earlier. There is no minimum period for which an option must be held before the exercise of the option except otherwise imposed by the board of directors.

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

	2008		2007	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.20**	**67,765**	1.18	72,775
Granted during the year	**–**	**–**	1.20	5,700
Forfeited during the year	**1.19**	**(1,145)**	1.27	(545)
Exercised during the year	**0.78**	**(10,655)**	0.78	(165)
Expired during the year	**1.28**	**(45,265)**	1.09	(10,000)
At 31 December	**1.28**	**10,700**	1.20	67,765

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.93 (2007: HK$1.25).

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

2008

Number of options '000	**Exercise prices HK$ per share**	**Exercise period**
2,000	**1.41**	**27-07-05 to 26-07-10**
700	**1.20**	**01-01-08 to 31-12-10**
3,000	**1.35**	**01-01-08 to 31-12-12**
2,000	**1.20**	**01-01-08 to 31-12-12**
3,000	**1.20**	**01-01-09 to 31-12-12**
10,700		

32. SHARE OPTION SCHEME *(Continued)*

2007

Number of options '000	Exercise prices HK$ per share	Exercise period
3,685	0.78	30-11-04 to 31-12-08
6,715	1.41	27-07-05 to 31-12-08
2,000	1.41	27-07-05 to 26-07-10
8,635	0.78~1.41	01-01-06 to 31-12-08
5,000	1.41	01-07-06 to 31-12-08
11,525	0.78~1.41	01-01-07 to 31-12-08
8,000	1.41	01-07-07 to 31-12-08
13,505	0.78~1.41	01-01-08 to 31-12-08
700	1.20	01-01-08 to 31-12-10
5,000	1.20~1.35	01-01-08 to 31-12-12
3,000	1.20	01-01-09 to 31-12-12
67,765		

The total share option expense recognised by the Group during the year was HK$563,000 (2007: HK$2,973,000).

The fair value of equity-settled share options granted during the prior 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 2007:

Dividend yield (%)	3.39%
Expected volatility (%)	27.58%
Historical volatility (%)	27.58%
Risk-free interest rate (%)	3.64% ~ 3.84%
Expected life of options (year)	0.76
Weighted average share price (HK$)	1.18

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

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

The 10,655,000 share options exercised during the year resulted in the issue of 10,655,000 ordinary shares of the Company and new share capital of HK$1,065,500, reversal of share option reserve of HK$1,615,253 and share premium of HK$8,860,653 (before issue expenses), as further detailed in note 31 to the financial statements.

At the balance sheet date, the Company had 10,700,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 10,700,000 additional ordinary shares of the Company and additional share capital of HK$1,070,000, reversal of share option reserve of HK$2,641,356 and share premium of HK$15,281,356 (before issue expenses).

At the date of approval of these financial statements, the Company had 10,700,000 share options outstanding under the Scheme, which represented approximately 1.53% of the Company's shares in issue as at that date.

33. 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 40 and 41 of the financial statements.

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

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

The transfer of net profit to the statutory public welfare fund is made at the discretion of the directors at 5% of the net profit of the Company's subsidiaries. The statutory public welfare fund can be used for employees' welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the years ended 31 December 2008 and 2007.

33. RESERVES *(Continued)*

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007		335,531	86	11,492	(9,958)	67,631	404,782
Exercise of share options	*31(a)*	103	–	–	–	–	103
Premium on repurchase of shares	*31(b)*	(4,498)	–	–	–	–	(4,498)
Capital redemption reserve arising from repurchase of shares	*31(b)*	–	470	–	–	(470)	–
Equity-settled share option arrangements	*32*	–	–	2,973	–	–	2,973
Forfeiture and expiry of options		–	–	(1,968)	–	1,968	–
Profit for the year	*11*	–	–	–	–	160,472	160,472
Interim 2007 dividend	*12*	–	–	–	–	(14,459)	(14,459)
Proposed final 2007 dividend	*12*	–	–	–	–	(17,014)	(17,014)
At 31 December 2007 and 1 January 2008		331,136	556	12,497	(9,958)	198,128	532,359
Exercise of share options	*31(c)*	8,861	–	(1,615)	–	–	7,246
Premium on repurchase of shares	*31(d)*	(25,898)	–	–	–	–	(25,898)
Capital redemption reserve arising from repurchase of shares	*31(d)*	–	3,129	–	–	(3,129)	–
Equity-settled share option arrangements	*32*	–	–	563	–	–	563
Forfeiture and expiry of options		–	–	(8,804)	–	8,804	–
Profit for the year	*11*	–	–	–	–	26,521	26,521
Interim 2008 dividend	*12*	–	–	–	–	(16,824)	(16,824)
Proposed final 2008 dividend	*12*	–	–	–	–	–	–
At 31 December 2008		**314,099**	**3,685**	**2,641**	**(9,958)**	**213,500**	**523,967**

The Company's contributed surplus arose from the Group's reorganisation in 2004 when the Company issued shares in exchange for the shares of Best Device, one of the subsidiaries of the Company then acquired.

34. BUSINESS COMBINATION

During the prior year on 13 March 2007, the Group subscribed to 61 new shares of HK$1 each of Cullygrat Surface & Deburring Treatment Limited ("Cullygrat"), a company incorporated in Hong Kong, for a total subscription price of HK$5,000,000. One of the directors of Cullygrat is a member of the senior management personnel of the Group. After the subscription, the Group held a 61% equity interest in Cullygrat and Cullygrat was deemed to be acquired by the Company. Cullygrat is an investment holding company, which was incorporated during the year for setting up an operation in Mainland China for engaging in the provision of processing services for the manufacture of industrial products.

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

	Fair value recognised on acquisition HK$	**Previous carrying amount** HK$
Cash and bank balances	5,000,039	5,000,039
Minority interests	(1,950,015)	
	3,050,024	
Goodwill on acquisition *(note 17)*	1,949,976	
Satisfied by cash	5,000,000	

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

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

The subsidiary had not commenced business during the prior year. The acquisition of the subsidiary had no significant impact on the Group's consolidated turnover or profit after tax for the prior year.

35. CONTINGENT LIABILITIES

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**961,330**	978,167
Guarantees given to an electricity company	**1,033**	1,208	**–**	–
	1,033	1,208	**961,330**	978,167

As at 31 December 2008, the banking facilities granted to the subsidiaries subject to the guarantees given to the banks by the Company were utilised to the extent of approximately HK$517,183,000 (2007: HK$565,505,000).

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 one to three years. None of these leases include contingent rentals.

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**1,424**	231
In the second to fifth years, inclusive	**521**	63
	1,945	294

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	
	2008	2007
	HK$'000	HK$'000
Authorised, but not contracted for:		
Renovation of buildings	**261**	–
	261	–
Contracted, but not provided for:		
Plant and machinery	**5,869**	81,939
Construction in progress	**3,119**	4,849
	8,988	86,788
	9,249	86,788

The Company did not have any significant commitments as at 31 December 2008 and 2007.

38. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2008	2007
	HK$'000	HK$'000
Short term employee benefits	**11,141**	10,848
Equity-settled share option expense	**–**	1,212
Post-employment benefits	**123**	120
Total compensation paid to key management personnel	**11,264**	12,180

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

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

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2008

Financial assets

	Group			
	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available–for-sale financial assets HK$'000	Total HK$'000
Loan to an unlisted equity investment	–	5,000	–	5,000
Available-for-sale investment	–	–	150	150
Trade receivables	–	165,325	–	165,325
Derivative financial instruments	–	–	–	–
Financial assets included in prepayments, deposits and other receivables *(note 23)*	–	14,201	–	14,201
Cash and cash equivalents *(note 24)*	–	136,468	–	136,468
	–	320,994	150	321,144

2008

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals *(note 26)*	–	220,277	220,277
Trade and bills payables	–	68,702	68,702
Derivative financial instruments	6,557	–	6,557
Interest-bearing bank and other borrowings	–	517,183	517,183
	6,557	806,162	812,719

39. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(Continued)*

2007

Financial assets

	Group			
	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Loan to an unlisted equity investment	–	2,850	–	2,850
Available-for-sale investment	–	–	150	150
Trade receivables	–	233,704	–	233,704
Derivative financial instruments	69	–	–	69
Financial assets included in prepayments, deposits and other receivables *(note 23)*	–	8,915	–	8,915
Cash and cash equivalents *(note 24)*	–	235,049	–	235,049
	69	480,518	150	480,737

2007

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals *(note 26)*	–	60,287	60,287
Trade and bills payables	–	95,576	95,576
Derivative financial instruments	292	–	292
Interest-bearing bank and other borrowings	–	566,910	566,910
	292	722,773	723,065

39. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(Continued)*

2008

Financial assets

	Company			
	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available–for-sale financial assets HK$'000	Total HK$'000
Amounts due from subsidiaries	–	570,834	–	570,834
Cash and cash equivalents	–	22,682	–	22,682
	–	593,516	–	593,516

2008

Financial liabilities

	Company		
	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals *(note 26)*	–	22	22

39. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(Continued)*

2007

Financial assets

	Company			
	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Amounts due from subsidiaries	–	610,638	–	610,638
Cash and cash equivalents	–	10,294	–	10,294
	–	620,932	–	620,932

2007

Financial liabilities

	Company		
	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals *(note 26)*	–	64	64

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements. Management manages and monitors these exposures to ensure that appropriate measures are implemented in a timely and effective manner.

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

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by certain subsidiaries in currencies other than the subsidiaries' functional currency. Approximately 36% (2007: 55%) of the Group's sales are denominated in currencies other than the functional currency of the subsidiaries making the sale, whilst almost 36% (2007: 55%) of costs are denominated in the subsidiaries' functional currency. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

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

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax HK$'000
2008		
If Hong Kong dollar weakens against United States dollar	5%	6,710
If Hong Kong dollar weakens against Euro	5%	232
If Hong Kong dollar weakens against Japanese Yen	5%	(9,142)
If Hong Kong dollar strengthens against United States dollar	(5%)	(6,710)
If Hong Kong dollar strengthens against Euro	(5%)	(232)
If Hong Kong dollar strengthens against Japanese Yen	(5%)	9,142
2007		
If Hong Kong dollar weakens against United States dollar	5%	8,930
If Hong Kong dollar weakens against Euro	5%	213
If Hong Kong dollar weakens against Japanese Yen	5%	(3,866)
If Hong Kong dollar strengthens against United States dollar	(5%)	(8,930)
If Hong Kong dollar strengthens against Euro	(5%)	(213)
If Hong Kong dollar strengthens against Japanese Yen	(5%)	3,866

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 its assets and liabilities and cash flows. The matching of assets and liabilities is utilised to hedge interest rate risk.

In addition, 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 28 to the financial statements.

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

Interest rate risk *(Continued)*

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2008, after taking into account the effect of the interest rate swaps, approximately 24.2% (2007: 17.6%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in basis points	Increase/ (decrease) effect on profit before tax HK$'000
2008		
HK$	25	(1,059)
US$	25	–
Thai Baht	25	(255)
HK$	(25)	1,059
US$	(25)	–
Thai Baht	(25)	255
2007		
HK$	25	(824)
US$	25	(97)
Thai Baht	25	(101)
HK$	(25)	824
US$	(25)	97
Thai Baht	(25)	101

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 currencies of the relevant operating units, 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, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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

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

Liquidity risk

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

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, is as follows:

Group

	2008					
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Finance lease payables	–	4,586	9,763	87	–	14,436
Interest-bearing bank and other borrowings (excluding finance lease payables)	60,397	87,399	113,850	275,467	–	537,113
Trade and bills payables	18,153	29,126	21,423	–	–	68,702
Other payables and accruals	–	59,205	160,600	472	–	220,277
Derivative financial instruments	–	–	–	6,557	–	6,557
	78,550	180,316	305,636	282,583	–	847,085

	2007					
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Finance lease payables	–	8,444	22,926	14,518	–	45,888
Interest-bearing bank and other borrowings (excluding finance lease payables)	50,067	62,652	222,129	188,363	–	523,211
Trade and bills payables	–	81,630	13,946	–	–	95,576
Other payables and accruals	–	17,362	42,925	–	–	60,287
Derivative financial instruments	–	–	292	–	–	292
	50,067	170,088	302,218	202,881	–	725,254

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade and bills payables, and other payables and accruals, less cash and cash equivalents. Capital represents the total equity attributable to equity holders. The gearing ratios as at the balance sheet dates were as follows:

	2008 **HK$'000**	2007 HK$'000
Interest-bearing bank and other borrowings *(note 28)*	**517,183**	566,910
Trade and bills payables *(note 25)*	**68,702**	95,576
Other payables and accruals *(note 26)*	**220,277**	60,287
Less: Cash and cash equivalents *(note 24)*	**(136,468)**	(235,049)
Net debt	**669,694**	487,724
Equity attributable to equity holders	**944,067**	952,523
Capital and net debt	**1,613,761**	1,440,247
Gearing ratio	**41%**	34%

41. COMPARATIVE AMOUNTS

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2009.