



IPE GROUP LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

Interim Report 2005



High Precision Metal
Components

HDD Components

Hydraulic Components

Electronic
Devices



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

Non-Executive Director

Mr. Ng Kin Nam (*Vice Chairman*)

Independent Non-Executive Directors

Dr. Cheng Ngok

Mr. Choi Hon Ting, Derek

Mr. Wu Karl Kwok

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wan Tak Wing, Gary (FCPA)

AUDIT COMMITTEE

Dr. Cheng Ngok (*Chairman*)

Mr. Choi Hon Ting, Derek

Mr. Wu Karl Kwok

REMUNERATION COMMITTEE

Mr. Chui Siu On (*Chairman*)

Mr. Lai Man Kit

Dr. Cheng Ngok

Mr. Choi Hon Ting, Derek

Mr. Wu Karl Kwok

PRINCIPAL BANKERS

Bangkok Bank Public Company Limited

Bank of China (Hong Kong) Limited

Dah Sing Bank, Limited

DBS Bank (Hong Kong) Limited

Industrial and Commercial Bank of China (Asia) Limited

Standard Chartered Bank (Hong Kong) Limited

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong law

Michael Li & Co

So Keung Yip & Sin

As to PRC law

Everwin Law Office

AUDITORS

Ernst & Young

Certified Public Accountants

STOCK CODE

The shares of IPE Group Limited are listed for trading on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 929)

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705

George Town

Grand Cayman

British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Rooms 1712-1716, 17th Floor, Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

REGISTERED OFFICE

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681GT

George Town

Grand Cayman

British West Indies

HEAD OFFICE AND 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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Yue Hu Cun

Xian Cun Zhen

Zengcheng City

Guangdong Province, the PRC

WEBSITE

www.ipegroup.com



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CORPORATE PROFILE

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

The Group started high precision components business in 1990 in Singapore and now develops into a multinational corporation with three production plants located in the Mainland China and one plant in Thailand. By using specialized computerized numerical controlled machines, the Group produces high precision metal components used in hard disk drives (HDDs), hydraulic equipments, automotive components, fibre optical connectors and electronic devices.

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

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



CORPORATE MILESTONE

Year

1990	Established Integrated Precision Engineering Pte. Ltd. ("IPE (Singapore)") in Singapore
1994	Established Integrated Precision Engineering Company Limited ("IPE (Hong Kong)") in Hong Kong Established Dongguan Koda Metal Products Co., Ltd. ("Dongguan Koda") in Mainland China
1997	Established Integrated Precision Engineering (Thailand) Co., Ltd. ("IPE (Thailand)") in Thailand IPE (Singapore) was accredited ISO 9002 certification IPE (Singapore) was awarded the "Top 50 outstanding enterprise" for the first time by the Singapore Government
2000	IPE (Singapore) was awarded the "Top 50 outstanding enterprise" for the second time by the Singapore Government
2001	IPE (Singapore) was awarded the "Top 50 outstanding enterprise" for the third time by the Singapore Government
2002	IPE (Thailand)'s production facility was accredited ISO 9001 certification Dongguan Koda's production facility was accredited ISO 9001 and QS 9000 certifications Established Guangzhou Xing Hao Precision Metal Products Co., Ltd. ("Xing Hao") in Mainland China IPE (Singapore) was awarded the "Top 50 outstanding enterprise" for the fourth time by the Singapore Government
2003	Completed the relocation of the production facilities from IPE (Singapore) to IPE (Thailand) Acquired additional land of 166,667 square metres to enlarge production facilities of Xing Hao and construction of the new Guangzhou plant commenced
2004	Established IPE Macao Commercial Offshore Limited ("IPE Macao") in Macao Listed on the Main Board of the Stock Exchange on 1 November 2004



EVENTS CALENDAR 2005

Year

2005
first half

- First phase of Xing Hao's new Guangzhou plant was completed in March 2005 and began operation
- IPE Macao signed a 3 years' sourcing agreement with Siemens VDO for the supply of injection nozzle components in May 2005
- IPE Group issued 100,000,000 new shares to institutional investors at HK\$1.15 per share in May 2005 to support its expansion plan
- Established IPE Precision Machinery Limited in Hong Kong in May 2005
- IPE (Hong Kong) signed a HK\$200,000,000 syndicated term loan facility in June 2005

FINANCIAL HIGHLIGHTS

		Adopted new and revised HKFRSs and HKASs		Prepared under previous HKGAAP			
		1H 2005	1H 2004	FY 2004 (restated)	FY 2003	FY 2002	FY 2001
OPERATING RESULTS							
Turnover	(HK\$ '000)	177,751	131,440	281,672	208,255	184,201	194,831
Gross profit	(HK\$ '000)	58,705	45,742	94,636	86,357	78,110	61,924
Gross profit margin		33.0%	34.8%	33.6%	41.5%	42.4%	31.8%
Net profit	(HK\$ '000)	30,732	22,848	50,676	42,403	43,965	28,472
Net profit margin		17.3%	17.4%	18.0%	20.4%	23.9%	14.6%
PER SHARE DATA							
Earnings per share – basic	(HK cents)	5.9	6.1	12.9	11.4	11.8	7.6
Earnings per share – diluted	(HK cents)	5.8	N/A	12.8	N/A	N/A	N/A
		As at 30 June 2005	As at 30 June 2004	As at 31 December 2004	As at 31 December 2003	As at 31 December 2002	As at 31 December 2001
FINANCIAL POSITION							
Non-current assets	(HK\$ '000)	528,093	290,804	347,378	209,981	153,272	85,760
Current assets	(HK\$ '000)	250,498	154,034	210,589	125,357	108,752	197,301
Current liabilities	(HK\$ '000)	(151,851)	(151,027)	(188,573)	(117,455)	(107,762)	(165,124)
Non-current liabilities	(HK\$ '000)	(180,823)	(99,653)	(75,621)	(56,971)	(40,707)	(24,446)
Minority interests	(HK\$ '000)	–	–	–	(18)	378	–
Net Assets	(HK\$ '000)	445,917	194,158	293,773	160,894	113,933	93,491
Share Capital	(HK\$ '000)	60,042	10,000	50,000	39	39	8,613
Reserves	(HK\$ '000)	385,875	184,141	243,752	160,855	113,894	84,878
Equity Shareholders' Funds	(HK\$ '000)	445,917	194,141	293,752	160,894	113,933	93,491
Minority interests	(HK\$ '000)	–	17	21	–	–	–
Total equity	(HK\$ '000)	445,917	194,158	293,773	160,894	113,933	93,491
KEY STATISTICS							
Tangible net worth	(HK\$ '000)	445,917	220,227	319,099	187,707	142,233	93,491
Total interest bearing borrowings	(HK\$ '000)	141,690	116,849	178,388	87,100	73,737	71,797
Ratio of borrowings (Total interest bearing debt to total equity)		0.32	0.60	0.61	0.54	0.65	0.77
Net debt to equity		0.15	0.46	0.39	0.44	0.36	0.24
Current ratio		1.65	1.02	1.12	1.07	1.01	1.19
Interest coverage		10	13	12	13	17	8
Dividend payout ratio		29.3%	26.5%	29.7%	11.8%	N/A	N/A
Days of inventories turnover		94	77	82	87	66	29
Days of receivable repayment		88	88	91	91	86	99

Notes:

1H: First half of the year

FY: Full year

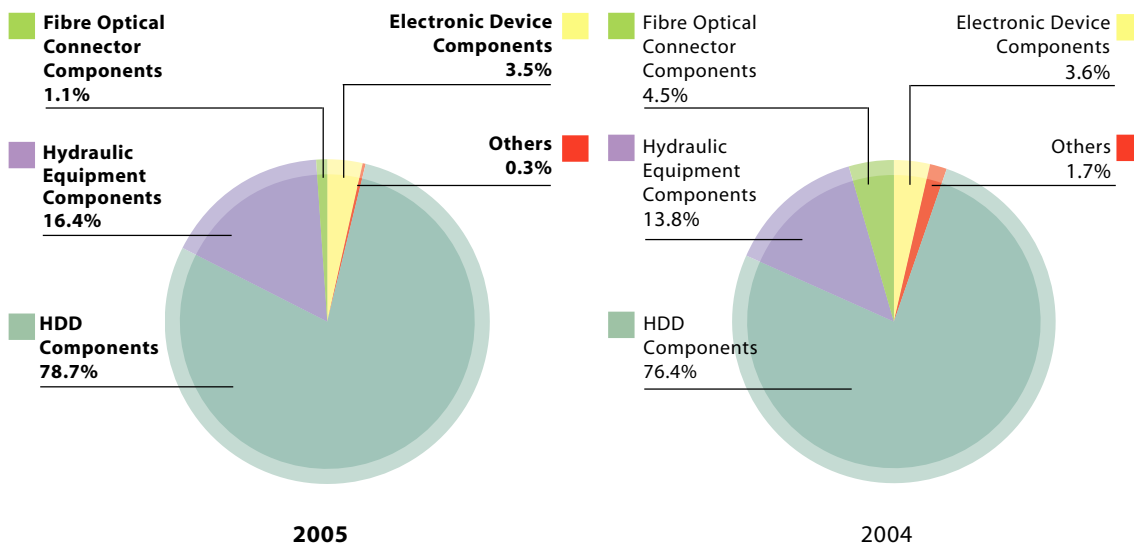
Details of basis of preparation and accounting policies are stated in the notes to the condensed consolidated financial statements on page 19.



FINANCIAL HIGHLIGHTS SEGMENT INFORMATION

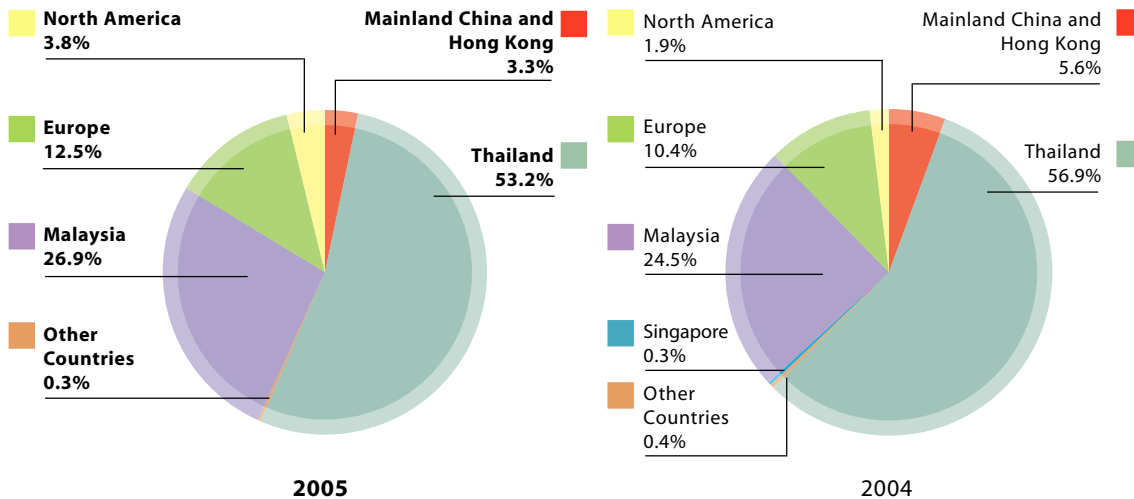
TURNOVER FOR THE SIX MONTHS ENDED 30 JUNE

BUSINESS SEGMENTS



6

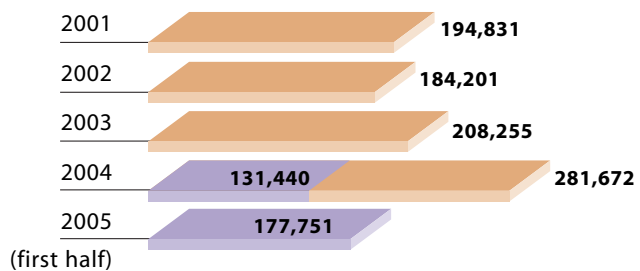
GEOGRAPHICAL SEGMENTS



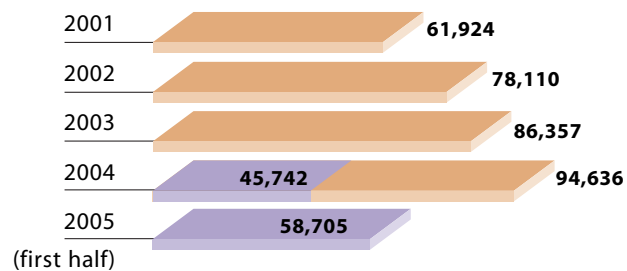


FINANCIAL HIGHLIGHTS

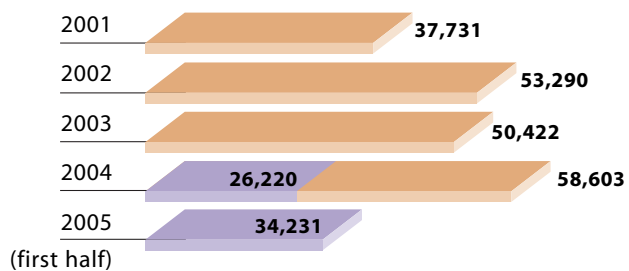
TURNOVER (HK\$'000)



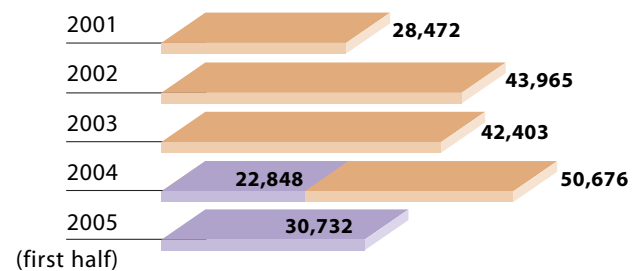
GROSS PROFIT (HK\$'000)



PROFIT FROM OPERATIONS (HK\$'000)



NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS (HK\$'000)





Hydraulic equipment components



**Robust Growth In
Market Demand**



MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

IPE Group achieved a net profit attributable to the Company's shareholders of HK\$30,732,000 for the first half of 2005 (2004: HK\$22,848,000), representing a 34.5% increase when compared with the corresponding period of 2004.

For the six months ended 30 June 2005, the Group's sales of hard disk drives (HDDs) components was HK\$139,937,000, representing a growth of 39.3% over the same period last year, and shared approximately 79% of the Group's total turnover. In the first half of 2005, the worldwide HDDs market progressed remarkably well, with total delivery of HDDs in the first half of 2005 increased by over 30% from the corresponding period last year (sources from industry statistic). Especially thanks for HDDs' widened application to MP3, DVD recorders, portable phones and cameras, the outlook for HDD market is promising.

In addition, the robust growth in the automotive, hydraulic equipment manufacturing as well as many other industries led to the sustainable demand growth for machine tools and components. The Group's sales of hydraulic components grew by 60.8% during the period from the corresponding period last year.

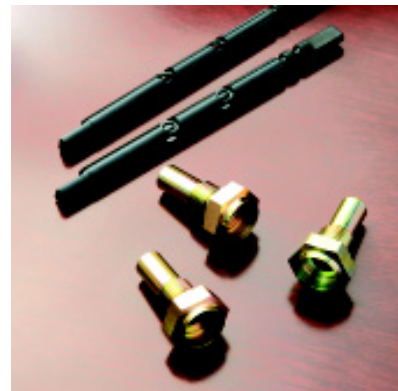
During the period under review the Group has invested 317 units of CNC precision automatic lathe together with other advanced machineries and equipments, with value of approximately HK\$204,000,000. The Group's production capacity is expected to increase by 40% by the end of 2005 when compared to that of 2004. In line with the Group's business expansion, experienced engineers and skillful talents were recruited during the period. As at 30 June 2005, the total headcount of IPE Group was 2,681 (31 December 2004: 2,024).

Although the Group has invested a lot in expanding its production capabilities during the period under review, the Group's production facilities were operated at nearly full capacity. To cope with the increasing sales orders and to



Automotive components

**Modern Production
Facilities With Strong
R & D Capabilities**



resolve the bottleneck situation, the Group speeded up the expansion of its new production facilities in Guangzhou. The new production plant comprises three blocks of factory buildings with total production floor area of approximately 60,000 square metres. The No. 1 factory has commenced its operations in March 2005, whereas No. 2 and No. 3 factory will commence operations by the first quarter of 2006. Furthermore, the Group commenced renovation of its existing production plants in Dongguan, China and Wangnoi, Thailand to upgrade the existing machines and expand their production facilities. It is expected that the renovation process will be completed by the first quarter of 2006.

Financial Review

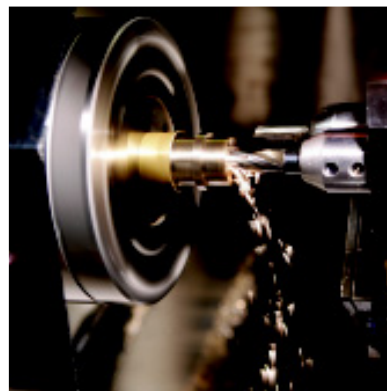
Turnover

The Group's turnover was HK\$177,751,000 for the first six months of 2005, an increase of 35.2% from HK\$131,440,000 for the corresponding period last year. Turnover analysis by product categories is shown as follows:

	Six months ended			
	30 June 2005 (Unaudited) HK\$'000	%	30 June 2004 (Audited) HK\$'000	%
HDD Components	139,937	78.7%	100,479	76.4%
Hydraulic equipment components	29,189	16.4%	18,158	13.8%
Fibre optical connector components	1,971	1.1%	5,883	4.5%
Electronic device components	6,227	3.5%	4,762	3.6%
Others	427	0.3%	2,158	1.7%
	<u>177,751</u>	<u>100%</u>	<u>131,440</u>	<u>100%</u>



CNC automatic lathe – turning process



Created Win-Win Results Through Close Cooperation With Customers

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Gross profit and gross profit margin

The Group achieved a gross profit of HK\$58,705,000 for the first half of 2005, representing an increase of 28.3% when compared with HK\$45,742,000 for the same period last year. During the period under review, the Group purchased most of its key raw materials, stainless steel and alloy steel, from Japan with their average price increased by 10%. Such increase in the raw material cost was the key factor contributing to a drop of the Group's gross profit margin from 34.8% in the first half of 2004 to 33.0% in the first half of 2005.

Selling and distribution costs and administrative expenses

Selling and distribution costs were HK\$5,877,000 for the first six months of 2005, an increase of 62.2% from HK\$3,623,000 for the same period last year. The significant increase in selling and distribution costs was mainly attributable to the increase in logistic costs, port expenses and marketing commission as associated with the increase in turnover of 35.2% from the same period last year.

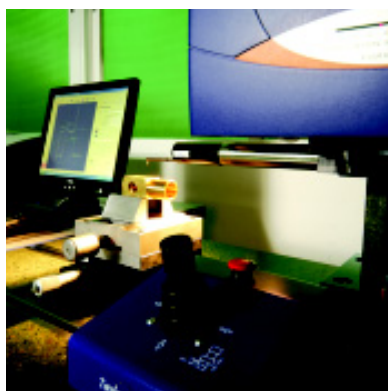
General and administrative expenses increased by 10.1% to HK\$20,005,000 during the current period compared to HK\$18,169,000 for the same period of 2004. The increase was mainly attributable to the increase in staff costs as a result of net increase in headcount of 657 staff as compared to that as at 31 December 2004.

Finance costs

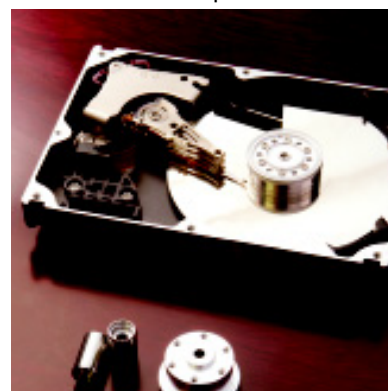
For the first half of 2005, the Group recorded finance costs of approximately HK\$3,705,000 as compared to approximately HK\$2,122,000 for the first half of 2004, representing an increase of 74.6%. The significant increase in finance costs was mainly due to the general increase in HIBOR in 2005 and the increase in drawn down of trade finance facilities throughout the first half of 2005. The average effective interest cost of the Group for the first half of 2005 was approximately 4.6% as compared to approximately 2.4% for the first half of 2004.



**Actively Diversified
Product Mix Captures
Growing Market
Potential**



HDD components



Net profit attributable to shareholders and earnings per share

Net profit attributable to shareholders increased from HK\$22,848,000 for the corresponding period last year to HK\$30,732,000 during the current period. This was mainly attributable to the increase in turnover of the Group. Net profit margin for the period under review maintained at 17.3% compared to 17.4% for the same period in 2004.

During the period under review, basic earnings per share was HK5.9 cents, compared to HK6.1 cents for the same period last year. The drop in the basic earnings per share was attributable to the dilution effect resulted from the issuance of 127,500,000 shares at initial public offer on 1 November 2004 and the placing of 100,000,000 new shares at issue price of HK\$1.15 per share during the period.

Liquidity and financial resources

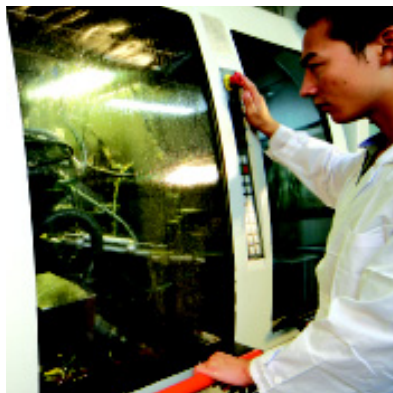
Net current assets was HK\$98,647,000 as at 30 June 2005, compared to HK\$22,016,000 as at 31 December 2004. The significant increase in net current assets was attributable to the proceeds of HK\$115,000,000 from the issuance of new shares in May 2005 and the net cash generated from operating activities. Current ratio improved accordingly from 1.12 as at 31 December 2004 to 1.65 as at 30 June 2005.

As at 30 June 2005, the Group's aggregated banking facilities for term loans, overdrafts and trade financing amounted to approximately HK\$433,800,000 (as at 31 December 2004: HK\$206,000,000). Unused facilities were approximately HK\$358,690,000 (as at 31 December 2004: HK\$85,991,000).

Gearing Ratio

As at 30 June 2005, the Group's total interest bearing borrowings and shareholder's equity were HK\$141,690,000 and HK\$445,917,000 respectively as compared to HK\$178,388,000 and HK\$293,773,000 respectively as at 31 December 2004.

The gearing ratio was defined as the ratio of the total interest bearing borrowings to the shareholder's equity. The drop of such ratio from 60.7% as of 31 December 2004 to 31.8% as of 30 June 2005 was mainly due to the increase in equity as a result of placing of 100,000,000 new shares at HK\$1.15 per share in May 2005. Besides, the Group has applied part of the proceeds from placing of new shares to repay short-term borrowings and this also led to a drop in the gearing ratio.



**Advanced Equipment
Ensures Product
Quality**



Hydraulic equipment components



Currency exposure and management

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

Employment, training and development

Total staff number of the Group as at 30 June 2005 was 2,681, a 32.5% increase from 2,024 staffs as at 31 December 2004. As at 30 June 2005, the Group had 23 employees in Hong Kong and Macao (31 December 2004: 24) and 828 employees in Thailand (31 December 2004: 693) and 1,830 employees in the Mainland China (31 December 2004: 1,307). Salaries and benefit of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis.

To build up the required human resources pool for the foreseeable expansion projects, the Group has expanded its staff quarter facilities in Guangzhou which can house 3,300 staffs at the maximum. Further training facility is under construction and will be completed by the first quarter of 2006.

Outlook

With its consistent supply of high precision components to HDDs industry, IPE Group is set to enjoy healthy growth in the HDD segment, underpinned by the steady growth of worldwide HDD shipments (estimated at a compound annual growth rate of 9.9% according to sources from industry statistic) as a result of its widened application in consumer electronic products such as DVD + HDD player, cameras, cam recorders and portable phones.

Automatic precision measuring instruments and systems



Explore Worldwide Business Opportunities

Sales of hydraulic equipment components accounted for approximately 16.4% of the total turnover for the six months ended 30 June 2005, the second major source of income to IPE Group. So far IPE Group has secured a number of global hydraulic equipment components customers such as Bosch Rexroth, Sauer Danfoss, and Eaton, after undergoing a rigorous quality assessment process. IPE Group is one of the few companies in China that can produce very high precision and quality metal components and will be benefited from the growing outsourcing trend for hydraulic equipment components in China. The Group has decided to spend more effort and resources in exploring the hydraulic equipment components business in view of the fast growing enquires from existing customers and new customers and will work closer with customers to develop more assembly hydraulic parts projects in the foreseeable future.

China's automotive parts have emerged as the fastest growing segment of the automotive and related industries. Continual demand growth for cars brings more opportunities to auto-related segments such as component manufacturing. In addition, multinational autoparts makers in the US and Europe are pushing themselves to speed up the pace of outsourcing, especially in China. Furthermore, national PRC government and local authorities are providing various incentive schemes to auto components manufacturers to stimulate their further investment in China. China's export of vehicles and autoparts is growing fast and accelerated 73% to US\$5.6 billion in 2004 and has continued to surge by 70% to HK\$1.7 billion in the first quarter in 2005 fuelled by the structural change in the global supply chain whereby the production of autoparts is shifting from high-cost locations to low-cost areas. This will benefit IPE Group since IPE Group has been qualified by multinational autoparts makers such as Siemens VDO Automotive, a leading automotive supplier, and Delphi Corporation, a diversified supplier of automotive parts, during 2005 as one of the qualified autoparts manufacturers and can start implementing projects with these major autoparts makers. The Group will invest more R&D effort and human resources in developing new projects with autoparts makers and it is expected that sales generated from auto components and parts will form part of the main revenue of the Group in near future.

In particular, the Group signed a three years' contract with a multinational automotive corporation in May 2005 to supply injection nozzle components, starting from the first quarter of 2006. As such, the Group foresees sales of automotive components will increase significantly in 2006 and will become one of the core businesses of the Group in the long run.



CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

	Note	Six months ended	
		30 June 2005 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
Turnover	4	177,751	131,440
Cost of sales		<u>(119,046)</u>	<u>(85,698)</u>
Gross profit		58,705	45,742
Other revenue and gains		1,686	2,647
Distribution and selling expenses		(5,877)	(3,623)
General and administrative expenses		(20,005)	(18,169)
Other operating expenses		<u>(278)</u>	<u>(377)</u>
Profit from operations	5	34,231	26,220
Amortization of negative goodwill		–	744
Revaluation gain on properties		3,216	–
Finance costs	6	<u>(3,705)</u>	<u>(2,122)</u>
Profit before tax		33,742	24,842
Taxation	7	<u>(3,010)</u>	<u>(1,995)</u>
Profit for the period		30,732	22,847
Loss attributable to minority interests		<u>–</u>	<u>1</u>
Net profit attributable to shareholders		<u>30,732</u>	<u>22,848</u>
Dividend – interim	8	<u>9,009</u>	<u>6,050</u>
Earnings per share – Basic	9	<u>HK 5.9 cents</u>	<u>HK 6.1 cents</u>
Earnings per share – Diluted	9	<u>HK 5.8 cents</u>	<u>N/A</u>



CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

		30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Restated) HK\$'000
	Note		
NON-CURRENT ASSETS			
Intangible assets		–	(25,326)
Fixed assets		493,460	339,061
Club debentures		607	607
Other non-current assets		34,016	32,862
Deferred tax assets		10	174
		<u>528,093</u>	<u>347,378</u>
CURRENT ASSETS			
Inventories	10	70,772	54,004
Value added tax recoverable		1,893	1,229
Trade receivables	11	95,596	77,452
Prepayments, deposits and other receivables		7,239	14,136
Cash and bank balances		74,998	63,768
		<u>250,498</u>	<u>210,589</u>
CURRENT LIABILITIES			
Trade payables	12	53,247	36,141
Other payables and accruals		22,689	43,591
Tax payables		2,810	2,065
Short-term borrowings	13	38,615	75,960
Current portion of obligations under finance leases		20,111	15,979
Current portion of long-term borrowings	14	14,379	14,837
		<u>151,851</u>	<u>188,573</u>
NET CURRENT ASSETS		<u>98,647</u>	<u>22,016</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>626,740</u>	<u>369,394</u>



CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2005

		30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Restated) HK\$'000
	<i>Note</i>		
NON-CURRENT LIABILITIES			
Long-term portion of obligations under finance leases		46,455	42,400
Long-term borrowings	14	22,130	29,212
Other payables		107,555	–
Deferred tax liabilities		4,683	4,009
		<u>180,823</u>	<u>75,621</u>
NET ASSETS		<u>445,917</u>	<u>293,773</u>
CAPITAL AND RESERVES			
Share capital		60,042	50,000
Reserves		385,875	243,752
EQUITY SHAREHOLDERS' FUND		445,917	293,752
MINORITY INTERESTS		–	21
TOTAL EQUITY		<u>445,917</u>	<u>293,773</u>



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Six months ended	
	30 June 2005 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
Net cash generated from operating activities	34,351	31,290
Net cash used in investing activities	(65,839)	(27,725)
Net cash generated from financing activities	<u>63,605</u>	<u>14,717</u>
Net increase in cash and cash equivalents	32,117	18,282
Cash and cash equivalents at beginning of the period	38,095	(14,374)
Net effect of foreign exchange rate changes	<u>(237)</u>	<u>111</u>
Cash and cash equivalents at end of the period	<u><u>69,975</u></u>	<u><u>4,019</u></u>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	74,998	28,142
Less: pledged deposits	(5,000)	(12,086)
Bank overdrafts	<u>(23)</u>	<u>(12,037)</u>
	<u><u>69,975</u></u>	<u><u>4,019</u></u>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

For the six months ended 30 June 2005 (Unaudited)													
Attributable to equity holders of the Company													
	Share capital	Share premium	Investment property revaluation reserve	Statutory surplus reserve	Statutory public welfare fund	Merger reserve	Share options reserve	Exchange fluctuation reserve	Retained profits	Proposed dividend	Total equity shareholders' fund	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	50,000	48,809	2,559	4,661	287	(1,116)	-	2,790	185,762	-	293,752	21	293,773
Effect of changes in accounting policies - Investment properties (note 2(c))	-	-	(2,559)	-	-	-	-	-	2,559	-	-	-	-
Effect of changes in accounting policies - Business combinations (note 2(e))	-	-	-	-	-	-	-	-	25,326	-	25,326	-	25,326
Placement of shares	10,000	105,000	-	-	-	-	-	-	-	-	115,000	-	115,000
Share issue expenses	-	(3,515)	-	-	-	-	-	-	-	-	(3,515)	-	(3,515)
Options exercised	42	282	-	-	-	-	-	-	-	-	324	-	324
Share option reserve	-	-	-	-	-	-	717	-	-	-	717	-	717
Transfer from retained profits	-	-	-	43	-	-	-	-	(43)	-	-	-	-
Movement in exchange fluctuation reserve	-	-	-	-	-	-	-	(5,617)	-	-	(5,617)	-	(5,617)
2004 final dividend paid	-	-	-	-	-	-	-	-	(10,802)	-	(10,802)	-	(10,802)
Profit attributable to shareholders	-	-	-	-	-	-	-	-	30,732	-	30,732	-	30,732
Effect on disposal of subsidiary	-	-	-	-	-	-	-	-	-	-	-	(21)	(21)
2005 interim dividend proposed	-	-	-	-	-	-	-	-	(9,009)	9,009	-	-	-
At 30 June 2005	60,042	150,576	-	4,704	287	(1,116)	717	(2,827)	224,525	9,009	445,917	-	445,917
For the six months ended 30 June 2004 (Audited)													
At 1 January 2004	39	-	-	2,346	287	8,842	-	919	148,461	-	160,894	18	160,912
Issue of share capital	9,961	16,996	-	-	-	-	-	-	-	-	26,957	-	26,957
Group reorganization	-	-	-	-	-	(9,958)	-	-	-	-	(9,958)	-	(9,958)
Movement in exchange fluctuation reserve	-	-	-	-	-	-	-	(1,590)	-	-	(1,590)	-	(1,590)
Profit attributable to shareholders	-	-	-	-	-	-	-	-	22,848	-	22,848	(1)	22,847
2003 final dividend paid	-	-	-	-	-	-	-	-	(5,010)	-	(5,010)	-	(5,010)
At 30 June 2004	10,000	16,996	-	2,346	287	(1,116)	-	(671)	166,299	-	194,141	17	194,158



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) No. 34: “Interim financial reporting” and other relevant HKASs and Interpretations, and the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those adopted in preparing the annual financial statements for the year ended 31 December 2004 except for the adoption of new and revised HKFRSs and HKASs which are effective for accounting periods beginning on or after 1 January 2005.

2. CHANGES IN ACCOUNTING POLICIES

The Group has adopted the HKFRSs and HKASs that are applicable to its operation. The comparative figures have been restated as required. The changes to the Group’s accounting policies as a result of the adoption of these new and revised HKFRSs and HKASs are highlighted as follows:

- (a) The adoption of HKAS 17 “Leases” has resulted in a change in the accounting policy relating to leasehold land. Leasehold land and buildings were previously accounted for as fixed assets. In accordance with HKAS 17, a lease of land and building should be split into a lease of land and a lease of building according to their fair value at inception. A lease of land is an operating lease and a lease of building is a finance lease unless the two elements cannot be allocated reliably, in which case the entire lease is classified as a finance lease. Pursuant to these requirements, the land premium paid for distinguishable leasehold land or land use right is accounted for as an operating lease and amortized over its unexpired lease term, whereas leasehold building is stated at valuation less accumulated depreciation. The Group applied retrospectively the revised accounting for the land lease premium paid. Land lease portion amounted to HK\$34,016,000 and HK\$32,862,000 as at 30 June 2005 and 31 December 2004 respectively has been reclassified as long term lease prepayment under category of other non-current assets. The amount of amortization over the lease term has been reclassified from depreciation to operating lease rent for HK\$356,000 and HK\$346,000 for the six months ended 30 June 2005 and 30 June 2004 respectively.



- (b) The adoption of HKAS 32 “Financial instruments: Disclosure and presentation” and HKAS 39 “Financial instruments: Recognition and measurement” has resulted in a change of accounting policy for recognition, measurement and disclosure of financial instruments. Prior to 1 January 2005, derivatives of the Group were not required to be recorded on the balance sheet based on the then prevailing accounting standards. In accordance with the provision of HKAS 39, all derivatives are to be recognized at their fair value on the balance sheet starting from 1 January 2005. Subject to meeting the requirements to qualify for hedge accounting, those underlying financial liabilities have been revalued at their fair values with corresponding adjustments made to their carrying amounts on the balance sheet. Depending on the type of hedging relationship, subsequent changes in fair value of derivatives and hedged items are to be charged to the income statement or directly transferred to hedging reserve. This revised accounting policy has no retrospective effect on financial statement for the period ended 30 June 2004.
- (c) The adoption of HKAS 40 “Investment property” has resulted in a change in the accounting policy for the Group’s investment properties. In prior years, increases in the valuation of investment property were credited to the investment property revaluation reserve while decreases in the valuation of investment property were firstly set off against the surplus of the investment property revaluation reserve and thereafter charged to the income statement. Following the adoption of HKAS 40, all changes in valuation of the investment property are to be recognized in the income statement. The balance of investment property revaluation reserve recognized based on the then prevailing accounting standard amounted to HK\$2,559,000 was adjusted to the opening balance of retained profits. The change in policy resulted in a gain on properties revaluation recognized on 30 June 2005 of HK\$3,216,000.
- (d) The adoption of HKFRS 2 “Share-based payment” has resulted in a change in the accounting policy for share options. Prior to this, the grant of share options to employees, directors and service providers did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortized over the relevant vesting periods to the income statement. The change in such policy did not result in a charge to the profit and loss account in prior years as the group has taken advantage of the transitional provisions but resulted in a charge of HK\$717,000 to the income statement for the six months ended 30 June 2005.
- (e) The adoption of HKFRS 3 “Business combinations”, HKAS 36 “Impairment of assets” and HKAS 38 “Intangible assets” has resulted in changes in the accounting policies in impairment of assets and negative goodwill. Prior to this, to the extent that negative goodwill did not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill was recognized in the consolidated income statement on a straight line basis over the remaining average useful life of the acquired depreciable/amortizable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets was recognized as income immediately. In accordance with the provisions of HKFRS 3, the carrying amount of negative goodwill on 1 January 2005 that arose from a business combination for which the agreement date was before 1 January 2005 was derecognized by way of a corresponding adjustment to the opening balance of retained profits as at 1 January 2005 for the amount of HK\$25,326,000.



- (f) The adoption of HKAS 1 "Presentation of financial statements" has affected the presentation of minority interests.

3. RESTATEMENT OF INCOME STATEMENTS AND BALANCE SHEETS

The effect of adopting relevant new and revised HKFRSs and HKASs to the income statements for the six months ended 30 June 2005 and 2004 and the balance sheets as at 30 June 2005 and 31 December 2004 are highlighted as follows:

Balance sheet

As at 30 June 2005

	HKFRS 3, HKAS 36 &		HKAS 32 &			Total	
	HKFRS 2	HKAS 38	HKAS 1	HKAS 17	HKAS 39		HKAS 40
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000
<i>Assets and liabilities affected</i>							
Intangible assets		25,326					25,326
Fixed assets				(34,016)		3,216	(30,800)
Other non-current assets				34,016			34,016
Other payables and accruals					(994)		(994)
Deferred tax liabilities						(563)	(563)
Net increase in assets							<u>26,985</u>
<i>Equity affected</i>							
Investment properties							
revaluation reserve						2,559	2,559
Share based compensation							
reserve	(717)						(717)
Retained profits	717	(25,326)			994	(5,212)	<u>(28,827)</u>
Net increase in total equity							<u>(26,985)</u>



3. RESTATEMENT OF INCOME STATEMENTS AND BALANCE SHEETS (Continued)

Balance sheet

As at 31 December 2004

	HKFRS 3, HKAS 36 &		HKAS 32 &			Total HK\$'000
	HKFRS 2 HK\$'000	HKAS 38 HK\$'000	HKAS 1 HK\$'000	HKAS 17 HK\$'000	HKAS 39 HK\$'000	
<i>Assets and liabilities affected</i>						
Fixed assets				(32,862)		(32,862)
Other non-current assets				32,862		32,862
Minority interests			21			21
Net increase in assets						<u>21</u>
<i>Equity affected</i>						
Investment properties						
revaluation reserve					2,559	2,559
Retained profits					(2,559)	(2,559)
Minority interests			(21)			(21)
Net increase in total equity						<u>(21)</u>



3. RESTATEMENT OF INCOME STATEMENTS AND BALANCE SHEETS (Continued)

Income statement

For the six months ended 30 June 2005

	HKFRS 3, HKAS 36 &		HKAS 32 &				Total
	HKFRS 2	HKAS 38	HKAS 1	HKAS 17	HKAS 39	HKAS 40	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<i>Increase/(Decrease) in profit for the period</i>							
Amortization of negative goodwill		(744)					(744)
Share option benefits	(717)						(717)
Depreciation				356			356
Land lease prepayment amortization				(356)			(356)
Revaluation gain on properties						3,216	3,216
Deferred tax provided on properties revaluation						(563)	(563)
Changes in fair value of derivatives					(994)		(994)
Effect on profit for the period as a result of changes in accounting policies							198

For the six months ended 30 June 2004

	HKFRS 3, HKAS 36 &		HKAS 32 &				Total
	HKFRS 2	HKAS 38	HKAS 1	HKAS 17	HKAS 39	HKAS 40	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<i>Increase/(Decrease) in profit for the period</i>							
Depreciation				346			346
Land lease prepayment amortization				(346)			(346)
Effect on profit for the period as a result of changes in accounting policies							-



4. SEGMENT INFORMATION

(a) Business segments

	For the six months ended 30 June 2005					
	(Unaudited)					
	HDD	Hydraulic	Fibre Optical	Electronic	Others	Total
	Components	Equipment	Connector	Device		
Components	Components	Components	Components	Components	Components	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	139,937	29,189	1,971	6,227	427	177,751
Segment results	24,407	6,631	444	1,242	98	32,822
Unallocated income						1,435
Interest income						251
Unallocated expenses						(277)
Profit from operations						34,231

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	For the six months ended 30 June 2004					
	(Audited)					
	HDD	Hydraulic	Fibre Optical	Electronic	Others	Total
	Components	Equipment	Connector	Device		
Components	Components	Components	Components	Components	Components	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	100,479	18,158	5,883	4,762	2,158	131,440
Segment results	21,317	168	2,306	380	(185)	23,986
Unallocated income						2,625
Interest income						22
Unallocated expenses						(413)
Profit from operations						26,220



(b) Geographical segments

For the six months ended 30 June 2005

(Unaudited)

	Mainland							Total
	Thailand	Malaysia	Singapore	China and Hong Kong	North America	Europe	Other countries	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	94,627	47,817	-	5,869	6,672	22,240	526	177,751
Other revenue	262	-	-	1,173	-	-	-	1,435
Total revenue	<u>94,889</u>	<u>47,817</u>	<u>-</u>	<u>7,042</u>	<u>6,672</u>	<u>22,240</u>	<u>526</u>	<u>179,186</u>
Segment results	14,975	9,955	-	2,460	1,538	5,140	(88)	33,980
Interest income								251
Finance costs								(3,705)
Revaluation gain on properties								<u>3,216</u>
Profit before tax								33,742
Taxation								<u>(3,010)</u>
Net profit attributable to shareholders								<u>30,732</u>



(b) Geographical segments (continued)

For the six months ended 30 June 2004

(Audited)

	Thailand <i>HK\$'000</i>	Malaysia <i>HK\$'000</i>	Singapore <i>HK\$'000</i>	Mainland			Other countries <i>HK\$'000</i>	Total <i>HK\$'000</i>
				China and Hong Kong <i>HK\$'000</i>	North America <i>HK\$'000</i>	Europe <i>HK\$'000</i>		
Turnover	74,774	32,148	429	7,322	2,537	13,731	499	131,440
Other revenue	261	-	-	2,307	-	-	57	2,625
Total revenue	<u>75,035</u>	<u>32,148</u>	<u>429</u>	<u>9,629</u>	<u>2,537</u>	<u>13,731</u>	<u>556</u>	<u>134,065</u>
Segment results	11,277	6,779	164	4,435	634	3,437	216	26,942
Interest income								22
Finance costs								<u>(2,122)</u>
Profit before tax								24,842
Taxation								<u>(1,995)</u>
Profit for the period								22,847
Loss attributable to minority interests								<u>1</u>
Net profit attributable to shareholders								<u>22,848</u>



5. PROFIT FROM OPERATIONS

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

	For the six months ended 30 June	
	2005	2004
	(Unaudited) HK\$'000	(Restated) HK\$'000
Charging:		
Auditors' remuneration	898	330
Depreciation	15,735	10,378
Amortization of land lease prepayment	356	346
Provision for obsolete and slow-moving inventories	87	517
Research and development costs	<u>3,147</u>	<u>1,828</u>
Crediting:		
Rental income from investment properties less outgoings	<u>-</u>	<u>270</u>

6. FINANCE COSTS

	For the six months ended 30 June	
	2005	2004
	(Unaudited) HK\$'000	(Audited) HK\$'000
Interest on bank loan and overdrafts wholly repayable		
within five years	2,154	1,701
Interest on finance leases	1,445	267
Other interest	<u>106</u>	<u>154</u>
	<u>3,705</u>	<u>2,122</u>



7. TAXATION

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Audited) HK\$'000
Current tax – Hong Kong Profits Tax		
Provided for the period	<u>250</u>	<u>224</u>
Current tax – Overseas		
Provided for the period	1,927	1,518
Over-provision in prior years	<u>(4)</u>	<u>–</u>
	<u>1,923</u>	<u>1,518</u>
Deferred tax		
Origination and reversal of temporary differences	837	475
Effect of decrease in tax rate on deferred tax	<u>–</u>	<u>(222)</u>
	<u>837</u>	<u>253</u>
Total income tax expense	<u><u>3,010</u></u>	<u><u>1,995</u></u>

Hong Kong profits tax has been calculated at 17.5% (17.5% for the six months ended 30 June 2004) on the estimated assessable profits arising from Hong Kong for the period. Taxation in jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Subsidiaries of the Company operating in the Mainland China and Thailand are eligible for certain tax holidays and concessions during both periods.

The deferred taxation charge mainly related to the tax effect of temporary difference attributable to difference of depreciation allowances for tax purposes and depreciation charged in the financial statements.



8. DIVIDEND – INTERIM

The board of director of the Company declared an interim dividend of HK1.5 cents per share for the six months ended 30 June 2005 and it is expected that this will be paid on or around 22 September 2005 to shareholders registered in the Company's Register of Members at the close of business on 16 September 2005. In 2004, interim dividend of HK\$6,050,000 was paid by the Company to its then shareholders for the six months ended 30 June 2004 prior to the listing of its shares on the Main Board of the Stock Exchange on 1 November 2004.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share	<u>30,732</u>	<u>22,848</u>
	Number of shares (in thousands)	
Weighted average number of ordinary shares for the purpose of basic earnings per share	521,151	372,500
Effect of dilutive potential ordinary shares from the share option scheme	<u>7,931</u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>529,082</u>	<u>372,500</u>



10. INVENTORIES

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Raw materials	26,136	15,043
Consumables	10,850	5,280
Work in progress	34,369	29,677
Finished goods	9,482	13,982
	<u>80,837</u>	<u>63,982</u>
Less: Provision for obsolete and slow-moving inventories	(10,065)	(9,978)
	<u>70,772</u>	<u>54,004</u>

11. TRADE RECEIVABLES

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

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
0 to 30 days	34,567	28,458
31 to 60 days	34,115	26,907
61 to 90 days	18,766	15,670
91 to 120 days	5,610	4,650
121 to 365 days	2,538	1,767
	<u>95,596</u>	<u>77,452</u>



12. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
0 to 30 days	22,151	11,810
31 to 60 days	15,572	12,917
61 to 90 days	12,778	9,192
91 to 120 days	1,755	960
121 to 365 days	991	1,150
1 to 2 years	–	112
	<u>53,247</u>	<u>36,141</u>

13. SHORT-TERM BORROWINGS

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Trust receipt loans, secured	6,511	6,011
Bills payable, secured	17,081	–
Bank overdrafts, secured	23	14,167
Short-term bank loans, secured	15,000	55,782
	<u>38,615</u>	<u>75,960</u>



14. LONG-TERM BORROWINGS

	30 June 2005 (Unaudited) <i>HK\$'000</i>	31 December 2004 (Audited) <i>HK\$'000</i>
Bank loans		
Wholly repayable within five years	29,952	36,390
Not wholly repayable within five years	6,557	7,659
	<u>36,509</u>	<u>44,049</u>
Amount due within one year or on demand included under current liabilities	<u>(14,379)</u>	<u>(14,837)</u>
	<u>22,130</u>	<u>29,212</u>

The Group's bank loans were repayable as follows:

Due within one year or on demand	14,379	14,837
Due in the second year	10,071	14,644
Due in the third to fifth years	10,239	12,097
Due after the fifth year	1,820	2,471
	<u>36,509</u>	<u>44,049</u>

15. CAPITAL COMMITMENTS

The capital commitments of the Group were as follows:

	30 June 2005 (Unaudited) <i>HK\$'000</i>	31 December 2004 (Audited) <i>HK\$'000</i>
Authorized but not contracted for:-		
– acquisition of machinery	–	1,764
Contracted but not provided for:-		
– acquisition of machinery	75,340	103,576
– acquisition of other fixed assets	352	–
– factory building construction	20,445	35,318
	<u>96,137</u>	<u>138,894</u>



16. BANKING FACILITIES

The Group had aggregate banking facilities of approximately HK\$433,800,000 and HK\$206,000,000 as at 30 June 2005 and 31 December 2004 respectively, for term loans, overdrafts and trade financing. Unused facilities as at 30 June 2005 and 31 December 2004 amounted to approximately HK\$358,690,000 and HK\$85,991,000 respectively.

17. PLEDGE OF ASSETS

As at 30 June 2005, fixed assets with net book value of approximately HK\$171,289,000 (31 December 2004: HK\$159,973,000) and bank deposits of HK\$5,000,000 (31 December 2004: HK\$11,506,000) have been pledged as securities for bank borrowings and finance leases.

18. CONTINGENT LIABILITIES

(a) The Group

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Guarantees to an electricity company	<u>425</u>	<u>458</u>

(b) The Company

As at 30 June 2005, the Company had provided corporate guarantees to banks to secure general banking facilities, leasing facilities and term loans facilities granted to certain subsidiaries of the Company of approximately HK\$460,000,000 (31 December 2004: HK\$210,000,000) of which approximately HK\$75,166,000 was utilised as at 30 June 2005 (31 December 2004: HK\$129,000,000).

19. POST BALANCE SHEET EVENT

On 12 August 2005, Integrated Precision Engineering Company Limited, a subsidiary of the Company, drew down a transferable term loan facility amounting to HK\$200,000,000. The term loan facility is guaranteed by IPE Group and its principal subsidiaries and will be used to strengthen the Group's working capital and to finance the acquisition of new machines and equipment to strengthen the Group's production capabilities.

20. COMPARATIVE FIGURES

Due to adoption of new and revised HKFRSs and HKASs for the current period, the accounting treatment and presentation of certain items on the financial statements have been revised to comply with the new requirements. Accordingly, certain figures have been adjusted to reserves at the beginning of the current period. Also, certain comparative figures have been reclassified to conform to the current period's presentation.



OTHER INFORMATION

SHARE OPTION SCHEME

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

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

The movements in the share options of the Company for the six months ended 30 June 2005 were as follows:

Grantees	Date of grant	Vesting period	Exercisable period	Exercise price per share	Closing price before the date of grant	Number of share options					
						At 1 January 2005	Granted during the period	Cancelled during the period	Lapsed during the period	Exercised during the period	Outstanding at 30 June 2005
Continuous contract employees	30 November 2004	-	30 November 2004 to 31 December 2008	HK\$0.78	N/A	5,710,000	-	-	-	(415,000) (Note)	5,295,000
	30 November 2004	30 November 2004 to 31 December 2005	1 January 2006 to 31 December 2008	HK\$0.78	N/A	5,840,000	-	-	(45,000)	-	5,795,000
	30 November 2004	30 November 2004 to 31 December 2006	1 January 2007 to 31 December 2008	HK\$0.78	N/A	5,840,000	-	-	(45,000)	-	5,795,000
	30 November 2004	30 November 2004 to 31 December 2007	1 January 2008 to 31 December 2008	HK\$0.78	N/A	5,860,000	-	-	(65,000)	-	5,795,000
	4 February 2005	-	4 February 2005 to 31 December 2007	HK\$1.09	HK\$1.22	-	3,000,000	-	-	-	-
						<u>23,250,000</u>	<u>3,000,000</u>	<u>-</u>	<u>(155,000)</u>	<u>(415,000)</u>	<u>25,680,000</u>

Note: The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised by the continuous contract employees were HK\$1.27.



Grantees	Date of grant	Vesting period	Exercisable period	Exercise price per share	Closing price before the date of grant	Number of share options					
						At 1 January 2005	Granted during the period	Cancelled during the period	Lapsed during the period	Exercised during the period	Outstanding at 30 June 2005
Service providers	30 November 2004	-	30 November 2004 to 31 December 2008	HK\$0.78	N/A	400,000	-	-	-	-	400,000
	30 November 2004	30 November 2004 to 31 December 2005	1 January 2006 to 31 December 2008	HK\$0.78	N/A	450,000	-	-	-	-	450,000
	30 November 2004	30 November 2004 to 31 December 2006	1 January 2007 to 31 December 2008	HK\$0.78	N/A	450,000	-	-	-	-	450,000
	30 November 2004	30 November 2004 to 31 December 2007	1 January 2008 to 31 December 2008	HK\$0.78	N/A	450,000	-	-	-	-	450,000
	4 February 2005	-	4 February 2005 to 31 December 2007	HK\$1.09	HK\$1.22	-	7,000,000	-	-	-	7,000,000
						1,750,000	7,000,000	-	-	-	8,750,000
						25,000,000	10,000,000	-	(155,000)	(415,000)	34,430,000

On 27 July 2005, a total of 20,000,000, 18,200,000 and 1,800,000 share options were granted to the directors, continuous contract employees and service providers respectively at the exercise price of HK\$1.41 per share.

In the current period, share option benefits expense of approximately HK\$717,000 has been recognised in income statement. The fair values of share options granted on 30 November 2004 and 4 February 2005 were HK\$0.03 per share and HK\$0.05 per share respectively. The following significant assumptions were used to derive the fair values of share options granted on 30 November 2004 and 4 February 2005 by using the Binominal option pricing model:

	Options granted on 30 November 2004	Options granted on 4 February 2005
Asset price per share (<i>Note</i>)	HK\$0.81	HK\$1.17
Exercise price per share	HK\$0.78	HK\$1.09
Expected life of options	1–3 years	2.93 years
Expected volatility of share price	3.94%	8.60%
Expected dividend yield	3.72%	2.76%
Risk-free interest rate	1.51% to 2.48%	2.08%

Note: The asset prices were the closing prices of the Company's shares on the date of grant of the options on 30 November 2004 and 4 February 2005 respectively.

The Binominal option pricing model requires the input of highly subjective assumptions, including the risk-free interest rate, expected volatility and dividends of the shares. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.



USE OF IPO PROCEEDS

During the period, the net proceeds from the initial public offer of shares of the Company (the "IPO") have been fully utilised in accordance with the intended use of proceeds as disclosed in the Prospectus issued on 19 October 2004. The following table shows the planned use of IPO proceeds as disclosed in the Prospectus, the actual use of the IPO proceeds as disclosed in the 2004 annual report of the Company and the actual use of the IPO proceeds as at 30 June 2005:

	Planned use of IPO proceeds as per Prospectus (based on indicative offer price of HK\$0.72 per share) <i>HK\$ million</i>	Actual use of IPO proceeds as per 2004 annual report of the Company (based on actual offer price of HK\$0.77 per share) <i>HK\$ million</i>	Actual use of IPO proceeds as at 30 June 2005 (based on actual offer price of HK\$0.77 per share) <i>HK\$ million</i>
Capital expenditure in relation to the Zengcheng Development Project	31.6	31.6	31.6
Capital expenditure in relation to the acquisition of new machineries for upgrading the production facilities of the Group	26.0	13.8	26.0
Research and development of new product range	3.5	2.2	3.5
Expansion of overseas and PRC markets	1.5	1.1	1.5
General working capital of the Group	5.0	23.1 ^(Note)	9.2
	<u>67.6</u>	<u>71.8</u>	<u>71.8</u>

Note: The unused proceeds from the IPO for use in relation to the acquisition of new machineries for upgrading the production facilities of the Group was kept as the general working capital of the Group as disclosed in the 2004 annual report of the Company.

Also during the period, the Company issued 100,000,000 new shares at HK\$1.15 per share on 10 May 2005 and the net proceeds of the subscription of approximately HK\$111,485,000 will be applied as to approximately HK\$61,485,000 for the acquisition of new machineries and as to approximately HK\$50,000,000 for general working capital uses in order to cope with the increase in production capacity of the Group.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 14 September 2005 to Friday, 16 September 2005, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed interim dividend for the six months ended 30 June 2005, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 13 September 2005.



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

At 30 June 2005, the interests of the directors of the Company in the shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:-

(1) Interests in the shares of the Company

Name of director	Long/Short position	Capacity	Note	Number of shares of the Company interested	Percentage of the Company's issued share capital
Mr. Chui Siu On	Long	Interest of corporation	1	372,500,000	62.040%
	Long	Beneficial owner		800,000	0.133%
	Long	Interest of spouse	2	100,000	0.017%
				<u>373,400,000</u>	<u>62.190%</u>
Mr. Ng Kin Nam	Long	Beneficial owner		300,000	0.050%
	Long	Interest of spouse	3	20,000	0.003%
				<u>320,000</u>	<u>0.053%</u>
Mr. Ho Yu Hoi	Long	Beneficial owner		190,000	0.032%

Note:

- (1) These shares were owned by Tottenham Limited, the substantial shareholder of the Company. The entire issued share capital of Tottenham Limited was owned as to approximately 51.29% by Mr. Chui Siu On, 25.01% by Mr. Ng Kin Nam, 13.89% by Mr. Ho Yu Hoi, 6.02% by Mr. Lai Man Kit and 3.79% by Mr. Li Chi Hang. All the shareholders of Tottenham Limited are executive directors of the Company. By virtue of the 51.29% shareholding interests in Tottenham Limited, Mr. Chui Siu On was deemed to be interested in the 372,500,000 shares of the Company owned by Tottenham Limited pursuant to Part XV of the SFO.
- (2) These shares were held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On, and such interest was also disclosed as Ms. Leung's personal interest in the following section headed "Substantial shareholders' interests and short positions in the shares of the Company". Mr. Chui Siu On was deemed to be interested in these 100,000 shares of the Company owned 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. Mr. Ng Kin Nam was deemed to be interested in these 20,000 shares of the Company owned by his wife pursuant to Part XV of the SFO.

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

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

In addition to the above, at 30 June 2005, a director of the Company held a share in a subsidiary of the Company in a non-beneficial capacity, solely for the purpose of complying with the then minimum company membership requirements.

Save as disclosed above, at 30 June 2005, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.



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

At 30 June 2005, the following interests of over 5% in the issued share capital of the Company were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Long/Short position	Capacity	Note	Number of shares of the Company interested	Percentage of the Company's issued share capital
Tottenham Limited	Long	Beneficial owner	1	372,500,000	62.040%
Ms. Leung Wing Yi	Long	Beneficial owner		100,000	0.017%
	Long	Interest of spouse	2	<u>373,300,000</u>	<u>62.173%</u>
				<u>373,400,000</u>	<u>62.190%</u>

Note:

- (1) The interest of Tottenham Limited was also disclosed as the interest of Mr. Chui Siu On in the above section headed "Directors' interests and short positions in the shares of the Company and its associated corporation".
- (2) These shares were disclosed as the personal and corporate interests of Mr. Chui Siu On, the husband of Ms. Leung Wing Yi, in the above section headed "Directors' interests and short positions in the shares of the Company and its associated corporation". Ms. Leung Wing Yi was deemed to be interested in these shares owned by her husband pursuant to Part XV of the SFO.

Save as disclosed above, at 30 June 2005, no persons, other than the Company's directors whose interests and short positions are set out in the above section headed "Directors' interests and short positions in the shares of the Company and its associated corporation", had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.



Audit Committee Meeting



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

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2005.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The board of director of the Company is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules, except that there is no separation of the role of Chairman and Chief Executive Officer. Mr. Chui Siu On currently assumes the role of both the Chairman and the Chief Executive Officer of the Company. The board of director of the Company believes that this structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long term business strategies. As such, it is beneficial to the business prospects of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive directors, namely Dr. Cheng Ngok (the Chairman of the Committee), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok. In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised in terms substantially the same as the provisions set out in the CG Code. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters with management relating to the preparation of the unaudited condensed financial statements for the six months ended 30 June 2005. There is no disagreement raised by the Audit Committee on the accounting treatment adopted by the Company.



REMUNERATION COMMITTEE

The Company set up a remuneration committee (the “Remuneration Committee”) on 14 July 2005 with specific written terms of reference in accordance with the CG Code. The Remuneration Committee comprises two executive directors of the Company, namely Mr. Chui Siu On and Mr. Lai Man Kit and three independent non-executive directors of the Company, namely Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok.

The main duties of the Remuneration Committee include making recommendations to the board of directors on the Company’s policy and structure for all remuneration of directors and senior management and reviewing the specific remuneration packages of all executive directors and senior management by reference to corporate goals and objectives resolved by the board of directors of the Company from time to time.

EXECUTIVE COMMITTEE

The Company set up an executive committee (the “Executive Committee”) on 14 July 2005 with specific written terms of reference. The Executive Committee comprises all the executive directors of the Company with Mr. Chui Siu On acting as the Chairman thereof. The principal duties of the Executive Committee include overseeing the Company’s strategic plans and operations of all business units of the Company and making decisions on matters relating to the management and operations of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors’ securities transactions in the Company (the “Own Code”) on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of the Company’s directors, the directors have complied with the required standard set out in the Model Code and the Own Code throughout the accounting period covered by the interim report.

GENERAL DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

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

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



As the above specific performance obligation as imposed under the Loan Facility continues to exist as at the interim period end, the Company is required to make the above disclosure pursuant to Rule 13.21 of the Listing Rules. In addition, the above performance obligation has been duly satisfied up to the interim period end.

On behalf of the Board

Chui Siu On

Chairman

Hong Kong, 29 August 2005