



IPE GROUP LIMITED

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



INTERIM REPORT
2006

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Director

Mr. Ng Kin Nam (*Vice Chairman*)

Independent Non-Executive Directors

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wan Tak Wing, Gary (FCPA)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

PRINCIPAL BANKERS

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

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong law
Michael Li & Co

As to PRC law
Everwin Law Office

AUDITORS

Ernst & Young
Certified Public Accountants

LISTING VENUE

Main Board of The Stock Exchange
of Hong Kong Limited

STOCK CODE

0929

REGISTERED OFFICE

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

GROUP HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Yue Hu Cun
Zengcheng, Guangzhou
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

11th Floor, Block E1
Hoi Bun Industrial Building
No. 6 Wing Yip Street
Kwun Tong, Kowloon
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Tel: (852) 2688 5920
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PRINCIPAL PLACE OF BUSINESS IN MACAU

Alameda Dr. Calos D' Assumpcao,
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Fax: (853) 2875 0515

PRINCIPAL PLACE OF BUSINESS IN THAILAND

99/1 Mu Phaholyothin Road, Sanubtueb,
Wangnoi, Ayutthaya 13170, Thailand
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WEBSITE

<http://www.ipegroup.com>

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Financial Calendar and Shareholder Information

FINANCIAL CALENDAR

Listing date	1 November 2004
2004 Final results announced	21 March 2005
2005 Interim results announced	29 August 2005
2005 Final results announced	10 April 2006
2006 Interim results announced	12 September 2006
Closure of register of members	28 September 2006 to 3 October 2006
2006 Interim dividend payable date	5 October 2006

SHAREHOLDER INFORMATION

Company Name	IPE Group Limited
Listing Venue	Main Board of The Stock Exchange of Hong Kong Limited
Stock code	0929
Business Classification	Industrials
Listing Date & Price	1 November 2004/HK\$0.77 per share
Financial Year End	31 December
Trading Currency	HK Dollar
Number of Authorized Shares	1,200,000,000
Number of Issued Shares as at 12 September 2006	723,820,000
Par Value	HK\$0.10 per share
Board Lot	5,000
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 Tel: (852) 2862 8628 Fax: (852) 2865 0990 Website: http://www.computershare.com
Corporate Communication	iPR Ogilvy Limited Units 2608-10, 26/F, The Center, 99 Queen's Road Central, Hong Kong Tel: (852) 2136 6185 Fax: (852) 2136 6068 Website: http://www.iprogilvy.com



Corporate Profile

IPE Group Limited (the “Company” or “IPE Group”) was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002. The Company is an investment holding company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacturing and selling of high precision metal components.

The Group started its high precision components business in 1990 in Singapore and has now developed into a multinational corporation with production plants located in the Mainland China and Thailand. By using specialised computer numerical controlled machines and other auxiliary machinery and equipments, the Group produces high precision metal components used in hard disk drives (“HDDs”), hydraulic equipments, 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. With these long term business partners, the Group has grown steadily to become a listed company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 1 November 2004 (Stock Code: 0929). As at 30 June 2006, the Group had a workforce of 3,446 employees.

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

Corporate Milestone



Year

- 1990** Established Integrated Precision Engineering Pte. Ltd. (“IPE (Singapore)”)
- 1994** Established Integrated Precision Engineering Company Limited
Established Dongguan Koda Metal Products Co., Ltd. (“Dongguan Koda”)
- 1997** Established Integrated Precision Engineering (Thailand) Co., Ltd. (“IPE (Thailand)”)
IPE (Singapore) awarded as the “Top 50 outstanding enterprise” by the Government of Singapore
- 2002** IPE (Thailand)’s production facility accredited with an ISO 9001 certification
Dongguan Koda’s production facility accredited with ISO 9001 and QS 9000 certifications
Established Guangzhou Xing Hao Precision Metal Products Co., Ltd. (“Xing Hao”)
- 2003** Expanded production facilities in Xing Hao by acquiring an additional piece of land of 166,667 sq.m.
Commenced construction of new Guangzhou plant
- 2004** Established IPE Macao Commercial Offshore Limited
Listed on the Main Board of the Stock Exchange of Hong Kong on 1 November 2004



Corporate Milestone

Year

2005 Qualified by Bosch, Delphi, Siemens VDO and TRW as an qualified automotive components vendor

Xing Hao Factory No. 1 was put into operation in March 2005

2006 Xing Hao accredited with a TS16949 certification

Construction of the Group's new headquarter and R&D centre in Guangzhou completed and started operation in February 2006

Xing Hao Factory No. 2 and No. 3 commenced operations in the 3rd quarter of 2006

Summary Financial Statement

	Six months ended 30 June			Year ended 31 December		
	2006	2005	2004	2005	2004	2003
	(Unaudited)	(Unaudited) (Restated)	(Audited) (Restated)	(Audited)	(Audited) (Restated)	(Audited) (Restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CONDENSED CONSOLIDATED INCOME STATEMENT						
REVENUE	274,885	177,751	131,440	405,977	281,672	208,255
Cost of sales	(185,865)	(119,046)	(85,698)	(282,348)	(187,036)	(121,898)
Gross profit	89,020	58,705	45,742	123,629	94,636	86,357
Other income and gains	6,144	4,902	3,391	18,127	14,337	5,118
Selling and distribution costs	(7,365)	(5,877)	(3,623)	(13,652)	(7,773)	(7,688)
Administrative expenses	(27,684)	(20,005)	(18,169)	(48,113)	(36,034)	(30,868)
Other expenses	(2,955)	(278)	(377)	(614)	(2,517)	(1,010)
Finance costs	(12,120)	(3,705)	(2,122)	(12,216)	(5,109)	(3,942)
PROFIT BEFORE TAX	45,040	33,742	24,842	67,161	57,540	47,967
Tax	(5,926)	(3,010)	(1,995)	(2,763)	(4,302)	(5,397)
PROFIT FOR THE PERIOD/YEAR	39,114	30,732	22,847	64,398	53,238	42,570
Attributable to:						
Equity holders of the parent company	39,114	30,732	22,848	64,398	53,235	42,403
Minority interests	-	-	(1)	-	3	167
	39,114	30,732	22,847	64,398	53,238	42,570
ASSETS, LIABILITIES AND MINORITY INTERESTS						
TOTAL ASSETS	1,353,406	778,591	444,838	1,134,261	557,967	335,338
TOTAL LIABILITIES	(614,394)	(332,674)	(250,680)	(649,518)	(264,194)	(174,426)
MINORITY INTERESTS	-	-	(17)	-	(21)	(18)
	739,012	445,917	194,141	484,743	293,752	160,894

Summary Financial Statement

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June			Year ended 31 December		
	2006 HK\$ million	2005 HK\$ million	2004 HK\$ million	2005 HK\$ million	2004 HK\$ million	2003 HK\$ million
Net cash inflow from operating activities	16.5	34.4	31.3	31.2	43.1	12.7
Investing activities						
Purchase of items of property, plant and equipment	(158.9)	(70.7)	(25.2)	(199.3)	(82.5)	(39.1)
Decrease/(increase) in pledged fixed deposits with banks	–	6.5	(2.5)	11.5	(1.9)	6.4
Financing activities						
Proceeds from issue of shares	226.8	115.3	–	115.8	98.2	–
Share issue expenses	(11.7)	(3.5)	–	(3.5)	(26.3)	–
New bank loans and other loans	64.6	17.0	73.1	226.9	170.6	67.1
Repayment of bank loans	(41.1)	(45.0)*	(47.7)	(28.7)	(124.5)	(52.3)
Capital element of finance lease rental payments	(14.9)	(9.4)	(5.7)	(19.4)	(12.9)	(9.5)
Dividend paid	(13.0)	(10.8)	(5.0)	(19.8)	(11.1)	–
Others	0.1	(1.7)	–	(1.7)	–	(1.3)
Net increase/(decrease) in cash and cash equivalents	68.4	32.1	18.3	113.0	52.7	(16.0)
Cash and cash equivalents at beginning of period/year	152.3	38.1	(14.4)	38.1	(14.4)	1.5
Effect of foreign exchange rate changes, net	0.7	(0.2)	0.1	1.2	(0.2)	0.1
Cash and cash equivalents at end of period/year	221.4	70.0	4.0	152.3	38.1	(14.4)

* Including bills payments of HK\$30.6 million which was reclassified to the category of "Cash flows from operating activities" at the year ended 31 December 2005.

Financial Highlights

		Six months ended 30 June			Year ended 31 December		
		2006	2005	2004	2005	2004	2003
OPERATING RESULTS							
Revenue	(HK\$ million)	275	178	131	406	282	208
Earnings before interest and taxation (EBIT)	(HK\$ million)	57	37	27	79	63	52
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	(HK\$ million)	90	54	38	126	86	67
Profit attributable to equity holders of the Company	(HK\$ million)	39	31	23	64	53	43
FINANCIAL POSITION							
Net cash generated from operating activities	(HK\$ million)	16	34	31	31	43	13
Net current assets	(HK\$ million)	178	99	3	16	23	8
Shareholders' funds	(HK\$ million)	739	446	194	485	294	161
Net asset per share	(HK\$)	1.02	0.74	0.52	0.81	0.59	0.43
GEARING							
Total interest-bearing borrowings	(HK\$ million)	376	142	117	360	131	87
Net borrowings	(HK\$ million)	152	67	89	201	78	71
Debt to equity ratio	(%)	50.9	31.8	60.3	74.2	44.6	54.0
Net debt to equity ratio	(%)	20.5	15.0	45.7	41.5	26.7	44.3
PER SHARE DATA							
Earnings per share – basic	(HK cents)	6.0	5.9	6.1	11.4	13.5	11.4
Earnings per share – diluted	(HK cents)	5.8	5.8	N/A	10.6	13.5	N/A
Dividend per share	(HK cents)	1.5	1.5	N/A	3.3	6.05	N/A
Dividend payout ratio	(%)	27.8	29.3	26.5	30.9	31.7	11.8
KEY STATISTICS							
Gross profit margin	(%)	32.4	33.0	34.8	30.5	33.6	41.5
EBITDA margin	(%)	32.7	30.1	29.0	31.0	30.7	32.3
Net profit margin	(%)	14.2	17.3	17.4	15.9	18.9	20.4
Return on shareholders' equity	(%)	5.3	6.9	11.8	13.3	18.1	26.4
Current ratio		1.5	1.7	1.0	1.0	1.1	1.1
Days of inventories turnover	(Day)	144	108	115	164	105	91
Days of receivable repayment	(Day)	99	98	108	112	100	111

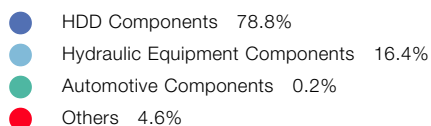
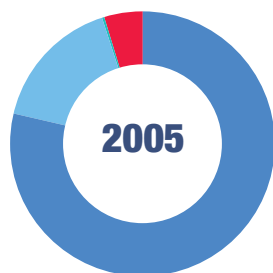
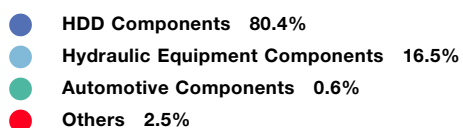
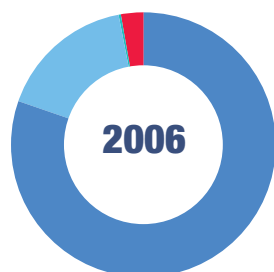
Financial Highlights

TURNOVER AND SEGMENT INFORMATION

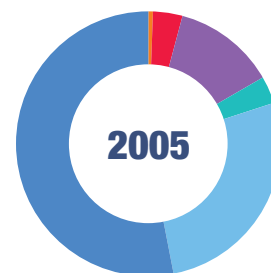
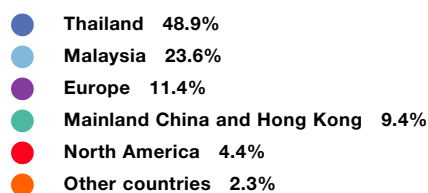
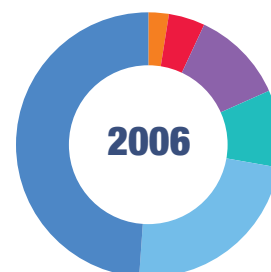
BUSINESS SEGMENT	Six months ended 30 June							
	2006		2005		2004		2003	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
HDD pivot components	140,684	51.2%	95,017	53.5%	64,551	49.1%	48,310	49.3%
HDD spindle motor components	80,343	29.2%	44,920	25.3%	35,928	27.3%	27,860	28.4%
HDD components	221,027	80.4%	139,937	78.8%	100,479	76.4%	76,170	77.7%
Hydraulic equipment components	45,359	16.5%	29,189	16.4%	18,158	13.8%	10,979	11.2%
Automotive components	1,675	0.6%	427	0.2%	-	-	-	-
Others	6,824	2.5%	8,198	4.6%	12,803	9.8%	10,882	11.1%
	274,885	100%	177,751	100%	131,440	100%	98,031	100%

REVENUE FOR THE SIX MONTHS ENDED 30 JUNE

BUSINESS SEGMENTS

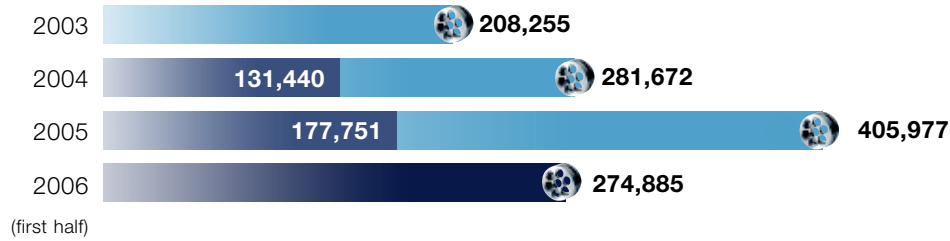


GEOGRAPHICAL SEGMENTS

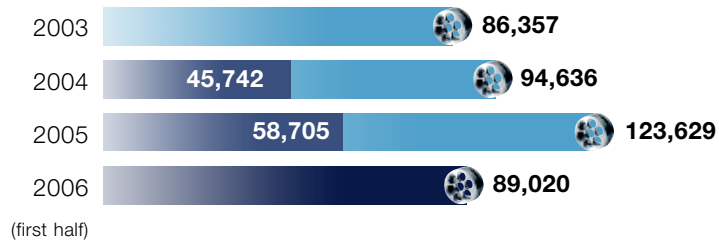


Financial Highlights

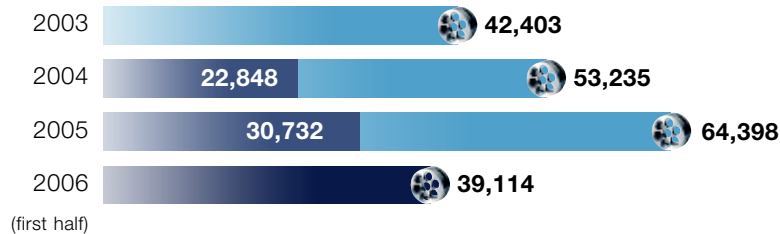
REVENUE (HK\$'000)



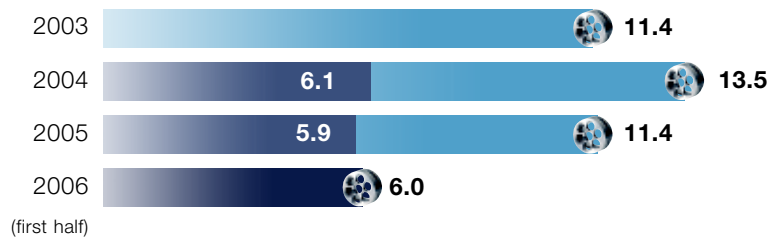
GROSS PROFIT (HK\$'000)



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (HK\$'000)



BASIC EARNINGS PER SHARE (HK CENTS)



Financial Highlights

COST AND EXPENSES ANALYSIS

	1H 2006		2H 2005		1H 2005	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
REVENUE	274,885	100.0%	228,226	100.0%	177,751	100.0%
Cost of sales						
Direct material	(81,447)	-30%	(75,882)	-33%	(57,475)	-32%
Direct labour	(21,221)	-8%	(19,540)	-9%	(14,630)	-8%
Depreciation	(30,238)	-11%	(26,459)	-12%	(13,975)	-8%
Water & electricity	(14,823)	-5%	(15,078)	-7%	(8,898)	-5%
Other manufacturing overhead	(38,136)	-14%	(26,343)	-12%	(24,068)	-14%
	(185,865)	-68%	(163,302)	-72%	(119,046)	-67%
Gross profit	89,020	32%	64,924	28%	58,705	33%
Other income and gains	6,144	2%	13,225	6%	4,902	3%
Selling and distribution costs	(7,365)	-3%	(7,775)	-3%	(5,877)	-3%
Administrative expenses	(27,684)	-10%	(28,108)	-12%	(20,005)	-11%
Other expenses	(2,955)	-1%	(336)	0%	(278)	0%
Finance costs	(12,120)	-4%	(8,511)	-4%	(3,705)	-2%
PROFIT BEFORE TAX	45,040	16%	33,419	15%	33,742	19%
Tax	(5,926)	-2%	247	0%	(3,010)	-2%
PROFIT FOR THE PERIOD	39,114	14%	33,666	15%	30,732	17%

COST OF SALES ANALYSIS

	1H 2006	2H 2005	1H 2005
Direct material	44%	47%	48%
Direct labour	11%	12%	12%
Depreciation	16%	16%	12%
Water & electricity	8%	9%	8%
Other manufacturing overhead	21%	16%	20%
Total Cost of Sales	100%	100%	100%

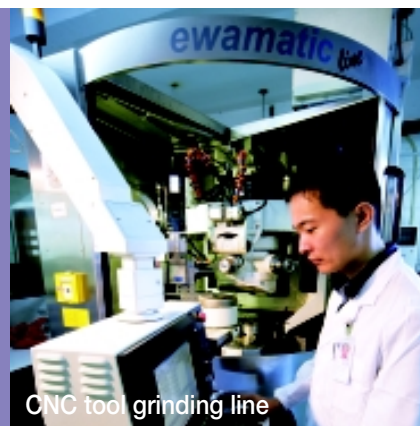
COST AND EXPENSES ANALYSIS (EXPRESSED AS A PERCENTAGE OF TURNOVER)

	1H 2006	2H 2005	1H 2005
Direct material	30%	33%	32%
Direct labour	8%	9%	8%
Depreciation	11%	12%	8%
Water & electricity	5%	7%	5%
Other manufacturing overhead	14%	12%	14%
Gross Profit %	32%	28%	33%
Other income and gains	2%	6%	3%
Selling and distribution costs	3%	3%	3%
Administrative expenses	10%	12%	11%
Other expenses	1%	0%	0%
Finance costs	4%	4%	2%
Profit Before Tax	16%	15%	19%
Tax	2%	0%	2%
Net Profit %	14%	15%	17%

Management Discussion and Analysis



HDD Components



CNC tool grinding line

Robust Growth In Market Demand

BUSINESS REVIEW

Profit attributable to equity holders of the Company amounted to HK\$39,114,000 for the first half of 2006, representing a 27.3% increase as compared to HK\$30,732,000 for the first half of 2005.

During the period under review, the Group recorded an increase in consolidated turnover by 54.6% to HK\$274,885,000. Turnover analysis by product category is shown as follows:

	Six months ended 30 June		
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	Growth/ (Decline) %
HDD pivot components	140,684	95,017	48.1%
HDD spindle motor components	80,343	44,920	78.9%
	221,027	139,937	57.9%
Hydraulic equipment components	45,359	29,189	55.4%
Automotive components	1,675	427	292.3%
Others	6,824	8,198	(16.8%)
	274,885	177,751	54.6%

The most significant gain in revenue during the first half year of 2006 resulted from a 57.9% increase in sales of HDD pivot and spindle motor components, compared to the first half of 2005, driven by continuous demand for HDD in the computer and consumer electronics market. While HDD components remained the core source of revenue of the Group, sales of hydraulic equipment components and automotive components grew also significantly by 55.4% and 292.3% respectively compared to the first half of 2005.

The Company continued to make solid progress in its initiatives to diversify its customer base and products range.

Management Discussion and Analysis



Refurbished production facilities in Dongguan, China



Hydraulic equipment components

Modern Production Facilities With Strong R&D Capabilities

The Group has expanded the available production floor area from 38,027 square metres as at 31 December 2005 to 77,831 square metres as of 30 June 2006 so that more new machines and equipment can be installed in the near future for further capacity expansion. The Group will also allocate more resources to implement hydraulic equipment components and automotive components projects in the near future in view of the growing enquiries from customers in these two sectors.

FINANCIAL REVIEW

Gross profit and gross profit margin

During the period under review, the Group has continued to invest in new machinery and equipment but certain new investments have not yet generated immediate cash revenue as new production lines and processes need to be test run and properly certified by customers before they can be put into mass volume production. As such, there has been an upsurge in depreciation cost by 105.3% to HK\$32,298,000 during the period, as compared to depreciation cost incurred in the first half of 2005. Besides, the Group experienced a wide fluctuation in prices for certain stainless steel and copper bars during the first half of 2006 which has imposed pressure on the Group's profit margin. Nevertheless, the Group has continued to implement cost saving measures and improvements in the production processes so that the Group's gross profit margin was maintained at 32.4% (2005 first half: 33.0%).

Other income and gains

Other income and gains mainly comprised foreign exchange gains of HK\$3,304,000 as a result of settlements paid in Japanese Yen and Thai Baht (2005 first half: nil) and bank interest income of HK\$2,374,000 (2005 first half: HK\$251,000).

Selling and distribution costs

During the period under review, selling and distribution expenses increased by 25.3% to HK\$7,365,000, which was mainly attributable to the increase in export freight costs as a result of more air freight shipment arranged during the first half of 2006.

Management Discussion and Analysis



Head office and research and development centre of the Group in Guangzhou, China commenced operations in February 2006

Administrative expenses

Administrative expenses increased by 38.4% from the first half of 2005 to HK\$27,684,000, which was mainly attributable to the increase in overhead costs associated with the significant increase in turnover of 54.6% and the increase in the Group's number of employees from 3,044 to 3,446 during the six months ended 30 June 2006 to support the expansion plan.

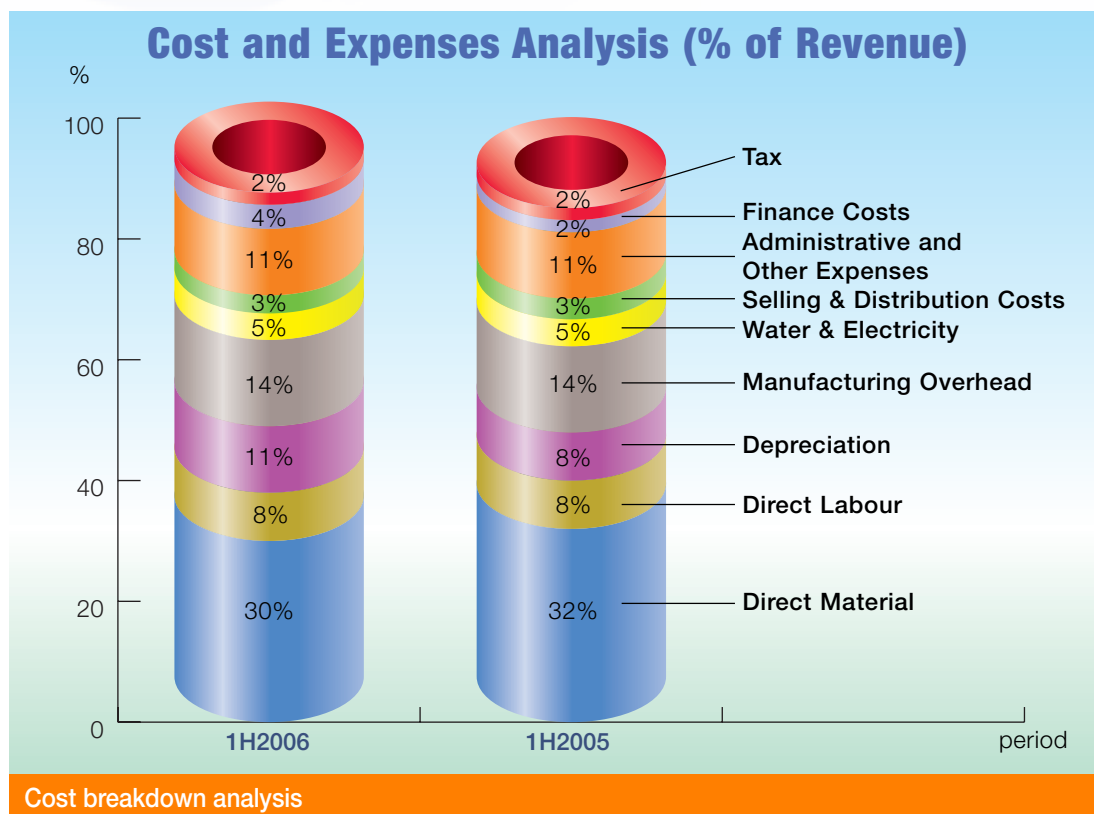
Finance costs

For the first half of 2006 the Group recorded finance costs of HK\$12,120,000 as compared to HK\$3,705,000 in the first half of 2005, representing an increase of 227.1%. The significant increase in finance costs was mainly attributable to the draw down of syndication loans of HK\$200,000,000 in August 2005, which carries interest costs at HIBOR + 135 basis points and the increase in draw down of various finance lease and term loans subsequent to 30 June 2005. Total interest-bearing bank and other borrowings amounted to HK\$376,275,000 as of 30 June 2006, increased by 165.6% from HK\$141,690,000 as of 30 June 2005.

Profit for the period attributable to equity holders of the Company

Profit for the period attributable to equity holders of the Company increased from HK\$30,732,000 for the previous corresponding period to HK\$39,114,000 for the six months ended 30 June 2006. This was mainly attributable to the increase in turnover of 54.6% over the previous corresponding period. Net profit margin reduced to 14.2% (2005 first half: 17.3%), which was mainly attributable to the drop in gross profit margin during the period under review and the significant increase in finance costs as a result of draw down of the syndication loans of HK\$200,000,000 and other bank borrowings since the corresponding previous period.

Management Discussion and Analysis



Details of Charges on the Group's Assets

As at 30 June 2006 the Group's total secured borrowings of approximately HK\$2,649,000 were secured by investment property of the Group with total net book value of approximately HK\$14,200,000.

Financial position, cash flow and borrowings

The consolidated total assets of the Group reached HK\$1,353,406,000 as at 30 June 2006, representing an increase of 19.3%, as compared to HK\$1,134,261,000 as at 31 December 2005.

Consolidated total bank borrowings increased by HK\$18,825,000 from 31 December 2005 as a result of new term loan facilities drawn down of HK\$72,418,000 and repayment of borrowings amounted to HK\$53,593,000 during the period.

During the period under review, the Group placed 120,000,000 new shares to institutional investors at HK\$1.87 per share and therefore recorded net cash generated from financing activities amounting to HK\$210,609,000. Total spending on property, plant and equipment amounted to HK\$158,706,000 due to the implementation of capacity expansion plans. Consequently, the Group reported a net increase in cash and cash equivalents of HK\$66,276,000 during the period under review and accumulated cash and cash equivalents of HK\$224,719,000 as at 30 June 2006, up from HK\$158,443,000 as at 31 December 2005.

Liquidity, financial resources and financial ratios

As at 30 June 2006, cash and cash equivalents per share was HK\$0.31 (31 December 2005: HK\$0.26) and net asset per share was HK\$1.02 (31 December 2005: HK\$0.81), based on 723,820,000 issued ordinary shares as at 30 June 2006 (31 December 2005: 601,070,000 issued ordinary shares).

Net debt (all interest-bearing bank and other borrowings less cash) to equity ratio was 20.5% as at 30 June 2006 (31 December 2005: 41.5%).

Management Discussion and Analysis

Treasury activities, currency exposure and management

Majority of the Group's cash is held in Hong Kong dollar denominated time deposits and US dollar denominated deposits. The Group's revenue is mainly denominated in US dollars, while major raw materials, machineries and manufacturing overheads are settled in Japanese Yen, Renminbi, Thai Baht and Hong Kong dollars. The Group's foreign currency exposure mainly arises from payments to overseas suppliers and machinery vendors. The Group will closely monitor its foreign exchange risk and enter into forward exchange contracts to hedge its foreign exchange exposure when necessary. Open and unsettled forward exchange contracts amounted to HK\$39,330,000 as at 30 June 2006.

Capital commitments for property, plant and equipment

The Group is expanding its production facilities in the Guangzhou China plant, Dongguan China plant and Bangkok plant to cater for the expected arrival of further new machinery and equipment in late 2006 and early 2007. The amount contracted but not provided for was HK\$88,686,000 as at 30 June 2006 and is expected to be financed by internal cash reserve and unused banking facilities available to the Group.

Human resources

The Group, together with its subsidiaries, employed a total of 3,446 employees as at 30 June 2006, an increase of 13% when compared to 3,044 employees as at 31 December 2005. Employees' cost (excluding directors' emoluments) amounted to HK\$30,167,000 in the first half of 2006. Employees are offered competitive salary with bonus awarded on a performance related basis.

PROSPECTS

The Group has positioned itself in manufacturing upstream high-precision metal components for diversified industries including HDD industry, hydraulic industry, automotive parts industry and general electronic components industry.

The increasingly common applications in PCs for video and music contents will create greater demand for storage capacity, which will eventually boost the demand for HDDs. Indeed, most HDD industry analysts expect the HDD industry to grow at a compound annual growth rate of 10% plus in the near-to-medium term as a result of its widened application in consumer electronic products such as DVD recorders, digital cameras, game consoles and storage demand for video-on-demand and broadband products. The Group is set to enjoy healthy growth in the HDD segment in the foreseeable future.

Growth in hydraulic and automotive components orders is fuelled by the component outsourcing trend to Mainland China. We believe the strong demand for hydraulic and automotive components is sustainable in the long run as the high-precision component business has high barriers of entry such as extensive qualification requirements, capital intensive and the long lead time to develop control process and know-how before kicking-off a project. The Group can implement projects at a very competitive pricing by utilizing its presence in Mainland China and Thailand.

We will continue to develop other know-how and technologies such as hot forming technology, cold forming technology and die-casting technology in order to provide one-stop solutions to our global customers and strengthen our competitive edge.

The Group is in the midst of a series of heavy expansion for future growth. Management expects that as new capacity is brought on stream, the return on investment will become increasingly apparent and stable in the long run and will prove to be attractive for shareholders.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Chui Siu On, aged 46, is the Chairman, an executive and managing Director and one of the founders of the Group. Mr. Chui is responsible for the overall strategic planning of the Group and establishes operational objectives and assignments. Mr. Chui has 30 years of experience in the field of mechanical engineering and precision automation. From 1975 to 1981, Mr. Chui was a technician of two private companies both of which were specialised in manufacturing machinery parts. From 1981 to 1988, Mr. Chui further served as technologist and mechanical computer operator in several companies where he acquired extensive experience in design and manufacture of automation equipments, precision mechanical components and machinery parts. Mr. Chui also holds positions in a number of associations as follows:

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

Mr. Ho Yu Hoi, Mark, aged 42, is an executive Director. He joined the Group in 1992 and has 23 years of experience in the field of computer aided design and manufacturing. From 1984 to 1992, Mr. Ho worked as an engineer, computer aided design/manufacturing manager and business manager in a private company engaging in the provision of mechanical equipment. Mr. Ho is currently responsible for marketing, planning, sales forecasting and implementation of the strategic plans and goals of the Group. He is also in charge of the production facilities in Thailand.

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

Mr. Li Chi Hang, aged 36, is an executive Director. Mr. Li has over 18 years of experience in the field of machine augmentation and manufacturing automation. Mr. Li joined the Group in 1992. He is currently based in China headquarters responsible for the Group's product development and new projects implementation.

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

Directors and Senior Management

Non-Executive Director

Mr. Ng Kin Nam, aged 47, is the Vice Chairman and the non-executive Director of the Group. Mr. Ng does not involve in the day-to-day management of the Group. Mr. Ng has 31 years of experience in the electrical product manufacturing industry and is the founder of "Reputed Industrial Co., Ltd.", a manufacturer of connectors for electronic devices. From 1974 to 1984, Mr. Ng worked for a machinery parts manufacturer as a trainee and then being promoted as a manager. From 1984, Mr. Ng has been the chairman of a private company specialising in manufacturing electronic components devices. In August 2002, Mr. Ng was appointed as an executive director of Peaktop International Holdings Limited, a company listed on the Main Board of the Stock Exchange engaging in design, manufacture and sale of decorative products. Mr. Ng also holds positions in a number of associations as follows:

Association

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

Position

Honorable President
Life Honorable President
Vice President
Honorable President
Director

Independent Non-Executive Directors

Dr. Cheng Ngok, aged 60, was appointed as an independent non-executive Director since 3 June 2003 and the chairman of the audit committee of the Company since 25 June 2004. Dr. Cheng graduated from the National Taiwan University with a Bachelor of Science degree in Medical Technology in 1970 and then obtained a Doctor degree of Medicine, Surgery and Obstetrics, a Diploma certification in Orthopaedic Surgery and a PH.D. degree (Doctor of Biomedical Science) from Catholic University of Leuven, Belgium in 1978, 1983 and 1984 respectively. After graduation, Dr. Cheng worked as an Orthopaedic Surgeon in Europe between 1978 and 1984. Then, he returned to Hong Kong and took up the position of a lecturer in the Department of Orthopaedic and Traumatology in the Chinese University of Hong Kong until 1986. Dr. Cheng has been a member of the Hospital Governing Committee of Alice Ho Min Ling. Nethersole Hospital since April 1997 and a member of the Cluster Tender Board in New Territories East Cluster, Hospital Authority since 2003. In addition, Dr. Cheng is also a medical practitioner in Hong Kong and holds directorship in two private companies engaging in medical diagnostic laboratory and manufacturing of medical devices.

Mr. Choi Hon Ting, Derek, aged 37, was appointed as an independent non-executive Director on 23 June 2004. Mr. Choi graduated from Purdue University in the US with a Bachelor degree in Engineering in Food Processing in 1991. After graduation, Mr. Choi worked as project manager, deputy general manager and executive director of Balama Prima Engineering Company Limited which businesses included highway construction, underground construction and environmental engineering. Since 1996, Mr. Choi has been a director of C&C Technology Inc. which is a company listed on the Toronto Stock Exchange. Mr. Choi was also a former vice-chairman, chairman and executive secretary of the China Hong Kong Society for Trenchless Technology. Mr. Choi elected as executive sub-committee member of International Society for Trenchless Technology in 2004.

Mr. Wu Karl Kwok, aged 42, was appointed as an independent non-executive Director on 23 June 2004. Mr. Wu holds a bachelor of arts degree in business administration from the University of Washington and is a Certified Public Accountant (USA). He has over 17 years of international working experience in accounting, financial planning and control, business development, logistic, project management and contract administration in various industries. Mr. Wu currently works in an international trust company. Prior to that, he had been a financial controller and company secretary for UDL Holdings Limited, a company listed on the Main Board of the Stock Exchange, and the chief financial officer and company secretary of Innovis Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Wu also used to be a project director of a private engineering and construction company in Hong Kong and served there for seven years. Before that, he worked for a private trading company, an international architectural and interior consultancy firm and a manufacturing company for a total of nine years principally responsible for financial controlling and business development.



Directors and Senior Management

SENIOR MANAGEMENT

Mr. Yip Mie Leong, Chester, aged 45, is the General Manager of the Group. Mr. Yip joined the Group in September 2006 and is assisting the Chairman in business strategies formulation, implementation of new projects and management routine. Mr. Yip holds a Bachelor Degree in Engineering. He has served 18 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 40, is the General Manager of IPE (Thailand). Mr. Lim joined the Group in 1994 and is responsible for the day-to-day operations of IPE (Thailand). He graduated from Singapore Ngee Ann Polytechnic with a diploma in Mechanical Engineering and has over 18 years of experience in the manufacturing industry.

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

Mr. Ma Ching Fung, Nicholas, aged 30, is the Group Financial Controller. He is responsible for finance and treasury of the Group. He joined the Group in May 2006. He is a qualified member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Ma also holds a Bachelor degree in Accountancy from The Hong Kong Polytechnic University. He worked for PricewaterhouseCoopers for 6 years before joining the Group.

Mr. Lau Siu Chung, aged 41, is the Sales Manager of the Group. Mr. Lau joined the Group in 1997 and is responsible for sales and marketing of the Group's components and parts. Before joining the Group Mr. Lau has over 11 years of experience in marketing and sales of precision components and industrial equipments.

Mr. Jiang Fei, aged 33. He joined the Group in 1995 after graduation from 華南理工大學 (South China University of Technology) with a graduate diploma in Mechanical Engineering. He has 10 years of experience in the manufacturing industry and is now the manager in charge of the heat treatment projects in China headquarters.

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wan Tak Wing, Gary, aged 40, is the Chief Financial Officer, Company Secretary and Qualified Accountant of the Company. He joined the Group in October 2003 and is responsible for the Group's financial, investor relationship, company secretarial and legal affairs. Mr. Wan holds a Bachelor degree in Accountancy and Finance from City of Birmingham Polytechnic of England and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Wan was an executive director of two publicly listed companies in Hong Kong and has over 18 years of experience in audit, corporate finance, business development and investors relationship.

Condensed Consolidated Income Statement

For the six months ended 30 June 2006 – unaudited

	Notes	Six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) (Restated) HK\$'000
REVENUE	3&4	274,885	177,751
Cost of sales		(185,865)	(119,046)
Gross profit		89,020	58,705
Other income and gains	4	6,144	4,902
Selling and distribution costs		(7,365)	(5,877)
Administrative expenses		(27,684)	(20,005)
Other expenses		(2,955)	(278)
Finance costs	5	(12,120)	(3,705)
PROFIT BEFORE TAX	6	45,040	33,742
Tax	7	(5,926)	(3,010)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		39,114	30,732
INTERIM DIVIDEND	8	10,857	9,009
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY	9		
Basic		HK 6.0 cents	HK 5.9 cents
Diluted		HK 5.8 cents	HK 5.8 cents

Condensed Consolidated Balance Sheet

As at 30 June 2006 – unaudited

	Notes	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		758,888	664,043
Investment properties		15,986	15,986
Prepaid land lease payments		35,171	35,246
Other non-current assets		334	381
Deferred tax assets		1,057	–
Total non-current assets		<u>811,436</u>	<u>715,656</u>
CURRENT ASSETS			
Inventories	11	146,642	127,035
Trade receivables	12	148,974	124,666
Derivative financial instruments	13	25	1,186
Prepayments, deposits and other receivables		21,610	7,275
Cash and cash equivalents		224,719	158,443
Total current assets		<u>541,970</u>	<u>418,605</u>
CURRENT LIABILITIES			
Trade and bills payables	14	78,861	83,067
Other payables and accruals		149,417	200,037
Derivative financial instruments	13	494	2,921
Tax payable		2,033	1,750
Interest-bearing bank and other borrowings	15	132,925	115,184
Total current liabilities		<u>363,730</u>	<u>402,959</u>
NET CURRENT ASSETS		<u>178,240</u>	<u>15,646</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>989,676</u>	<u>731,302</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	243,350	244,648
Deferred tax liabilities		7,314	1,911
Total non-current liabilities		<u>250,664</u>	<u>246,559</u>
NET ASSETS		<u>739,012</u>	<u>484,743</u>
EQUITY			
Equity attributable to equity holders of the parent company			
Issued capital	17	72,382	60,107
Reserves	18	655,773	413,769
Proposed dividend		10,857	10,867
TOTAL EQUITY		<u>739,012</u>	<u>484,743</u>

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006 – unaudited

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
		(Restated)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	16,475	34,351
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of items of property, plant and equipment	(158,896)	(70,664)
Prepaid land lease payments	–	(1,509)
Proceeds from disposal of items of property, plant and equipment	190	76
Disposal of a subsidiary	–	(247)
Increase in pledged fixed deposits with banks	–	6,505
Net cash outflow from investing activities	(158,706)	(65,839)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	226,800	115,324
Share issue expenses	(11,746)	(3,516)
New bank loans and other loans	64,637	16,974
Repayment of bank loans	(41,166)	(45,007)
Capital element of finance lease rental payments	(14,888)	(9,368)
Dividend paid	(13,028)	(10,802)
Net cash inflow from financing activities	210,609	63,605
NET INCREASE IN CASH AND CASH EQUIVALENTS	68,378	32,117
Cash and cash equivalents at beginning of period	152,340	38,095
Effect of foreign exchange rate changes, net	697	(237)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	221,415	69,975
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	77,010	74,998
Non-pledged time deposits	147,709	–
	224,719	74,998
Pledged time deposits	–	(5,000)
Bank overdrafts	(3,304)	(23)
	221,415	69,975

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006 – unaudited

	Attributable to equity holders of the parent Company												Total equity HK\$'000	
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Statutory					Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	Proposed dividends HK\$'000	Total HK\$'000		Minority interests HK\$'000
				surplus reserve HK\$'000	public welfare fund HK\$'000	Asset revaluation reserve HK\$'000	Share options reserve HK\$'000							
At 1 January 2006	60,107	151,021	(1,116)	6,923	287	-	7,577	3,973	245,104	10,867	484,743	-	484,743	
Exchange realignment	-	-	-	-	-	-	-	11,188	-	-	11,188	-	11,188	
Net profit for the period	-	-	-	-	-	-	-	-	39,114	-	39,114	-	39,114	
2005 final dividend paid	-	-	-	-	-	-	-	-	(2,161)	(10,867)	(13,028)	-	(13,028)	
Issue of shares	12,000	212,400	-	-	-	-	-	-	-	-	224,400	-	224,400	
Share issue expenses	-	(11,746)	-	-	-	-	-	-	-	-	(11,746)	-	(11,746)	
Exercise of share options	275	2,125	-	-	-	-	-	-	-	-	2,400	-	2,400	
Equity-settled share option scheme	-	-	-	-	-	-	1,941	-	-	-	1,941	-	1,941	
2006 interim dividend proposed	-	-	-	-	-	-	-	-	(10,857)	10,857	-	-	-	
At 30 June 2006	72,382	353,800	(1,116)	6,923	287	-	9,518	15,161	271,200	10,857	739,012	-	739,012	
At 1 January 2005	50,000	48,809	(1,116)	4,661	287	-	-	2,790	204,647	9,000	319,078	21	319,099	
Exchange realignment	-	-	-	-	-	-	-	(5,617)	-	-	(5,617)	-	(5,617)	
Net profit for the period	-	-	-	-	-	-	-	-	30,732	-	30,732	-	30,732	
Final 2004 dividend declared	-	-	-	-	-	-	-	-	(1,802)	(9,000)	(10,802)	-	(10,802)	
Issue of shares	10,000	105,000	-	-	-	-	-	-	-	-	115,000	-	115,000	
Share issue expenses	-	(3,516)	-	-	-	-	-	-	-	-	(3,516)	-	(3,516)	
Exercise of share options	42	283	-	-	-	-	-	-	-	-	325	-	325	
Equity-settled share option scheme	-	-	-	-	-	-	717	-	-	-	717	-	717	
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(21)	(21)	
Proposed interim 2005 dividend	-	-	-	-	-	-	-	-	(9,009)	9,009	-	-	-	
Transfer of retained profits	-	-	-	43	-	-	-	-	(43)	-	-	-	-	
At 30 June 2005	60,042	150,576	(1,116)	4,704	287	-	717	(2,827)	224,525	9,009	445,917	-	445,917	

Notes to the Condensed Consolidated Financial Statements

1. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2006 (the “Condensed Consolidated Financial Statements”) have been prepared in accordance with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The Condensed Consolidated Financial Statements have been prepared under the historical cost convention except for the investment properties and derivative financial instruments, which are measured at fair values. The financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of the Condensed Consolidated Financial Statements are the same as those used in the audited financial statements of the Group for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements.

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosure
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 and HKFRS 4 Amendment	Financial Guarantee Contracts
HK (IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The adoption of such standards or interpretations does not result in substantial changes to the Group’s accounting policies and has no significant effect on the results reported for the six months ended 30 June 2006.

Notes to the Condensed Consolidated Financial Statements

3. TURNOVER AND 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

(a) Geographical segments

	Six months ended 30 June 2006 (Unaudited)						Total HK\$'000
	Thailand HK\$'000	Malaysia HK\$'000	Mainland China and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	
Turnover	134,558	64,754	25,765	11,965	31,469	6,374	274,885
Other revenue	3,501	-	103	-	-	166	3,770
Total revenue	<u>138,059</u>	<u>64,754</u>	<u>25,868</u>	<u>11,965</u>	<u>31,469</u>	<u>6,540</u>	<u>278,655</u>
Segment results	<u>42,522</u>	<u>18,367</u>	<u>6,203</u>	<u>4,495</u>	<u>11,759</u>	<u>2,079</u>	85,425
Interest income							2,374
Unallocated expenses							(30,639)
Finance costs							(12,120)
Profit before tax							45,040
Tax							(5,926)
Profit for the period attributable to equity holders of the Company							<u>39,114</u>

Notes to the Condensed Consolidated Financial Statements

3. TURNOVER AND SEGMENT INFORMATION (Continued)

(a) Geographical segments (Continued)

	Six months ended 30 June 2005						Total HK\$'000
	(Unaudited) (Restated)						
	Thailand HK\$'000	Malaysia HK\$'000	Mainland China and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries 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>7,042</u>	<u>6,672</u>	<u>22,240</u>	<u>526</u>	<u>179,186</u>
Segment results	<u>22,827</u>	<u>16,476</u>	<u>3,466</u>	<u>2,600</u>	<u>8,689</u>	<u>205</u>	54,263
Interest income							251
Unallocated expenses							(20,283)
Finance costs							(3,705)
Fair value gains on investment properties							<u>3,216</u>
Profit before tax							33,742
Tax							<u>(3,010)</u>
Profit for the period attributable to equity holders of the Company							<u>30,732</u>

Notes to the Condensed Consolidated Financial Statements

3. TURNOVER AND SEGMENT INFORMATION (Continued)

(b) Business segments

	Six months ended 30 June 2006 (Unaudited)				
	HDD	Hydraulic	Automotive	Others	Total
	Components HK\$'000	Equipment Components HK\$'000	Components HK\$'000	HK\$'000	HK\$'000
Turnover	<u>221,027</u>	<u>45,359</u>	<u>1,675</u>	<u>6,824</u>	<u>274,885</u>
Segment results	<u>62,464</u>	<u>16,046</u>	<u>536</u>	<u>2,609</u>	81,655
Unallocated income					3,770
Interest income					2,374
Unallocated expenses					<u>(30,639)</u>
Profit from operations					<u>57,160</u>
	Six months ended 30 June 2005 (Unaudited) (Restated)				
	HDD	Hydraulic	Automotive	Others	Total
	Components HK\$'000	Equipment Components HK\$'000	Components HK\$'000	HK\$'000	HK\$'000
Turnover	<u>139,937</u>	<u>29,189</u>	<u>427</u>	<u>8,198</u>	<u>177,751</u>
Segment results	<u>41,381</u>	<u>10,383</u>	<u>154</u>	<u>910</u>	52,828
Unallocated income					1,435
Interest income					251
Unallocated expenses					<u>(20,283)</u>
Profit from operations					<u>34,231</u>

Notes to the Condensed Consolidated Financial Statements

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Sale of finished components, assembled parts, material and scrap material	274,885	177,751
Other income		
Bank interest income	2,374	251
Sundry income	356	1,362
	2,730	1,613
Gains		
Foreign exchange gains, net	3,304	–
Gain on disposal of items of property, plant and equipment	110	73
Fair value gains on investment properties	–	3,216
	3,414	3,289
	6,144	4,902

5. FINANCE COSTS

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loan and overdrafts wholly repayable within five years	7,845	2,154
Interest on finance leases	3,647	1,445
Financial arrangement fees	502	–
Other interest	126	106
	12,120	3,705

Notes to the Condensed Consolidated Financial Statements

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Depreciation	32,298	15,735
Equity-settled share option expenses	1,989	717
Fair value losses, net: Derivative financial instruments		
– transactions not qualifying as hedges	1,485	–
Research and development costs	1,245	3,147
Auditors' remuneration provided for the period	773	898
Recognition of prepaid land lease payments	396	356
	<u>396</u>	<u>356</u>

7. TAX

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current tax – Hong Kong Profits Tax		
– Provided for the period	471	250
– Over-provision in prior years	(1,330)	–
Current tax – Overseas		
– Provided for the period	2,510	1,927
– Over-provision in prior years	–	(4)
	<u>1,651</u>	<u>2,173</u>
Deferred tax	4,275	837
	<u>4,275</u>	<u>837</u>
Total tax charge for the period	<u>5,926</u>	<u>3,010</u>

Hong Kong profits tax has been calculated at 17.5% (17.5% for the six months ended 30 June 2005) on the estimated assessable profits arising from Hong Kong for the period. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Subsidiaries of the Company operating in the Mainland China, Thailand and Macau 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.

Notes to the Condensed Consolidated Financial Statements

8. INTERIM DIVIDEND

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend of HK\$0.015 (2005: HK\$0.015) per ordinary share	10,857	9,009

At the Board meeting held on 12 September 2006, the directors declared an interim dividend of HK\$0.015 per ordinary share. This interim dividend is not reflected as a dividend payable in these Condensed Consolidated Financial Statements, but will be reflected as an appropriation of retained profits for the six months ended 30 June 2006.

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

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

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to equity holders of the Company	39,114	30,732
	Number of shares	
	(in thousands)	
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	647,113	521,151
Effect of dilution – weighted average number of ordinary shares from the share option scheme	23,054	7,931
	670,167	529,082

Notes to the Condensed Consolidated Financial Statements

10. CAPITAL EXPENDITURE

	Property, plant and equipment (Unaudited) <i>HK\$'000</i>	Prepaid land lease payments (Unaudited) <i>HK\$'000</i>
Net book value:		
At 1 January 2006	664,043	36,032
Additions	112,355	–
Exchange realignment	14,867	327
Depreciation and amortization	(32,298)	(396)
Disposals	(79)	–
	<u>758,888</u>	<u>35,963</u>
At 30 June 2006	<u>758,888</u>	<u>35,963</u>

11. INVENTORIES

	At 30 June 2006 (Unaudited) <i>HK\$'000</i>	At 31 December 2005 (Audited) <i>HK\$'000</i>
Raw materials	58,039	53,917
Consumables	12,264	14,452
Work in progress	66,575	51,160
Finished goods	21,645	12,523
	<u>158,523</u>	132,052
Less: Provision for obsolete and slow-moving inventories	(11,881)	(5,017)
	<u>146,642</u>	<u>127,035</u>

Notes to the Condensed Consolidated Financial Statements

12. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranges from 30 to 120 days and each customer has a maximum credit limit.

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

	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
0 to 30 days	69,348	41,984
31 to 60 days	41,255	40,513
61 to 90 days	31,030	27,091
91 to 120 days	3,104	10,507
121 to 365 days	4,237	4,571
	148,974	124,666

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

13. DERIVATIVE FINANCIAL INSTRUMENTS

	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
Derivative financial instruments – transactions not qualifying as hedges		
Assets		
Forward currency contracts**	25	–
Interest rate swap*	–	1,186
Liabilities		
Forward currency contracts**	494	2,921

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

* As at 30 June 2006, the Group had an interest rate swap agreement with a bank to manage its interest rate exposure in connection with the Group's long term banking facilities which did not meet the criteria for hedge accounting. A notional amount of HK\$100,000,000 (31 December 2005: HK\$100,000,000) with the floating rate was swapped into fixed rate. The agreement lasts for three years and will expire in August 2008.

** As at 30 June 2006, the Group had entered into forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting.

Notes to the Condensed Consolidated Financial Statements

14. TRADE AND BILLS PAYABLES

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

	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
0 to 30 days	24,114	31,448
31 to 60 days	20,970	27,114
61 to 90 days	17,226	14,175
91 to 120 days	13,211	8,152
121 to 365 days	3,329	2,178
1 to 2 years	11	–
	<u>78,861</u>	<u>83,067</u>

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

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
Current				
Finance lease payables (note 16)	2.95~7.5	2006~2007	37,382	30,249
Bank overdrafts – unsecured	7.75~8.0	On demand	3,304	6,103
Bank loans – unsecured	6.0~6.5	2006~2007	91,190	75,000
Bank loans – secured	Prime rate minus 2.6%	2006~2007	1,012	992
Trust receipt loans – unsecured	7.5	2006	37	–
Other loans – unsecured	3.0~5.5		–	2,840
			<u>132,925</u>	<u>115,184</u>
Non-current				
Finance lease payables (note 16)	2.95~7.5	2007~2009	77,599	68,694
Bank loans – secured	Prime rate minus 2.6%	2008	1,637	2,151
Bank loans – unsecured	6.0~6.5	2007~2011	164,114	173,803
			<u>243,350</u>	<u>244,648</u>
			<u>376,275</u>	<u>359,832</u>

Notes to the Condensed Consolidated Financial Statements

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

	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
Analysis into:		
Bank loans and overdrafts repayables:		
Within one year or on demand	77,802	82,095
In the second year	138,537	82,547
In the third to fifth years, inclusive	44,009	92,051
Beyond five years	946	1,356
	261,294	258,049
Other borrowings repayable:		
Within one year	37,382	33,089
In the second year	30,991	28,956
In the third to fifth years, inclusive	46,608	39,738
	114,981	101,783
	376,275	359,832

Notes:

- (a) Certain banking facilities of the Group were secured by:
- (i) Charges over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK\$14,200,000 (31 December 2005: HK\$14,200,000);
 - (ii) There was no charge over the land and buildings of the Group as at 30 June 2006 (31 December 2005: HK\$2,376,000); and
 - (iii) There was no charge over the plant and machinery of the Group as at 30 June 2006 (31 December 2005: HK\$39,736,000).
- (b) Except for the unsecured bank loans and overdraft with interest rates ranging from 6.5% to 7.75% which are denominated in Thai Baht, all other borrowings are in Hong Kong dollars.

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

Notes to the Condensed Consolidated Financial Statements

16. FINANCE LEASE PAYABLES

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

At 30 June 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 30 June 2006 (Unaudited) HK\$'000	Minimum lease payments 31 December 2005 (Audited) HK\$'000	Present value of minimum lease payments 30 June 2006 (Unaudited) HK\$'000	Present value of minimum lease payments 31 December 2005 (Audited) HK\$'000
Amounts payable:				
Within one year	42,649	35,967	37,382	30,249
In the second year	34,108	32,652	30,991	28,956
In the third to fifth years, inclusive	47,894	41,922	46,608	39,738
Total minimum finance lease payments	124,651	110,541	114,981	98,943
Future finance charges	(9,670)	(11,598)		
Total net finance lease payables	114,981	98,943		
Portion classified as current liabilities (note 15)	(37,382)	(30,249)		
Non-current portion (note 15)	77,599	68,694		

Notes to the Condensed Consolidated Financial Statements

17. SHARE CAPITAL

Shares	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
Authorised:		
1,200,000,000 (31 December 2005: 1,200,000,000) ordinary shares of HK\$0.1 each	<u>120,000</u>	<u>120,000</u>
Issued and fully paid:		
723,820,000 (31 December 2005: 601,070,000) ordinary shares of HK\$0.1 each	<u>72,382</u>	<u>60,107</u>

The movements in share capital for the period ended 30 June 2006 and year ended 31 December 2005 were as follows:

	<i>Notes</i>	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
(Audited)					
At 1 January 2005		500,000,000	50,000	48,809	98,809
Placement of new shares	(a)	100,000,000	10,000	105,000	115,000
Share options exercised	(b)	<u>1,070,000</u>	<u>107</u>	<u>728</u>	<u>835</u>
		601,070,000	60,107	154,537	214,644
Share issue expenses	(a)	<u>-</u>	<u>-</u>	<u>(3,516)</u>	<u>(3,516)</u>
At 31 December 2005 and 1 January 2006		601,070,000	60,107	151,021	211,128
(Unaudited)					
Placement of new shares	(c)	120,000,000	12,000	212,400	224,400
Share options exercised	(d)	<u>2,750,000</u>	<u>275</u>	<u>2,125</u>	<u>2,400</u>
		723,820,000	72,382	365,546	437,928
Share issue expenses	(c)	<u>-</u>	<u>-</u>	<u>(11,746)</u>	<u>(11,746)</u>
At 30 June 2006		<u>723,820,000</u>	<u>72,382</u>	<u>353,800</u>	<u>426,182</u>

Notes to the Condensed Consolidated Financial Statements

17. SHARE CAPITAL *(Continued)*

- (a) On 10 May 2005, the Group placed 100,000,000 new shares at the subscription price of HK\$1.15 per share, resulting in a total cash consideration, before expenses, of HK\$115,000,000.
- (b) During 2005, the subscription rights attaching to 1,070,000 share options were exercised at the subscription price of HK\$0.78 per share, resulting in the issue of 1,070,000 shares of HK\$0.1 each for a total cash consideration, before expenses, of HK\$834,600.
- (c) On 12 April 2006, the Group placed 120,000,000 new shares at the subscription price of HK\$1.87 per share, resulting in a total cash consideration, before expenses of HK\$224,400,000.
- (d) During the six months ended 30 June 2006, the subscription rights attaching to 2,750,000 share options were exercised at subscription price ranging from HK\$0.78 to HK\$1.41 per share, resulting in the issue of 2,750,000 shares of HK\$0.1 each for a total cash consideration, before expenses, of HK\$2,400,000.

18. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on page 23 of the financial statements.

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

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

The transfer of net profit to the statutory public welfare fund is made at the discretion of the director at 5% of the net profit of the Company's subsidiaries. The statutory public welfare fund can be used for employees' welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the period ended 30 June 2006.

Notes to the Condensed Consolidated Financial Statements

19. CAPITAL COMMITMENTS

The capital commitments of the Group were as follows:

	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
Authorized but not contracted for:		
– Plant and machinery	–	831
Contracted but not provided for:		
– Plant and machinery	70,421	40,408
– Construction in progress	18,265	18,609
	88,686	59,017

20. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within one year	381	119
In the second to fifth years, inclusive	230	52
After five years	–	–
	611	171

21. BANK FACILITIES

The Group had aggregate banking facilities of approximately HK\$693,266,000 and HK\$433,800,000 as at 30 June 2006 and 30 June 2005 respectively, for term loans, overdrafts and trade financing. Unused facilities as at 30 June 2006 and 30 June 2005 amounted to approximately HK\$254,239,000 and HK\$358,690,000 respectively.

Notes to the Condensed Consolidated Financial Statements

22. CONTINGENT LIABILITIES

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

	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
Guarantees given to an electricity company	713	662
Guarantees given to the Customs Department of Thailand in connection with import of machineries	<u>87</u>	<u>3,017</u>
	<u>800</u>	<u>3,679</u>

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The condensed consolidated financial statements on pages 20 to 39 were approved and authorised for issue by the Board of Directors on 12 September 2006.



Other Information

INTERIM DIVIDEND

The Board is pleased to declare an interim dividend of HK\$0.015 per ordinary share for the six months ended 30 June 2006 (2005 first half: HK\$0.015 per ordinary share). The interim dividend will be payable in cash on or around 5 October 2006 to shareholders whose names appear on the Register of Members of the Company at the close of business on Tuesday, 3 October 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 28 September 2006 to Tuesday, 3 October 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the interim dividend for the six months ended 30 June 2006, all the transfers of shares 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 Wednesday, 27 September 2006.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution in writing passed by 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.

Other Information

SHARE OPTION SCHEME (Continued)

The movements of share options granted under the Scheme during the six months ended 30 June 2006 are as follows:

Name or category of participant	Number of share options					At 30 June 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2006	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period				
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			
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	-	-	-	-	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
	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	-	-	-	-	3,550,000			
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. Choi Hon Ting, Derek	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
	23,550,000	-	-	-	-	23,550,000			

Other Information

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options					At 30 June 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2006	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period				
Employees under continuous employment contracts									
In aggregate	4,290,000	-	(1,315,000)	-	-	2,975,000	30-11-04	30-11-04 to 31-12-08	0.78
	5,210,000	-	(1,030,000)	-	-	4,180,000	30-11-04	01-01-06 to 31-12-08	0.78
	5,085,000	-	-	-	-	5,085,000	30-11-04	01-01-07 to 31-12-08	0.78
	5,085,000	-	-	-	-	5,085,000	30-11-04	01-01-08 to 31-12-08	0.78
	3,000,000	-	-	-	-	3,000,000	04-02-05	04-02-05 to 31-12-07	1.09
	1,500,000	-	(165,000)	-	-	1,335,000	27-07-05	27-07-05 to 31-12-08	1.41
	3,440,000	-	(240,000)	-	(25,000)	3,175,000	27-07-05	01-01-06 to 31-12-08	1.41
	4,820,000	-	-	-	(25,000)	4,795,000	27-07-05	01-01-07 to 31-12-08	1.41
	6,290,000	-	-	-	(25,000)	6,265,000	27-07-05	01-01-08 to 31-12-08	1.41
	38,720,000	-	(2,750,000)	-	(75,000)	35,895,000			

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 was HK\$1.89.

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
	7,000,000	-	-	-	-	7,000,000	04-02-05	04-02-05 to 31-12-07	1.09
	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
	10,450,000	-	-	-	-	10,450,000			
	72,720,000	-	(2,750,000)	-	(75,000)	69,895,000			

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

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

*** Mr. Wong Kwok Keung was appointed as an executive director of the Company on 1 January 2006.



Other Information

SHARE OPTION SCHEME *(Continued)*

In the current period, share option benefits expense of approximately HK\$1,989,000 has been recognised in income statement.

The 2,750,000 share options exercised during the period resulted in the issue of 2,750,000 ordinary shares of the Company and new share capital of HK\$275,000 and share premium of HK\$2,125,000 (before issue expenses), as further detailed in note 17 to the financial statements.

At the balance sheet date, the Company had 69,895,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 69,895,000 additional ordinary shares of the Company and additional share capital of HK\$6,989,500 and share premium of HK\$75,274,200 (before issue expenses).

At the date of approval of these financial statements, the Company had 69,895,000 share options outstanding under the Scheme, which represented approximately 9.7% of the Company's shares in issue as at that date.

USE OF PROCEEDS

During the period, the Company issued 120,000,000 new shares to institutional investors at HK\$1.87 per share on 12 April 2006 and the net proceeds of the subscription of approximately HK\$212,500,000 will be applied as to approximately HK\$96,000,000 for the acquisition of new machineries and as to approximately HK\$116,500,000 for general working capital uses in order to cope with the increase in production capacity of the Group.

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2006, the interests and short positions of the directors, in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and Main Board of the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

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

Name of director	Capacity and nature of interest	Notes	Number of ordinary shares in the Company	Percentage of the Company's issued share capital
Mr. Chui Siu On	Through controlled corporation	1	352,500,000	48.700%
	Directly beneficially owned		4,840,000	0.669%
	Through spouse	2	100,000	0.014%
			<u>357,440,000</u>	<u>49.383%</u>
Mr. Ng Kin Nam	Directly beneficially owned		6,540,000	0.904%
Mr. Ho Yu Hoi	Directly beneficially owned		4,300,000	0.594%

Notes:

- These shares were owned by Tottenham Limited, the entire issued share 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 interest in Tottenham Limited, Mr. Chui Siu On was deemed to be interested in the entire 352,500,000 shares owned by Tottenham Limited pursuant to Part XV of the SFO.
- Shares held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On, was also disclosed as Ms. Leung's personal interest in the sections 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 owned by his wife pursuant to Part XV of the SFO.

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(Continued)

(B) 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 the underlying shares over the Company's issued share capital
Mr. Chui Siu On	Directly beneficially owned	3,000,000	0.414%
Mr. Ng Kin Nam	Directly beneficially owned	500,000	0.069%
Mr. Ho Yu Hoi	Directly beneficially owned	5,000,000	0.691%
Mr. Lai Man Kit	Directly beneficially owned	5,000,000	0.691%
Mr. Li Chi Hang	Directly beneficially owned	5,000,000	0.691%
Mr. Wong Kwok Keung	Directly beneficially owned	3,550,000	0.490%
Dr. Cheng Ngok	Directly beneficially owned	500,000	0.069%
Mr. Choi Hon Ting, Derek	Directly beneficially owned	500,000	0.069%
Mr. Wu Karl Kwok	Directly beneficially owned	500,000	0.069%

Note: Details of the above share options as required to be disclosed by the Listing Rules have been disclosed in the above section headed "Share Option Scheme".

In addition to the above, as at 30 June 2006, 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 30 June 2006, none of the directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Share option scheme" and in the "Directors' interests and short positions in shares and underlying shares" above, at no time during the period 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.

Other Information

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

As at 30 June 2006, the following persons (not being directors or chief executives of the Company) with interests of more than 5% of the issued share capital of the Company were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

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

Name of substantial shareholder	Notes	Capacity and nature of interest	Number of ordinary shares in the Company	Percentage of the Company's issued share capital
Tottenham Limited	(a)	Directly beneficially owned	352,500,000	48.700%
Ms. Leung Wing Yi	(b)	Directly beneficially owned	100,000	0.014%
		Through spouse	357,340,000	49.369%
			<u>357,440,000</u>	<u>49.383%</u>
Invesco Hong Kong Limited		Investment manager	50,465,000	6.972%
JPMorgan Chase & Co.	(c) & (d)	Through controlled corporations	47,810,000	6.605%
JPMorgan Asset Management Holdings Inc.	(c)	Through controlled corporations	20,575,000	2.843%
JPMorgan Asset Management (Asia) Inc.	(c)	Through controlled corporation	20,575,000	2.843%
JF Asset Management Limited	(c)	Investment manager	20,575,000	2.843%
JPMorgan Chase Bank, N.A.	(d)	Custodian corporation/ approved lending agent	27,235,000	3.763%

Notes:

- (a) 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 and underlying shares" above.
- (b) These shares were disclosed as the personal and corporate interests of Mr. Chui Siu On, the husband of Ms. Leung Wing Yi, in the section headed "Directors' interests and short positions in the shares and underlying shares" above. Ms. Leung Wing Yi was deemed to be interested in these shares owned by her husband pursuant to Part XV of the SFO.
- (c) These 20,575,000 shares of Company were held by JF Asset Management Limited which was a wholly-owned subsidiary of JPMorgan Asset Management (Asia) Inc. which in turn was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc.. JPMorgan Asset Management Holdings Inc. was a wholly-owned subsidiary of JPMorgan Chase & Co.. Accordingly, JPMorgan Chase & Co., JPMorgan Asset Management Holdings Inc. and JPMorgan Asset Management (Asia) Inc. were deemed to be interested in the 20,575,000 shares of the Company pursuant to Part XV of the SFO.

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

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

(d) JPMorgan Chase & Co. was deemed to be interested in the 27,235,000 shares of the Company through its wholly-owned subsidiary "JPMorgan Chase Bank, N.A." pursuant to Part XV of the SFO.

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

Name of substantial shareholder	Capacity and nature of interest	Number of underlying shares in respect of the share options granted	Percentage of the underlying shares over the Company's issued share capital
Ms. Leung Wing Yi	Through spouse	3,000,000	0.414%

Note: Ms. Leung Wing Yi was deemed to be interested in 3,000,000 share options of the Company owned by her husband, Mr. Chui Siu On, pursuant to Part XV of the SFO. Details of such share options as required to be disclosed by the Listing Rules have been disclosed in the above section headed "Share Option Scheme".

Save as disclosed above, as at 30 June 2006, 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.

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 40% (which was revised from 45% to 40% as announced by the Company's press announcement dated 12 April 2006) 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 30 June 2006, the Company is required to make the above disclosure pursuant to Rule 13.21 of the Listing Rules. In addition, the above performance obligation has been duly satisfied up to the date of the approval of these financial statements.

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

Neither the Company, nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities during the period under review.



Other Information

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management efficiency of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, except that there is no separation of the role of Chairman and Chief Executive Officer as laid down in the code provision A.2.1. Mr. Chui Siu On currently assumes the role of both the Chairman and the Chief Executive Officer of the Company. The Board 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' dealing in the Company's securities (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 confirmed that they 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.

COMPLIANCE WITH WRITTEN GUIDELINES FOR SECURITIES TRANSACTIONS BY THE RELEVANT EMPLOYEES

The Company has established written guidelines for the relevant employees of the Company (the "Relevant Employees") in respect of their dealings in the securities of the Company (the "Written Guidelines") on terms no less exacting than the required standard set out in the Model Code. For this purpose, "Relevant Employee" includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company throughout the accounting period covered by the interim report.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising the three independent non-executive directors, namely Dr. Cheng Ngok (Chairman of the Audit Committee), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, has reviewed, with the senior management of the Company, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Company's interim report for the six months ended 30 June 2006.

APPRECIATION

The Board would like to take this opportunity to thank our shareholders for their continued support and the fellow directors and our staff for their contributions to the Group.

On behalf of the Board

Chui Siu On

Chairman and Managing Director

Hong Kong

12 September 2006