



IPE GROUP LIMITED **Annual Report** **2007**

(Incorporated in the Cayman Islands with Limited Liability)
(Stock Code : 0929)

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Director

Mr. Ng Kin Nam (*Vice Chairman*)

Independent Non-Executive Directors

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wan Tak Wing, Gary (FCPA)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

PRINCIPAL BANKERS

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

LEGAL ADVISERS TO THE COMPANY

Michael Li & Co

AUDITORS

Ernst & Young
Certified Public Accountants

LISTING VENUE

Main Board of The Stock Exchange
of Hong Kong Limited

STOCK CODE

0929

REGISTERED OFFICE

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

GROUP HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

11th Floor, Block E1
Hoi Bun Industrial Building
No. 6 Wing Yip Street
Kwun Tong, Kowloon
Hong Kong
Tel: (852) 2688 5920
Fax: (852) 2688 6155

PRINCIPAL PLACE OF BUSINESS IN MACAU

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

PRINCIPAL PLACE OF BUSINESS IN THAILAND


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

WEBSITE

<http://www.ipegroup.com>

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Integrated
precision
engineering

Financial Calendar and Shareholder Information

FINANCIAL CALENDAR

2007 Final dividend payable date	30 May 2008
Closure of register of members	21 May 2008 to 26 May 2008
Listing date	1 November 2004

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 21 April 2008	708,925,000
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, Grand Cayman, KY1-1107, Cayman Islands
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	Strategic Financial Relations Limited Unit A, 29/F, Admiralty Centre 1, 18 Harcourt Road, Hong Kong Tel: (852) 2527 0490 Fax: (852) 2804 2789 Website: http://www.sprg.com.hk

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

The Group started its high precision components business in 1990 in Singapore and has now developed into a multinational corporation with production plants located in the Mainland China and Thailand. By using specialised computer numerical controlled turning machines and other auxiliary machinery and equipment, the Group produces high precision metal components and assembled parts used in hard disk drives ("HDD"), hydraulic equipment, automotive parts, electronic and other devices.

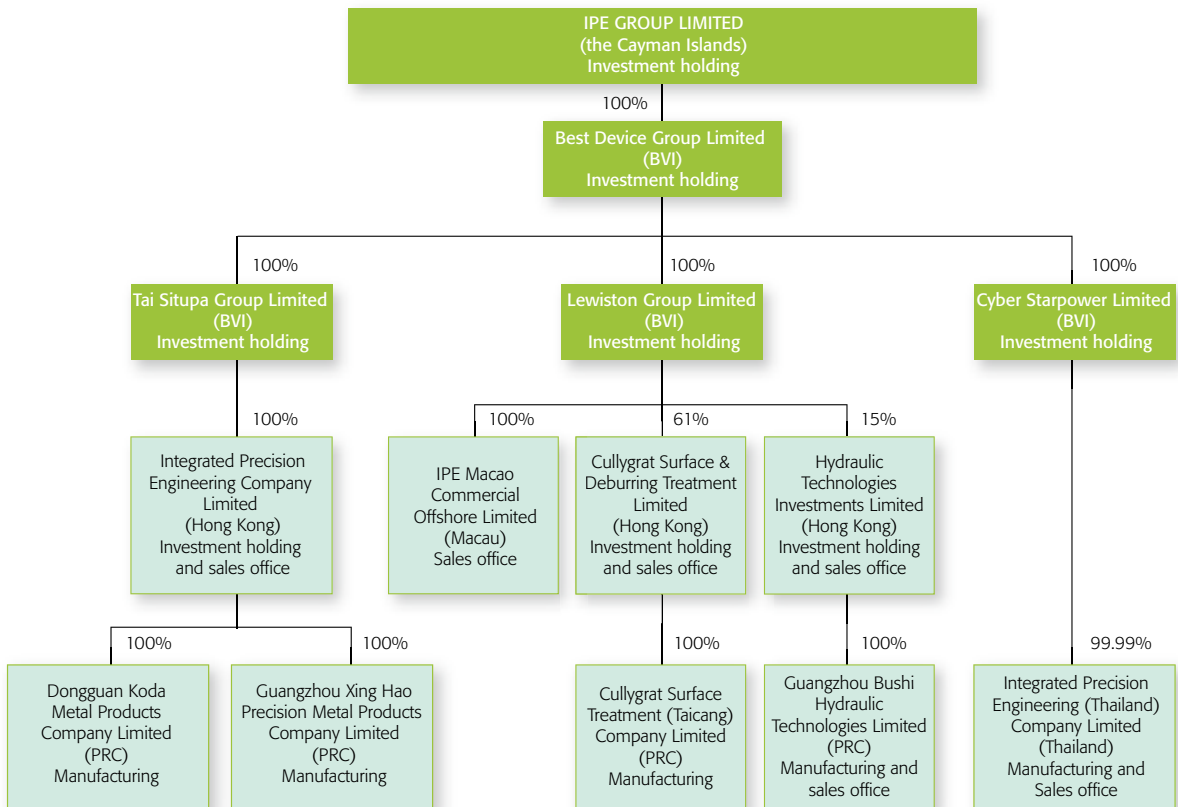
The Group's highly valued customers are top-tier multinational corporations in the information technology, fluid power, automotive and household electronic sectors where optimal precision is vital. With these long term business partners, the Group has grown steadily to become a listed company on the Main Board of The Stock Exchange of Hong Kong Limited on 1 November 2004 (Stock Code: 0929). As at 31 December 2007, the Group had a workforce of 3,998 employees.

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

The Group has also established strategic business partnerships in the form of joint ventures and technical cooperation, with experts from hydraulic industry and metal surface treatment industry which have helped to strengthen our core competences and make sure we stay ahead of our competitors all times.

Group Structure

Principal subsidiaries and the joint venture of the Company as at 31 December 2007



YEAR

- 2008** Guangzhou Bushi Hydraulic Technologies Limited commenced mass production of hydraulic valves and remote controls
- Cullygrat Surface Treatment (Taicang) Company Limited completed production lines installation and started trial run of chemical deburring lines
-
- 2007** Acquired 61% interests in Cullygrat Surface & Deburring Treatment Limited and set up chemical deburring facilities in Taicang, Suzhou
- Integrated Precision Engineering (Thailand) Co., Ltd. ("IPE (Thailand)") accredited with ISO14001:2004
- Participated in the Sino-Italian joint venture, Hydraulic Technologies Investments Limited and its wholly owned subsidiary, Guangzhou Bushi Hydraulic Technologies Limited, which is engaged in the assembly of hydraulic valves and devices in China. IPE Group owns 15% interests in this joint venture
-
- 2006** Guangzhou Xing Hao Precision Metal Products Company Limited ("Xing Hao") was accredited TS16949 certification
-
- 2005** Qualified by Bosch, Delphi, Siemens VDO and TRW as an qualified automotive components vendor
- Xing Hao Factory Phase 1 was put into operation in March 2005
-
- 2004** Established IPE Macao Commercial Offshore Limited ("IPE Macao") in Macau
- Listed on the Main Board of The Stock Exchange of Hong Kong Limited on 1 November 2004
-
- 2003** Acquired additional land of 166,667 square metres to enlarge production facilities of Xing Hao and construction of the new Guangzhou plant commenced
-
- 2002** IPE (Thailand)'s production facility was accredited ISO 9001 certification
- The production facility of Dongguan Koda Metal Products Company Limited ("Dongguan Koda") was accredited ISO 9001 and QS 9000 certifications
- Established Xing Hao in Mainland China
-
- 1997** Established IPE (Thailand) in Ayutthaya, Thailand
- Integrated Precision Engineering Pte. Ltd. ("IPE (Singapore)") was awarded the "Top 50 outstanding enterprise" by the Singapore Government
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- 1994** Established Integrated Precision Engineering Company Limited in Hong Kong
- Established Dongguan Koda in Mainland China
-
- 1990** Established IPE (Singapore) in Singapore
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RESULTS

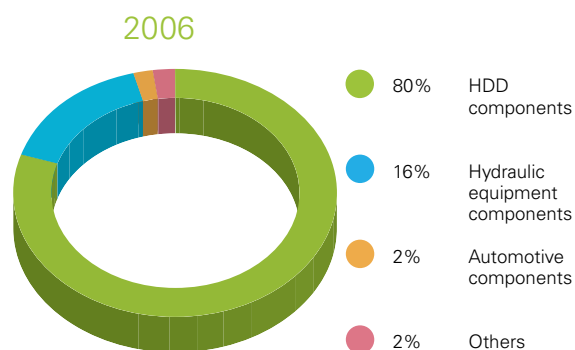
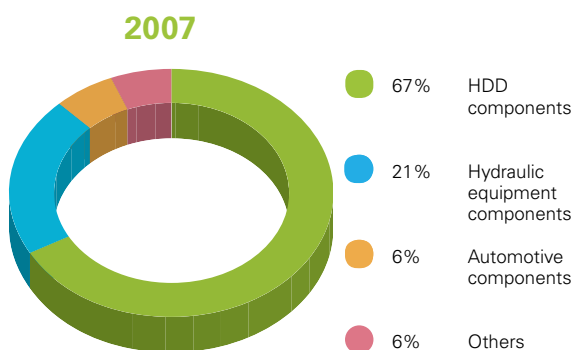
	Year ended 31 December									
	2007		2006		2005		2004		2003	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
REVENUE	791,179	100%	581,642	100%	405,977	100%	281,672	100%	208,255	100%
Direct material	(290,416)	37%	(194,101)	33%	(128,107)	32%	(97,393)	35%	(56,984)	27%
Direct labour	(66,499)	8%	(48,718)	8%	(34,594)	9%	(25,054)	9%	(19,842)	10%
Depreciation	(104,711)	13%	(64,188)	11%	(40,434)	10%	(21,310)	8%	(14,119)	7%
Other production overheads	(126,980)	16%	(104,420)	19%	(79,213)	19%	(43,279)	14%	(30,953)	15%
Cost of sales	(588,606)	74%	(411,427)	71%	(282,348)	70%	(187,036)	66%	(121,898)	59%
Gross profit	202,573	26%	170,215	29%	123,629	30%	94,636	34%	86,357	41%
Other income and gains	25,696	3%	21,354	4%	18,127	5%	14,337	5%	5,118	3%
Selling and distribution costs	(18,730)	2%	(16,742)	3%	(13,652)	3%	(7,773)	3%	(7,688)	4%
Administrative expenses	(62,520)	8%	(53,257)	9%	(48,113)	12%	(36,034)	13%	(30,868)	15%
Other expenses	(6,763)	1%	(8,924)	2%	(614)	0%	(2,517)	1%	(1,010)	0%
Finance costs	(27,423)	4%	(23,497)	4%	(12,216)	3%	(5,109)	2%	(3,942)	2%
PROFIT BEFORE TAX	112,833	14%	89,149	15%	67,161	17%	57,540	20%	47,967	23%
Tax	(7,352)	1%	(4,391)	1%	(2,763)	1%	(4,302)	1%	(5,397)	3%
PROFIT FOR THE YEAR	105,481	13%	84,758	14%	64,398	16%	53,238	19%	42,570	20%
Attributable to:										
Equity holders of the Company	105,739	13%	84,758	14%	64,398	16%	53,235	19%	42,403	20%
Minority interests	(258)	0%	-	-	-	0%	3	0%	167	0%
	105,481	13%	84,758	14%	64,398	16%	53,238	19%	42,570	20%

TURNOVER AND SEGMENT INFORMATION

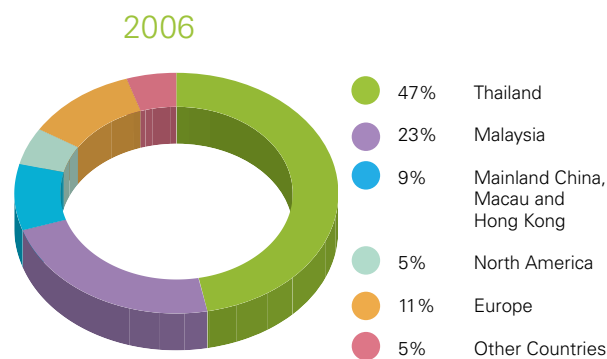
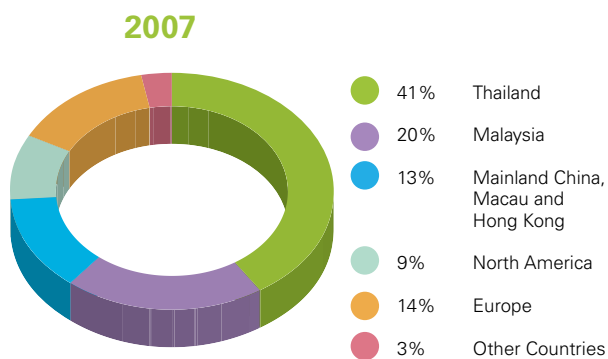
	2007		2006		2005		2004		2003	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
HDD pivot components	315,141	40%	315,263	54%	225,447	56%	138,643	49%	106,517	51%
HDD spindle motor components	218,010	27%	152,565	26%	101,456	25%	77,105	27%	61,912	30%
HDD Components	533,151	67%	467,828	80%	326,903	81%	215,748	77%	168,429	81%
Hydraulic equipment components	165,932	21%	91,151	16%	62,986	16%	44,150	16%	18,754	9%
Automotive components	44,365	6%	11,252	2%	1,026	0%	325	0%	-	-
Others	47,731	6%	11,411	2%	15,062	3%	21,449	7%	21,072	10%
	791,179	100%	581,642	100%	405,977	100%	281,672	100%	208,255	100%

TURNOVER

Business Segments



Geographical Segments



CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS					
Negative goodwill	–	–	–	(25,326)	(26,813)
Property, plant and equipment	941,806	836,426	664,043	324,494	189,875
Prepaid land lease payments	37,496	35,681	35,246	33,883	34,481
Investment properties	21,046	16,755	15,986	12,770	10,211
Loan to an unlisted equity investment	2,850	1,350	–	–	–
Available-for-sale investment	150	150	–	–	–
Other non-current assets	191	286	381	607	607
Deferred tax assets	599	975	–	174	878
Total non-current assets	1,004,138	891,623	715,656	346,602	209,239
CURRENT ASSETS					
Inventories	198,232	196,094	127,035	54,004	30,328
Trade receivables	233,704	166,993	124,666	77,452	63,375
Derivative financial instruments	69	–	1,186	–	–
Prepayments, deposits and other receivables	14,407	12,970	7,275	16,141	16,564
Pledged deposits	–	–	–	11,506	9,581
Cash and cash equivalents	235,049	138,703	158,443	52,262	6,251
Total current assets	681,461	514,760	418,605	211,365	126,099
CURRENT LIABILITIES					
Trade and bills payables	95,576	97,382	83,067	83,824	24,678
Other payables and accruals	60,287	109,039	200,037	44,095	30,398
Due to directors	–	–	–	–	383
Derivative financial instruments	292	946	2,941	–	–
Tax payable	6,073	4,304	1,750	1,561	2,863
Interest-bearing bank and other borrowings	364,484	166,121	115,184	59,093	59,133
Total current liabilities	526,712	377,792	402,959	188,573	117,455
NET CURRENT ASSETS	154,749	136,968	15,646	22,792	8,644
TOTAL ASSETS LESS CURRENT LIABILITIES	1,158,887	1,028,591	731,302	369,394	217,883
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	202,426	219,664	244,648	71,612	27,967
Due to a director	–	–	–	–	17,000
Other payables and accruals	–	–	–	–	9,434
Deferred tax liabilities	2,171	1,744	1,911	4,009	2,570
Total non-current liabilities	204,597	221,408	246,559	75,621	56,971
Net assets	954,290	807,183	484,743	293,773	160,912
EQUITY					
Equity attributable to equity holders of the Company					
Issued capital	71,843	72,296	60,107	50,000	39
Reserves	863,666	721,874	413,769	234,752	160,855
Proposed final dividend	17,014	13,013	10,867	9,000	–
Minority interests	952,523	807,183	484,743	293,752	160,894
	1,767	–	–	21	18
Total equity	954,290	807,183	484,743	293,773	160,912

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
NET CASH FROM OPERATING ACTIVITIES	140,153	73,347	31,264	43,136	11,669
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	(189,618)	(297,668)	(199,269)	(82,481)	(11,766)
Increase in other non-current assets	-	-	-	-	(310)
Prepaid land lease payments	-	-	(1,537)	-	(27,358)
Proceeds from disposal of items of property, plant and equipment	2,187	741	-	4	309
Investment in an unlisted equity investment	-	(150)	-	-	-
Disposal of a subsidiary	-	-	(173)	-	(1,227)
Decrease/(increase) in pledged fixed deposits with banks	-	-	11,506	(1,925)	6,393
Net cash outflow from investing activities	(187,431)	(297,077)	(189,473)	(84,402)	(33,959)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	-	224,400	115,000	98,175	-
Share issue expenses	-	(12,073)	(3,516)	(26,362)	-
Repurchase of shares	(4,968)	(1,032)	-	-	-
Share options exercised	120	2,400	835	-	-
New bank loans and other borrowings	363,555	136,069	226,890	170,607	67,092
Repayment of bank loans and other borrowings	(162,198)	(85,607)	(22,740)	(128,478)	(52,314)
Capital element of finance lease rental payments	(30,806)	(31,516)	(19,373)	(12,941)	(9,512)
Dividends paid	(27,472)	(23,885)	(19,812)	(11,060)	-
(Decrease)/increase in trust receipt loans	-	-	(6,011)	3,987	1,062
Net cash inflow from financing activities	138,231	208,756	271,273	93,928	6,328
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	90,953	(14,974)	113,064	52,662	(15,962)
Cash and cash equivalents at beginning of year	138,670	152,340	38,095	(14,374)	1,520
Effect of foreign exchange rate changes, net	4,327	1,304	1,181	(193)	68
CASH AND CASH EQUIVALENTS AT END OF YEAR	233,950	138,670	152,340	38,095	(14,374)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	163,512	96,726	95,591	45,167	6,251
Non-pledged time deposits with original maturity of less than three months when acquired	71,537	41,977	62,852	7,095	-
Bank overdrafts	235,049 (1,099)	138,703 (33)	158,443 (6,103)	52,262 (14,167)	6,251 (20,625)
	233,950	138,670	152,340	38,095	(14,374)

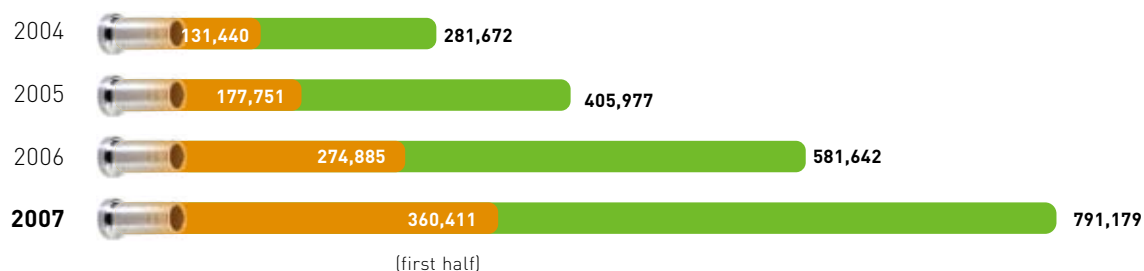
RATIO ANALYSIS

	Year ended 31 December				
	2007	2006	2005	2004	2003
FINANCIAL POSITION:					
Net current assets	HK\$155 M	HK\$137 M	HK\$16 M	HK\$23 M	HK\$8 M
Shareholders' fund	HK\$954 M	HK\$807 M	HK\$485 M	HK\$294 M	HK\$161 M
Net assets per share (HK\$)	1.33	1.12	0.81	0.59	0.43
GEARING:					
Total interest-bearing bank and other borrowings	HK\$567 M	HK\$386 M	HK\$360 M	HK\$131 M	HK\$87 M
Trade & bills payables	HK\$96 M	HK\$97 M	HK\$83 M	HK\$84 M	HK\$25 M
Other payables & accruals	HK\$60 M	HK\$109 M	HK\$200 M	HK\$44 M	HK\$31 M
Cash & cash equivalents	HK\$235 M	HK\$139 M	HK\$158 M	HK\$52 M	HK\$6 M
Net debt	HK\$488 M	HK\$453 M	HK\$485 M	HK\$207 M	HK\$137 M
Equity attributable to equity holders	HK\$953 M	HK\$807 M	HK\$485 M	HK\$294 M	HK\$161 M
Capital and net debt	HK\$1,441 M	HK\$1,260 M	HK\$970 M	HK\$501 M	HK\$298 M
Gearing ratio (net debt/capital & net debt)	0.34	0.36	0.50	0.41	0.46
KEY STATISTICS:					
Gross profit margin	25.6%	29.3%	30.5%	33.6%	41.5%
EBITDA margin	32.2%	32.5%	31.0%	30.7%	32.3%
Net profit margin	13.3%	14.6%	15.9%	18.9%	20.4%
Return on shareholders' equity	12.0%	13.1%	16.5%	23.4%	31.0%
Current ratio	1.29	1.36	1.04	1.12	1.07
Days of inventory turnover (including raw materials, consumables, WIP and finished goods)	122 days	143 days	117 days	82 days	91 days
Days of inventory turnover (raw materials only)	48 days	57 days	45 days	20 days	18 days
Days of inventory turnover (WIP only)	35 days	52 days	45 days	36 days	41 days
Days of inventory turnover (finished goods only)	16 days	14 days	14 days	23 days	38 days
Average days of debtor turnover	92 days	92 days	91 days	91 days	91 days
PER SHARE DATA:					
Earnings per share – basic	HK14.61 cents	HK12.40 cents	HK11.36 cents	HK13.52 cents	HK11.38 cents
Earnings per share – diluted	HK14.47 cents	HK12.11 cents	HK10.63 cents	HK13.49 cents	N/A

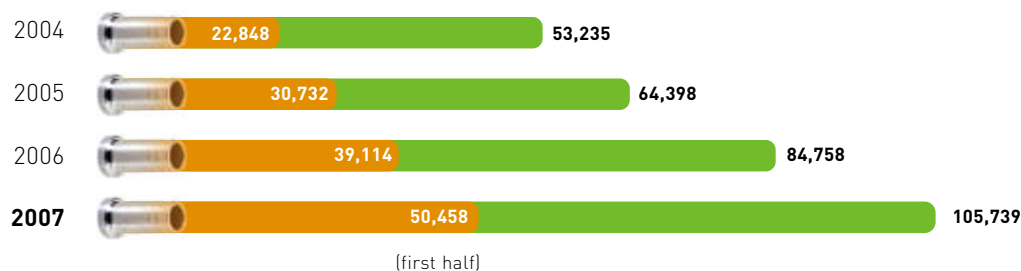
HALF YEARLY RESULTS BREAKDOWN ANALYSIS

	2H 2007		1H 2007		2H 2006		1H 2006		2H 2005	
	HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000	
REVENUE	430,768	100%	360,411	100%	306,757	100%	274,885	100%	228,226	100%
Cost of sales										
Direct material	(165,698)	38%	(124,718)	35%	(112,654)	37%	(81,447)	30%	(75,882)	33%
Direct labour	(33,704)	8%	(32,795)	9%	(27,497)	9%	(21,221)	8%	(19,540)	9%
Depreciation	(57,037)	13%	(47,674)	13%	(33,950)	11%	(30,238)	11%	(26,459)	12%
Water & electricity	(19,552)	5%	(18,513)	5%	(18,123)	6%	(14,823)	5%	(15,078)	7%
Other manufacturing overheads	(49,122)	11%	(39,793)	11%	(33,338)	11%	(38,136)	14%	(26,343)	11%
	(325,113)	75%	(263,493)	73%	(225,562)	74%	(185,865)	68%	(163,302)	72%
Gross profit	105,655	25%	96,918	27%	81,195	26%	89,020	32%	64,924	28%
Other income and gains	18,738	4%	6,958	2%	15,210	5%	6,144	2%	13,225	6%
Selling and distribution costs	(9,675)	2%	(9,055)	3%	(9,377)	3%	(7,365)	3%	(7,775)	3%
Administrative expenses	(34,455)	8%	(28,065)	8%	(25,573)	8%	(27,684)	10%	(28,108)	12%
Other expenses	(3,392)	1%	(3,371)	1%	(5,969)	2%	(2,955)	1%	(336)	0%
Finance costs	(15,221)	4%	(12,202)	3%	(11,377)	4%	(12,120)	4%	(8,511)	4%
PROFIT BEFORE TAX	61,650	14%	51,183	14%	44,109	14%	45,040	16%	33,419	15%
Tax	(6,627)	1%	(725)	0%	1,535	1%	(5,926)	2%	247	0%
PROFIT FOR THE PERIOD	55,023	13%	50,458	14%	45,644	15%	39,114	14%	33,666	15%

REVENUE (HK\$'000)



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



Financial Highlights (Continued)

HALF YEARLY COST OF SALES ANALYSIS

	2H 2007	1H 2007	2H 2006	1H 2006	2H 2005
Direct material	51%	47%	50%	44%	47%
Direct labour	10%	13%	12%	11%	12%
Depreciation	18%	18%	15%	16%	16%
Water & electricity	6%	7%	8%	8%	9%
Other manufacturing overheads	15%	15%	15%	21%	16%
TOTAL COST OF SALES	100%	100%	100%	100%	100%

HALF YEARLY TURNOVER AND SEGMENT INFORMATION

	2H 2007		1H 2007		2H 2006		1H 2006		2H 2005	
	HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000	
HDD pivot components	166,646	38%	148,495	41%	174,579	57%	140,684	51%	130,430	57%
HDD spindle motor components	115,465	27%	102,545	29%	72,222	24%	80,343	29%	56,536	25%
HDD components	282,111	65%	251,040	70%	246,801	81%	221,027	80%	186,966	82%
Hydraulic equipment components	91,816	21%	74,116	21%	45,792	15%	45,359	17%	33,797	15%
Automotive components	28,395	7%	15,970	4%	9,577	3%	1,675	1%	599	0%
Others	28,446	7%	19,285	5%	4,587	1%	6,824	2%	6,864	3%
	430,768	100%	360,411	100%	306,757	100%	274,885	100%	228,226	100%

HALF YEARLY CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	2H 2007 HK\$'000	1H 2007 HK\$'000	2H 2006 HK\$'000	1H 2006 HK\$'000
NET CASH FROM OPERATING ACTIVITIES	119,893	20,260	56,545	16,802
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property, plant and equipment	(62,884)	(126,734)	(138,772)	(158,896)
Proceeds from disposal of property, plant and equipment	1,463	724	551	190
Investment in an unlisted equity investment	–	–	(150)	–
Net cash outflow from investing activities	(61,421)	(126,010)	(138,371)	(158,706)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	–	–	–	224,400
Share issue expenses	–	–	–	(12,073)
Repurchase of shares	(4,900)	(68)	(1,032)	–
Share options exercised	69	51	–	2,400
New bank loans and other borrowings	188,326	175,229	71,432	64,637
Repayment of bank loans and other borrowings	(95,504)	(66,694)	(44,441)	(41,166)
Capital element of finance lease rental payments	(15,269)	(15,537)	(16,628)	(14,888)
Dividends paid	(14,459)	(13,013)	(10,857)	(13,028)
Net cash inflow from financing activities	58,263	79,968	(1,526)	210,282
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	116,735	(25,782)	(83,352)	68,378
Cash and cash equivalents at beginning of period/year	115,758	138,670	221,415	152,340
Effect of foreign exchange rate changes, net	1,457	2,870	607	697
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	233,950	115,758	138,670	221,415

Total Solutions for hydraulic applications



Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present to our Shareholders the annual results of IPE Group Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2007.

For the year ended 31 December 2007, revenue of the Group increased by 36.0% year-on-year to HK\$791,179,000. Net profit climbed 24.4% to HK\$105,481,000. These strong performances reflected the Group's continuous effort in diversifying its customers base and maximizing utilization of the Group's existing production capacity. During 2007 we experienced severe fluctuation in metal costs compounded by appreciation of the RMB which affected our net profit margin. However by striving to improve production efficiency, fine-tuning manufacturing processes and enhancement of automation in production processes, we were able to mitigate the negative impact of cost hikes.

Looking forward, we expect the demand for HDD components will stay strong and the HDD components business will remain one of our core businesses and a cash cow of the Group in the foreseeable future.

We also expect both the hydraulic components segment and automotive parts segment to grow notably and assume a bigger portion of its business in near future and would provide promising contributions to the Group.



Precision is our **Key** to **SUCCESS**

We will focus on maximizing utilization of existing production capacity as well as improving operating margins through implementation of lean management and enhancement of automation in production processes.

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

We will continue to transform IPE Group from a volume precision metal components supplier into a fully integrated one-stop solutions provider by acquiring new know-how and technology, investing in new equipment and training staff in-house.

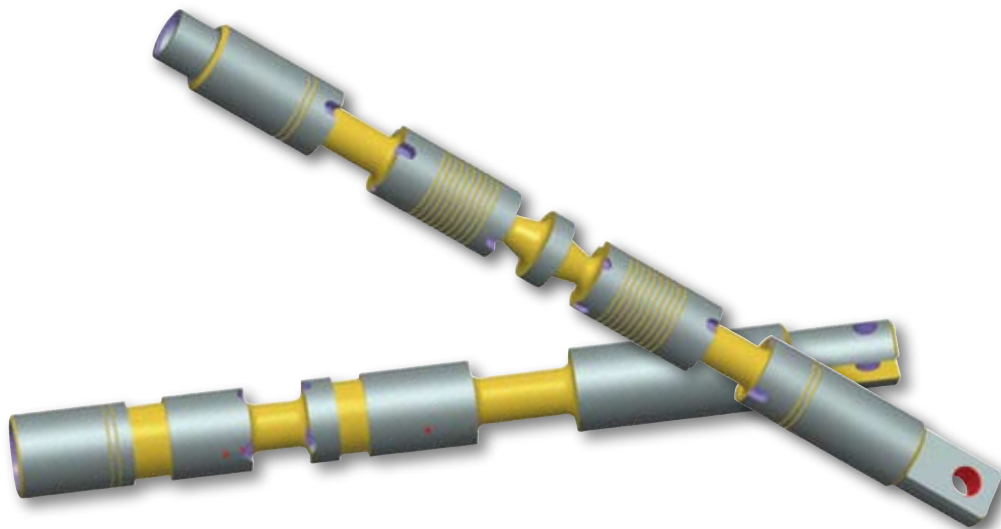
Furthermore, the Group has established strategic business partnerships in the form of joint venture and technical cooperation with experts from the hydraulic industry and metal surface treatment industry. These partnerships have helped to strengthen the core competences of the Group and make sure we stay ahead of our competitors all times.


Up to the date of this statement, we had repurchased 14,295,000 shares of the Company from the market. We view share buybacks as a means of flexibly by using retained earnings to return profits to shareholders, in addition to paying stable dividends to shareholders. We also understand that improving business performance and achieving steady earnings growth are critical to raising shareholder value. Thus, we will not hesitate in developing new products and know-how and boosting productivity further in 2008.

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

Chui Siu On
Chairman

21 April 2008



A large collection of small, metallic, cylindrical and rectangular parts, likely components of a mechanical system, arranged in a grid-like pattern on a blue background. The parts vary in size, shape, and color (mostly silver/grey, with some yellow and purple). The text '4,000 parts +' is overlaid in the bottom left corner.

4,000
parts +

BUSINESS REVIEW

Total revenue for the twelve months ended 31 December 2007 was HK\$791,179,000, an increase of 36.0% over HK\$581,642,000 in 2006. The Group's revenue by business segment is as follows:

	2007 HK\$'000	%	2006 HK\$'000	%	YoY %
HDD components	533,151	67%	467,828	80%	+14%
Hydraulic equipment components	165,932	21%	91,151	16%	+82%
Automotive components	44,365	6%	11,252	2%	+294%
Others	47,731	6%	11,411	2%	+318%
	791,179	100%	581,642	100%	+36%

By geographical market, sales to North America increased by 158.3% while sales to Europe and China (including Hong Kong and Macau) rose by 67.6% and 88.8% respectively. Aggregate sales to Thailand and Malaysia, amounted to HK\$476,022,000, increased by 17.3% from HK\$405,665,000 in 2006.

Growth in the sales of HDD components has remained strong in 2007 as more consumer electronic products such as set-top box, Play Stations and digital video recorders are using HDD as a storage medium and continuous replacement of personal computers and notebook computers has also boosted the demand for HDD.

In the hydraulic and automotive components markets, many US and Europe domestic customers have chosen to build new manufacturing plants in China to benefit from lower labor costs and therefore they need more components made in China for local assembly. In addition, more customers have chosen to outsource the manufacture of components to manufacturers in low cost countries and only take care of final assembly at home. IPE Group benefited from this outsourcing trend and recorded a significant increase in turnover from these two product segments in 2007.

Further the Group has been certified as a qualified vendor by various global automotive parts customers since 2005 and since then we were working closely with customers to develop automotive components projects and started preparation of samples and pre-production audit. During 2007 audit approvals were gradually granted to those projects as expected and they were launched accordingly and mass volume production began. As such sales of automotive components in 2007 increased significantly by 294.3% from 2006.

FINANCIAL REVIEW

With a 36.0% leap in revenue, the Group's gross profit reached HK\$202,573,000, a 19.0% increase from HK\$170,215,000 in 2006. Gross profit margin, however, dropped from 29.3% in 2006 to 25.6% in 2007, which was mainly because of the continuous increase in prices of raw materials during the year.

Other income mainly comprised foreign exchange gains on settlement of Japanese Yen and Thai Baht, and interest income from bank deposits.

Selling and distribution costs amounted to HK\$18,730,000 in 2007, increased by approximately 11.9% from HK\$16,742,000 in 2006. The rate of increase in such costs was far below the growth rate in turnover in 2007, thanks to effective control and enhanced economies of scale in production.

High-quality parts for hydraulic applications



FINANCIAL REVIEW (Continued)

Administrative expenses amounted to HK\$62,520,000 in 2007, increased by approximately 17.4% from HK\$53,257,000 in 2006. This was mainly due to the increase in staff costs and miscellaneous administration costs to support the growing business volume.

Finance costs amounted to HK\$27,423,000 in 2007, up by approximately 16.7% from HK\$23,497,000 in 2006 because there was an increase in interest-bearing bank loans and other borrowings of HK\$181,125,000 during the year.

Provision for taxation amounted to HK\$7,352,000 in 2007, increasing by approximately 67.4% from HK\$4,391,000 in 2006 as a result of the increase in taxable profit earned and higher applicable tax rate in countries where the Group operates.

Profit for the year attributable to equity holders of the Company was approximately HK\$105,739,000 for 2007, an increase of 24.8% from HK\$84,758,000 in 2006. Net profit margin contracted to 13.3% in 2007 from 14.6% in the previous year, due to the impact of higher material costs, increase in staff costs and appreciation of Renminbi against US dollars and Hong Kong dollars during the year.

Basic earnings per share increased to HK14.61 cents per share, an increase of 17.8% from HK12.40 cents per share in 2006.

Details of Charges on the Group's Assets

As at 31 December 2007, the Group's total borrowings of approximately HK\$566,910,000 (2006: HK\$385,785,000) were secured by corporate guarantee issued by the Company and the Group had no pledged deposits to secure its banking facilities as at 31 December 2007. Net borrowings (total borrowings less cash and bank balances) amounted to HK\$331,861,000 as at 31 December 2007 (2006: HK\$247,082,000).

Currency Exposure and Management

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

FINANCIAL REVIEW (Continued)

Assets and Liabilities

As at 31 December 2007, the Group had total net assets of HK\$954,290,000 (2006: HK\$807,183,000). The increase in net assets was attributable to the substantial increase in the net profit reported in year 2007 plus the appreciation of Renminbi assets and Thai Baht assets during the year.

Liquidity, Financial Resources and Financial Ratios

As at 31 December 2007, cash per share was HK\$0.33 (2006: HK\$0.19) and net asset per share was HK\$1.33 (2006: HK\$1.12), based on 718,425,000 issued ordinary shares (2006: 722,960,000 issued ordinary shares).

The Group had cash to current liabilities ratio of 0.45 as at 31 December 2007 (2006: 0.37).

Gearing ratio, which is net debt divided by the capital plus net debt, was 33.9% as at 31 December 2007 (2006: 36.0%).

Human Resources and Remuneration Policies

In line with the Group's business expansion, experienced engineers and skilful talents were recruited during the year. As at 31 December 2007, the Group had a workforce of 3,998 employees (2006: 4,087).

We place high value on our employees as they are our greatest asset. We encourage on-the-job training in diversified fields that address both personal development and work skills enhancement. We also provide workshops for staff at different levels to improve work safety and build up team spirit. Our staff are rewarded based on performance of the Group as well as their individual performance and contributions.

A share option scheme has been adopted for selected participants (including full-time employees) as an incentive to reward them for their contributions to the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.



IPE components
empower computing,
communications, consumer
electronics, energy and
industrial applications

PROSPECTS

Looking ahead, seeing a continuous steady demand for HDD components in the market, we believe the HDD components business will remain one of the core businesses and a cash cow of the Group in the foreseeable future.

Riding on the strong customer relations, we expect both the hydraulic equipment components segment and the automotive parts segment to grow significantly and assume a bigger portion of the Group's business in the near future. We also anticipate profit growth for 2008 as these two business segments have already moved out of the start-up phase and thus will be able to provide higher contributions to the Group.

We will focus on improving operating margins through implementing lean management, enhanced automation of the production process and also maximising utilization of existing production capacity.

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

We will continue to transform IPE Group from a volume precision metal components supplier into a fully integrated one-stop solutions provider by acquiring new know-how and technology, investing in new equipment and training staff in-house.

Furthermore, the Group has established strategic business partnerships in the form of joint ventures and technical cooperation with experts from the hydraulic industry and metal surface treatment industry. These partnerships have helped to strengthen the core competences of the Group and make sure we stay ahead of our competitors all the times.

SUPPLEMENTARY INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

The Company repurchased its 4,700,000 listed shares on the Stock Exchange during the year ended 31 December 2007. Such shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

Details of the repurchases are summarised as follows:

Month of repurchases	Total number of shares repurchased	Repurchase price per share		Aggregate consideration HK\$'000
		Highest HK\$	Lowest HK\$	
January, 2007	55,000	1.24	1.21	68
October, 2007	2,035,000	1.17	1.03	2,246
November, 2007	670,000	1.12	1.01	708
December, 2007	1,940,000	1.04	0.97	1,946
	4,700,000			4,968

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

Subsequent to year end, the Company repurchased its 9,595,000 listed shares on the Stock Exchange from 1 January 2008 to 21 April 2008. Such shares were also cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

SUPPLEMENTARY INFORMATION (Continued)

Final Dividend

The Board recommended the payment of a final dividend of HK2.4 cents per share for the year ended 31 December 2007 (2006: HK1.8 cents) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at Monday, 26 May 2008. Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on Monday, 26 May 2008, the said final dividend will be paid to the Company's shareholders on or around Friday, 30 May 2008.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 21 May 2008 to Monday, 26 May 2008 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 December 2007 and for attending and voting at the annual general meeting of the Company to be held on Monday, 26 May 2008, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 20 May 2008.

Corporate Governance

The Company commits 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 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 roles of Chairman and Chief Executive Officer as stipulated in the code provision A.2.1. Mr. Chui Siu On currently assumes the roles of both Chairman and Chief Executive Officer of the Company. He is one of the founders of the Group and has extensive experience in the design and manufacture of automation equipment, precision mechanical components and machinery parts. The Board believes that Mr. Chui's taking up of both roles 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, the structure is beneficial to the business prospects of the Group.

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 senior management of the Group and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting processes including the review of the Company's consolidated financial statements for the year ended 31 December 2007.

**IPE components: critical
to fast and smooth HDD
function**



**HDD: Secure your
memories**





DIRECTORS

Executive Directors

Mr. Chui Siu On, aged 48, is the Chairman, an executive and managing director and the chairman of both the executive committee and remuneration committee of the Company. He is also a director of certain subsidiaries of the Company. Besides, he is the director and shareholder of Tottenhill Limited, the controlling shareholder of the Company. Mr. Chui is one of the founders of the Group. He is responsible for the overall strategic planning of the Group and establishes operational objectives and assignments. He has over 32 years of experience in the field of mechanical engineering and precision automation and has extensive experience in design and manufacture of automation equipment, precision mechanical components and machinery parts. He is the elder brother of Mr. Chui Siu Hung, the Deputy General Manager of Guangzhou Xing Hao Precision Metal Products Company Limited, a wholly owned subsidiary of the Group. Mr. Chui also holds positions in the following associations:

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

Mr. Ho Yu Hoi, Mark, aged 44, is an executive director and a member of the executive committee of the Company and a director of certain subsidiaries of the Company. Besides, he is a director and shareholder of Tottenhill Limited, the controlling shareholder of the Company. He joined the Group in 1992 and has 25 years of experience in the field of computer aided design and manufacturing. Mr. Ho is currently responsible for overall marketing strategies and implementation of the strategic plans and goals of the Group. He also oversees the personnel and administration affairs of the Group.

Mr. Lai Man Kit, aged 48, is an executive director and a member of both the executive committee and remuneration committee of the Company. He is also a director of certain subsidiaries of the Company. Besides, he is a director and shareholder of Tottenhill Limited, the controlling shareholder of the Company. Mr. Lai joined the Group in 1992 and is currently based in Mainland China headquarters responsible for the overall management of the production facilities in Mainland China. He has 33 years of experience in the field of machine augmentation and manufacturing automation.

Mr. Li Chi Hang, aged 37, is an executive director and a member of the executive committee of the Company and a director of certain subsidiaries of the Company. Besides, he is a director and shareholder of Tottenhill Limited, the controlling shareholder of the Company. Mr. Li joined the Group in 1992 and is currently based in Mainland China headquarters responsible for the Group's product development and new projects implementation. He has over 19 years of experience in the field of machine augmentation and manufacturing automation.

Mr. Wong Kwok Keung, aged 45, is an executive director and a member of the executive committee of the Company. He joined the Group in 1996 and is now responsible for the Group's new projects implementation and handling all technical issues arising from daily operation. He completed his study in Haking Wong Technical Institute in 1982 and has over 28 years of experience in the manufacturing industry.

DIRECTORS (Continued)**Non-Executive Director**

Mr. Ng Kin Nam, aged 49, is a non-executive director and the Vice Chairman and a director of certain subsidiaries of the Company. Besides, he is a director and shareholder of Tottenhill Limited, the controlling shareholder of the Company. He joined the Group in 1990. Mr. Ng does not involve in the day-to-day management of the Group. He has 33 years of experience in the electrical product manufacturing industry and is the founder of "Reputed Industrial Company Limited", a manufacturer of connectors for electronic devices. Mr. Ng has been an executive director of Peaktop International Holdings Limited (Stock Code: 925), a company listed on the Main Board of the Stock Exchange engaging in design, manufacture and sale of decorative products, since August 2002. He also holds positions in a number of associations as follows:

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

Independent Non-Executive Directors

Dr. Cheng Ngok, aged 62, is an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of the Company. He joined the Group in 2003. Dr. Cheng graduated from the National Taiwan University with a Bachelor of Science degree in Medical Technology in 1970 and then obtained a Doctor degree of Medicine, Surgery and Obstetrics, a Diploma certification in Orthopaedic Surgery and a PH.D. degree (Doctor of Biomedical Science) from Catholic University of Leuven, Belgium in 1978, 1983 and 1984 respectively. After graduation, he worked as an Orthopaedic Surgeon in Europe between 1978 and 1984. Then, he returned to Hong Kong and took up the position of a lecturer in the Department of Orthopaedics and Traumatology in the Chinese University of Hong Kong until 1986. Dr. Cheng has been a member of the Hospital Governing Committee of Alice Ho Miu Ling Nethersole Hospital since April 1997 and a member of the Cluster Tender Board in New Territories East Cluster, Hospital Authority since 2003. In addition, he is also a medical practitioner in Hong Kong and holds directorship in two private companies engaging in medical diagnostic laboratory and manufacturing of medical devices.

Mr. Choi Hon Ting, Derek, aged 39, is an independent non-executive director and a member of both the audit committee and remuneration committee of the Company. He joined the Group in 2004. Mr. Choi graduated from Purdue University in the US with a Bachelor degree in Engineering in Food Processing in 1991. After graduation, he worked as project manager, deputy general manager and executive director of Balama Prima Engineering Company Limited, the businesses of which included highway construction, underground construction and environmental engineering. He was a director of C&C Technology Inc. (a company listed on the Toronto Stock Exchange). Mr. Choi was also a former vice-chairman, chairman and executive secretary of the China Hong Kong Society for Trenchless Technology. Mr. Choi was elected as executive sub-committee member of International Society for Trenchless Technology in 2004.

Mr. Wu Karl Kwok, aged 44, is an independent non-executive director and a member of both the audit committee and remuneration committee of the Company. He joined the Group in 2004. Mr. Wu holds a Bachelor of Arts degree in business administration from the University of Washington and is a Certified Public Accountant (USA). He has over 20 years of international working experience in accounting, financial planning and control, business development, logistic, project management and contract administration in various industries. Mr. Wu currently works in an international trust company. Prior to that, he had been a financial controller and company secretary for UDL Holdings Limited, a company listed on the Main Board of the Stock Exchange, and the chief financial officer and company secretary of Innovis Holdings Limited (currently known as Sino Haijing Holdings Limited), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Wu also used to be a project director of a private engineering and construction company in Hong Kong and served there for seven years. Before that, he worked for a private trading company, an international architectural and interior consultancy firm and a manufacturing company for a total of nine years principally responsible for financial controlling and business development.

SENIOR MANAGEMENT

Mr. Yip Mie Leong, Chester, aged 46, is the Business Development Director of the Group. Mr. Yip joined the Group in September 2006 and is responsible for the implementation of new projects and formulation of quality assurance strategies of the Group. Mr. Yip holds a Bachelor Degree in Engineering. He has served 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 42, is the Manufacturing Director of the Group. Mr. Lim joined the Group in 1994 and is responsible for the overall management of IPE (Thailand). He graduated from Singapore Ngee Ann Polytechnic with a diploma in Mechanical Engineering and has over 20 years of experience in the manufacturing industry.

Mr. Lau Siu Chung, aged 43, is the Sales and Marketing Director of the Group. Mr. Lau joined the Group in 1997 and has over 13 years of experience in marketing and sales of precision components and industrial equipments.

Ms. Chiu Tak Chun, aged 42, 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 14 years of experience in office administration. Ms. Chiu is a fellow member of the International Professional Managers Association.

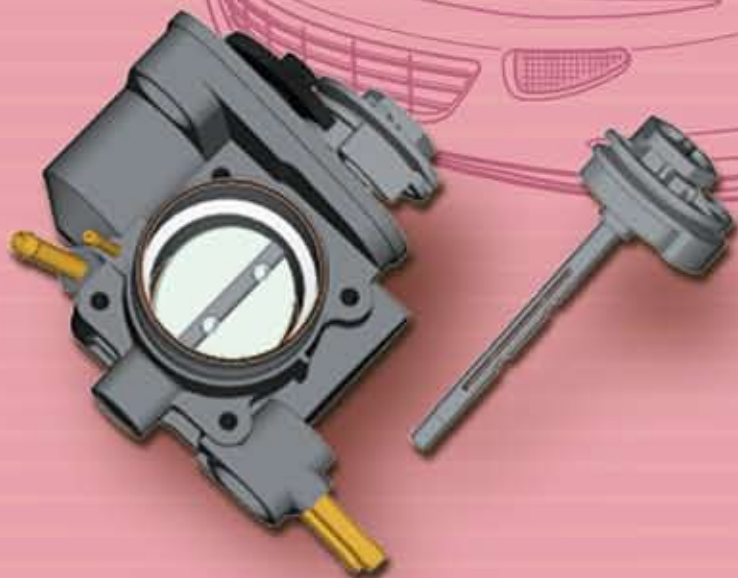
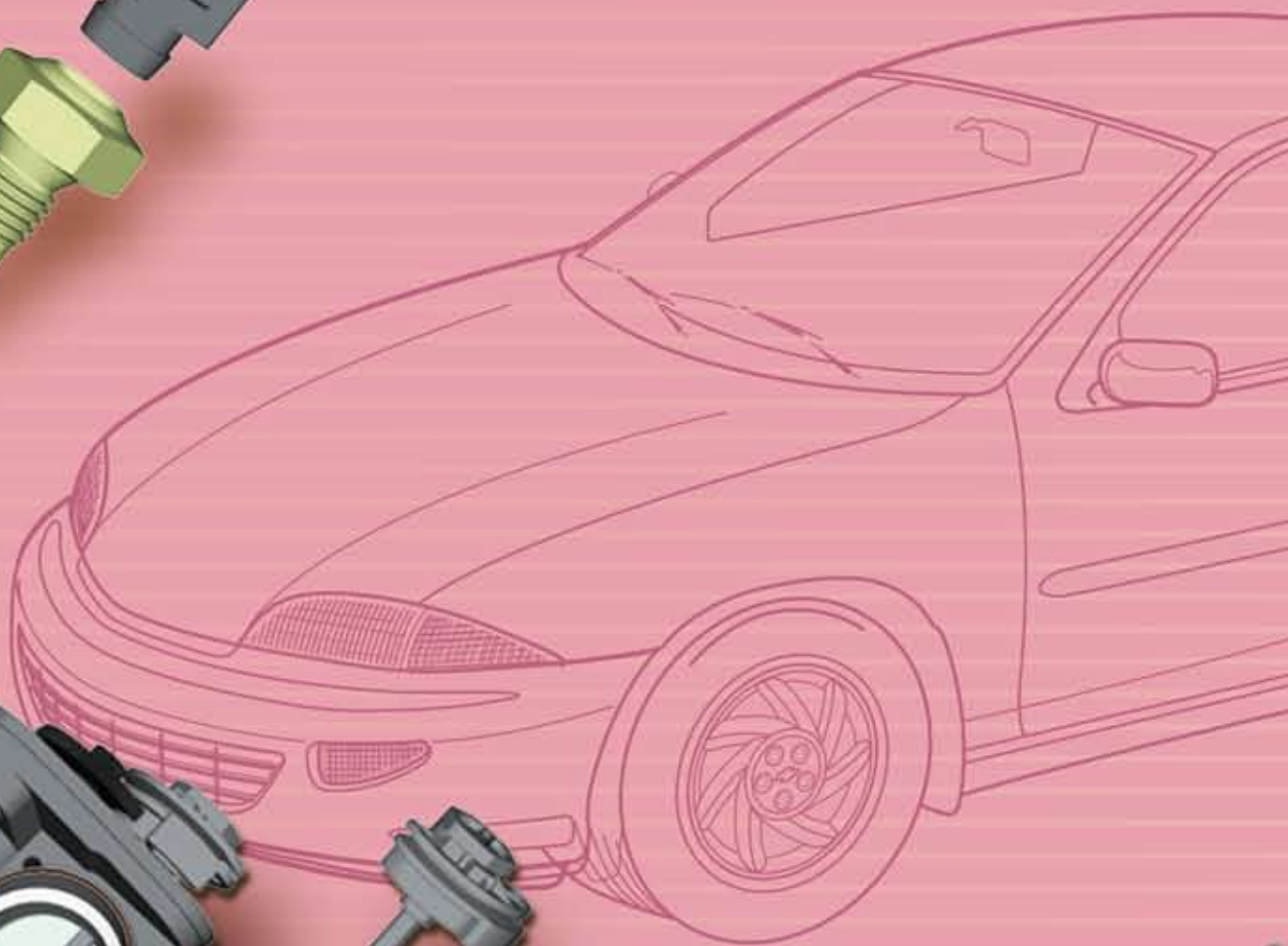
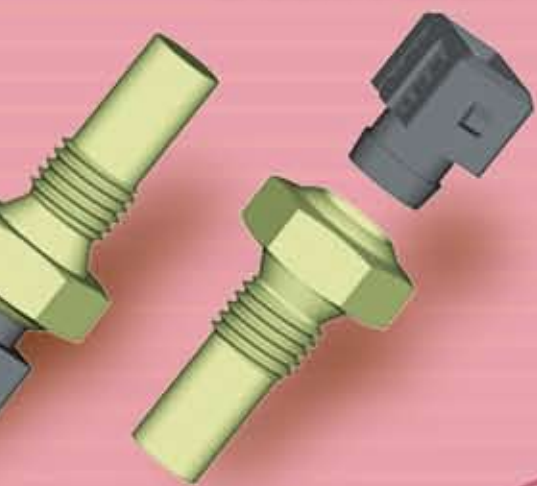
Mr. Chui Siu Hung, aged 39, is the Deputy General Manager of Guangzhou Xing Hao. He joined the Group in 1994 and is responsible for the supervision of engineering department in China and implementation of special hydraulic components projects. He graduated from the Hong Kong Institute of Vocational Education with a certificate in Communication and Computer Studies and has over 15 years of experience in the manufacturing industry. He is the younger brother of Mr. Chui Siu On, the Chairman of the Group.

Mr. Jiang Fei, aged 35, is the Manager supervising the Group's heat treatment division in the Mainland China headquarters. He joined the Group in 1995 after graduation from 華南理工大學 (South China University of Technology) with a graduate diploma in Mechanical Engineering. He has over 11 years of experience in the manufacturing industry and is now the manager in charge of the heat treatment projects in Mainland China headquarters.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wan Tak Wing, Gary, aged 41, 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 19 years of experience in audit, corporate finance, business development and investor relationship.

**Engineered to meet and
exceed rigorous
automotive industry
standards**



The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2007.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

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

The Company has complied with the code provisions set out in the CG Code throughout the year save for the Code Provision A.2.1 which requires that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual, details of such deviation are explained below.

To comply with the increasingly tightened regulatory requirements, the Company will review its corporate governance practices from time to time in order to meet the rising expectations of shareholders and investors. The key corporate governance principles and practices of the Company are summarized as follows:-

A. THE BOARD

1. Responsibilities

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

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

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

2. Board Composition

The Board currently comprises the following members:–

Executive directors:–

Mr. Chui Siu On, *Chairman of the Board, the Remuneration Committee and the Executive Committee & Managing Director/Chief Executive Officer*

Mr. Ho Yu Hoi, *member of the Executive Committee*

Mr. Lai Man Kit, *member of the Remuneration Committee & the Executive Committee*

Mr. Li Chi Hang, *member of the Executive Committee*

Mr. Wong Kwok Keung, *member of the Executive Committee*

Non-executive director:–

Mr. Ng Kin Nam, *Vice Chairman*

Independent non-executive directors:–

Dr. Cheng Ngok, *Chairman of the Audit Committee and member of the Remuneration Committee*

Mr. Choi Hon Ting, Derek, *member of Audit Committee and the Remuneration Committee*

Mr. Wu Karl Kwok, *member of the Audit Committee and the Remuneration Committee*

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

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

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

During the year ended 31 December 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with one independent non-executive director, being Mr. Wu Karl Kwok, possessing appropriate professional qualifications and accounting and related financial management expertise.

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

3. Chairman and Chief Executive Officer

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

Currently, Mr. Chui Siu On assumes the roles of both Chairman and Chief Executive Officer of the Company. He is one of the founders of the Group and has extensive experience in design and manufacture of automation equipment, precision mechanical components and machinery parts, the Board believes that Mr. Chui's taking up of both roles 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, the structure is beneficial to the business prospects of the Group.

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

4. Appointment and re-election of directors

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

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

Pursuant to the aforesaid, Mr. Chui Siu On, Mr. Ng Kin Nam and Mr. Ho Yu Hoi shall retire by rotation and, being eligible, offer themselves for re-election at the Company's forthcoming annual general meeting. The Board recommended the re-appointment of these 3 retiring directors standing for re-election at the forthcoming annual general meeting. The Company's circular, sent together with this annual report, contains detailed information of such directors.

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

The Company has adopted Directors Nomination Procedures as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

During the year under review, the Board met once, with the presence of Mr. Chui Siu On, Mr. Lai Man Kit, Mr. Li Chi Hang, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok for (i) reviewing the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Company; (ii) recommending the re-appointment of those retiring directors at the 2007 annual general meeting of the Company; and (iii) assessment of the independence of the independent non-executive directors of the Company.

5. Induction and continuing development for directors

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

Continuing briefings and professional development to directors will be arranged whenever necessary.

6. Board meetings*Board Practices and Conduct of Meetings*

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

Draft agenda of each meeting are normally made available to directors in advance.

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

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

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

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

Directors' Attendance Records

During the year ended 31 December 2007, 6 Board meetings were held, out of which 4 were regular meetings held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at the Board meetings during the year ended 31 December 2007 are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr. Chui Siu On	6/6
Mr. Ho Yu Hoi	5/6
Mr. Lai Man Kit	6/6
Mr. Li Chi Hang	6/6
Mr. Wong Kwok Keung	5/6
Mr. Ng Kin Nam	1/6
Dr. Cheng Ngok	4/6
Mr. Choi Hon Ting, Derek	4/6
Mr. Wu Karl Kwok	4/6

7. Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2007.

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

B. DELEGATION BY THE BOARD

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

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

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

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

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

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of directors and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2007 are set out in note 8 to the financial statements of the Company.

Remuneration Committee

The Remuneration Committee comprises 2 executive directors, namely Mr. Chui Siu On (Chairman) and Mr. Lai Man Kit and 3 independent non-executive directors, namely Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok. The main duties of the Remuneration Committee include:

- To make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive directors and the senior management, such policy shall ensure that no director or any of his/her associates will participate in deciding his/her own remuneration.
- To make recommendations on the remuneration packages of the executive directors and the senior management.
- To review and approve the performance-based remuneration tied to corporate goals and objectives achieved by the directors from time to time.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

During the year ended 31 December 2007, the Remuneration Committee held 1 meeting and has generally reviewed and discussed the remuneration packages of directors of the Company. The attendance records of each member at the Remuneration Committee meeting are set out below:–

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

D. ACCOUNTABILITY AND AUDIT

1. Directors' responsibilities for financial reporting

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

The directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

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

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

2. Internal controls

The Board has overall responsibility for the internal control system of the Group and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

The Board has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 December 2007. Such review covered the financial, operational, compliance and risk management aspects of the Group. The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

3. Audit Committee

The Audit Committee comprises 3 independent non-executive directors, namely Dr. Cheng Ngok (Chairman), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, with one independent non-executive director (Mr. Wu Karl Kwok) possessing the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the Qualified Accountant, internal auditor or external auditors before submission to the Board.
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditors.
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2006, interim results and interim report for the six months ended 30 June 2007, the financial reporting and compliance procedures, the report from the senior management on the Company's internal control and risk management and considered the re-appointment of the external auditors. The external auditors were invited to attend the meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters.

During the year ended 31 December 2007, the Audit Committee held 2 meetings. The attendance records of each member at the Audit Committee meetings are set out below:

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

D. ACCOUNTABILITY AND AUDIT (Continued)**4. External auditors and auditors' remuneration**

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on page 47.

The remuneration paid to the Company's external auditors in respect of audit services and non-audit services for the year ended 31 December 2007 amounted to HK\$1,962,000 and HK\$86,000 respectively. The nature of and the fees paid/payable on the said audit services and non-audit services are analysed below:

Type of services provided by the external auditors	Fees paid/payable
<i>Audit services:</i> Audit of the annual financial statements for the year ended 31 December 2007	<i>Audit services:</i> HK\$1,962,000
<i>Non-audit services:</i> Tax services	<i>Non-audit services:</i> HK\$86,000
TOTAL:	HK\$2,048,000

E. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

Shareholders' meetings of the Company provide an opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee or, in their absence, other members of the respective Committees, normally attend the shareholders' meetings to answer shareholders' questions.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. To promote effective communication, the Company maintains a website at www.ipegroup.com, where up-to-date information and updates on the Company's financial information, corporate governance practices and other information are posted. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

F. SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions will be proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Articles of Association of the Company. Details of such rights to demand a poll are included in all circulars sent to shareholders and will be explained during the proceedings of meetings.

Where poll voting is conducted at a shareholders' meeting, the poll voting results will be published on the websites of the Stock Exchange and the Company after the meeting.

The board of directors (the “Board”) of IPE Group Limited (the “Company”) is pleased to present their report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 48 to 118.

An interim dividend of HK2.0 cents per ordinary share was paid on 25 September 2007. The directors recommend the payment of a final dividend of HK2.4 cents per ordinary share in respect of the year to shareholders on the register of members on 26 May 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet. Subject to the approval of the Company’s shareholders at the forthcoming annual general meeting of the Company to be held on 26 May 2008, the said final dividend will be paid to the Company’s shareholders on or around 30 May 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 21 May 2008 to Monday, 26 May 2008 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 December 2007 and for attending and voting at the annual general meeting of the Company to be held on Monday, 26 May 2008, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company’s Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712 – 1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 20 May 2008.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 6 to 9 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company’s share capital and share options during the year are set out in notes 31 and 32 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company’s reserves available for distribution, calculated in accordance with the provisions of the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK\$536,320,000, of which HK\$17,014,000 has been proposed as a final dividend for the year. The distributable reserves include the Company’s share premium account and contributed surplus, amounting to HK\$321,178,000 at 31 December 2007, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company repurchased its 4,700,000 listed shares on the Stock Exchange during the year ended 31 December 2007. Such shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

Details of the repurchases are summarised as follows:

Month of repurchases	Total number of shares repurchased	Repurchase price per share		Aggregate consideration HK\$'000
		Highest HK\$	Lowest HK\$	
January, 2007	55,000	1.24	1.21	68
October, 2007	2,035,000	1.17	1.03	2,246
November, 2007	670,000	1.12	1.01	708
December, 2007	1,940,000	1.04	0.97	1,946
	4,700,000			4,968

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

Subsequent to year end, the Company repurchased its 9,595,000 listed shares on the Stock Exchange from 1 January 2008 to 21 April 2008. Such shares were also cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

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

RESERVES

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

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$213,000 (2006: HK\$669,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 64% of the total sales for the year and sales to the largest customer included therein amounted to 20%. Purchases from the Group's five largest suppliers accounted for less than 54% of the total purchases for the year and purchases from the largest supplier included therein amounted to 27%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Chui Siu On
Mr. Ho Yu Hoi
Mr. Lai Man Kit
Mr. Li Chi Hang
Mr. Wong Kwok Keung

Non-executive directors:

Mr. Ng Kin Nam
Dr. Cheng Ngok*
Mr. Choi Hon Ting, Derek*
Mr. Wu Karl Kwok*

* *Independent non-executive directors*

In accordance with clause 87 of the Company's articles of association, Mr. Chui Siu On, Mr. Ho Yu Hoi and Mr. Ng Kin Nam, the existing directors of the Company, will retire as directors of the Company by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the said meeting.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 24 to 27 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests of the directors, in the share capital and underlying 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 pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

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

Name of director	Capacity and nature of interest	Notes	Number of ordinary shares in the Company	Percentage of the Company's issued share capital
Mr. Chui Siu On	Through controlled corporation	1	352,500,000	49.066%
	Directly beneficially owned		5,505,000	0.766%
	Through spouse	2	100,000	0.014%
			358,105,000	49.846%
Mr. Ng Kin Nam	Directly beneficially owned		7,670,000	1.068%
	Through spouse	3	800,000	0.111%
			8,470,000	1.179%
Mr. Ho Yu Hoi	Directly beneficially owned		4,550,000	0.633%

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 in Tottenham Limited, Mr. Chui Siu On was deemed to be interested in the entire 352,500,000 shares of the Company owned by Tottenham Limited pursuant to Part XV of the SFO.
- These shares held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On, were also disclosed as Ms. Leung's personal interest in the section headed "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares" below. Mr. Chui Siu On was deemed to be interested in these 100,000 shares of the Company held by his wife pursuant to Part XV of the SFO.
- These shares, held by Ms. Angeleslao, Jocelyn O, the wife of Mr. Ng Kin Nam. Accordingly, Mr. Ng Kin Nam was deemed to be interested in these 800,000 shares of the Company held by his wife pursuant to Part XV of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)**(B) Long position in the ordinary shares of associated corporation – Tottenham Limited, the Company's holding company:**

Name of director	Capacity and nature of interest	Number of ordinary shares in Tottenham Limited	Percentage of Tottenham Limited's issued share capital
Mr. Chui Siu On	Directly beneficially owned	180,832,500	51.3%
Mr. Ng Kin Nam	Directly beneficially owned	88,125,000	25.0%
Mr. Ho Yu Hoi	Directly beneficially owned	48,997,500	13.9%
Mr. Lai Man Kit	Directly beneficially owned	21,150,000	6.0%
Mr. Li Chi Hang	Directly beneficially owned	13,395,000	3.8%

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

Name of director	Capacity and nature of interest	Number of underlying shares in respect of the share options granted	Percentage of underlying shares over the Company's issued share capital
Mr. Chui Siu On	Directly beneficially owned	3,000,000	0.418%
Mr. Ng Kin Nam	Directly beneficially owned	500,000	0.070%
Mr. Ho Yu Hoi	Directly beneficially owned	5,000,000	0.696%
Mr. Lai Man Kit	Directly beneficially owned	5,000,000	0.696%
Mr. Li Chi Hang	Directly beneficially owned	5,000,000	0.696%
Mr. Wong Kwok Keung	Directly beneficially owned	3,550,000	0.494%
Dr. Cheng Ngok	Directly beneficially owned	500,000	0.070%
Mr. Choi Hon Ting, Derek	Directly beneficially owned	500,000	0.070%
Mr. Wu Karl Kwok	Directly beneficially owned	500,000	0.070%

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

In addition to the above, as at 31 December 2007, certain directors of the Company held shares in certain subsidiaries of the Company in a non-beneficial capacity, solely for the purpose of complying with the previous requirements of a minimum of two shareholders.

Save as disclosed above, as at 31 December 2007, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code; nor had there been any grant or exercise of rights during the year ended 31 December 2007.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 32 to the financial statements.

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

Name or category of participant	Number of share options					At 31 December 2007	Date of grant of share options	Exercise period of share options*	Exercise price of share options** HK\$ per share
	At 1 January 2007	Granted during the year***	Exercised during the year***	Expired during the year	Forfeited during the year				
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. Wu Karl Kwok	500,000	-	-	-	500,000	27-07-05	27-07-05 to 26-07-10	1.41	
Mr. Choi Hon Ting, Derek	500,000	-	-	-	500,000	27-07-05	27-07-05 to 26-07-10	1.41	
	23,550,000	-	-	-	23,550,000				

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options					At 31 December 2007	Date of grant of share options	Exercise period of share options*	Exercise price of share options** HK\$ per share
	At 1 January 2007	Granted during the year***	Exercised during the year***	Expired during the year	Forfeited during the year				
Members of senior management and other employees of the Group									
In aggregate	2,975,000	-	(20,000)	-	(20,000)	2,935,000	30-11-04	30-11-04 to 31-12-08	0.78
	4,180,000	-	(40,000)	-	(20,000)	4,120,000	30-11-04	01-01-06 to 31-12-08	0.78
	5,065,000	-	(105,000)	-	(20,000)	4,940,000	30-11-04	01-01-07 to 31-12-08	0.78
	5,065,000	-	-	-	(65,000)	5,000,000	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
	1,315,000	-	-	-	(100,000)	1,215,000	27-07-05	27-07-05 to 31-12-08	1.41
	3,155,000	-	-	-	(100,000)	3,055,000	27-07-05	01-01-06 to 31-12-08	1.41
	4,775,000	-	-	-	(110,000)	4,665,000	27-07-05	01-01-07 to 31-12-08	1.41
	6,245,000	-	-	-	(110,000)	6,135,000	27-07-05	01-01-08 to 31-12-08	1.41
	3,000,000	-	-	-	-	3,000,000	13-09-06	01-01-08 to 31-12-12	1.35
	-	700,000	-	-	-	700,000	28-09-07	01-01-08 to 31-12-10	1.20
	<u>38,775,000</u>	<u>700,000</u>	<u>(165,000)</u>	<u>(3,000,000)</u>	<u>(545,000)</u>	<u>35,765,000</u>			
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
	-	2,000,000	-	-	-	2,000,000	28-09-07	01-01-08 to 31-12-12	1.20
	-	3,000,000	-	-	-	3,000,000	28-09-07	01-01-09 to 31-12-12	1.20
	<u>10,450,000</u>	<u>5,000,000</u>	<u>-</u>	<u>(7,000,000)</u>	<u>-</u>	<u>8,450,000</u>			
	<u>72,775,000</u>	<u>5,700,000</u>	<u>(165,000)</u>	<u>(10,000,000)</u>	<u>(545,000)</u>	<u>67,765,000</u>			

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

- * The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK\$1.25. The closing price of the Company's shares immediately before the date on which the options were granted during the year was HK\$1.18.

SHARE OPTION SCHEME (Continued)

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

Grantee	Number of options granted during the year	Theoretical value of share options HK\$
An employee	700,000	114,920
A service provider	<u>5,000,000</u>	<u>1,036,436</u>

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

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

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

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

As at 31 December 2007, the following parties (not being directors or chief executives of the Company) had interests of more than 5% of the shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(A) Long position 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	49.066%
Ms. Leung Wing Yi	(b)	Directly beneficially owned	100,000	0.014%
		Through spouse	<u>358,005,000</u>	<u>49.832%</u>
			358,105,000	49.846%
DJE Investment S.A.	(c)	Investment manager	51,446,415	7.161%
Dr. Jens Ehrhardt Kapital AG	(c)	Through controlled corporation	51,446,415	7.161%
Dr. Jens Alfred Karl Ehrhardt	(c)	Through controlled corporation	51,446,415	7.161%
Fidelity International Limited		Investment manager	36,440,000	5.072%

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

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

Notes:

- (a) The interest of Tottenhill Limited was also disclosed as the interest of Mr. Chui Siu On in the section headed "Directors' interests and short positions in 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 shares and underlying shares" above. Ms. Leung Wing Yi was deemed to be interested in these shares owned by her husband pursuant to Part XV of the SFO.
- (c) These shares were held by DJE Investment S.A. which was 81% controlled by Dr. Jens Ehrhardt Kapital AG which in turn was 68.5% controlled by Dr. Jens Alfred Karl Ehrhardt. Accordingly, Dr. Jens Ehrhardt Kapital AG and Dr. Jens Alfred Karl Ehrhardt were deemed to be interested in the 51,446,415 shares of the Company pursuant to Part XV of the SFO.

(B) Long position 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 underlying shares over the Company's issued share capital
Ms. Leung Wing Yi	Through spouse	3,000,000	0.418%

Note: Ms. Leung Wing Yi was deemed to be interested in the 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 the above share options as required to be disclosed by the Listing Rules have been disclosed in the section "Share option scheme" above.

Save as disclosed above, as at 31 December 2007, 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 PURSUANT TO 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 commitments under the Loan Facility and all amounts outstanding under the Loan Facility will immediately become due and payable.

As the above specific performance obligation as imposed under the Loan Facility continues to exist as at 31 December 2007, 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.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

AUDITORS

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

ON BEHALF OF THE BOARD

Chui Siu On

Chairman and Managing Director

Hong Kong
21 April 2008



安永會計師事務所

To the shareholders of IPE Group Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of IPE Group Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 48 to 118, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

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

21 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
REVENUE	5	791,179	581,642
Cost of sales		(588,606)	(411,427)
Gross profit		202,573	170,215
Other income and gains	5	25,696	21,354
Selling and distribution costs		(18,730)	(16,742)
Administrative expenses		(62,520)	(53,257)
Other expenses		(6,763)	(8,924)
Finance costs	7	(27,423)	(23,497)
PROFIT BEFORE TAX	6	112,833	89,149
Tax	10	(7,352)	(4,391)
PROFIT FOR THE YEAR		105,481	84,758
Attribute to:			
Equity holders of the Company	11	105,739	84,758
Minority interests		(258)	–
		105,481	84,758
DIVIDENDS	12		
Interim dividend		14,459	10,857
Final dividend paid in respect of the previous year		–	2,161
Proposed final dividend		17,014	13,013
		31,473	26,031
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		14.61 cents	12.40 cents
Diluted		14.47 cents	12.11 cents

Consolidated Balance Sheet

31 December 2007

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	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	941,806	836,426
Prepaid land lease payments	15	37,496	35,681
Investment properties	16	21,046	16,755
Loan to an unlisted equity investment	19	2,850	1,350
Available-for-sale investment	20	150	150
Other non-current assets		191	286
Deferred tax assets	30	599	975
Total non-current assets		1,004,138	891,623
CURRENT ASSETS			
Inventories	21	198,232	196,094
Trade receivables	22	233,704	166,993
Derivative financial instruments	27	69	–
Prepayments, deposits and other receivables	23	14,407	12,970
Cash and cash equivalents	24	235,049	138,703
Total current assets		681,461	514,760
CURRENT LIABILITIES			
Trade and bills payables	25	95,576	97,382
Other payables and accruals	26	60,287	109,039
Derivative financial instruments	27	292	946
Tax payable		6,073	4,304
Interest-bearing bank and other borrowings	28	364,484	166,121
Total current liabilities		526,712	377,792
NET CURRENT ASSETS		154,749	136,968
TOTAL ASSETS LESS CURRENT LIABILITIES		1,158,887	1,028,591
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	202,426	219,664
Deferred tax liabilities	30	2,171	1,744
Total non-current liabilities		204,597	221,408
Net assets		954,290	807,183

Consolidated Balance Sheet (Continued)

31 December 2007

	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	31	71,843	72,296
Reserves	33(a)	863,666	721,874
Proposed final dividend	12	17,014	13,013
		952,523	807,183
Minority interests		1,767	–
Total equity		954,290	807,183

CHUI SIU ON
Director

LAI MAN KIT
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

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

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

Consolidated Statement of Changes in Equity (Continued)

Year ended 31 December 2007

	Attributable to equity holders of the Company											
	Notes	Issued share capital HK\$'000 (note 31)	Share premium account HK\$'000	Statutory					Exchange fluctuation reserve HK\$'000 (note 32)	Retained profits HK\$'000 (note 12)	Proposed final dividend HK\$'000	Total HK\$'000
				Contributed surplus HK\$'000 (note 33(a))	Statutory surplus reserve HK\$'000 (note 33(a))	public welfare fund HK\$'000 (note 33(a))	Capital redemption reserve HK\$'000 (note 31)	Share option 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
Exchange realignment		-	-	-	-	-	-	-	43,948	-	-	43,948
Total income and expense for the year recognised directly in equity		-	-	-	-	-	-	-	43,948	-	-	43,948
Profit for the year		-	-	-	-	-	-	-	-	84,758	-	84,758
Total income and expense for the year		-	-	-	-	-	-	-	43,948	84,758	-	128,706
Final 2005 dividend declared	12	-	-	-	-	-	-	-	-	(2,161)	(10,867)	(13,028)
Issue of shares	31(a)	12,000	212,400	-	-	-	-	-	-	-	-	224,400
Share issue expenses	31(a)	-	(12,073)	-	-	-	-	-	-	-	-	(12,073)
Exercise of share options	31(b)	275	2,125	-	-	-	-	-	-	-	-	2,400
Repurchase of shares	31(c)	(86)	-	-	-	-	-	-	-	-	-	(86)
Premium on repurchase of shares	31(c)	-	(946)	-	-	-	-	-	-	-	-	(946)
Capital redemption reserve arising from repurchase of shares	31(c)	-	-	-	-	-	86	-	-	(86)	-	-
Equity-settled share option arrangements	32	-	-	-	-	-	-	3,924	-	-	-	3,924
Forfeiture of options		-	-	-	-	-	-	(9)	-	9	-	-
Interim 2006 dividend	12	-	-	-	-	-	-	-	-	(10,857)	-	(10,857)
Proposed final 2006 dividend	12	-	-	-	-	-	-	-	-	(13,013)	13,013	-
Transfer from retained profits		-	-	-	1,122	-	-	-	-	(1,122)	-	-
At 31 December 2006		72,296	352,527*	(1,116)*	8,045*	287*	86*	11,492*	47,921*	302,632*	13,013	807,183

* These reserve accounts comprise the consolidated reserves of HK\$721,874,000 (2005: HK\$413,769,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		112,833	89,149
Adjustments for:			
Depreciation	6, 14	113,559	75,415
Amortisation of other non-current assets		95	95
Recognition of prepaid land lease payments	6	875	814
(Write-back of provision)/provision against inventory obsolescence	6	(4,679)	4,674
Loss on disposal of items of property, plant and equipment	6	599	1,709
Impairment of items of property, plant and equipment	6	4,744	8,422
Fair value gains on investment properties	5, 16	(4,291)	(769)
Fair value gains, net:			
Derivative financial instruments			
– transactions not qualifying as hedges	6	(723)	(789)
Unrealised exchange gains, net		(1,537)	(3,372)
Equity-settled share option expense	6, 32	2,973	3,924
Finance costs	7	27,423	23,497
Bank interest income	5	(1,404)	(4,574)
Impairment of goodwill	17	1,950	–
		252,417	198,195
Increase/(decrease) in inventories		2,541	(65,239)
Increase in trade receivables		(66,711)	(35,593)
Increase in prepayments, deposits and other receivables		(1,376)	(4,432)
Increase in a loan to an unlisted equity investment		(1,500)	(1,350)
(Decrease)/increase in trade and bills payables		(3,803)	14,315
Decrease in other payables and accruals		(11,373)	(9,940)
Cash generated from operations		170,195	95,956
Interest received		1,404	4,574
Interest paid		(22,543)	(16,506)
Interest element on finance lease rental payments		(4,047)	(6,158)
Income taxes paid		(4,856)	(4,519)
Net cash inflow from operating activities		140,153	73,347

Consolidated Cash Flow Statement (Continued)

Year ended 31 December 2007

	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
Net cash inflow from operating activities		140,153	73,347
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(189,618)	(297,668)
Proceeds from disposal of items of property, plant and equipment		2,187	741
Investment in an unlisted equity investment	<i>20</i>	–	(150)
Net cash outflow from investing activities		(187,431)	(297,077)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	<i>31(a)</i>	–	224,400
Share issue expenses	<i>31(a)</i>	–	(12,073)
Repurchase of shares	<i>31(c) & (e)</i>	(4,968)	(1,032)
Share options exercised	<i>31(b) & (d)</i>	120	2,400
New bank loans and other borrowings		363,555	136,069
Repayment of bank loans and other borrowings		(162,198)	(85,607)
Capital element of finance lease rental payments		(30,806)	(31,516)
Dividends paid		(27,472)	(23,885)
Net cash inflow from financing activities		138,231	208,756
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		90,953	(14,974)
Cash and cash equivalents at beginning of year		138,670	152,340
Effect of foreign exchange rate changes, net		4,327	1,304
CASH AND CASH EQUIVALENTS AT END OF YEAR		233,950	138,670
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	<i>24</i>	163,512	96,726
Non-pledged time deposits with original maturity of less than three months when acquired	<i>24</i>	71,537	41,977
Bank overdrafts	<i>28</i>	235,049 (1,099)	138,703 (33)
		233,950	138,670

Balance Sheet

31 December 2007

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	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	43	43
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	305	239
Amounts due from subsidiaries	18	610,638	489,793
Cash and cash equivalents	24	10,294	105
Total current assets		621,237	490,137
CURRENT LIABILITIES			
Other payables and accruals	26	64	89
NET CURRENT ASSETS			
Net assets		621,173	490,048
EQUITY			
Issued capital	31	71,843	72,296
Reserves	33(b)	532,359	404,782
Proposed final dividend	12	17,014	13,013
Total equity		621,216	490,091

CHUI SIU ON
Director

LAI MAN KIT
Director

31 December 2007

1. CORPORATE INFORMATION

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

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Minority interests represent the interests of outside shareholders not held by the Group in the results and nets assets of the Company's subsidiary.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 7	<i>Financial Instruments: Disclosures</i>
HKAS 1 Amendment	<i>Capital Disclosures</i>
HK(IFRIC)-Int 8	<i>Scope of HKFRS 2</i>
HK(IFRIC)-Int 9	<i>Reassessment of Embedded Derivatives</i>
HK(IFRIC)-Int 10	<i>Interim Financial Reporting and Impairment</i>

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

(a) HKFRS 7 – Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/ revised where appropriate.

(b) Amendment to HKAS 1 – Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 42 to the financial statements.

(c) HK(IFRIC)-Int 8 – Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees and service providers for identified services provided in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 – Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no impact on the financial position or results of operations of the Group.

(e) HK(IFRIC)-Int 10 – Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

31 December 2007

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 2 (Amendment)	<i>Vesting Conditions and Cancellations</i> ¹
HKFRS 3 (Revised)	<i>Business Combinations</i> ⁵
HKFRS 8	<i>Operating Segments</i> ¹
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> ¹
HKAS 23 (Revised)	<i>Borrowing Costs</i> ¹
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ⁵
HK(IFRIC)-Int 11	<i>HKFRS 2 – Group and Treasury Share Transactions</i> ²
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i> ⁴
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> ³
HK(IFRIC)-Int 14	<i>HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 January 2008

⁵ Effective for annual periods beginning on or after 1 July 2009

HKFRS 2 has been revised to restrict the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group does not enter into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by HKFRS 3 must be applied prospectively and will affect future acquisitions and transactions with minority interest.

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

HKAS 1 has been revised to separate owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expenses, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

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

HKAS 27 has been revised to require that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by HKAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HK(IFRIC)-Int 11, HK(IFRIC)-Int 12, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 shall be applied for annual periods beginning on or after 1 March 2007, 1 January 2008, 1 July 2008 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 (Revised) and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

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

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

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

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

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

Impairment of non-financial assets other than goodwill

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment losses is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Investment properties

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

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

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

Research and development costs

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

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

Leases

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

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

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

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

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

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

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

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

Financial liabilities at fair value through profit or loss

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities at fair value through profit or loss (Continued)

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

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

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

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

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

Inventories

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

Cash and cash equivalents

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents (Continued)

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

Provisions

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

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

Income tax

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

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

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Income tax** (Continued)

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

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.
- (c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits*Share-based payment transactions*

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is calculated by using a binomial model, further details of which are given in note 31 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share-based payment transactions (Continued)

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

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

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

Pension schemes and other retirement benefits

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

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

Borrowing costs

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

Dividends

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgement

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

Classification between investment properties and owner-occupied properties

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

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

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

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3. SIGNIFICANT ACCOUNTING AND JUDGEMENT AND ESTIMATE (Continued)

Estimation uncertainty

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

Impairment of assets

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was nil (2006: nil). More details are set out in note 17 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred assets relating to recognised tax losses at 31 December 2007 and 2006. The amount of unrecognised tax losses at 31 December 2007 was HK\$17,119,000 (2006: HK\$3,812,000). Further details are set out in note 30 to the financial statements.

4. SEGMENT INFORMATION

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

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

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

The locations of the geographical segments are as follows:

- (a) Thailand;
- (b) Malaysia;
- (c) Mainland China, Macau and Hong Kong;
- (d) North America;
- (e) Europe; and
- (f) Other countries

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4. SEGMENT INFORMATION (Continued)

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

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

(a) Geographical segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

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

Notes to Financial Statements (Continued)

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4. SEGMENT INFORMATION (Continued)

(a) Geographical segments (Continued)

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

Notes to Financial Statements (Continued)

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4. SEGMENT INFORMATION (Continued)

(a) Geographical segments (Continued)

Year ended 31 December 2006	Thailand HK\$'000	Malaysia HK\$'000	Mainland China, Macau and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenue:								
Sales to external customers	274,159	131,506	53,965	26,570	65,971	29,471	-	581,642
Intersegment sales	82,768	-	4,994	-	-	-	(87,762)	-
Other revenue	9,262	-	7,518	-	-	-	-	16,780
Total revenue	366,189	131,506	66,477	26,570	65,971	29,471	(87,762)	598,422
Segment results	59,111	23,015	18,887	4,689	11,644	5,143	(15,250)	107,239
Interest income								4,574
Interest expense								(22,664)
Profit before tax								89,149
Tax								(4,391)
Profit for the year								84,758
Assets and liabilities								
Segment assets	289,967	29,701	1,122,753	8,872	22,428	40,604	(110,152)	1,404,173
Unallocated assets								2,210
Total assets								1,406,383
Segment liabilities	118,611	-	141,937	834	4,371	51,766	(110,152)	207,367
Unallocated liabilities								391,833
Total liabilities								599,200

Notes to Financial Statements (Continued)

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4. SEGMENT INFORMATION (Continued)

(a) Geographical segments (Continued)

Year ended 31 December 2006	Thailand HK\$'000	Malaysia HK\$'000	Mainland China, Macau and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	Eliminations HK\$'000	Total HK\$'000
Other segment information:								
Capital expenditure	8,463	-	210,260	-	-	-	-	218,723
Depreciation and amortisation	19,647	-	56,677	-	-	-	-	76,324
Fair value gains on investment properties	-	-	(769)	-	-	-	-	(769)
Changes in fair value of derivative financial instruments:								
Interest rate swap	-	-	1,222	-	-	-	-	1,222
Forward currency contracts	-	-	(2,011)	-	-	-	-	(2,011)
Gain on disposal of items of property, plant and equipment	(247)	-	-	-	-	-	-	(247)
Loss on disposal of items of property, plant and equipment	-	-	1,956	-	-	-	-	1,956
Impairment of items of property, plant and equipment	-	-	8,422	-	-	-	-	8,422

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4. SEGMENT INFORMATION (Continued)**(b) Business segments**

The following tables present revenue and certain asset and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

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

Year ended 31 December 2006	HDD components HK\$'000	Hydraulic equipment components HK\$'000	Automotive components HK\$'000	Others HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenue: Sales to external customers	467,828	91,151	11,252	11,411	-	581,642
Other segment information: Segment assets	219,773	76,109	19,213	47,992	-	363,087
Unallocated assets						1,043,296
Total assets						1,406,383
Capital expenditure Corporate and other unallocated amounts	-	-	-	-	-	218,723
Total capital expenditure						218,723

Notes to Financial Statements (Continued)

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5. REVENUE, OTHER INCOME AND GAINS

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

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

	<i>Note</i>	2007 HK\$'000	2006 HK\$'000
Revenue			
Sale of goods and materials		791,179	581,642
Other income			
Bank interest income		1,404	4,574
Sundry income		1,327	3,052
		2,731	7,626
Gains			
Foreign exchange gains, net		17,695	10,701
Fair value gains:			
Derivative financial instruments – transactions not qualifying as hedges:			
Forward currency contracts		979	2,011
Fair value gains on investment properties, net	<i>16</i>	4,291	769
Gain on disposal of items of property, plant and equipment		–	247
		22,965	13,728
		25,696	21,354

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6. PROFIT BEFORE TAX

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

	Notes	2007 HK\$'000	2006 HK\$'000
Cost of inventories sold*		588,606	411,427
Depreciation	14	113,559	75,415
Recognition of prepaid land lease payments	15	875	814
Equity-settled share option expense**	32	2,973	3,924
Auditors' remuneration		1,962	1,911
Employee benefits expense (excluding directors' remuneration (note 8)):			
Wages and salaries		67,557	61,447
Equity-settled share option expense**		1,789	1,993
Pension scheme contributions***		1,978	1,563
		71,324	65,003
Impairment of goodwill ****	17	1,950	–
Minimum lease payments under operating leases:			
Land and buildings		527	125
Equipment		59	237
		586	362
Foreign exchange differences, net		(17,695)	(10,701)
Research and development costs*****		11,133	10,086
Change in fair value of investment properties	16	(4,291)	(769)
Fair value (gains)/losses, net:			
Derivative financial instruments – transactions not qualifying as hedges:			
Interest rate swap	27	256	1,222
Forward currency contracts	27	(979)	(2,011)
		(723)	(789)
Loss on disposal of items of property, plant and equipment		599	1,709
Impairment of items of property, plant and equipment*****	14	4,744	8,422
(Write-back of provision)/provision against inventory obsolescence		(4,679)	4,674

Notes to Financial Statements (Continued)

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6. PROFIT BEFORE TAX (Continued)

Notes:

- * The cost of inventories sold includes an amount of approximately HK\$147,736,000 (2006: HK\$113,508,000) relating to the employee benefits expense, depreciation and operating lease charges, the amounts of which were also included in the respective total amounts disclosed separately above for each of these types of expenses.
- ** The equity-settled share option expense for the year is included in "Administrative expenses" on the face of the consolidated income statement.

The equity-settled share option expense includes an amount of approximately HK\$1,789,000 (2006: HK\$1,993,000) relating to the employee benefit expense which was also included in the employee benefit expense separately disclosed above.
- *** At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2006: Nil).
- **** The impairment of goodwill is included in "Other expenses" on the face of the consolidated income statement.
- ***** The impairment of items of property, plant and equipment for the year is included in "Cost of sales" on the face of the consolidated income statement.
- ***** The research and development costs for the year is included in "Cost of sales" and "Other expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	22,502	16,290
Interest on finance leases	4,047	6,158
Financial arrangement fees	833	833
Other interests	41	216
	27,423	23,497

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8. DIRECTORS' REMUNERATION

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Fees	2,063	2,094
Other emoluments:		
Salaries, allowances and benefits in kind	3,919	3,730
Employee share option benefits	627	1,750
Pension scheme contributions	51	51
	4,597	5,531
	6,660	7,625

During the prior year, all of the directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

2007	Fees HK\$'000	Group Employee share option benefits HK\$'000	Total remuneration HK\$'000
Dr. Cheng Ngok	80	–	80
Mr. Choi Hon Ting, Derek	80	–	80
Mr. Wu Karl Kwok	80	–	80
	240	–	240

Notes to Financial Statements (Continued)

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8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors (Continued)

2006	Fees HK\$'000	Group Employee share option benefits HK\$'000	Total remuneration HK\$'000
Dr. Cheng Ngok	60	–	60
Mr. Choi Hon Ting, Derek	60	–	60
Mr. Wu Karl Kwok	60	–	60
	180	–	180

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive directors and a non-executive director

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

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8. DIRECTORS' REMUNERATION (Continued)**(b) Executive directors and a non-executive director** (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Employee share option benefits HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2006					
Executive directors:					
Mr. Chui Siu On	390	1,220	256	12	1,878
Mr. Ho Yu Hoi	544	1,006	416	–	1,966
Mr. Lai Man Kit	360	628	416	12	1,416
Mr. Li Chi Hang	200	336	416	12	964
Mr. Wong Kwok Keung	360	540	246	12	1,158
	1,854	3,730	1,750	48	7,382
Non-executive director:					
Mr. Ng Kin Nam	60	–	–	3	63
	1,914	3,730	1,750	51	7,445

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as a compensation for loss of office (2006: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2006: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2006: one) non-director, highest paid employee for the year are as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Salaries, allowances and benefits in kind	780	780
Employee share option benefits	246	246
Pension scheme contributions	12	12
	1,038	1,038

9. FIVE HIGHEST PAID INDIVIDUALS (Continued)

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

	Number of employee	
	2007	2006
HK\$1,000,001 to HK\$1,500,000	1	1

During the prior year, share options were granted to the non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employee's remuneration disclosures.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2007 HK\$'000	2006 HK\$'000
Group:		
Current – Hong Kong Charge for the year	2,100	2,011
Current – Elsewhere Charge for the year	4,525	3,666
Deferred (<i>note 30</i>)	727	(1,286)
Total tax charge for the year	7,352	4,391

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10. TAX (Continued)

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Profit before tax	112,833	89,149
Tax at the applicable tax rates	28,823	19,554
Lower tax rate for local authorities	(7,980)	(1,818)
Expenses not deductible for tax	33,530	14,679
Income not subject to tax	(48,695)	(29,285)
Adjustments in respect of current tax of previous years	–	677
Tax losses not recognised	1,674	584
Tax charge at the Group's effective rate of 6.5% (2006: 4.9%)	7,352	4,391

According to the income tax law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises, Dongguan Koda Metal Products Company Limited ("Dongguan Koda") and Guangzhou Xing Hao Precision Metal Products Company Limited ("Xing Hao"), two wholly-owned subsidiaries of the Company established in the Dongguan Coastal Economic Open Zone and Zengcheng Xiancun Lantian Economic Open Zone, respectively, are subject to corporate income tax at a rate of 24%, and are exempted from PRC corporate income tax for the first two profitable years of their operations, and thereafter, are eligible for a 50% relief from PRC corporate income tax for the following three years. Subsequent to completion of a tax relief period of three years at a rate of 10%, Dongguan Koda further obtained an approval from the local tax authority that it would be subject to a tax rate of 15% for the year 2007 because that it was authorised as a Hi-Tech Enterprise, which is entitled to enjoy certain tax favourable policies according to the local tax regime. Dongguan Koda was subject to a tax rate of 15% during the year ended 31 December 2007 (2006: 10%). Xing Hao began its first profitable year in the year ended 31 December 2004 and it was subject to a tax rate of 12% during the year ended 31 December 2007 (2006: 12%).

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

Integrated Precision Engineering (Thailand) Company Limited ("IPE Thailand"), a company incorporated in Thailand, is subject to income tax in Thailand at a rate of 30% on the estimated assessable profits arising in or derived from Thailand. IPE Thailand has two production factories, Factory I and Factory II (Phase 1) and Factory II (Phase 2). IPE Thailand is exempted from income tax for a period of three years from 2 June 2000 to 1 June 2003 for income generated from Factory I due to the promotion privileges granted under the Investment Promotion Act B.E. 2520 by the Board of Investment, a government authority, in Thailand. The Board of Investment also granted IPE Thailand an exemption from income tax for a period of three years from 3 January 2003 to 2 January 2006 for income generated from Factory II (Phase 1). During the year, IPE Thailand was subject to income tax at a rate of 30% for Factory I and Factory II (Phase 1) after the tax holiday. For Factory II (Phase 2), the Board of Investment granted IPE Thailand an exemption from income tax as well for a period of six to eight years from 31 July 2005 to 30 July 2011 or 2013 for income generated therefrom. IPE Thailand is entitled to tax exemption for one additional year after the aforementioned tax holiday if certain conditions are met.

10. TAX (Continued)

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

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of HK\$160,472,000 (2006: HK\$109,889,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. DIVIDENDS

	2007 HK\$'000	2006 HK\$'000
Interim dividend – HK2.0 cents (2006: HK1.5 cents) per ordinary share	14,459	10,857
Final dividend paid in respect of the previous year on shares issued under the Company's share option scheme and placement of new shares subsequent to the balance sheet date and before the close of the register of members of the Company, of HK1.8 cents per ordinary share	–	2,161
Proposed final dividend – HK2.4 cents (2006: HK1.8 cents) per ordinary share	17,014	13,013
	31,473	26,031

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

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

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

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

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

	2007 HK\$'000	2006 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	105,739	84,758
Number of shares		
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	723,807,083	683,430,417
Effect of dilution – weighted average number of ordinary shares: Share options	7,056,475	16,578,375
	730,863,558	700,008,792

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14. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Con- struction in progress HK\$'000	Total HK\$'000
Cost:							
At 1 January 2007	228,518	5,240	765,479	15,765	13,990	55,191	1,084,183
Additions	876	–	18,277	1,434	320	128,027	148,934
Transfer in/(out)	26,733	–	107,559	7,558	982	(142,832)	–
Disposals	(729)	–	(11,537)	(437)	(239)	(21)	(12,963)
Exchange realignment	21,181	–	77,830	1,423	734	3,716	104,884
At 31 December 2007	276,579	5,240	957,608	25,743	15,787	44,081	1,325,038
Accumulated depreciation and impairment:							
At 1 January 2007	(19,698)	(3,532)	(210,231)	(5,525)	(8,771)	–	(247,757)
Depreciation provided during the year	(17,000)	(360)	(90,553)	(3,935)	(1,711)	–	(113,559)
Impairment	–	–	(4,744)	–	–	–	(4,744)
Disposals – depreciation	72	–	4,791	392	178	–	5,433
Disposals – impairment	–	–	4,744	–	–	–	4,744
Exchange realignment	(2,061)	–	(24,509)	(529)	(250)	–	(27,349)
At 31 December 2007	(38,687)	(3,892)	(320,502)	(9,597)	(10,554)	–	(383,232)
At 31 December 2007							
Cost	276,579	5,240	957,608	25,743	15,787	44,081	1,325,038
Accumulated depreciation	(38,687)	(3,892)	(320,502)	(9,597)	(10,554)	–	(383,232)
Net carrying amount	237,892	1,348	637,106	16,146	5,233	44,081	941,806
At 31 December 2006							
Cost	228,518	5,240	765,479	15,765	13,990	55,191	1,084,183
Accumulated depreciation	(19,698)	(3,532)	(210,231)	(5,525)	(8,771)	–	(247,757)
Net carrying amount	208,820	1,708	555,248	10,240	5,219	55,191	836,426

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group	Freehold land and buildings HK\$'000	Leasehold improve-ments HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Con-struction in progress HK\$'000	Total HK\$'000
Cost:							
At 1 January 2006	124,148	3,729	530,008	7,409	11,766	155,707	832,767
Additions	8,684	1,798	17,785	1,727	434	188,145	218,573
Transfer in/(out)	88,183	–	200,854	6,159	2,329	(297,525)	–
Disposals	–	(287)	(19,253)	(31)	(903)	–	(20,474)
Exchange realignment	7,503	–	36,085	501	364	8,864	53,317
At 31 December 2006	228,518	5,240	765,479	15,765	13,990	55,191	1,084,183
Accumulated depreciation and impairment:							
At 1 January 2006	(10,967)	(3,656)	(142,427)	(3,586)	(8,088)	–	(168,724)
Depreciation provided during the year	(7,870)	(145)	(64,346)	(1,705)	(1,349)	–	(75,415)
Impairment	–	–	(8,422)	–	–	–	(8,422)
Disposals – depreciation	–	269	8,496	24	813	–	9,602
Disposals – impairment	–	–	8,422	–	–	–	8,422
Exchange realignment	(861)	–	(11,954)	(258)	(147)	–	(13,220)
At 31 December 2006	(19,698)	(3,532)	(210,231)	(5,525)	(8,771)	–	(247,757)
At 31 December 2006							
Cost	228,518	5,240	765,479	15,765	13,990	55,191	1,084,183
Accumulated depreciation	(19,698)	(3,532)	(210,231)	(5,525)	(8,771)	–	(247,757)
Net carrying amount	208,820	1,708	555,248	10,240	5,219	55,191	836,426

The freehold land amounting to Thai Baht19,201,000 (equivalent to HK\$5,007,000) included in freehold land and buildings is situated in Thailand (2006: Thai Baht19,201,000 (equivalent to HK\$4,232,000)).

The net book values of the Group's property, plant and equipment held under finance leases included in the total amount of the respective categories of property, plant and equipment as at 31 December 2007 are:

- (i) plant and machinery amounting to HK\$121,049,000 (2006: HK\$138,636,000);
- (ii) construction in progress amounting to HK\$1,965,000 (2006: HK\$4,446,000); and
- (iii) there were no motor vehicles held under finance leases (2006: HK\$119,000).

At 31 December 2007 and 2006, none of the Group's plant and machinery, land and buildings were pledged to secure the interest-bearing bank and other borrowings and the general banking facilities granted to the Group.

Notes to Financial Statements (Continued)

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15. PREPAID LAND LEASE PAYMENTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Carrying amount at 1 January	36,495	36,032
Recognised during the year (<i>note 6</i>)	(875)	(814)
Exchange realignment	2,751	1,277
Carrying amount at 31 December	38,371	36,495
Current portion included in prepayments, deposits and other receivables	(875)	(814)
Non-current portion	37,496	35,681

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

16. INVESTMENT PROPERTIES

	Group	
	2007 HK\$'000	2006 HK\$'000
Carrying amount at 1 January	16,755	15,986
Net profit from a fair value adjustment (<i>note 5</i>)	4,291	769
Carrying amount 31 December	21,046	16,755

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

	HK\$'000	HK\$'000
Long term leases	1,046	1,755
Medium term leases	20,000	15,000
	21,046	16,755

The Group's investment properties were revalued on 31 December 2007 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at HK\$21,046,000 on an open market, existing use basis.

Notes to Financial Statements (Continued)

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16. INVESTMENT PROPERTIES (Continued)

Particulars of the Group's investment properties are as follows:

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

17. GOODWILL

Group	HK\$'000
Cost at 1 January 2007	–
Acquisition of a subsidiary (note 34)	1,950
Impairment during the year	(1,950)
Cost and carrying amount at 31 December 2007	–

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	43	43

The amounts due from subsidiaries included in the Company's current assets of HK\$610,638,000 (2006: HK\$489,793,000) are unsecured, interest-free and are repayable on demand. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Best Device Group Limited ("Best Device")	British Virgin Islands/ Hong Kong	US\$5,528	100%	–	Investment holding
Cyber Starpower Limited	British Virgin Islands/ Hong Kong	US\$1,000	–	100%	Investment holding
Anglo Dynamic Limited	British Virgin Islands/ Hong Kong	US\$2,000	–	100%	Investment holding
Tai Situpa Group Limited	British Virgin Islands/ Hong Kong	US\$2,000	–	100%	Investment holding
Lewiston Group Limited	British Virgin Islands/ Hong Kong	US\$1,000	–	100%	Investment holding
Integrated Precision Engineering (Thailand) Company Limited	Thailand	THB150,000,000	–	99.99%	Trading and manufacture of precision metal components
Integrated Precision Engineering Company Limited	Hong Kong	HK\$3,000,000	–	100%	Trading of precision metal components and investment holding
IPE Macao Commercial Offshore Limited	Macau	MOP100,000	–	100%	Trading of precision metal components
Dongguan Koda Metal Products Company Limited ("Dongguan Koda")*	PRC/ Mainland China	HK\$168,604,176	–	100%	Manufacture of precision metal components
Guangzhou Xing Hao Precision Metal Products Company Limited ("Xing Hao")**	PRC/ Mainland China	HK\$414,661,350	–	100%	Manufacture of precision metal components
IPE Precision Machinery Limited	Hong Kong	HK\$100,000	–	100%	Investment holding

* *Dongguan Koda is a wholly-foreign-owned enterprise with a registered capital of HK\$213,000,000. Up to 31 December 2007, HK\$168,604,176 has been contributed.*

** *Xing Hao is a wholly-foreign-owned enterprise with a registered capital of HK\$530,000,000. Up to 31 December 2007, HK\$414,661,350 has been contributed.*

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18. INVESTMENTS IN SUBSIDIARIES (Continued)

During the year, the Group acquired a subsidiary which was incorporated in Hong Kong. Further details of this acquisition are included in note 34 to the financial statements.

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

19. LOAN TO AN UNLISTED EQUITY INVESTMENT

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

20. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2007 HK\$'000	2006 HK\$'000
Unlisted equity investment, at cost	150	150

As at 31 December 2007, an unlisted equity investment with a carrying amount of HK\$150,000 (2006: HK\$150,000) was stated at cost because the range of reasonable fair value estimates is significant for that investment and the directors are of the opinion that its fair value cannot be measured reliably.

21. INVENTORIES

	Group	
	2007 HK\$'000	2006 HK\$'000
Raw materials	81,078	73,579
Consumables	42,414	32,549
Work in progress	46,915	76,984
Finished goods	32,837	22,673
	203,244	205,785
Less: Provision against inventory obsolescence	(5,012)	(9,691)
	198,232	196,094

22. TRADE RECEIVABLES

	Group	
	2007 HK\$'000	2006 HK\$'000
Trade receivables	233,704	166,993
Impairment	–	–
	233,704	166,993

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

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Within 1 month	91,976	61,485
1 to 2 months	73,224	52,673
2 to 3 months	47,744	36,726
3 to 4 months	13,715	11,457
4 to 12 months	6,221	4,652
Over 12 months	824	–
	233,704	166,993

During the year, the Group had no provision for impairment of trade receivables (2006: Nil).

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Neither past due nor impaired	165,200	150,884
Less than 90 days past due	61,459	11,457
90 to 180 days past due	6,221	4,652
Over 180 days past due	824	–
	233,704	166,993

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

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22. TRADE RECEIVABLES (Continued)

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Prepayments	5,492	4,843	305	239
Deposits and other receivables	8,915	8,127	–	–
	14,407	12,970	305	239

None of the above assets is neither past due nor impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Cash and bank balances	163,512	96,726	10,294	105
Non-pledged time deposits	71,537	41,977	–	–
Cash and cash equivalents	235,049	138,703	10,294	105

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$14,497,487 (2006: HK\$12,244,100). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

25. TRADE AND BILLS PAYABLES

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Within 1 month	41,774	36,241
1 to 2 months	28,189	24,593
2 to 3 months	11,667	22,647
3 to 4 months	8,922	11,170
4 to 12 months	4,924	2,668
Over 1 year	100	63
	95,576	97,382

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

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Other payables	55,032	102,499	–	–
Accruals	5,255	6,540	64	89
	60,287	109,039	64	89

The other payables, which mainly represent payables for the purchase of machinery, are non-interest-bearing and repayable within one year.

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27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Derivative financial instruments – transactions not qualifying as hedges		
Assets		
Forward currency contracts **	69	–
Liabilities		
Interest rate swap*	292	36
Forward currency contracts**	–	910
	292	946

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

* At 31 December 2007, 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 (2006: HK\$100,000,000) with a floating rate was swapped for a fixed rate. The agreement lasts for three years and will expire in August 2008.

** At 31 December 2007, the Group had entered into forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. The agreement requires the Group to buy Japanese Yen with US dollars or Hong Kong dollars at a pre-agreed exchange rate on pre-determined dates up to January 2008.

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28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2007			2006		
	Effective contractual interest rate (%)	Maturity	HK\$'000	Effective contractual interest rate (%)	Maturity	HK\$'000
Current						
Finance lease payables (<i>note 29</i>)	4.50-6.25	2008	29,636	2.95-8	2007	30,840
<i>Unsecured</i>						
Bank overdrafts	7.1-7.5	On demand	1,099	5-8	On demand	33
Bank revolving loans	4.68-6.18	On demand	48,968	–	–	–
Bank loans	4.40-7.25	2008	196,572	5.23-6.75	2007	135,248
Other loans	2.08-8.75	2008	88,209	–	–	–
			364,484			166,121
Non-current						
Finance lease payables (<i>note 29</i>)	4.50-6.25	2009-2010	14,063	2.95-8	2008-2009	43,665
<i>Unsecured</i>						
Bank loans	4.40-7.25	2009-2011	188,363	5.23-6.75	2008-2012	175,999
			202,426			219,664
			566,910			385,785

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	246,639	135,281
In the second year	119,155	132,389
In the third to fifth years, inclusive	69,208	40,557
Beyond five years	–	3,053
	435,002	311,280
Other borrowings repayable:		
Within one year	117,845	30,840
In the second year	14,063	29,555
In the third to fifth years, inclusive	–	14,110
	131,908	74,505
	566,910	385,785

Notes:

- (a) As at 31 December 2007 and 2006, all the interest-bearing bank and other borrowings were unsecured.
- (b) As at 31 December 2007, except for the unsecured bank loans with interest rates ranging from 6.00% to 7.25% (2006: 6.50% to 6.75%) which were denominated in Thai Baht and the unsecured revolving bank loans with interest rates ranging from 4.77% to 6.18% which were denominated in US dollars, all borrowings were in Hong Kong dollars.

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

Notes to Financial Statements (Continued)

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29. FINANCE LEASE PAYABLES

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

At 31 December 2007, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2007 HK\$'000	Minimum lease payments 2006 HK\$'000	Present value of minimum lease payments 2007 HK\$'000	Present value of minimum lease payments 2006 HK\$'000
Amounts payable:				
Within one year	31,370	34,747	29,636	30,840
In the second year	14,518	31,461	14,063	29,555
In the third to fifth years, inclusive	–	14,607	–	14,110
Total minimum finance lease payments	45,888	80,815	43,699	74,505
Future finance charges	(2,189)	(6,310)		
Total net finance lease payables	43,699	74,505		
Portion classified as current liabilities (note 28)	(29,636)	(30,840)		
Non-current portion (note 28)	14,063	43,665		

30. DEFERRED TAX

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

Deferred tax liabilities

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

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30. DEFERRED TAX (Continued)**Deferred tax assets**

Group	2007 Deductible temporary differences HK\$'000
At 1 January 2007	975
Deferred tax charged to the income statement during the year (note 10)	(552)
Exchange realignment	176
At 31 December 2007	599

Deferred tax liabilities

Group	2006		
	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 January 2006	1,175	736	1,911
Deferred tax charged/(credited) to the income statement during the year (note 10)	(452)	141	(311)
Exchange realignment	144	–	144
At 31 December 2006	867	877	1,744

Deferred tax assets

Group	2006 Deductible temporary differences HK\$'000
At 1 January 2006	–
Deferred tax credited to the income statement during the year (note 10)	975
At 31 December 2006	975

Notes to Financial Statements (Continued)

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30. DEFERRED TAX (Continued)

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

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Tax losses	17,119	3,812	3,165	1,593
Deductible temporary differences	30,250	22,254	–	–
	47,369	26,066	3,165	1,593

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

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

31. SHARE CAPITAL

Shares

	2007 HK\$'000	2006 HK\$'000
Authorised: 1,200,000,000 (2006: 1,200,000,000) ordinary shares of HK\$0.1 each	120,000	120,000
Issued and fully paid: 718,425,000 (2006: 722,960,000) ordinary shares of HK\$0.1 each	71,843	72,296

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31. SHARE CAPITAL (Continued)**Shares** (Continued)

The movements in share capital for the years ended 31 December 2007 and 2006 were as follows:

	Notes	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2006		601,070,000	60,107	151,021	211,128
Placement of new shares	(a)	120,000,000	12,000	212,400	224,400
Share options exercised	(b)	2,750,000	275	2,125	2,400
Repurchase of shares	(c)	(860,000)	(86)	(946)	(1,032)
		722,960,000	72,296	364,600	436,896
Share issue expenses	(a)	–	–	(12,073)	(12,073)
At 31 December 2006 and 1 January 2007		722,960,000	72,296	352,527	424,823
Share options exercised	(d)	165,000	17	103	120
Repurchase of shares	(e)	(4,700,000)	(470)	(4,498)	(4,968)
At 31 December 2007		718,425,000	71,843	348,132	419,975

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

- During the prior year, the Company 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.
- The subscription rights attaching to 2,750,000 share options were exercised during the prior year at the subscription price of HK\$0.78 or 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.
- The Company repurchased its own shares on the Stock Exchange during the year ended 31 December 2006. The shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on the repurchase was charged against share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.
- The subscription rights attaching to 165,000 share options were exercised in 2007 at the subscription price of HK\$0.78 per share, resulting in the issue of 165,000 shares of HK\$0.1 each for a total cash consideration, before expenses, of HK\$128,700.
- The Company repurchased its own shares on the Stock Exchange during the year ended 31 December 2007. The shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on the repurchase was charged against share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

Details of the repurchases of shares are set out in the directors' report on page 38.

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31. SHARE CAPITAL (Continued)

Share options

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

32. SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

Notes to Financial Statements (Continued)

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32. SHARE OPTION SCHEME (Continued)

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

	2007		2006	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	1.18	72,775	1.17	72,720
Granted during the year	1.20	5,700	1.35	3,000
Forfeited during the year	1.27	(545)	0.87	(195)
Exercised during the year	0.78	(165)	1.28	(2,750)
Expired during they year	1.09	(10,000)	–	–
At 31 December	1.20	67,765	1.18	72,775

The weighted average share price at the date of exercise for share options exercised during the year was HK\$1.25 (2006: HK\$1.26).

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

2007 Number of options '000	Exercise prices HK\$ per share	Exercise periods
3,685	0.78	30-11-04 to 31-12-08
6,715	1.41	27-07-05 to 31-12-08
2,000	1.41	27-07-05 to 26-07-10
8,635	0.78~1.41	01-01-06 to 31-12-08
5,000	1.41	01-07-06 to 31-12-08
11,525	0.78~1.41	01-01-07 to 31-12-08
8,000	1.41	01-07-07 to 31-12-08
13,505	0.78~1.41	01-01-08 to 31-12-08
700	1.20	01-01-08 to 31-12-10
5,000	1.20~1.35	01-01-08 to 31-12-12
3,000	1.20	01-01-09 to 31-12-12
67,765		

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32. SHARE OPTION SCHEME (Continued)

2006	Exercise prices	Exercise periods
Number of options '000	HK\$ per share	
3,725	0.78	30-11-04 to 31-12-08
10,000	1.09	04-02-05 to 31-12-07
6,815	1.41	27-07-05 to 31-12-08
2,000	1.41	27-07-05 to 26-07-10
8,795	0.78~1.41	01-01-06 to 31-12-08
5,000	1.41	01-07-06 to 31-12-08
11,760	0.78~1.41	01-01-07 to 31-12-08
8,000	1.41	01-07-07 to 31-12-08
13,680	0.78~1.41	01-01-08 to 31-12-08
3,000	1.35	01-01-08 to 31-12-12
72,775		

The fair value of the share options granted during the year ranged from HK\$0.16 each to HK\$0.24 each (2006: HK\$0.34 each) of which the Group recognised a share option expense of HK\$578,000 (2006: HK\$255,000) during the year ended 31 December 2007.

The total share option expense recognised by the Group during the year was HK\$2,973,000 (2006: HK\$3,924,000).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2007:

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

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

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

The 165,000 share options exercised during the year resulted in the issue of 165,000 ordinary shares of the Company and new share capital of HK\$16,500 and share premium of HK\$112,200 (before issue expenses), as further detailed in note 31 to the financial statements.

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32. SHARE OPTION SCHEME (Continued)

At the balance sheet date, the Company had 67,765,000 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 67,765,000 additional ordinary shares of the Company and additional share capital of HK\$6,776,500 and share premium of HK\$74,514,800 (before issue expenses).

At the date of approval of these financial statements, the Company had 67,670,000 share options outstanding under the Scheme, which represented approximately 9.55% of the Company's shares in issue as at that date.

33. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 51 to 52 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 directors at 5% of the net profit of the Company's subsidiaries. The statutory public welfare fund can be used for employees' welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the years ended 31 December 2007 and 2006.

Notes to Financial Statements (Continued)

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33. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2006		134,025	–	7,577	(9,958)	(16,150)	115,494
Issue of shares	31(a)	212,400	–	–	–	–	212,400
Share issue expenses	31(a)	(12,073)	–	–	–	–	(12,073)
Exercise of share options	31(b)	2,125	–	–	–	–	2,125
Premium on repurchase of shares	31(c)	(946)	–	–	–	–	(946)
Capital redemption reserve arising from repurchase of shares	31(c)	–	86	–	–	(86)	–
Equity-settled share option arrangements	32	–	–	3,924	–	–	3,924
Forfeiture of options		–	–	(9)	–	9	–
Profit for the year	11	–	–	–	–	109,889	109,889
Final 2005 dividend	12	–	–	–	–	(2,161)	(2,161)
Interim 2006 dividend	12	–	–	–	–	(10,857)	(10,857)
Proposed final 2006 dividend	12	–	–	–	–	(13,013)	(13,013)
At 31 December 2006 and 1 January 2007		335,531	86	11,492	(9,958)	67,631	404,782
Exercise of share options	31(d)	103	–	–	–	–	103
Premium on repurchase of shares	31(e)	(4,498)	–	–	–	–	(4,498)
Capital redemption reserve arising from repurchase of shares	31(e)	–	470	–	–	(470)	–
Equity-settled share option arrangements	32	–	–	2,973	–	–	2,973
Forfeiture of options		–	–	(1,968)	–	1,968	–
Profit for the year	11	–	–	–	–	160,472	160,472
Interim 2007 dividend	12	–	–	–	–	(14,459)	(14,459)
Proposed final 2007 dividend	12	–	–	–	–	(17,014)	(17,014)
At 31 December 2007		331,136	556	12,497	(9,958)	198,128	532,359

The Company's contributed surplus represents the excess of the nominal value of the shares of Best Device, one of the subsidiaries of the Company acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

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34. BUSINESS COMBINATION

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

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

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

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

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

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

35. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT**Major non-cash transaction**

During the year, the Group did not enter into any finance lease arrangements in respect of plant and machinery (2006: HK\$7,078,000).

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36. CONTINGENT LIABILITIES

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

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	978,167	828,183
Guarantees given to an electricity company	1,208	1,021	–	–
	1,208	1,021	978,167	828,183

37. PLEDGE OF ASSETS

At 31 December 2007 and 2006, none of the Group's property, plant and equipment, investment properties and bank deposits were pledged to secure the interest-bearing bank and other borrowings and the general banking facilities granted to the Group.

38. OPERATING LEASE ARRANGEMENTS**As lessee**

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

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Within one year	231	209
In the second to fifth years, inclusive	63	168
After five years	–	–
	294	377

Notes to Financial Statements (Continued)

31 December 2007

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007 HK\$'000	2006 HK\$'000
Authorised, but not contracted for:		
Renovation of buildings	–	261
	–	261
Contracted, but not provided for:		
Plant and machinery	81,939	40,530
Construction in progress	4,849	9,662
Capital contribution to an unlisted equity investment	–	150
	86,788	50,342
	86,788	50,603

The Company did not have any significant commitments during the years ended 31 December 2007 and 2006.

40. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2007 HK\$'000	2006 HK\$'000
Short term employee benefits	10,848	9,597
Share-based payments	1,212	3,227
Post-employment benefits	120	118
Total compensation paid to key management personnel	12,180	12,942

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

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

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41. FINANCIAL INSTRUMENTS BY CATEGORY

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

2007**Financial assets**

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

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	HK\$'000	HK\$'000	HK\$'000
Financial liabilities included in other payables and accruals (<i>note 26</i>)	–	55,032	55,032
Trade and bills payable	–	95,576	95,576
Derivative financial instruments	292	–	292
Interest-bearing bank and other borrowings	–	566,910	566,910
	292	717,518	717,810

Notes to Financial Statements (Continued)

31 December 2007

41. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

2006

Financial assets

	Group			Total HK\$'000
	Financial assets at fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	
Loan to an unlisted equity investment	–	1,350	–	1,350
Available-for-sale investment	–	–	150	150
Trade receivables	–	166,993	–	166,993
Derivative financial instruments	–	–	–	–
Financial assets included in prepayments, deposits and other receivables (<i>note 23</i>)	–	8,127	–	8,127
Cash and cash equivalents (<i>note 24</i>)	–	138,703	–	138,703
	–	315,173	150	315,323

Financial liabilities

	Group		Total HK\$'000
	Financial liabilities at fair value through profit or loss HK\$'000	Financial liabilities at amortised cost HK\$'000	
Financial liabilities included in other payables and accruals (<i>note 26</i>)	–	102,499	102,499
Trade and bills payables	–	97,382	97,382
Derivative financial instruments	946	–	946
Interest-bearing bank and other borrowings	–	385,785	385,785
	946	585,666	586,612

41. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

2007

Financial assets

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

Financial liabilities

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

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41. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

2006

Financial assets

	Company			Total HK\$'000
	Financial assets at fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Available-for-sale financial assets HK\$'000	
Amount due from subsidiaries	–	489,793	–	489,793
Cash and cash equivalents (<i>note 24</i>)	–	105	–	105
	–	489,898	–	489,898

Financial liabilities

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Foreign currency risk**

The Group has transactional currency exposures. Such exposures arise from sales or purchases by certain subsidiaries in currencies other than the subsidiaries' functional currency. Approximately 55% (2006: 63%) of the Group's sales are denominated in currencies other than the functional currency of the subsidiaries making the sale, whilst almost 55% (2006: 51%) of costs are denominated in the subsidiaries' functional currency. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

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

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

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax HK'000
2007		
If Hong Kong dollar weakens against United States dollar	5%	8,930
If Hong Kong dollar weakens against Euro	5%	213
If Hong Kong dollar weakens against Japanese Yen	5%	(3,866)
If Hong Kong dollar strengthens against United States dollar	(5%)	(8,930)
If Hong Kong dollar strengthens against Euro	(5%)	(213)
If Hong Kong dollar strengthens against Japanese Yen	(5%)	3,866
2006		
If Hong Kong dollar weakens against United States dollar	5%	6,163
If Hong Kong dollar weakens against Euro	5%	(169)
If Hong Kong dollar weakens against Japanese Yen	5%	(3,994)
If Hong Kong dollar strengthens against United States dollar	(5%)	(6,163)
If Hong Kong dollar strengthens against Euro	(5%)	169
If Hong Kong dollar strengthens against Japanese Yen	(5%)	3,994

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Interest rate risk**

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

Besides, the Group is exposed to interest rate risk through the impact of rate changes on interest-bearing bank borrowings and obligations under finance leases. The interest rates and terms of repayment of bank borrowings and obligations under the finance leases of the Group are disclosed in note 28 to the financial statements.

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

	Increase/ (decrease) in basis points	Increase/ (decrease) effect on profit before tax HK'000
2007		
HK\$	25	(824)
US\$	25	(97)
Thai Baht	25	(101)
HK\$	(25)	824
US\$	(25)	97
Thai Baht	(25)	101
2006		
HK\$	25	(492)
Thai Baht	25	(118)
HK\$	(25)	492
Thai Baht	(25)	118

Credit risk

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

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

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

Group

	On demand HK\$'000	Less than 1 year HK\$'000	2007 1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Finance lease payables	–	31,370	14,518	–	45,888
Interest-bearing bank and other borrowings (excluding finance lease payables)	50,067	284,781	188,363	–	523,211
Trade and bills payables	–	95,576	–	–	95,576
Other payables and accruals	–	55,032	–	–	55,032
Derivative financial instruments	–	292	–	–	292
	50,067	467,051	202,881	–	719,999

	On demand HK\$'000	Less than 1 year HK\$'000	2006 1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Finance lease payables	–	34,747	46,068	–	80,815
Interest-bearing bank and other borrowings (excluding finance lease payables)	33	135,248	172,946	3,053	311,280
Trade and bills payables	–	97,382	–	–	97,382
Other payables and accruals	–	102,499	–	–	102,499
Derivative financial instruments	–	946	–	–	946
	33	370,822	219,014	3,053	592,922

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Capital management**

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Interest-bearing bank and other borrowings (note 28)	566,910	385,785
Trade and bills payables (note 25)	95,576	97,382
Other payables and accruals (note 26)	60,287	109,039
Less: Cash and cash equivalents (note 24)	(235,049)	(138,703)
Net debt	487,724	453,503
Equity attributable to equity holders	952,523	807,183
Capital and net debt	1,440,247	1,260,686
Gearing ratio	34%	36%

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2008.