IPE GROUP Limited

2009 Annual Report

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

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
Mr. Lau Siu Chung
Mr. Yuen Chi Ho

Independent Non-executive Directors

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

AUTHORISED REPRESENTATIVES

Mr. Chui Siu On
Mr. Tam Yiu Chung

COMPANY SECRETARY

Mr. Tam Yiu Chung

AUDIT COMMITTEE

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

PRINCIPAL BANKERS

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

LEGAL ADVISERS TO THE COMPANY

Michael Li & Co

AUDITORS

Ernst & Young
Certified Public Accountants

LISTING VENUE

Main Board of The Stock Exchange of Hong Kong Limited

STOCK CODE

929

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Yue Hu Cun
Zengcheng, Guangzhou
Guangdong Province
the PRC
Post code: 511335

PRINCIPAL PLACE OF BUSINESS IN THAILAND

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

WEBSITE

http://www.ipegroup.com

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Corporate Profile

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

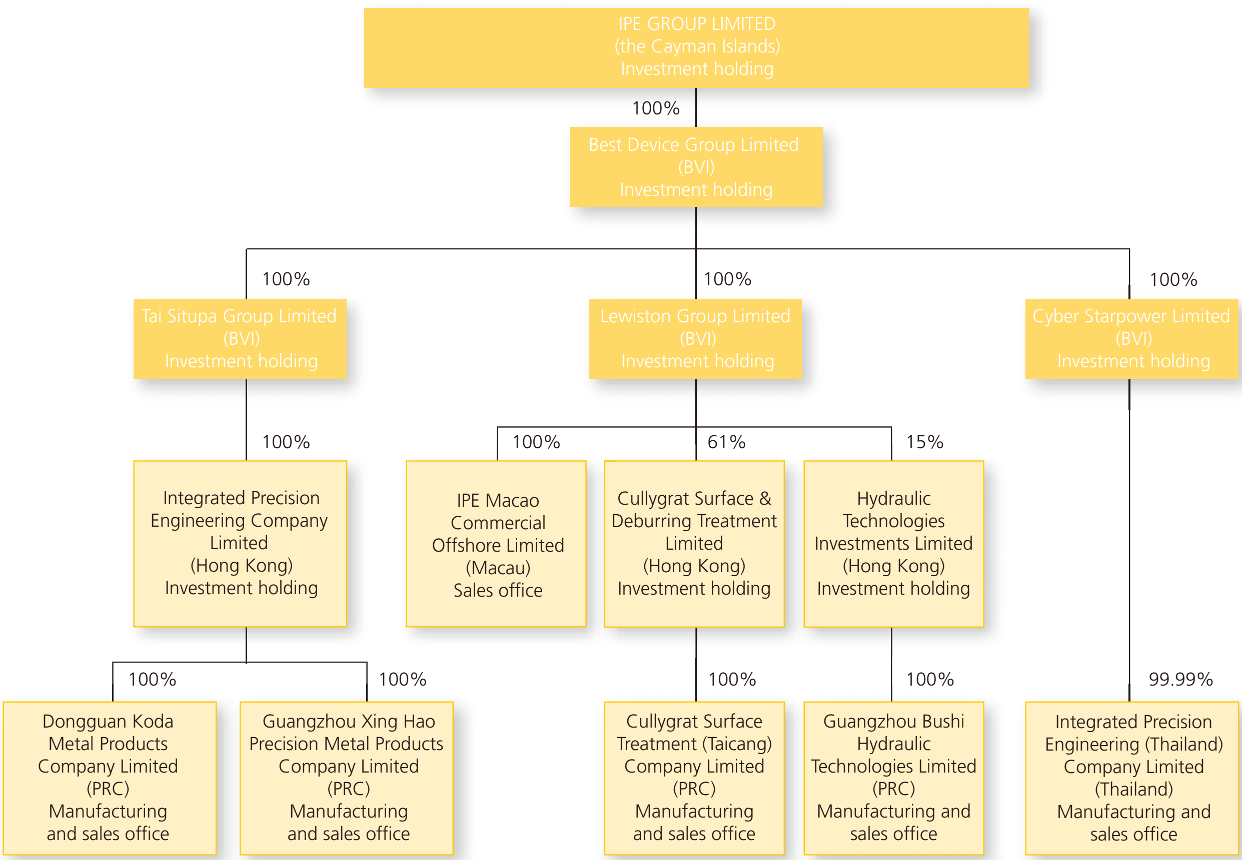
The Group started its high precision components business in 1990 in Singapore and now produces high precision metal components and assembled parts used in hard disk drives ("HDD"), hydraulic equipment, automotive parts, electronic and other devices.

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

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

GROUP STRUCTURE

Principal subsidiaries and the joint venture of the Company as at 31 December 2009



Corporate Milestone

2009
Guangzhou Xing Hao was accredited High and New Technology Enterprise

Guangzhou Xing Hao was accredited ISO 14001:2004 certification

Guangzhou Xing Hao was accredited Best Technology Development Supplier of Continental Automotive Wuhu Co. Ltd.

2008
IPE (Hong Kong) was accredited "Preferred Supplier of the Bosch Group"

IPE (Thailand) was accredited TS16949 certification

2007
IPE (Thailand) was accredited ISO14001:2004 certification

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

2006
Guangzhou Xing Hao was accredited with TS16949 certification

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

Guangzhou Xing Hao Factory was put into operation in March 2005

2004
Established IPE (Macao) in Macau

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

2003
Acquired additional land to enlarge production facilities of Guangzhou Xing Hao and construction of the new Guangzhou plant commenced

2002
IPE (Thailand)'s production facility was accredited ISO 9001 certification

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

Established Guangzhou Xing Hao in Mainland China

1997
Established IPE (Thailand) in Thailand

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

1994
Established IPE (Hong Kong) in Hong Kong

Established Koda in Mainland China

1990
Established IPE (Singapore) in Singapore

Financial Highlights

RESULTS

	Year ended 31 December									
	2009		2008		2007		2006		2005	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
REVENUE	695,725	100%	861,716	100%	791,179	100%	581,642	100%	405,977	100%
Cost of sales	(587,363)	84%	(656,845)	76%	(588,606)	74%	(411,427)	71%	(282,348)	70%
Gross profit	108,362	16%	204,871	24%	202,573	26%	170,215	29%	123,629	30%
Other income and gains	21,379	3%	2,759	0%	25,696	3%	21,354	4%	18,127	5%
Selling and distribution costs	(19,155)	3%	(24,244)	3%	(18,730)	2%	(16,742)	3%	(13,652)	3%
Administrative expenses	(70,112)	10%	(69,995)	8%	(62,520)	8%	(53,257)	9%	(48,113)	12%
Other expenses	(7,149)	1%	(21,432)	2%	(6,763)	1%	(8,924)	2%	(614)	0%
Finance costs	(15,985)	2%	(23,319)	3%	(27,423)	4%	(23,497)	4%	(12,216)	3%
PROFIT BEFORE TAX	17,340	3%	68,640	8%	112,833	14%	89,149	15%	67,161	17%
Income tax expense	(5,011)	1%	(8,256)	1%	(7,352)	1%	(4,391)	1%	(2,763)	1%
PROFIT FOR THE YEAR	12,329	2%	60,384	7%	105,481	13%	84,758	14%	64,398	16%
Attributable to:										
Owners of the parent	12,587	2%	61,149	7%	105,739	13%	84,758	14%	64,398	16%
Minority interests	(258)	0%	(765)	0%	(258)	0%	–	–	–	–
	12,329	2%	60,384	7%	105,481	13%	84,758	14%	64,398	16%

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	1,082,280	1,184,782	1,004,138	891,623	715,656
Total current assets	595,569	580,711	681,461	514,760	418,605
Total current liabilities	454,323	551,372	526,712	377,792	402,959
Net current assets	141,246	29,339	154,749	136,968	15,646
Total non-current liabilities	168,377	268,956	204,597	221,408	246,559
Total equity	1,055,149	945,165	954,290	807,183	484,743

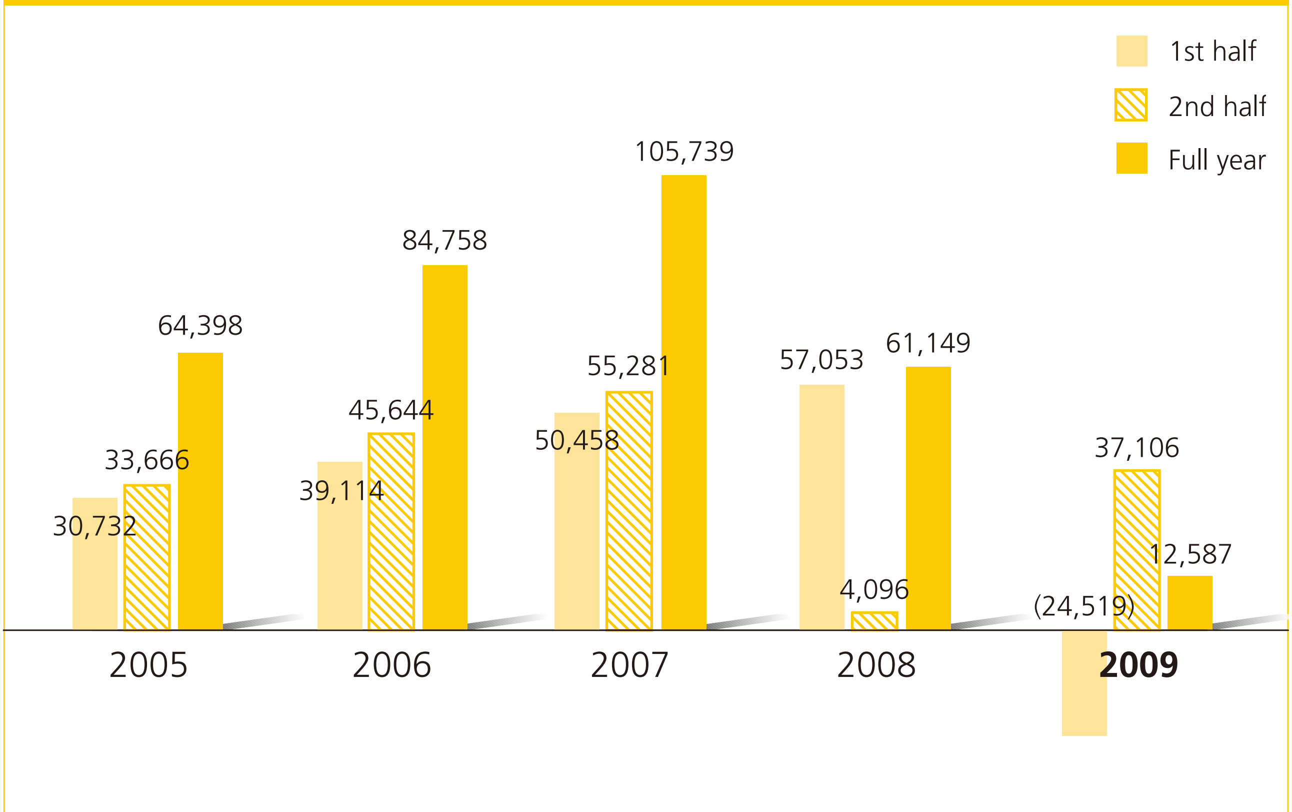
Financial Highlights

RATIO ANALYSIS

	Year ended 31 December				
	2009	2008	2007	2006	2005
KEY STATISTICS:					
Current ratio	**1.31**	1.05	1.29	1.36	1.04
Gearing ratio (net borrowings/ shareholders' equity)	**0.25**	0.40	0.35	0.31	0.42
Gross profit margin	**15.6%**	23.8%	25.6%	29.3%	30.5%
EBITDA margin	**26.0%**	26.0%	32.2%	32.5%	31.0%
Net profit margin	**1.8%**	7.0%	13.3%	14.6%	15.9%
Average days of debtor turnover	**104 days**	85 days	92 days	92 days	91 days
PER SHARE DATA:					
Net asset value per share (HK$)	**1.15**	1.35	1.33	1.12	0.81
Earnings per share – basic	**HK1.66 cents**	HK8.18 cents*	HK13.81 cents*	HK11.73 cents*	HK10.74 cents*
Earnings per share – diluted	**HK1.64 cents**	N/A	HK13.68 cents*	HK11.45 cents*	HK10.05 cents*

* Restated

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT (HK$'000)

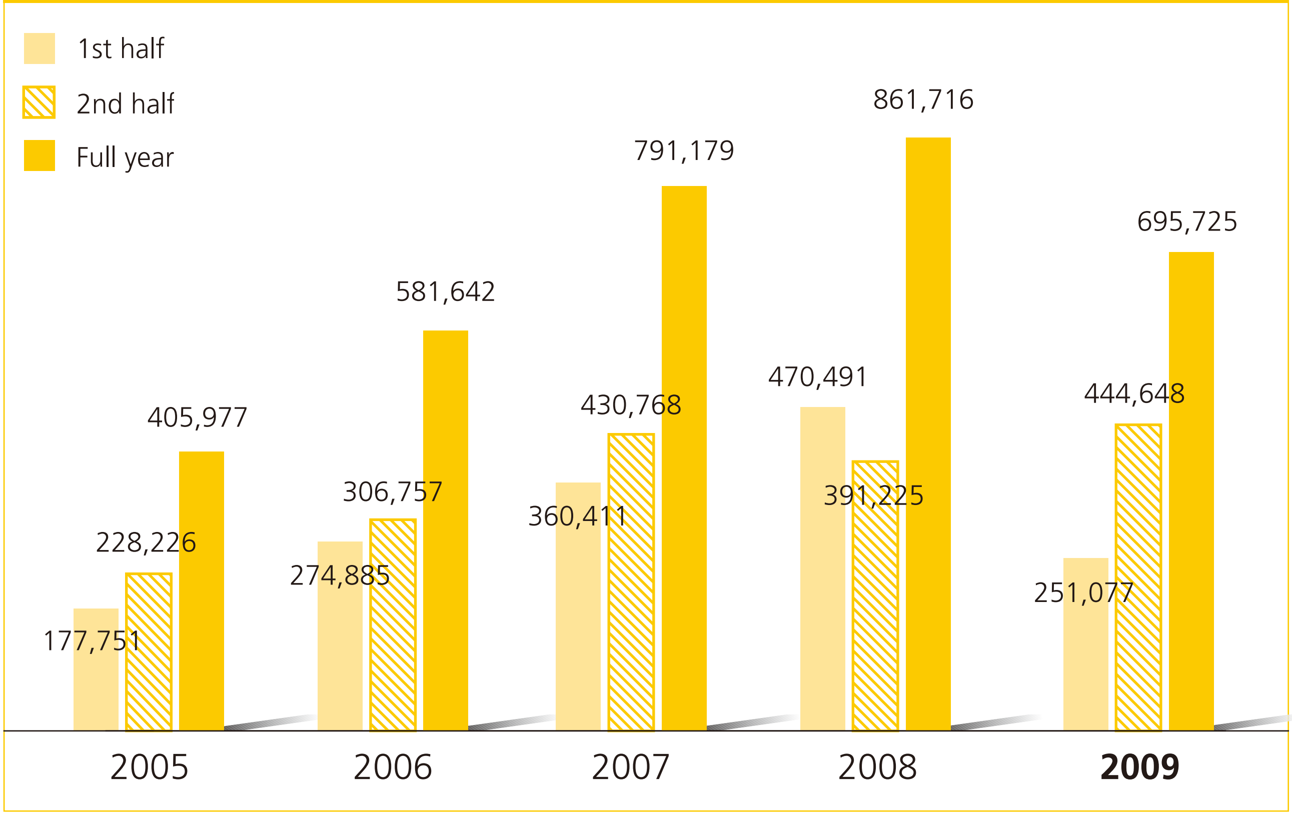


Financial Highlights

REVENUE AND SEGMENT INFORMATION

	2H 2009		1H 2009		2H 2008		1H 2008		2H 2007		1H 2007	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
HDD components	332,687	75%	165,819	66%	273,809	70%	327,001	70%	282,111	65%	251,040	70%
Hydraulic equipment components	46,284	10%	42,991	17%	78,455	20%	88,843	19%	91,816	21%	74,116	21%
Automotive components	54,381	12%	33,621	14%	22,863	6%	34,605	7%	28,395	7%	15,970	4%
Others	11,296	3%	8,646	3%	16,098	4%	20,042	4%	28,446	7%	19,285	5%
	444,648	100%	251,077	100%	391,225	100%	470,491	100%	430,768	100%	360,411	100%

REVENUE (HK$'000)



Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present to Shareholders the annual results of IPE Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group" or "IPE Group") for the year ended 31 December 2009.

BUSINESS REVIEW

The year 2009 was a turbulent year, with most economies rocked by the global financial crisis that erupted in 2008. Fortunately, the world did not slide into a Great Depression, as some feared in 2008. Buoyed by the massive stimulus packages implemented by governments worldwide, the global economy began to stablise in the second quarter of 2009 and since then, many countries have reported a return to economic growth. For IPE Group, facing a terrible start to the year, we did not expect a year ago that we would set a new record for monthly sales in 2009! After a sustained recovery in the computer industry which resulted in a recovery in our sales of hard disk drives (HDD) components beginning in the second quarter, and with support from the recovery in demand for our automotive components, the fourth quarter has been strong for the Group, especially in December, when we set a new record for monthly revenue. Based on our fourth quarter results, the Group's business is now back to pre-crisis level.

In 2009, we started with a terrible first quarter and had a loss in the first half year. However, with the encouraging improvement in the Group's performance in the second half of 2009, turnover for the full year amounted to HK$695,725,000, representing a drop of 19.3% as compared with 2008 and we did manage to record a profit attributable to owners of the parent for the full year amounted to HK$12,587,000, representing a drop of 79.4% as compared with 2008.

PROSPECTS

There remains concern about the strength of the global economic recovery, which in a number of major economies remains anaemic. There is also concern that certain developed countries face large budget deficits and other problems that cannot be easily or quickly resolved, and these problems could have adverse consequences for global growth. However, the Group is sanguine about both its short term and long term prospects.

The Group is confident about its short term prospects because the up trend in demand for HDD components and automotive components that began in the second quarter of 2009 remains intact. Indeed, our HDD customers are forecasting continuing growth in demand for hard disk drives and have recommended that we increase our capacity. Meanwhile, our orders for automotive components continue to grow. Furthermore, we are now beginning to experience some recovery in demand for hydraulic equipment components.

The Group is positive about its longer term prospects because the Group's three main operating divisions are long lead time businesses in terms of building customer relationships based on quality and reliability rather than just price competitiveness. The recent recall problems of certain Japanese car brands in the US highlight the importance of quality and reliability. Where quality and reliability are at a premium, the marketing of our precision engineering capability can take a long time. Successful marketing enables us to become "accredited" and this is generally followed by a series of small "trial" orders, the successful execution of which then gradually gives rise to larger orders. This build up to high volume production is inherently time consuming. The development of our automotive components business over the last five years indicates that our automotive components are now fully accepted by our customers as being of good quality at a competitive price from a reliable supplier so we expect to manufacture in steadily larger volume production runs in future. We believe that faced with the current difficult operating environment, IPE's customers will seek to outsource more of their components requirements to safeguard their competitiveness and potential customers are looking to outsourcing to strong companies. At the same time, the recession has been weeding out weaker competitors.

To take advantage of these circumstances we have strengthened our financial position and to cater for anticipated future growth, we are also looking at plans to expand the capacity of all our operating divisions, with a particular emphasis on our automotive components business where we see the greatest potential for strong long term growth.

APPRECIATION

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

Chui Siu On
Chairman

30 March 2010

Management Discussion and Analysis

FINANCIAL REVIEW

Sales

The Group's turnover by business segments during the year under review, with comparative figures in 2008, is as follows:

	1H 09 HK$'000	2H 09 HK$'000	FY 09 HK$'000	1H 08 HK$'000	2H 08 HK$'000	FY 08 HK$'000	Year % change
HDD components	165,819	332,687	498,506	327,001	273,809	600,810	-17.0%
Hydraulic equipment components	42,991	46,284	89,275	88,843	78,455	167,298	-46.6%
Automotive components	33,621	54,381	88,002	34,605	22,863	57,468	53.1%
Others	8,646	11,296	19,942	20,042	16,098	36,140	-44.8%
	251,077	444,648	695,725	470,491	391,225	861,716	-19.3%

The demand for computers, especially netbook computers, was quite resilient in 2009, and this translated into good demand for HDD components which rebounded in the second quarter of 2009 and has since then remained strong. Our sales of HDD components in the second half of 2009 was HK$332,687,000, more than double sales in the first half of 2009 and even above the previous record set in the first half of 2008. While this is a new sales record by only a small margin, it does represent a full recovery to pre-crisis level. However, given the sharp drop in the first quarter of 2009 due to the impact of the financial crisis, for the year as a whole, sales of HDD components decreased by 17.0% from HK$600,810,000 in 2008 to HK$498,506,000 in 2009.

The performance of our hydraulic equipment components business was disappointing. Sales decreased by 46.6% to HK$89,275,000 in 2009 when compared to 2008. Demand for our hydraulic equipment components remained depressed throughout the year with scant signs of recovery in our markets in the US and Europe.

During the year, governments in a number of countries began implementing various measures to stimulate their economies. China's stimulus package was one of the most vigorous compared to those of other countries and China recorded in 2009 impressive real GDP growth at a rate well ahead of the rest of the world. The automotive market in the PRC benefitted from its stimulus package and the resulting strong demand buoyed sales of our automotive components. Sales of this segment recorded a growth of 53.1% to HK$88,002,000 in 2009 when compared to 2008. This is a very gratifying performance when one considers that sales of this segment was only HK$1,026,000 four years ago in 2005.

Gross profit

Due to the decrease in turnover, gross profit of the Group for the year ended 31 December 2009 fell to HK$108,362,000 from HK$204,871,000 in 2008. Although we had a satisfactory performance in the second half of 2009, when we recorded a gross profit margin of 23.5%, the overall gross profit margin for the whole year fell to 15.6% because of the sharp drop of turnover in the first half of 2009.

Other income and gains

Other income increased by HK$18,620,000 for the year ended 31 December 2009 when compared to 2008. The total amount of HK$21,379,000 recorded in 2009 mainly comprised foreign exchange gains on settlement of Japanese Yen and the fair value gains on investment property. In 2009, Japanese Yen depreciated steadily in the first half of 2009 and then reversed to appreciate in the second half of 2009. For the year as a whole, the Group recorded an exchange gain of HK$11,410,000. With the stabilization of the economy in Hong Kong, the property market rapidly recovered and, as a result, the Group's investment property recorded a fair value gain of HK$4,822,000.

Management Discussion and Analysis

Selling and distribution costs

Selling and distribution costs decreased by 21.0% from HK$24,244,000 for the year ended 31 December 2008 to HK$19,155,000 for the year ended 31 December 2009. The decrease was in line with the sales decline of 19.3%.

Administrative expenses

During the year under review, administrative expenses amounted to HK$70,112,000, marginally higher than the amount of HK$69,995,000 in 2008.

Finance costs

Finance costs decreased by 31.5% from HK$23,319,000 to HK$15,985,000, due to the decline in interest rates and a reduction in interest-bearing bank loans and other borrowings.

Profit attributable to owners of the parent

As a result of the foregoing, the profit attributable to owners of the parent decreased from HK$61,149,000 for the year ended 31 December 2008 to HK$12,587,000 for the year ended 31 December 2009.

Basic earnings per share attributable to ordinary equity holders

Basic earnings per share attributable to ordinary equity holders for the year under review came to HK1.66 cents, representing a decrease of 79.7% when compared to HK8.18 cents in 2008.

DETAILS OF CHARGES ON THE GROUP'S ASSETS

As at 31 December 2009, the Group had total borrowings of HK$431,455,000 (2008: HK$517,183,000) secured by corporate guarantee made by the Company. The Group had no charges on any of its assets for its banking facilities as at 31 December 2009.

CURRENCY EXPOSURE AND MANAGEMENT

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

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

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

In December 2009, the Group successfully completed an open offer of new shares of the Company and the net proceeds amounted to approximately HK$63,757,000. The net proceeds of the open offer of new shares of the Company has strengthened the Group's financial position and enable it to better benefit from recovery.

As at 31 December 2009, cash per share was HK$0.19 (2008: HK$0.20) and net asset value per share was HK$1.15 (2008: HK$1.35), based on the 915,993,750 ordinary shares in issue (2008: 697,795,000).

During the year under review, the Group recorded a net cash inflow from operating activities of HK$185,119,000 (2008: HK$142,634,000). Due to the settlement of the previous years' purchases of new machineries and equipment amounting to HK$154,050,000, a net cash outflow from investing activities of HK$147,715,000 (2008: HK$139,361,000) was recorded. Taking into account proceeds from issue of shares and additional bank loans and after repayment of some of the bank loans, the Group recorded a net cash outflow from financing activities of HK$651,000 (2008: HK$98,300,000). As at 31 December 2009, the Group had cash and cash equivalents of HK$173,597,000 (2008: HK$136,468,000).

Management
Discussion and Analysis

As at 31 December 2009, total bank borrowings of the Group amounted to approximately HK$440,030,000 (2008: HK$517,183,000), representing a decrease of 14.9% as compared to that of 2008, and net borrowings (total borrowings less cash and bank balances) of HK$266,433,000 (2008: HK$380,715,000). The gearing ratio defined as net borrowings divided by shareholders' equity was 25.3% as at 31 December 2009 when compared to 40.3% as at 31 December 2008.

HUMAN RESOURCES

The Company recognises human resources as one of the Group's most important assets. Even during the downturn last year, we decided early on that laying off employees would be a last resort in our cost reduction effort. Therefore, we received strong support from employees at all levels. We are glad that we have survived the downturn without any unnecessary scaling down of our operations. This helped the Group tremendously in coping with and taking advantage of the strong upturn momentum in the later part of the year.

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

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

The Company, together with its subsidiaries, had 4,149 employees as at 31 December 2009, an increase of 30.0% when compared to 3,192 employees as at 31 December 2008.

Directors
and Senior Management

DIRECTORS

Executive Directors

Mr. Chui Siu On, aged 50, 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. 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 34 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 46, 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. He joined the Group in 1992 and has 27 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 50, 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. Mr. Lai joined the Group in 1992 and is currently responsible for the overall management of the production facilities in Mainland China. He has 35 years of experience in the field of machine augmentation and manufacturing automation.

Mr. Li Chi Hang, aged 39, 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. Mr. Li joined the Group in 1992 and is currently responsible for the Group's product development and new projects implementation. He has over 21 years of experience in the field of machine augmentation and manufacturing automation.

Mr. Wong Kwok Keung, aged 47, is an executive director and a member of the executive committee of the Company and a director of a subsidiary of the Company. He joined the Group in 1996 and is now responsible for the Group's new projects implementation and handling all technical issues arising from daily operation. Mr. Wong completed his study in Haking Wong Technical Institute in 1982 and has over 30 years of experience in the manufacturing industry.

Mr. Lau Siu Chung, aged 45, joined the Group in 1997 and has been appointed as an executive director of the Company on 8 June 2009. He is also a member of the executive committee of the Company and the Sales and Marketing Director of the Group and is responsible for the planning and implementation of sales strategies and in charge of the sales and marketing activities of the Group. Mr. Lau has over 13 years of experience in marketing and sales of precision components and industrial equipments.

Directors
and Senior Management

Mr. Yuen Chi Ho, aged 42, joined the Group in February 2009 and has been appointed as an executive director of the Company on 1 October 2009. He is also a member of the executive committee and the Chief Financial Officer of the Company. Mr. Yuen is responsible for the overall financial management of the Group. Mr. Yuen is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Yuen had worked for several listed companies in Hong Kong as an executive director or as a financial controller. He has over 19 years of experience in audit, accounting and financial management.

Independent Non-Executive Directors

Dr. Cheng Ngok, aged 64, 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 PhD 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 was a member of the Hospital Governing Committee of Alice Ho Miu Ling Nethersole Hospital from April 1997 until March 2009 and has been 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 41, is an independent non-executive director and a member of both the audit committee and remuneration committee of the Company. He joined the Group in 2004. Mr. Choi graduated from Purdue University in the US with a Bachelor degree in Engineering in Food Processing in 1991. Since his graduation, he has been working as project manager, deputy general manager and executive director of Balama Prima Engineering Company Limited, the businesses of which included highway construction, underground construction and environmental engineering. He was a director of C&C Technology Inc. (a company listed on the Toronto Stock Exchange). Mr. Choi was also a former chairman, vice-chairman and executive secretary of the China Hong Kong Society for Trenchless Technology. Mr. Choi was elected as an executive sub-committee member of The International Society for Trenchless Technology in 2004.

Mr. Wu Karl Kwok, aged 46, 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 22 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 of UDL Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, 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 of Hong Kong Limited. Mr. Wu also used to be a project director of a private engineering and construction company in Hong Kong and served there for 7 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 9 years principally responsible for financial controlling and business development.

Directors
and Senior Management

SENIOR MANAGEMENT

Mr. Yip Mie Leong, Chester, aged 48, 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 20 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 44, is the Manufacturing Director of the Group. Mr. Lim joined the Group in 1994 and is responsible for the overall management of Integrated Precision Engineering (Thailand) Company Limited. He graduated from Singapore Ngee Ann Polytechnic with a diploma in Mechanical Engineering and has over 22 years of experience in the manufacturing industry.

Ms. Chiu Tak Chun, aged 44, 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 16 years of experience in office administration. Ms. Chiu is a fellow member of the International Professional Managers Association.

Mr. Chui Siu Hung, aged 41, is the Deputy General Manager of Guangzhou Xing Hao Precision Metal Products Company Limited. He joined the Group in 1994 and is responsible for the supervision of engineering department in China and implementation of special hydraulic equipment components projects. He graduated from the Hong Kong Institute of Vocational Education with a certificate in Communication and Computer Studies and has over 17 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 37, is the Manager of Guangzhou Xing Hao Precision Metal Products Company Limited supervising the Group's heat treatment division. He joined the Group in 1995 after graduation from 華南理工大學 (South China University of Technology) with a graduate diploma in Mechanical Engineering. He has over 13 years of experience in the manufacturing industry.

Mr. Lei Ting Yong, aged 34, is the Manager of Guangzhou Xing Hao Precision Metal Products Company Limited supervising the Group's research and product development department. He joined the group in 1995 and is responsible for projects development and the development of information control devices for production efficiency.

COMPANY SECRETARY

Mr. Tam Yiu Chung, aged 39, is the Financial Controller and Company Secretary of the Company. He joined the Group in October 2007. He holds a Master degree in professional accounting and is a member of the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group recognizes the vital importance of good corporate governance to the Group's success and sustainability and wishes to highlight the indispensable role of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all its operations.

The Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to 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.

Throughout the year under review, the Company has complied with the code provisions set out in the CG Code, 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. Key corporate governance principles and practices of the Company as well as details of the said deviation are summarized below.

The Company is committed to reviewing and enhancing its corporate governance practices from time to time to ensure that its corporate governance practices continue to meet the regulatory requirements and the growing expectations of shareholders and investors.

A. THE BOARD

1. Responsibilities

The overall management and control of the Company's business are vested in the Board, whose main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. All directors take decisions objectively in the interests of the Company.

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

All directors shall ensure that they carry out their duty in good faith and in compliance with the standards of applicable laws and regulations, and act in the interests of the Company and its shareholders at all times.

2. Board Composition

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

Board of Directors

Executive Directors

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

Independent Non-executive Directors

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

Executive Committee

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

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

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 from time to time, with the independent non-executive directors expressly identified pursuant to the Listing Rules. The biographical details of the directors are disclosed under the section headed "Directors and Senior Management" in this annual report.

The composition of the Board reflects the necessary balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement. All directors bring a wide range of valuable business and financial expertise, experiences and professionalism to the Board for its effective functioning. Independent non-executive directors are invited to serve on the Audit and Remuneration Committees of the Company.

During the year ended 31 December 2009, 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 confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

3. Chairman and Chief Executive Officer

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

At present, Mr. Chui Siu On is both the Chairman of the Board and Chief Executive Officer of the Company. As Mr. Chui is one of the founders of the Group and has extensive experience in manufacturing and sales of precision metal components, the Board believes that it is in the best interest of the Group to have Mr. Chui taking up both roles for continuous effective management and business development of the Group.

The Board believes 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

Each of the independent non-executive directors are appointed for a term of 1 year up to the date of holding the forthcoming annual general meeting of the Company. Such terms of office are subject to early termination or renewal upon expiration.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment, re-appointment and succession planning of directors and assessing the independence of independent non-executive directors. In addition, the Company has adopted "Directors Nomination Procedures" as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

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

Pursuant to the aforesaid, Mr. Lau Siu Chung and Mr. Yuen Chi Ho, having been appointed as executive directors of the Company on 8 June 2009 and 1 October 2009 respectively, shall retire and, being eligible, offer themselves for re-election at the forthcoming 2010 annual general meeting of the Company. In addition, Mr. Li Chi Hang, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok shall retire by rotation and, being eligible, offer themselves for re-election at the said annual general meeting. The Board recommended the re-appointment of these 5 retiring directors standing for re-election at the said annual general meeting. The Company's circular, sent together with this annual report, contains detailed information of such directors pursuant to the requirements of the Listing Rules.

During the year ended 31 December 2009, the Board, through its meetings held on 17 April 2009 (with the presence of Mr. Chui Siu On, Mr. Ho Yu Hoi, Mr. Lai Man Kit, Mr. Li Chi Hang, Mr. Wong Kwok Keung, Mr. Wan Tak Wing, Gary, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok) and 22 September 2009 (with the presence of Mr. Chui Siu On, Mr. Ho Yu Hoi, Mr. Lai Man Kit, Mr. Li Chi Hang, Mr. Wong Kwok Keung, Mr. Lau Siu Chung, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok) and by several written resolutions approved and signed by all directors, performed the following works:

– Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company;

– Recommendation of the re-appointment of those directors standing for re-election at the 2009 annual general meeting of the Company;

– Assessment of the independence of all the independent non-executive directors of the Company;

– Appointment of Mr. Wan Tak Wing, Gary as a non-executive director of the Company and appointment of Mr. Lau Siu Chung and Mr. Yuen Chi Ho as executive directors of the Company; and

– Acceptance of the resignation of Mr. Ng Kin Nam as a non-executive director of the Company.

5. Induction and Continuing Development of Directors

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

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

6. Board Meetings

Board Practices and Conduct of Meetings

Schedules for regular board meeting are normally agreed with directors in advance to facilitate the attendance. Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

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

The Chairman, the Company Secretary and all other relevant senior management normally attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Corporate
Governance Report

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

The 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
The Board has met regularly during the year ended 31 December 2009 for reviewing and approving the financial and operating performance and considering and approving the overall strategies and policies of the Company. The individual attendance records of each director at the Board meetings during the year are set out below:

Name of Directors	**Attendance/ Number of Meetings**
Mr. Chui Siu On, *Chairman*	11/11
Mr. Ho Yu Hoi	11/11
Mr. Lai Man Kit	11/11
Mr. Li Chi Hang	11/11
Mr. Wong Kwok Keung	11/11
Mr. Lau Siu Chung *(Note 1)*	8/9
Mr. Yuen Chi Ho *(Note 2)*	3/3
Mr. Ng Kin Nam *(Note 3)*	5/8
Mr. Wan Tak Wing, Gary *(Note 4)*	10/11
Dr. Cheng Ngok	10/11
Mr. Choi Hon Ting, Derek	10/11
Mr. Wu Karl Kwok	10/11

Notes:

(1) Mr. Lau Siu Chung was appointed as an executive director of the Company on 8 June 2009. A total of 9 Board meetings were held from the date of his appointment to 31 December 2009.

(2) Mr. Yuen Chi Ho was appointed as an executive director of the Company on 1 October 2009. A total of 3 Board meetings were held from the date of his appointment to 31 December 2009.

(3) Mr. Ng Kin Nam resigned as a non-executive director of the Company on 19 October 2009. A total of 8 Board meetings were held from 1 January 2009 to the date of his resignation.

(4) Mr. Wan Tak Wing, Gary was appointed as a non-executive director of the Company on 27 February 2009 and subsequently resigned as a non-executive director of the Company on 27 February 2010. A total of 11 Board meetings were held from the date of his appointment to 31 December 2009.

7. Model Code for Securities Transactions

The Company has adopted its own code of conduct governing directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all directors and all of them have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2009.

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

B. DELEGATION BY THE BOARD

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

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

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

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

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of directors and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2009 are set out in note 8 to the financial statements of the Company.

Remuneration Committee

The Remuneration Committee comprises a total of 5 members, being 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. Accordingly, the majority of the members are independent non-executive directors.

The duties of the Remuneration Committee are mainly to (i) make recommendations to the Board on the Company's remuneration policy and structure for directors and senior management and the establishment of a formal and transparent procedure for developing such remuneration policy and structure; (ii) make recommendations on the remuneration packages of executive directors and senior management; and (iii) review and approve performance-based remuneration by reference to corporate goals and objectives.

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

During the year ended 31 December 2009, the Remuneration Committee has performed the following tasks:

– Review and discussion of the remuneration policy of the Group and the remuneration packages of directors and senior management of the Company;

– Review and recommendation of the grant of share options of the Company; and

– Recommendation of the remuneration packages of Mr. Wan Tak Wing, Gary, Mr. Lau Siu Chung and Mr. Yuen Chi Ho, the additional directors appointed during the year.

The individual attendance record of each member at the Remuneration Committee meeting during the year is set out below:

Name of Remuneration Committee Members	Attendance/ Number of Meeting
Mr. Chui Siu On, *Chairman*	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 acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2009.

The senior management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company, which are 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 is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system.

The Board has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 December 2009. Such review covered the financial, operational, compliance and risk management aspects of the Group. The Board also considered the Group's adequacy of resources, qualifications and experience of staff in its accounting and financial reporting functions, and their training programmes and budget. The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

3. Audit Committee

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

The main duties of the Audit Committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; (ii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; (iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) review the adequacy and effectiveness of the Company's financial reporting system, internal control system, risk management system and associated procedures.

During the year ended 31 December 2009, the Audit Committee has met twice together with the Company's external auditors and/or the senior management and performed the following major tasks:

– Review and discussion of the annual financial statements, results announcement and report for the year ended 31 December 2008, the related accounting principles and practices adopted by the Group and the relevant audit findings;

– Review and discussion of the interim financial statements, results announcement and report for the six months ended 30 June 2009 and the related accounting principles and practices adopted by the Group;

– Review of the scope of audit work, auditors' fees and terms of engagement for the year ended 31 December 2009;

– Discussion and recommendation of the re-appointment of the external auditors; and

– Review of the internal control system of the Group.

The individual attendance record of each member at the Audit Committee meeting during the year is set out below:-

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

4. External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the Company's financial statements for the year ended 31 December 2009 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Company's external auditors in respect of audit services and non-audit services for the year ended 31 December 2009 are analyzed below:

Type of services provided by the external auditors	**Fees paid/payable** (HK$)
Audit services:	
– Audit fee for the year ended 31 December 2009	2,054,000
Non-audit services:	
– Tax services and others	977,000
TOTAL:	3,031,000

E. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

The general meetings of the Company provide a good 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 are normally available to answer questions at the annual general meeting and other shareholders' meetings.

The 2009 annual general meeting (the "2009 AGM") was held on 2 June 2009. Notice of the 2009 AGM was sent to shareholders at least 20 clear business days before the 2009 AGM. During the year, the Company also convened an extraordinary general meeting, for approving the refreshment of the scheme mandate limit of the Company's existing share option scheme. Notice of such extraordinary general meeting was given to shareholders at least 10 clear business days beforehand.

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

The Company continues to enhance communications and relationships with its shareholders and investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them posted of the Company's developments. Enquiries from shareholders and investors are dealt with in an informative and timely manner.

F. SHAREHOLDER RIGHTS

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

All resolutions proposed at shareholder meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company ("www.ipegroup.com") respectively immediately after the relevant general meetings.

Report
of the Directors

The board of directors (the "Board") of IPE Group Limited (the "Company") is pleased to present this 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 2009.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 112.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2009 (2008: Nil).

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 4 to 6 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. Further details of the Group's investment properties are set out on page 82.

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.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

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.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$576,961,000. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$361,239,000 at 31 December 2009, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company is in a position to pay off its debts as and when they fall due in the ordinary course of business.

Report of the Directors

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$2,332,000 (2008: HK$118,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year under review, sales to the Group's five largest customers accounted for 63% of the total sales for the year and sales to the largest customer included therein amounted to 21%. Purchases from the Group's five largest suppliers accounted for 38% of the total purchases for the year and purchases from the largest supplier included therein amounted to 20%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued capital) had any beneficial interests 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
Mr. Lau Siu Chung (appointed on 8 June 2009)
Mr. Yuen Chi Ho (appointed on 1 October 2009)

Non-executive directors:
Dr. Cheng Ngok*
Mr. Choi Hon Ting, Derek*
Mr. Wu Karl Kwok*
Mr. Wan Tak Wing, Gary (appointed on 27 February 2009)
Mr. Ng Kin Nam (resigned on 19 October 2009)

* *Independent non-executive directors*

Subsequent to the end of the reporting period, on 27 February 2010, Mr. Wan Tak Wing, Gary resigned as a non-executive director of the Company.

In accordance with Article 86(3) of the Company's articles of association, Mr. Lau Siu Chung and Mr. Yuen Chi Ho, who were appointed by the Board during the year, will retire at the forthcoming annual general meeting. In addition, pursuant to Article 87 of the Company's articles of association, Mr. Li Chi Hang, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, the existing directors of the Company, will retire by rotation at the forthcoming annual general meeting. All the above retiring directors, being eligible, will offer themselves for re-election at the said meeting.

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

Report
of the Directors

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except for Mr. Wong Kwok Keung, Mr. Lau Siu Chung and Mr. Yuen Chi Ho 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.

Mr. Wan Tak Wing, Gary entered into a service agreement with the Company for a term of one year which commenced on 27 February 2009 and terminated on 27 February 2010.

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 Board with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2009, the interests and short positions of the directors in the share capital and underlying shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

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

Name of director	Capacity and nature of interests	*Notes*	Number of ordinary shares in the Company	Percentage of the Company's issued share capital*
Mr. Chui Siu On	Through controlled corporation	1	331,556,250	36.20%
	Directly beneficially owned		7,556,250	0.82%
	Through spouse	2	125,000	0.01%
			339,237,500	37.03%
Mr. Ho Yu Hoi	Directly beneficially owned		5,680,000	0.62%
Mr. Lai Man Kit	Interests held jointly with spouse	3	1,250,000	0.14%

*: The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2009.

Notes:

1. These shares were owned by Tottenhill Limited, the entire issued capital of which was owned as to 68.4% by Mr. Chui Siu On, 18.5% by Mr. Ho Yu Hoi, 8.0% by Mr. Lai Man Kit and 5.1% by Mr. Li Chi Hang. By virtue of his 68.4% shareholding in Tottenhill Limited, Mr. Chui Siu On was deemed to be interested in the entire 331,556,250 shares of the Company owned by Tottenhill Limited pursuant to Part XV of the SFO.

2. These shares held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On, were also disclosed as Ms. Leung's interests 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 125,000 shares of the Company held by his wife pursuant to Part XV of the SFO.

3. These shares were jointly held by Mr. Lai Man Kit and his spouse, Ms. Kwong Yin No, Irene.

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

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

Name of director	Capacity and nature of interests	Number of underlying shares in respect of the share options granted	Percentage of underlying shares over the Company's issued capital**
Mr. Wong Kwok Keung	Directly beneficially owned	5,288,462	0.577%
Mr. Lau Siu Chung	Directly beneficially owned	5,288,462	0.577%
Mr. Yuen Chi Ho	Directly beneficially owned	4,019,231	0.439%
Dr. Cheng Ngok	Directly beneficially owned	1,057,692	0.115%
Mr. Choi Hon Ting, Derek	Directly beneficially owned	1,057,692	0.115%
Mr. Wu Karl Kwok	Directly beneficially owned	1,057,692	0.115%
Mr. Wan Tak Wing, Gary	Directly beneficially owned	528,846*	0.058%

*: *The outstanding share options granted to Mr. Wan Tak Wing, Gary, who resigned as a non-executive director of the Company on 27 February 2010, were forfeited on 27 March 2010 pursuant to the share option scheme of the Company.*

**: *The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2009.*

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 2009, 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 2009, none of the directors or chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the section "Directors' and chief executive's 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 spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow 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 table discloses movements in the Company's share options outstanding during the year:

Name or category of participant	Number of share options								
	At 1 January 2009[1]	Granted during the year[2]	Exercised during the year[3]	Expired during the year[3]	Forfeited during the year	At 31 December 2009	Date of grant of share options	Exercise period of share options[4]	Exercise price of share options[5] HK$ per share
Directors									
Mr. Wong Kwok Keung	–	2,644,231	–	–	–	2,644,231	01-06-09	01-06-10 to 31-05-14	0.3545
	–	2,644,231	–	–	–	2,644,231	01-06-09	01-06-12 to 31-05-14	0.3545
	–	5,288,462	–	–	–	5,288,462			
Mr. Lau Siu Chung	–	2,644,231	–	–	–	2,644,231	01-06-09	01-06-10 to 31-05-14	0.3545
	–	2,644,231	–	–	–	2,644,231	01-06-09	01-06-12 to 31-05-14	0.3545
	–	5,288,462	–	–	–	5,288,462			
Mr. Yuen Chi Ho	–	2,009,616	–	–	–	2,009,616	01-06-09	01-06-10 to 31-05-14	0.3545
	–	2,009,615	–	–	–	2,009,615	01-06-09	01-06-12 to 31-05-14	0.3545
	–	4,019,231	–	–	–	4,019,231			
Mr. Ng Kin Nam[6]	500,000	–	–	–	(500,000)	–	27-07-05	27-07-05 to 26-07-10	1.3331
Mr. Wan Tak Wing, Gary[7]	–	528,846	–	–	–	528,846	01-06-09	01-06-10 to 31-05-14	0.3545
Dr. Cheng Ngok	528,846	–	–	–	–	528,846	27-07-05	27-07-05 to 26-07-10	1.3331
	–	528,846	–	–	–	528,846	01-06-09	01-06-10 to 31-05-14	0.3545
	528,846	528,846	–	–	–	1,057,692			
Mr. Wu Karl Kwok	528,846	–	–	–	–	528,846	27-07-05	27-07-05 to 26-07-10	1.3331
	–	528,846	–	–	–	528,846	01-06-09	01-06-10 to 31-05-14	0.3545
	528,846	528,846	–	–	–	1,057,692			
Mr. Choi Hon Ting, Derek	528,846	–	–	–	–	528,846	27-07-05	27-07-05 to 26-07-10	1.3331
	–	528,846	–	–	–	528,846	01-06-09	01-06-10 to 31-05-14	0.3545
	528,846	528,846	–	–	–	1,057,692			
	2,086,538	16,711,539	–	–	(500,000)	18,298,077			

SHARE OPTION SCHEME *(Continued)*

Name or category of participant	At 1 January 2009[1]	Granted during the year[2]	Exercised during the year[3]	Expired during the year[3]	Forfeited during the year	At 31 December 2009	Date of grant of share options	Exercise period of share options[4]	Exercise price of share options[5] HK$ per share
	Number of share options								
Members of senior management and other employees of the Group									
In aggregate	3,173,077	–	–	–	–	3,173,077	13-09-06	01-01-08 to 31-12-12	1.2764
	740,385	–	–	–	–	740,385	28-09-07	01-01-08 to 31-12-10	1.1345
	–	14,384,615	–	–	–	14,384,615	01-06-09	01-06-10 to 31-05-14	0.3545
	–	2,115,385	–	–	–	2,115,385	01-06-09	01-06-11 to 31-05-14	0.3545
	–	6,451,923	–	–	–	6,451,923	01-06-09	01-06-12 to 31-05-14	0.3545
	–	2,115,385	–	–	–	2,115,385	01-06-09	01-06-13 to 31-05-14	0.3545
	3,913,462	25,067,308	–	–	–	28,980,770			
Suppliers of services									
In aggregate	2,115,384	–	–	–	–	2,115,384	28-09-07	01-01-08 to 31-12-12	1.1345
	3,173,077	–	–	–	–	3,173,077	28-09-07	01-01-09 to 31-12-12	1.1345
	–	11,105,769	–	–	–	11,105,769	01-06-09	01-06-10 to 31-05-14	0.3545
	5,288,461	11,105,769	–	–	–	16,394,230			
	11,288,461	52,884,616	–	–	(500,000)	63,673,077			

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

(1) Except for the outstanding share options granted to Mr. Ng Kin Nam, who resigned before the open offer of new shares of the Company during the year, the outstanding share options as at 1 January 2009 have been adjusted to reflect the open offer of new shares of the Company during the year.

(2) The closing price of the Company's shares (after adjustment for open offer of new shares of the Company) immediately before the date of offer and the date of grant options were HK$0.368 and HK$0.456, respectively.

(3) No share options were exercised or expired during the year.

(4) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(5) 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 exercise price in the above table has been adjusted to reflect the open offer of new shares of the Company during the year.

(6) Mr. Ng Kin Nam resigned as a non-executive director of the Company on 19 October 2009 and accordingly, the share options granted to him were forfeited on 19 November 2009 pursuant to the Scheme.

(7) Mr. Wan Tak Wing, Gary resigned as a non-executive director of the Company on 27 February 2010 and accordingly, the share options granted to him were forfeited on 27 March 2010 pursuant to the Scheme.

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

As at 31 December 2009, the following persons (not being directors or chief executive of the Company) with interests of more than 5% in the shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the ordinary shares of the Company:

Name of substantial shareholders	*Notes*	Capacity and nature of interests	Number of ordinary shares in the Company	Percentage of the Company's issued share capital*
Tottenhill Limited	(a)	Directly beneficially owned	331,556,250	36.20%
Ms. Leung Wing Yi		Directly beneficially owned	125,000	0.01%
	(b)	Through spouse	339,112,500	37.02%
			339,237,500	37.03%
DJE Investment S.A.	(c)	Investment manager	72,250,000	7.89%
Mr. Jiang Qi Hang	(d)	Through controlled corporation	50,817,773	5.54%

*: The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2009.

Notes:

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

(b) These shares were disclosed as the interests of Mr. Chui Siu On, the husband of Ms. Leung Wing Yi, in the section headed "Directors' and chief executive's 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 100% 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 72,250,000 shares pursuant to Part XV of the SFO.

(d) These shares as to 20,567,773 shares were held by China Angel Fund (which Mr. Jiang Qi Hang controlled 36% of its shareholdings); and as to 30,250,000 shares were held by China Angel Investment Management Limited (which Mr. Jiang Qi Hang controlled 100% of its shareholdings). Accordingly, Mr. Jiang Qi Hang was deemed to be interested in the total of 50,817,773 shares pursuant to Part XV of the SFO.

Save as disclosed above, as at 31 December 2009, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's Interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

AUDITORS

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

ON BEHALF OF THE BOARD

Chui Siu On
Chairman and Managing Director

Hong Kong
30 March 2010

Independent
Auditors' Report

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 34 to 112, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 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

30 March 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	5	**695,725**	861,716
Cost of sales		**(587,363)**	(656,845)
Gross profit		**108,362**	204,871
Other income and gains	5	**21,379**	2,759
Selling and distribution costs		**(19,155)**	(24,244)
Administrative expenses		**(70,112)**	(69,995)
Other expenses		**(7,149)**	(21,432)
Finance costs	7	**(15,985)**	(23,319)
PROFIT BEFORE TAX	6	**17,340**	68,640
Income tax expense	10	**(5,011)**	(8,256)
PROFIT FOR THE YEAR		**12,329**	60,384
Attributable to:			
Owners of the parent	11	**12,587**	61,149
Minority interests		**(258)**	(765)
		12,329	60,384
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		(Restated)
Basic		**HK1.66 cents**	HK8.18 cents
Diluted		**HK1.64 cents**	N/A

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
PROFIT FOR THE YEAR		**12,329**	60,384
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**14,296**	(15,519)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**14,296**	(15,519)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**26,625**	44,865
Attributable to:			
Owners of the parent	*11*	**26,877**	45,534
Minority interests		**(252)**	(669)
		26,625	44,865

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**1,013,373**	1,122,805
Prepaid land lease payments	*15*	**37,895**	38,582
Investment properties	*16*	**25,000**	17,000
Loan to an unlisted equity investment	*19*	**5,000**	5,000
Available-for-sale investment	*20*	**150**	150
Other non-current assets		**–**	95
Deferred tax assets	*30*	**862**	1,150
Total non-current assets		**1,082,280**	1,184,782
CURRENT ASSETS			
Inventories	*21*	**181,183**	259,220
Trade receivables	*22*	**229,871**	165,325
Prepayments, deposits and other receivables	*23*	**10,918**	19,698
Cash and cash equivalents	*24*	**173,597**	136,468
Total current assets		**595,569**	580,711
CURRENT LIABILITIES			
Trade and bills payables	*25*	**57,968**	68,702
Other payables and accruals	*26*	**107,763**	219,805
Derivative financial instruments	*27*	**30**	–
Tax payable		**8,271**	5,201
Interest-bearing bank and other borrowings	*28*	**280,291**	257,664
Total current liabilities		**454,323**	551,372
NET CURRENT ASSETS		**141,246**	29,339
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,223,526**	1,214,121
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*28*	**159,739**	259,519
Deferred tax liabilities	*30*	**2,705**	2,408
Other payables and accruals	*26*	**188**	472
Derivative financial instruments	*27*	**5,745**	6,557
Total non-current liabilities		**168,377**	268,956
Net assets		**1,055,149**	945,165

Consolidated Statement of Financial Position (Continued)

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*31*	**91,599**	69,780
Reserves	*33(a)*	**962,704**	874,287
		1,054,303	944,067
Minority interests		**846**	1,098
Total equity		**1,055,149**	945,165

CHUI SIU ON
Director

LAI MAN KIT
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

		Attributable to owners of the parent											
	Notes	Issued share capital HK$'000 *(note 31)*	Share premium account HK$'000	Contributed surplus HK$'000 *(note 33(a))*	Statutory surplus reserve HK$'000 *(note 33(a))*	Statutory public welfare fund HK$'000 *(note 33(a))*	Capital redemption reserve HK$'000	Share option reserve HK$'000 *(note 32)*	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2009		**69,780**	**331,095**	**(1,116)**	**12,255**	**287**	**3,685**	**2,641**	**101,254**	**424,186**	**944,067**	**1,098**	**945,165**
Total comprehensive income for the year		-	-	-	-	-	-	-	14,290	12,587	26,877	(252)	26,625
Issue of shares	*31*	21,819	59,413	-	-	-	-	-	-	-	81,232	-	81,232
Share issue expenses	*31*	-	(2,315)	-	-	-	-	-	-	-	(2,315)	-	(2,315)
Equity-settled share option arrangements	*32*	-	-	-	-	-	-	4,442	-	-	4,442	-	4,442
Forfeiture and expiry of options		-	-	-	-	-	-	(117)	-	117	-	-	-
Transfer from retained profits		-	-	-	343	-	-	-	-	(343)	-	-	-
At 31 December 2009		**91,599**	**388,193***	**(1,116)***	**12,598***	**287***	**3,685***	**6,966***	**115,544***	**436,547***	**1,054,303**	**846**	**1,055,149**

* These reserve accounts comprise the consolidated reserves of HK$962,704,000 (2008: HK$874,287,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity (Continued)

Year ended 31 December 2009

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

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

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**17,340**	68,640
Adjustments for:			
Depreciation	*6, 14*	**146,363**	131,311
Amortisation of other non-current assets		**95**	95
Recognition of prepaid land lease payments	*6,15*	**928**	922
Provision against inventory obsolescence	*6*	**9,079**	2,124
Loss/(gain) on disposal of items of property, plant and equipment, net	*6*	**1,868**	(133)
Fair value (gains)/losses on investment properties	*6, 16*	**(4,822)**	3,000
Fair value (gains)/losses, net:			
Derivative financial instruments – transactions not qualifying as hedges	*6*	**(782)**	6,334
Equity-settled share option expense	*6, 32*	**4,442**	563
Finance costs	*7*	**15,985**	23,319
Bank interest income	*5*	**(253)**	(1,993)
(Reversal of impairment)/impairment of trade receivables, net	*22*	**(1,969)**	3,938
		188,274	238,120
Decrease/(increase) in inventories		**68,958**	(63,112)
(Increase)/decrease in trade receivables		**(59,221)**	37,077
Decrease/(increase) in prepayments, deposits and other receivables		**8,852**	(5,281)
Increase in a loan to an unlisted equity investment		**–**	(2,150)
Decrease in trade and bills payables		**(10,854)**	(41,422)
Increase in other payables and accruals		**5,240**	9,094
Cash generated from operations		**201,249**	172,326
Interest received		**253**	1,993
Interest paid		**(14,269)**	(20,901)
Interest element of finance lease rental payments		**(776)**	(1,434)
Income taxes paid		**(1,338)**	(9,350)
Net cash flows from operating activities		**185,119**	142,634

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Net cash flows from operating activities		**185,119**	142,634
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(154,050)**	(142,429)
Proceeds from disposal of items of property, plant and equipment		**6,335**	2,022
Proceeds from disposal of an investment property		**–**	1,046
Net cash flows used in investing activities		**(147,715)**	(139,361)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*31*	**81,232**	–
Share issue expenses	*31*	**(2,315)**	–
Repurchase of shares	*31(b)*	**–**	(29,027)
Share options exercised	*31(a)*	**–**	8,312
New bank loans and other borrowings		**127,848**	402,592
Repayment of bank loans and other borrowings		**(187,502)**	(416,691)
Capital element of finance lease rental payments		**(19,914)**	(29,648)
Dividends paid		**–**	(33,838)
Net cash flows used in financing activities		**(651)**	(98,300)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**36,753**	(95,027)
Cash and cash equivalents at beginning of year		**136,468**	233,950
Effect of foreign exchange rate changes, net		**313**	(2,455)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**173,534**	136,468
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*24*	**114,581**	98,439
Non-pledged time deposits with original maturity of less than three months when acquired	*24*	**59,016**	38,029
Cash and cash equivalents as stated in the consolidated statement of financial position	*24*	**173,597**	136,468
Bank overdrafts	*28*	**(63)**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		**173,534**	136,468

Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*18*	**43**	43
CURRENT ASSETS			
Prepayments, deposits and other receivables	*23*	**303**	210
Amounts due from subsidiaries	*18*	**650,179**	570,834
Cash and cash equivalents	*24*	**29,201**	22,682
Total current assets		**679,683**	593,726
CURRENT LIABILITIES			
Other payables and accruals	*26*	**515**	22
NET CURRENT ASSETS		**679,168**	593,704
Net assets		**679,211**	593,747
EQUITY			
Issued capital	*31*	**91,599**	69,780
Reserves	*33(b)*	**587,612**	523,967
Total equity		**679,211**	593,747

CHUI SIU ON
Director

LAI MAN KIT
Director

Notes to
Financial Statements

31 December 2009

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 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 before open offer of news shares of the Company during the year was Tottenhill Limited, which was incorporated in the British Virgin Islands. Subsequent to the open offer, the Group ceased to have holding companies. Further details of the open offer of new shares of the Company are set out in note 31(d) to the financial statements.

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 ("HKICPA"), 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 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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 HKFRSs has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation and* HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

* Included in Improvements to HKFRSs 2009 (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

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

(a) Amendments to HKFRS 1 *First-time Adoption of* HKFRSs and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

(b) Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or result of operations of the Group.

(c) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 39 to the financial statements while the revised liquidity risk disclosures are presented in note 40 to the financial statements.

(d) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces 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 concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(e) HKAS 1 (Revised) *Presentation of Financial Statements*

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

(f) Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) HKAS 23 (Revised) *Borrowing Costs*

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 has had no impact on the financial position or results of operations of the Group.

(h) Amendments to HKAS 32 *Financial Instruments: Presentation and* HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

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

(i) Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives and* HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(j) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC)-Int 15 replaces HK Interpretation *3 Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of the real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

(l) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(n) In October 2008, the HKICPA issued its first Improvements to HKFRSs which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the business combination over the Group's interests 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 statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Residual values, useful lives and the depreciation method are reviewed and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents the cost of construction and other direct costs attributable to the construction of property, plant and equipment or investment properties, 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 or investment properties 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 end of the reporting period.

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

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

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables, and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, a loan to an unlisted equity investment, an available-for-sale investment and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other expenses and removed from the available-for-sale investment valuation reserve. 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.

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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to 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 when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

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 investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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 removed from other comprehensive income and recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss and loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank and other borrowings and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. 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.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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 or other valuation models.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. 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 of derivatives are taken directly to the income statement.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current potion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows). Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

For the purpose of the statement of financial position, 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 end of the reporting period 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 relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is calculated by using a binomial model, further details of which are given in note 32 to the financial statements.

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service 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, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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. All cancellations of equity-settled transaction awards are treated equally.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

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 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, 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of those entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, 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 end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

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

Classification between investment properties and owner-occupied properties

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

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

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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 2009 was nil (2008: nil). More details are given in note 17.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred assets relating to recognised tax losses at 31 December 2009 and 2008. The amount of unrecognised tax losses at 31 December 2009 was HK$51,755,000 (2008: HK$6,150,000). Further details are set out in note 30 to the financial statements.

Share-based payments

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

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the geographical locations of the customers and has six reportable operating segments as follows:

(a) Thailand;

(b) Malaysia;

(c) Mainland China, Macau and Hong Kong;

(d) North America;

(e) Europe; and

(f) Other countries

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income and finance costs are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009	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	Total HK$'000
Segment revenue:							
Sales to external customers	255,209	162,514	151,370	49,572	38,041	39,019	695,725
Intersegment sales	16,569	–	10	–	–	–	16,579
Other revenue	4,898	–	16,228	–	–	–	21,126
	276,676	162,514	167,608	49,572	38,041	39,019	733,430
Reconciliation:							
Elimination of intersegment sales							(16,579)
Revenue							716,851
Segment results	28,218	1,792	3,605	547	419	430	35,011
Reconciliation:							
Elimination of intersegment results							(1,939)
Interest income							253
Finance costs							(15,985)
Profit before tax							17,340
Income tax expense							(5,011)
Profit for the year							12,329
Segment assets	230,820	52,823	1,420,619	15,692	11,915	1,579	1,733,448
Reconciliation:							
Elimination of intersegment receivables							(56,008)
Corporate and other unallocated assets							409
Total assets							1,677,849
Segment liabilities	115,270	–	526,188	1,480	3,959	31,811	678,708
Reconciliation:							
Elimination of intersegment payables							(56,008)
Total liabilities							622,700

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009	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	Total HK$'000
Other segment information:							
Impairment losses recognised in the income statement	–	–	7,110	–	–	–	7,110
Depreciation and amortisation	22,094	–	125,292	–	–	–	147,386
Capital expenditure*	1,739	–	34,077	–	–	–	35,816
Change in fair value of derivative financial instruments							
– Interest rate swap	–	–	(812)	–	–	–	(812)
– Forward currency contracts	–	–	30	–	–	–	30
Fair value gains on investment properties	–	–	(4,822)	–	–	–	(4,822)
Loss on disposal of items of property, plant and equipment	–	–	1,868	–	–	–	1,868

* Capital expenditure consists of additions to property, plant and equipment, intangible assets and investment properties including assets from the acquisition of a subsidiary.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2008	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Total HK$'000
Segment revenue:							
Sales to external customers	300,135	217,990	135,867	76,341	95,074	36,309	861,716
Intersegment sales	83,272	–	20	–	–	–	83,292
Other revenue	205	–	561	–	–	–	766
	383,612	217,990	136,448	76,341	95,074	36,309	945,774
Reconciliation:							
Elimination of intersegment sales							(83,292)
Revenue							862,482
Segment results	30,672	23,018	33,325	8,061	10,039	3,834	108,949
Reconciliation:							
Elimination of intersegment results							(18,983)
Interest income							1,993
Finance costs							(23,319)
Profit before tax							68,640
Income tax expense							(8,256)
Profit for the year							60,384
Segment assets	226,904	45,908	1,510,216	20,787	11,369	8,773	1,823,957
Reconciliation:							
Elimination of intersegment receivables							(59,478)
Corporate and other unallocated assets							1,014
Total assets							1,765,493
Segment liabilities	109,841	–	711,592	1,220	3,426	53,512	879,591
Reconciliation:							
Elimination of intersegment payables							(59,478)
Corporate and other unallocated liabilities							215
Total liabilities							820,328

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2008	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Total HK$'000
Other segment information:							
Impairment losses recognised in the income statement	–	–	6,062	–	–	–	6,062
Depreciation and amortisation	21,940	–	110,388	–	–	–	132,328
Capital expenditure	23,752	–	270,943	–	–	–	294,695
Change in fair value of derivative financial instruments							
– Interest rate swap	–	–	6,265	–	–	–	6,265
– Forward currency contracts	–	–	69	–	–	–	69
Fair value losses on investment properties	–	–	3,000	–	–	–	3,000
Gain on disposal of items of property, plant and equipment	–	–	(133)	–	–	–	(133)

4. OPERATING SEGMENT INFORMATION *(Continued)*

Business segment information

(a) Revenue by products

	2009	2008
	HK$'000	HK$'000
HDD components	**498,506**	600,810
Hydraulic equipment components	**89,275**	167,298
Automotive components	**88,002**	57,468
Others	**19,942**	36,140
	695,725	861,716

(b) Non-current assets

	2009	2008
	HK$'000	HK$'000
Thailand	**118,352**	133,307
Mainland China, Macau and Hong Kong	**963,066**	1,050,325
	1,081,418	1,183,632

The non-current asset information above is based on the location of assets and excludes deferred tax assets.

Information about a major customer

Revenue of approximately HK$146 million (2008: HK$152 million) was derived from sales by the HDD components segment to a single customer.

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:

	Notes	**2009** **HK$'000**	2008 HK$'000
Revenue			
Sale of goods and materials		**695,725**	861,716
Other income			
Bank interest income		**253**	1,993
Reversal of impairment of trade receivables, net	*22*	**1,969**	–
Others		**2,113**	633
		4,335	2,626
Gains			
Foreign exchange gains, net		**11,410**	–
Fair value gains:			
Derivative financial instruments			
– transactions not qualifying as hedges:			
Interest rate swap		**812**	–
Fair value gains on investment properties, net	*16*	**4,822**	–
Gain on disposal of items of property, plant and equipment		**–**	133
		17,044	133
		21,379	2,759

6. PROFIT BEFORE TAX

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

	Notes	2009 HK$'000	2008 HK$'000
Cost of inventories sold*		**587,363**	656,845
Depreciation	*14*	**146,363**	131,311
Recognition of prepaid land lease payments	*15*	**928**	922
Auditors' remuneration		**2,054**	2,067
Employee benefits expense (excluding directors' remuneration (note 8)):			
Wages and salaries		**93,871**	100,229
Equity-settled share option expense**	*32*	**4,442**	563
Pension scheme contributions***		**2,475**	2,505
		100,788	103,297
Minimum lease payments under operating leases:			
Land and buildings		**983**	1,084
Equipment		**33**	39
		1,016	1,123
Foreign exchange differences, net		**(11,410)**	5,120
Research and development costs****		**11,384**	12,638
Changes in fair value of investment properties	*16*	**(4,822)**	3,000
Fair value (gains)/losses, net:			
Derivative financial instruments – transactions not qualifying as hedges:			
Interest rate swap	*27*	**(812)**	6,265
Forward currency contracts	*27*	**30**	69
		(782)	6,334
Loss/(gain) on disposal of items of property, plant and equipment		**1,868**	(133)
(Reversal of impairment)/impairment of trade receivables, net	*22*	**(1,969)**	3,938
Provision against inventory obsolescence		**9,079**	2,124

Notes:

* The cost of inventories sold includes an amount of approximately HK$208,137,000 (2008: HK$201,016,000) 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.

*** At 31 December 2009, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2008: Nil).

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**14,086**	20,879
Interest on finance leases	**776**	1,434
Financial arrangement fees	**940**	984
Other interest expense	**183**	22
	15,985	23,319

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	
	2009	2008
	HK$'000	HK$'000
Fees	**2,399**	2,061
Other emoluments:		
Salaries, allowances and benefits in kind	**4,243**	3,835
Equity-settled share option expense	**1,283**	–
Pension scheme contributions	**60**	51
	5,586	3,886
	7,985	5,947

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

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

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

2009	**Fees**	**Group Equity-settled share option expense**	**Total remuneration**
	HK$'000	**HK$'000**	**HK$'000**
Dr. Cheng Ngok	**100**	**57**	**157**
Mr. Choi Hon Ting, Derek	**100**	**57**	**157**
Mr. Wu Karl Kwok	**100**	**57**	**157**
	300	**171**	**471**

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

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2009					
Executive directors:					
Mr. Chui Siu On	**390**	**1,220**	**–**	**12**	**1,622**
Mr. Ho Yu Hoi	**379**	**1,029**	**–**	**–**	**1,408**
Mr. Lai Man Kit	**360**	**628**	**–**	**12**	**1,000**
Mr. Li Chi Hang	**200**	**355**	**–**	**12**	**567**
Mr. Wong Kwok Keung	**360**	**540**	**382**	**12**	**1,294**
Mr. Lau Siu Chung	**210**	**291**	**382**	**7**	**890**
Mr. Yuen Chi Ho	**90**	**180**	**290**	**3**	**563**
	1,989	**4,243**	**1,054**	**58**	**7,344**
Non-executive directors:					
Mr. Ng Kin Nam	**60**	**–**	**–**	**2**	**62**
Mr. Wan Tak Wing, Gary	**50**	**–**	**57**	**–**	**107**
	110	**–**	**57**	**2**	**169**
	2,099	**4,243**	**1,111**	**60**	**7,513**

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

8. DIRECTORS' REMUNERATION *(Continued)*

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: 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 (2008: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included three (2008: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2008: one) non-director, highest paid employees for the year are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,703**	934
Equity-settled share option expense	**854**	–
Pension scheme contributions	**12**	–
	2,569	934

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

	Number of employee	
	2009	2008
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**2**	–
	2	1

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

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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.

	Group	
	2009	2008
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**2,151**	–
Current – Elsewhere		
Charge for the year	**2,257**	8,479
Deferred *(note 30)*	**603**	(223)
Total tax charge for the year	**5,011**	8,256

A reconciliation of the tax expense applicable to profit before tax at 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	
	2009	2008
	HK$'000	HK$'000
Profit before tax	**17,340**	68,640
Tax at the applicable tax rates	**(873)**	2,910
Lower tax rate for local authorities	**–**	(1,604)
Expenses not deductible for tax	**15,227**	19,315
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**7**	879
Income not subject to tax	**(17,138)**	(18,198)
Tax losses not recognised	**7,788**	4,954
Tax charge at the Group's effective rate of 28.9% (2008: 12.0%)	**5,011**	8,256

10. INCOME TAX *(Continued)*

According to the then income tax law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises, Dongguan Koda Metal Products Company Limited ("Dongguan Koda") and Guangzhou Xinghao Precision Metal Products Company Limited ("Xing Hao"), two wholly-owned subsidiaries of the Company established in the Dongguan Coastal Economic Open Zone and Zengcheng Xiancun Lantian Economic Open Zone, respectively, were subject to corporate income tax at a rate of 24%, and were exempt from PRC corporate income tax for the first two profitable years of their operations, and thereafter, were eligible for a 50% relief from PRC corporate income tax for the following three years. Subsequent to completion of the 50% tax relief period of three years for Dongguan Koda in 2006 and Xing Hao in 2008 respectively, Dongguan Koda and Xing Hao further obtained approvals from the local tax authority successively that they would be subject to a reduced tax rate of 15% for one further year (for the year 2007 for Dongguan Koda and for the year 2009 for Xing Hao respectively) because they were recognised as High and New Technology Enterprises (高新技術企業), which were entitled to enjoy reduced corporate income tax rate of 15% according to the local tax regime.

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

Pursuant to the New CIT Law, as the tax relief period of Dongguan Koda has expired in 2008 already, Dongguan Koda was subject to a tax rate of 25% for the year ended 31 December 2009 (2008: 25%). Xing Hao was subject to a tax rate of 15% during the current year (2008: 12.5%).

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% (2008: 30%). IPE Thailand has three production factories, Factory I and Factory II (Phase 1) and Factory II (Phase 2). Factory II (Phase 2) is currently enjoying an exemption from income tax granted by the Board of Investment, a government authority in Thailand, for a period of eight years from 1 July 2005 to 30 June 2013 for income generated therefrom.

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 OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of HK$2,105,000 (2008: HK$26,521,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. DIVIDENDS

	2009 **HK$'000**	2008 HK$'000
Interim dividend – Nil (2008: HK2.4 cents per ordinary share)	–	16,824
	–	16,824

The Board of the Company does not recommend the payment of any final dividend for the year ended 31 December 2009 (2008: Nil).

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the open offer of new shares of the Company during the year. Further details of the open offer of new shares of the Company are set out in note 31(d) of the financial statement.

The calculation of diluted earnings per share amount for the year ended 31 December 2009 is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of 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, as adjusted for the open offer of new shares of the Company during the year.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2008 in respect of a dilution as the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

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

	2009	2008
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**12,587**	61,149

	Number of shares	
	2009	2008 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation*	**758,539,759**	747,945,793
Effect of dilution – weighted average number of ordinary shares:		
Share options	**8,143,004**	–
	766,682,763	747,945,793

* The weighted average numbers of ordinary shares in 2009 and 2008 have been retrospectively adjusted for the open offer of new shares of the Company taken place on 18 December 2009.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At 1 January 2009	**297,734**	**6,394**	**1,106,639**	**33,608**	**20,011**	**156,128**	**1,620,514**
Additions	**264**	**–**	**8,355**	**6,358**	**363**	**20,476**	**35,816**
Transfer in/(out)	**12,610**	**–**	**134,267**	**1,539**	**871**	**(149,287)**	**–**
Transfer to investment property	**–**	**–**	**–**	**–**	**–**	**(3,178)**	**(3,178)**
Disposals	**–**	**(3,380)**	**(24,559)**	**(1,079)**	**(1,216)**	**–**	**(30,234)**
Exchange realignment	**3,586**	**7**	**14,698**	**394**	**145**	**1,106**	**19,936**
At 31 December 2009	**314,194**	**3,021**	**1,239,400**	**40,820**	**20,174**	**25,245**	**1,642,854**
Accumulated depreciation and impairment:							
At 1 January 2009	**(57,344)**	**(4,498)**	**(409,045)**	**(15,252)**	**(11,570)**	**–**	**(497,709)**
Depreciation provided during the year	**(18,651)**	**(591)**	**(117,445)**	**(6,909)**	**(2,767)**	**–**	**(146,363)**
Disposals – accumulated depreciation	**202**	**3,380**	**16,394**	**978**	**1,077**	**–**	**22,031**
Exchange realignment	**(735)**	**(2)**	**(6,449)**	**(191)**	**(63)**	**–**	**(7,440)**
At 31 December 2009	**(76,528)**	**(1,711)**	**(516,545)**	**(21,374)**	**(13,323)**	**–**	**(629,481)**
At 31 December 2009							
Cost	**314,194**	**3,021**	**1,239,400**	**40,820**	**20,174**	**25,245**	**1,642,854**
Accumulated depreciation	**(76,528)**	**(1,711)**	**(516,545)**	**(21,374)**	**(13,323)**	**–**	**(629,481)**
Net carrying amount	**237,666**	**1,310**	**722,855**	**19,446**	**6,851**	**25,245**	**1,013,373**
At 31 December 2008							
Cost	297,734	6,394	1,106,639	33,608	20,011	156,128	1,620,514
Accumulated depreciation	(57,344)	(4,498)	(409,045)	(15,252)	(11,570)	–	(497,709)
Net carrying amount	240,390	1,896	697,594	18,356	8,441	156,128	1,122,805

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

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

The freehold land amounting to Thai Baht19,201,000 (equivalent to HK$4,485,000) included in freehold land and buildings is situated in Thailand (2008: Thai Baht19,201,000 (equivalent to HK$4,282,000)).

The net book values of the Group's property, plant and equipment held under finance leases included in the total amount of plant and machinery as at 31 December 2009 amounted to HK$75,865,000 (2008: HK$67,612,000).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2009 HK$'000	2008 HK$'000
Carrying amount at 1 January	**39,504**	38,371
Recognised during the year *(note 6)*	**(928)**	(922)
Exchange realignment	**247**	2,055
Carrying amount at 31 December	**38,823**	39,504
Current portion included in prepayments, deposits and other receivables	**(928)**	(922)
Non-current portion	**37,895**	38,582

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

15. PREPAID LAND LEASE PAYMENTS *(Continued)*

Particulars of the Group's leasehold lands are as follows:

Location	Use	Tenure	Attributable interest of the Group
Block/Unit No E1 on 11th Floor Hoi Bun Industrial Building, No.6 Wing Yip Street, Kwun Tong Kowloon, Hong Kong	Office	Medium term lease	100%
Huang Si Wei District, Shijie town, Dongguan city, Guangdong Province, the PRC	Factory	Medium term lease	100%
Shangwei Shahe Community, Yuehu Village, Xiancun Town, Zengcheng, Guangzhou, Guangdong Provice, the PRC	Factory	Medium term lease	100%

16. INVESTMENT PROPERTIES

	Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount at 1 January	**17,000**	21,046
Additions	**3,178**	–
Net gain/(loss) from a fair value adjustment *(notes 5 and 6)*	**4,822**	(3,000)
Disposal of an investment property	**–**	(1,046)
Carrying amount at 31 December	**25,000**	17,000

The Group's investment property was situated in Hong Kong and was held under the medium term lease.

The Group's investment property was revalued on 31 December 2009 by Centaline Surveyors Limited, independent professionally qualified valuers, at HK$25,000,000 on an open market, existing use basis.

Particular of the Group's investment property is 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%

17. GOODWILL

Group

	HK$'000
At 31 December 2008:	
Cost	1,950
Accumulated impairment	(1,950)
Net carrying amount	–
At 31 December 2009:	
Cost	**1,950**
Accumulated impairment	**(1,950)**
Net carrying amount	**–**

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**43**	43

The amounts due from subsidiaries of HK$650,179,000 (2008: HK$570,834,000) included in the Company's current assets are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

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

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
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$213,000,000	–	100%	Manufacture of precision metal components
Guangzhou Xing Hao Precision Metal Products Company Limited ("Xing Hao")**	PRC/ Mainland China	HK$696,905,257	–	100%	Manufacture of precision metal components
IPE Precision Machinery Limited	Hong Kong	HK$100,000	–	100%	Investment holding
Cullygrat Surface & Deburring Treatment Limited	Hong Kong	HK$1,000,000	–	61%	Investment holding
Cullygrat Surface Treatment (Taicang) Company Limited	Mainland China	HK$5,000,000	–	61%	Surface and deburring treatment services

* Dongguan Koda is a wholly-foreign-owned enterprise with a registered capital of HK$213,000,000. Up to 31 December 2009, HK$213,000,000 has been contributed.

** Xing Hao is a wholly-foreign-owned enterprise with a registered capital of HK$959,000,000. Up to 31 December 2009, HK$696,905,257 has been contributed.

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 Group's loan to an unlisted equity investment is unsecured, interest-free and has no fixed terms of repayment. 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	
	2009	2008
	HK$'000	HK$'000
Unlisted equity investment, at cost	**150**	150

As at 31 December 2009, an unlisted equity investment with a carrying amount of HK$150,000 (2008: HK$150,000) was stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably.

21. INVENTORIES

	Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**66,119**	114,548
Consumables	**42,886**	43,461
Work in progress	**43,861**	49,982
Finished goods	**44,532**	58,365
	197,398	266,356
Less: Provision against inventory obsolescence	**(16,215)**	(7,136)
	181,183	259,220

22. TRADE RECEIVABLES

	Group	
	2009	2008
	HK$'000	HK$'000
Trade receivables	**229,871**	169,263
Impairment	**–**	(3,938)
	229,871	165,325

22. TRADE RECEIVABLES *(Continued)*

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 end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 1 month	**92,080**	31,409
1 to 2 months	**77,434**	49,888
2 to 3 months	**45,237**	59,569
3 to 4 months	**12,064**	20,889
4 to 12 months	**2,817**	6,420
Over 12 months	**239**	1,088
	229,871	169,263

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

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**3,938**	–
Impairment losses recognised *(note 6)*	**126**	3,938
Impairment losses reversed *(note 6)*	**(2,095)**	–
Amount written off as uncollectible	**(1,969)**	–
	–	3,938

Included in the above provision for impairment of trade receivables as at 31 December 2008 was a provision for individually impaired trade receivables of HK$3,938,000 with a carrying amount of HK$3,938,000. The individually impaired trade receivables relate to customers that were in default and none of the balance was expected to be recoverable. The Group did not hold any collateral or other credit enhancements over these balances.

22. TRADE RECEIVABLES *(Continued)*

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

	Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**212,857**	81,297
Less than 90 days past due	**16,475**	80,458
90 to 180 days past due	**141**	3,562
Over 180 days past due	**398**	8
	229,871	165,325

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

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**3,179**	5,497	**302**	163
Deposits and other receivables	**7,739**	14,201	**1**	47
	10,918	19,698	**303**	210

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**114,581**	98,439	**24,199**	2,682
Non-pledged time deposits	**59,016**	38,029	**5,002**	20,000
Cash and cash equivalents	**173,597**	136,468	**29,201**	22,682

24. CASH AND CASH EQUIVALENTS *(Continued)*

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$26,131,544 (2008: HK$24,684,915). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

25. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 1 month	**24,792**	12,584
1 to 2 months	**21,969**	20,485
2 to 3 months	**8,458**	17,480
Over 3 months	**2,749**	18,153
	57,968	68,702

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

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables *(Note)*	**94,570**	212,424	**–**	–
Accruals	**13,381**	7,853	**515**	22
	107,951	220,277	**515**	22
Portion classified as non-current:				
Other payables *(Note)*	**(188)**	(472)	**–**	–
Current portion	**107,763**	219,805	**515**	22

Note: Other payables include an amount of HK$472,000 (2008: HK$747,000) which represents a payable for the water pipeline construction project of Integrated Precision Engineering (Thailand) Company Limited in Thailand. This amount is unsecured, interest-free and repayable within two years. Of this amount, HK$284,000 (2008: HK$275,000) is repayable within one year, the remaining HK$188,000 (2008: HK$472,000) is repayable in the second year (2008: second to third years). The remaining other payables are unsecured, interest-free and are repayable on demand.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2009	2008
	HK$'000	HK$'000
Derivative financial instruments – transactions not qualifying as hedges		
Liabilities		
Forward currency contracts*		
– current portion	**30**	–
– non-current portion	**–**	–
	30	–
Interest rate swap**		
– current portion	**–**	–
– non-current portion	**5,745**	6,557
	5,745	6,557

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

* During the year, the Group had entered into a forward currency contract to manage its exchange rate exposures which did not meet the criteria for hedge accounting. The agreement required the Group to buy Japanese Yen with Hong Kong dollar at a pre-agreed exchange rate on pre-determined dates up to January 2010.

** At 31 December 2009, the Group had an interest rate swap agreement with Standard Chartered Bank to manage its interest rate exposure in connection with the Group's long term banking facilities which did not meet the criteria for hedge accounting. A notional amount of HK$125,000,000 (2008: HK$125,000,000) with a floating rate was swapped for a fixed rate. The agreement lasts for four years and will expire in April 2012.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	**2009** Effective contractual interest rate (%)	**2009** Maturity	**2009** HK$'000	2008 Effective contractual interest rate (%)	2008 Maturity	2008 HK$'000
Current						
Finance lease payables *(note 29)*	**1.62-10.02**	**2010**	**15,366**	1.54-10.2	2009	14,056
Unsecured						
Bank overdrafts	**6.15**	**On demand**	**63**	–	On demand	–
Bank revolving loans	**0.96**	**2010**	**50,000**	2.00-2.75	On demand	60,000
Bank loans	**1.35-4.88**	**2010**	**128,565**	1.60-6.80	2009	132,491
Other loans	**1.33-2.08**	**2010**	**86,297**	1.99-5.54	2009	51,117
			280,291			257,664
Non-current						
Finance lease payables *(note 29)*	**1.62-10.02**	**2011-2012**	**20,466**	1.54-10.2	2010-2011	77
Unsecured						
Bank loans	**1.35-4.88**	**2011-2014**	**139,273**	1.60-6.80	2010-2011	259,442
			159,739			259,519
			440,030			517,183

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

	Group	
	2009	2008
	HK$'000	HK$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**178,628**	192,491
In the second year	**94,561**	136,370
In the third to fifth years, inclusive	**44,712**	123,072
	317,901	451,933
Other borrowings repayable:		
Within one year	**101,663**	65,173
In the second year	**13,050**	49
In the third to fifth years, inclusive	**7,416**	28
	122,129	65,250
	440,030	517,183

Notes:

(a) As at 31 December 2009 and 2008, all the interest-bearing bank and other borrowings were unsecured.

(b) As at 31 December 2009, except for the unsecured bank loans of HK$23,963,000 (2008: HK$29,825,000) which were denominated in Thai Baht, all borrowings were in Hong Kong dollars.

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

29. FINANCE LEASE PAYABLES

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

At 31 December 2009, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments 2009 HK$'000**	Minimum lease payments 2008 HK$'000	**Present value of minimum lease payments 2009 HK$'000**	Present value of minimum lease payments 2008 HK$'000
Amounts payable:				
Within one year	**17,133**	14,349	**15,366**	14,056
In the second year	**13,868**	58	**13,050**	49
In the third to fifth years, inclusive	**7,608**	29	**7,416**	28
Total minimum finance lease payments	**38,609**	14,436	**35,832**	14,133
Future finance charges	**(2,777)**	(303)		
Total net finance lease payables	**35,832**	14,133		
Portion classified as current liabilities *(note 28)*	**(15,366)**	(14,056)		
Non-current portion *(note 28)*	**20,466**	77		

30. DEFERRED TAX

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

Deferred tax liabilities

Group	2009			
	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Withholding tax for distributable profits of the PRC subsidiaries HK$'000	Total HK$'000
At 1 January 2009	835	694	879	2,408
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	(51)	304	7	260
Exchange realignment	37	–	–	37
At 31 December 2009	821	998	886	2,705

Deferred tax assets

Group	2009		
	Write-off of other receivables HK$'000	Write-back of inventory provision HK$'000	Total HK$'000
At 1 January 2009	59	1,091	1,150
Deferred tax charged to the income statement during the year *(note 10)*	(3)	(340)	(343)
Exchange realignment	3	52	55
At 31 December 2009	59	803	862

30. DEFERRED TAX *(Continued)*

Deferred tax liabilities

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

Deferred tax assets

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

30. DEFERRED TAX *(Continued)*

Deferred tax liabilities *(Continued)*

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**51,755**	6,150	**6,915**	4,921
Deductible temporary differences	**61,675**	35,952	**–**	–
	113,430	42,102	**6,915**	4,921

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

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

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

31. SHARE CAPITAL

Shares

	2009	2008
	HK$'000	HK$'000
Authorised:		
1,200,000,000 (2008: 1,200,000,000) ordinary shares of HK$0.1 each	**120,000**	120,000
Issued and fully paid:		
915,993,750 (2008: 697,795,000) ordinary shares of HK$0.1 each	**91,599**	69,780

31. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

The movements in share capital for the years ended 31 December 2009 and 2008 were as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2008		718,425,000	71,843	348,132	419,975
Share options exercised	*(a)*	10,655,000	1,066	8,861	9,927
Repurchase of shares	*(b)*	(31,285,000)	(3,129)	(25,898)	(29,027)
At 31 December 2008 and 1 January 2009		697,795,000	69,780	331,095	400,875
Placement of new shares	*(c)*	35,000,000	3,500	11,781	15,281
Open offer	*(d)*	183,198,750	18,319	47,632	65,951
		218,198,750	21,819	59,413	81,232
Share issue expenses		–	–	(2,315)	(2,315)
At 31 December 2009		915,993,750	91,599	388,193	479,792

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

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

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

(c) Placement of 35,000,000 shares of HK$0.1 each were issued for cash at a subscription price of HK$0.4366 per share for a total cash consideration, before expenses, of HK$15,281,000.

(d) An open offer of one rights share for every four existing shares held by members on the register of members on 18 December 2009 was made, at an issue price of HK$0.36 per rights share, resulting in the issue of 183,198,750 shares of HK$0.1 each for a total cash consideration, before expenses, of approximately HK$65.95 million.

Share options

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

32. SHARE OPTION SCHEME

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

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

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

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

As at the date of approval of these financial statements, the total number of shares of the Company available for issue under the Scheme was 69,779,500 (2008: 63,682,000) shares, which represented approximately 7.62% (2008: 9.13%) of the Company's shares in issue as at that date.

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

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

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

32. SHARE OPTION SCHEME *(Continued)*

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

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. The following share options were outstanding under the Scheme during the year:

	2009		2008	
	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	**1.24**	**11,288**	1.14	71,645
Granted during the year	**0.35**	**52,885**	–	–
Forfeited during the year	**1.41**	**(500)**	1.13	(1,211)
Exercised during the year	**–**	**–**	0.74	(11,270)
Expired during the year	**–**	**–**	1.21	(47,876)
At 31 December	**0.50**	**63,673**	1.24	11,288

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2009

Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
1,587	1.33	27-07-05 to 26-07-10
3,173	1.28	01-01-08 to 31-12-12
740	1.13	01-01-08 to 31-12-10
2,115	1.13	01-01-08 to 31-12-12
3,173	1.13	01-01-09 to 31-12-12
34,905	0.35	01-06-10 to 31-05-14
2,115	0.35	01-06-11 to 31-05-14
13,750	0.35	01-06-12 to 31-05-14
2,115	0.35	01-06-13 to 31-05-14
63,673		

32. SHARE OPTION SCHEME *(Continued)*

2008

Number of options '000	Exercise price* HK$ per share	Exercise period
2,087	1.35	27-07-05 to 26-07-10
740	1.14	01-01-08 to 31-12-10
3,173	1.28	01-01-08 to 31-12-12
2,115	1.13	01-01-08 to 31-12-12
3,173	1.13	01-01-09 to 31-12-12
11,288		

* The exercise price of the share options has been adjusted to reflect the open offer of new shares of the Company during the year.

The fair value of the share options granted during the year was HK$9,851,900 (2008: Nil) of which the Group recognised a share option expense of HK$4,442,000 (2008: Nil) during the year ended 31 December 2009.

The fair value of equity-settled share options granted during the prior year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2009:

Dividend yield (%)	2.6%
Expected volatility (%)	49% ~ 52%
Historical volatility (%)	49% ~ 52%
Risk-free interest rate (%)	1.055% ~ 1.839%
Expected life of options (year)	3 ~ 4.5
Weighted average share price (HK$)	0.485

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.

No share options were exercised during the year. For the year ended 31 December 2008, the 10,655,000 share options exercised resulted in the issue of 10,655,000 ordinary shares of the Company and new share capital of HK$1,065,500, reversal of share option reserve of HK$1,615,253 and share premium of HK$8,860,653 (before issue expenses), as further detailed in note 31 to the financial statements, and the weighted average share price at the date of exercise for share options exercised in 2008 was HK$0.93.

At the end of the reporting period, the Company had 63,673,077 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 63,673,077 additional ordinary shares of the Company and additional share capital of HK$6,367,308, reversal of share option reserve of HK$12,375,756 and share premium of HK$37,763,449 (before issue expenses).

At the date of approval of these financial statements, the Company had 63,144,231 share options outstanding under the Scheme, which represented approximately 6.89% 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 38 and 39 of the financial statements.

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

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

The transfer of net profit to the statutory public welfare fund is made at the discretion of the directors at 5% of the net profit of the Company's subsidiaries. The statutory public welfare fund can be used for employees' welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the years ended 31 December 2009 and 2008.

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 2008		331,136	556	12,497	(9,958)	198,128	532,359
Exercise of share options	*31(a)*	8,861	–	(1,615)	–	–	7,246
Premium on repurchase of shares	*31(b)*	(25,898)	–	–	–	–	(25,898)
Capital redemption reserve arising from repurchase of shares	*31(b)*	–	3,129	–	–	(3,129)	–
Equity-settled share option arrangements	*32*	–	–	563	–	–	563
Forfeiture and expiry of options		–	–	(8,804)	–	8,804	–
Total comprehensive income for the year	*11*	–	–	–	–	26,521	26,521
Interim 2008 dividend	*12*	–	–	–	–	(16,824)	(16,824)
At 31 December 2008 and 1 January 2009		314,099	3,685	2,641	(9,958)	213,500	523,967
Issue of shares	*31*	59,413	–	–	–	–	59,413
Share issue expenses	*31*	(2,315)	–	–	–	–	(2,315)
Equity-settled share option arrangements	*32*	–	–	4,442	–	–	4,442
Forfeiture and expiry of options		–	–	(117)	–	117	–
Total comprehensive income for the year	*11*	–	–	–	–	2,105	2,105
At 31 December 2009		371,197	3,685	6,966	(9,958)	215,722	587,612

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

34. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**917,581**	961,330
Guarantees given to an electricity company	**1,004**	1,033	**–**	–
	1,004	1,033	**917,581**	961,330

As at 31 December 2009, the banking facilities granted to the subsidiaries subject to the guarantees given to the banks by the Company were utilised to the extent of approximately HK$431,455,000 (2008: HK$517,183,000).

35. 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 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**469**	1,424
In the second to fifth years, inclusive	**49**	521
	518	1,945

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	2008
	HK$'000	HK$'000
Authorised, but not contracted for:		
Renovation of buildings	**–**	261
	–	261
Contracted, but not provided for:		
Plant and machinery	**1,899**	5,869
Construction in progress	**6,171**	3,119
	8,070	8,988
	8,070	9,249

The Company did not have any significant commitments as at 31 December 2009 and 2008.

37. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2009	2008
	HK$'000	HK$'000
Short term employee benefits	**12,239**	11,141
Equity-settled share option expense	**2,697**	–
Post-employment benefits	**115**	123
Total compensation paid to key management personnel	**15,051**	11,264

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.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2009

Financial assets

	Group		
	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Loan to an unlisted equity investment	5,000	–	5,000
Available-for-sale investment	–	150	150
Trade receivables	229,871	–	229,871
Financial assets included in prepayments, deposits and other receivables *(note 23)*	7,739	–	7,739
Cash and cash equivalents *(note 24)*	173,597	–	173,597
	416,207	150	416,357

2009

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade and bills payables	–	57,968	57,968
Financial liabilities included in other payables and accruals *(note 26)*	–	107,951	107,951
Derivative financial instruments	5,775	–	5,775
Interest-bearing bank and other borrowings	–	440,030	440,030
	5,775	605,949	611,724

38. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows (continued):

2008

Financial assets

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

2008

Financial liabilities

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

38. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows (continued):

2009

Financial assets

	Company	
	Loans and receivables HK$'000	**Total HK$'000**
Amounts due from subsidiaries	**650,179**	**650,179**
Cash and cash equivalents	**29,201**	**29,201**
	679,380	**679,380**

Financial liabilities

	Financial liabilities at amortised cost HK$'000	**Total HK$'000**
Financial liabilities included in other payables and accruals *(note 26)*	**515**	**515**

2008

Financial assets

	Company	
	Loans and receivables HK$'000	Total HK$'000
Amounts due from subsidiaries	570,834	570,834
Cash and cash equivalents	22,682	22,682
	593,516	593,516

Financial liabilities

	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals *(note 26)*	22	22

39. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

Liabilities measured at fair value as at 31 December 2009:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments:				
Forward currency contracts	–	30	–	30
Interest rate swap	–	5,745	–	5,745
	–	5,775	–	5,775

As at 31 December 2009, the Company had no financial instruments measured at fair value.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by certain subsidiaries in currencies other than the subsidiaries' functional currency. Approximately 42% (2008: 36%) of the Group's sales are denominated in currencies other than the functional currency of the subsidiaries making the sale, whilst almost 43% (2008: 36%) 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 end of the reporting period 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
2009		
If Hong Kong dollar weakens against United States dollar	**5%**	**8,435**
If Hong Kong dollar weakens against Euro	**5%**	**185**
If Hong Kong dollar weakens against Japanese Yen	**5%**	**(4,050)**
If Hong Kong dollar strengthens against United States dollar	**(5%)**	**(8,435)**
If Hong Kong dollar strengthens against Euro	**(5%)**	**(185)**
If Hong Kong dollar strengthens against Japanese Yen	**(5%)**	**4,050**
2008		
If Hong Kong dollar weakens against United States dollar	5%	6,710
If Hong Kong dollar weakens against Euro	5%	232
If Hong Kong dollar weakens against Japanese Yen	5%	(9,142)
If Hong Kong dollar strengthens against United States dollar	(5%)	(6,710)
If Hong Kong dollar strengthens against Euro	(5%)	(232)
If Hong Kong dollar strengthens against Japanese Yen	(5%)	9,142

Interest rate risk

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

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

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

Interest rate risk *(Continued)*

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swap, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. This swap is designated to hedge underlying debt obligations. At 31 December 2009, after taking into account the effect of the interest rate swap, approximately 28.4% (2008: 24.2%) of the Group's interest-bearing borrowings bore interest at fixed rates.

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

	Increase/ (decrease) in basis points	Increase/ (decrease) effect on profit before tax HK'000
2009		
HK$	**25**	**(390)**
Thai Baht	**25**	**(122)**
HK$	**(25)**	**390**
Thai Baht	**(25)**	**122**
2008		
HK$	25	(1,059)
Thai Baht	25	(255)
HK$	(25)	1,059
Thai Baht	(25)	255

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.

Liquidity risk

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

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

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2009					
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to 12 months HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Finance lease payables	**–**	**4,269**	**12,864**	**21,475**	**–**	**38,608**
Interest-bearing bank and other borrowings (excluding finance lease payables)	**63**	**161,576**	**108,456**	**143,819**	**–**	**413,914**
Trade and bills payables	**–**	**50,713**	**7,255**	**–**	**–**	**57,968**
Other payables and accruals	**–**	**52,048**	**55,715**	**188**	**–**	**107,951**
Derivative financial instruments	**–**	**30**	**–**	**5,745**	**–**	**5,775**
	63	**268,636**	**184,290**	**171,227**	**–**	**624,216**

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

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2009					
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to 12 months HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Other payables and accruals	**–**	**515**	**–**	**–**	**–**	**515**
Guarantees given to banks in connection with facilities granted to subsidiaries	**431,455**	**–**	**–**	**–**	**–**	**431,455**
	431,455	**515**	**–**	**–**	**–**	**431,970**

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

Liquidity risk *(Continued)*

Company *(Continued)*

	2008					
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Other payables and accruals	–	22	–	–	–	22
Guarantees given to banks in connection with facilities granted to subsidiaries	517,183	–	–	–	–	517,183
	517,183	22	–	–	–	517,205

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

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 owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

	Group	
	2009 HK$'000	2008 HK$'000
Interest-bearing bank and other borrowings *(note 28)*	**440,030**	517,183
Trade and bills payables *(note 25)*	**57,968**	68,702
Other payables and accruals *(note 26)*	**107,951**	220,277
Less: Cash and cash equivalents *(note 24)*	**(173,597)**	(136,468)
Net debt	**432,352**	669,694
Equity attributable to owners of the parent	**1,054,303**	944,067
Capital and net debt	**1,486,655**	1,613,761
Gearing ratio	**29%**	41%

41. COMPARATIVE AMOUNTS

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2010.