



Annual Report  
2010

# IPE GROUP LIMITED

(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

Mr. Nguyen, Van Tu Peter

## 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

Australia and New Zealand Banking Group Limited

Bangkok Bank Public Company Limited

CITIC Bank International 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*

## STOCK CODE

929

## LISTING VENUE

Main Board of The Stock Exchange of Hong Kong Limited

## 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

Shangwei Shahe Community

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

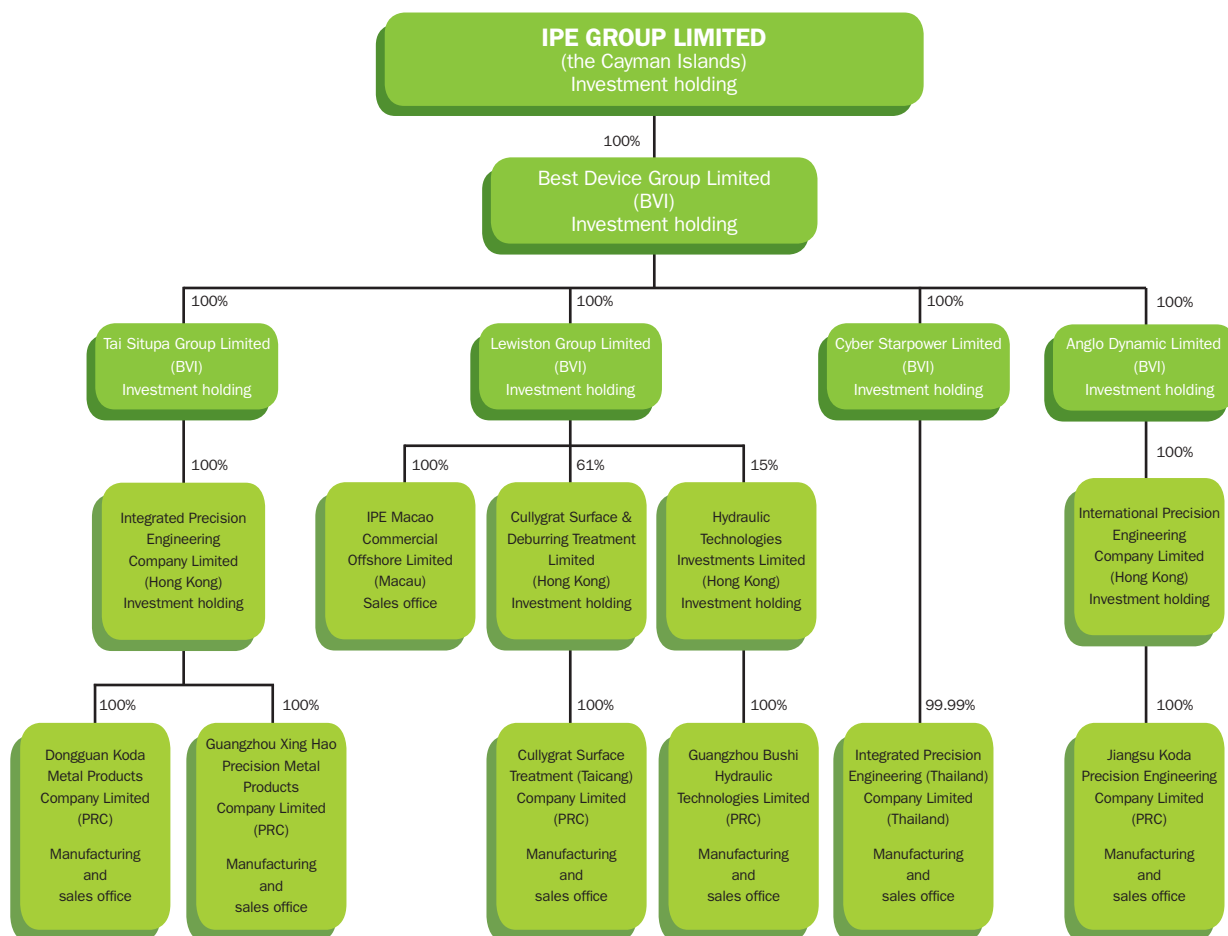
IPE Group Limited (the “Company” or “IPE Group”) was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002. The Company is an investment holding company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacture 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 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 2010





# Corporate Milestone

## 2010

Guangzhou Xing Hao was accredited AS9100 certification — aerospace certification

Guangzhou Xing Hao was accredited Superior Supplier of Eaton Hydraulics Systems (Jining) Co. Ltd.

Guangzhou Xing Hao was accredited Excellence Supplier of Delphi Shanghai Dynamic Propulsion Systems Co. Ltd.

## 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 — automotive certification

## 2007

IPE (Thailand) was accredited ISO 14001:2004 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 — automotive certification

## 2005

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

## 2004

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

## 2002

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

Dongguan 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 Dongguan Koda in Mainland China

## 1990

Established IPE (Singapore) in Singapore

# Financial Highlights

## RESULTS

	Year ended 31 December									
	2010		2009		2008		2007		2006	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>REVENUE</b>	<b>1,054,243</b>	<b>100%</b>	695,725	100%	861,716	100%	791,179	100%	581,642	100%
Cost of sales	<b>(780,942)</b>	<b>74%</b>	(587,363)	84%	(656,845)	76%	(588,606)	74%	(411,427)	71%
Gross Profit	<b>273,301</b>	<b>26%</b>	108,362	16%	204,871	24%	202,573	26%	170,215	29%
Other income and gains	<b>11,580</b>	<b>1%</b>	21,379	3%	2,759	0%	25,696	3%	21,354	4%
Selling and distribution costs	<b>(25,676)</b>	<b>2%</b>	(19,155)	3%	(24,244)	3%	(18,730)	2%	(16,742)	3%
Administrative expenses	<b>(88,104)</b>	<b>9%</b>	(70,112)	10%	(69,995)	8%	(62,520)	8%	(53,257)	9%
Other expenses	<b>(9,433)</b>	<b>1%</b>	(7,149)	1%	(21,432)	2%	(6,763)	1%	(8,924)	2%
Finance costs	<b>(14,341)</b>	<b>1%</b>	(15,985)	2%	(23,319)	3%	(27,423)	4%	(23,497)	4%
<b>PROFIT BEFORE TAX</b>	<b>147,327</b>	<b>14%</b>	17,340	3%	68,640	8%	112,833	14%	89,149	15%
Income tax expense	<b>(14,489)</b>	<b>1%</b>	(5,011)	1%	(8,256)	1%	(7,352)	1%	(4,391)	1%
<b>PROFIT FOR THE YEAR</b>	<b>132,838</b>	<b>13%</b>	12,329	2%	60,384	7%	105,481	13%	84,758	14%
Attributable to:										
Owners of the Company	<b>132,355</b>	<b>13%</b>	12,587	2%	61,149	7%	105,739	13%	84,758	14%
Non-controlling interests	<b>483</b>	<b>0%</b>	(258)	0%	(765)	0%	(258)	0%	—	—
	<b>132,838</b>	<b>13%</b>	12,329	2%	60,384	7%	105,481	13%	84,758	14%

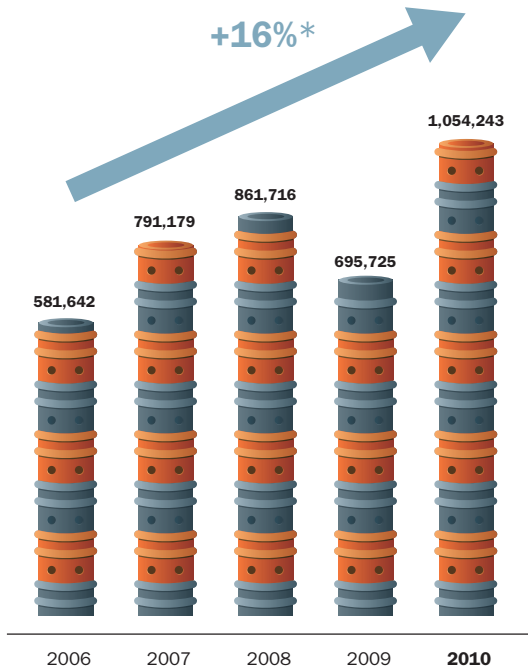
## CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
Total non-current assets	<b>1,189,693</b>	1,082,305*	1,184,807*	1,004,163*	891,648*
Total current assets	<b>801,534</b>	595,544*	580,686*	681,436*	514,735*
Total current liabilities	<b>653,629</b>	472,138*	555,041*	526,712	377,792
Net current assets	<b>147,905</b>	123,406*	25,645*	154,724*	136,943*
Total non-current liabilities	<b>95,688</b>	150,562*	265,287*	204,597	221,408
Total equity	<b>1,241,910</b>	1,055,149	945,165	954,290	807,183

\* Restated

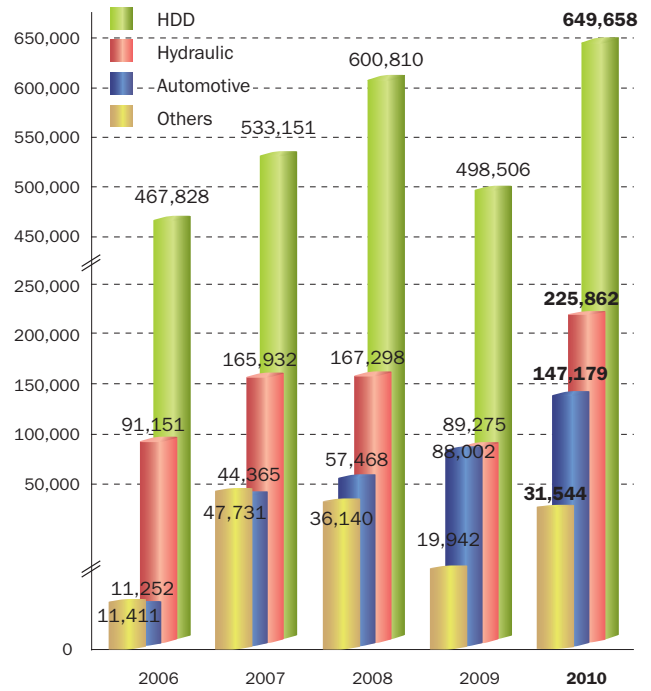
# Financial Highlights

## REVENUE (HK\$'000)

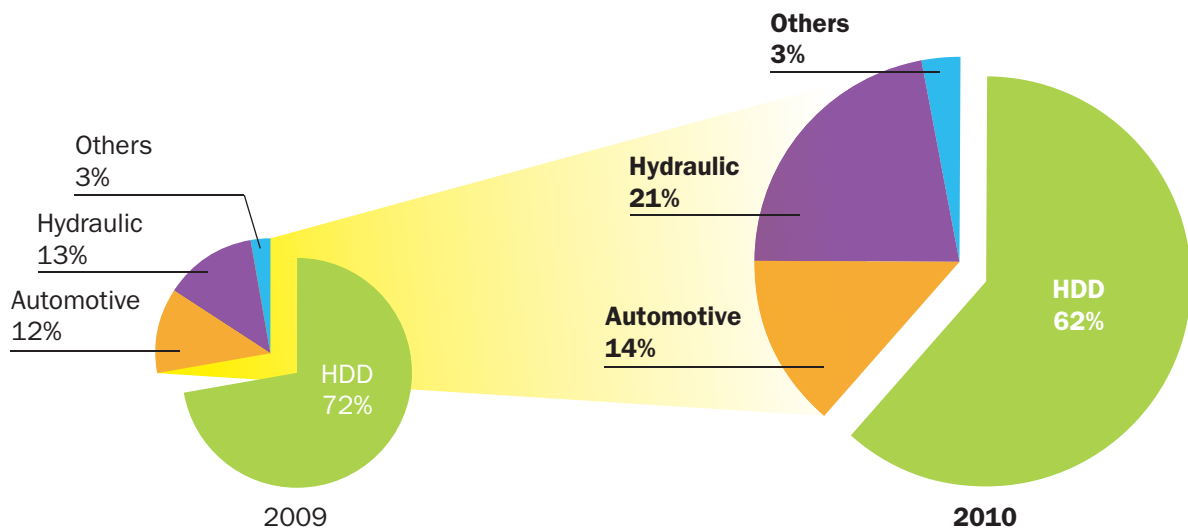


\* Compound Annual Rate Growth (CARG)

## BUSINESS SEGMENT (HK\$'000)

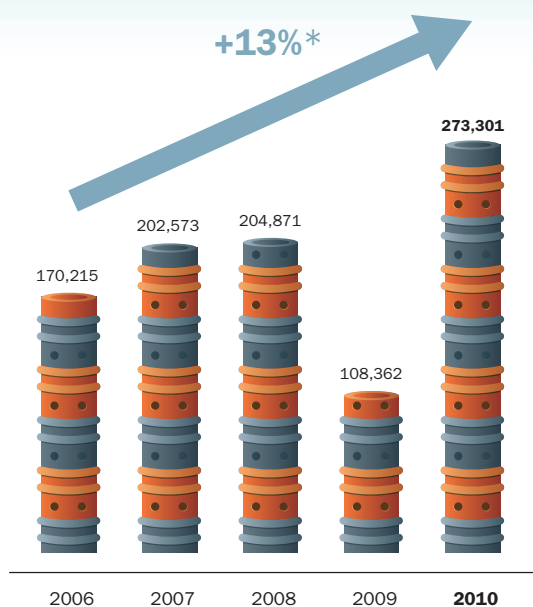


## BUSINESS COMBINATION

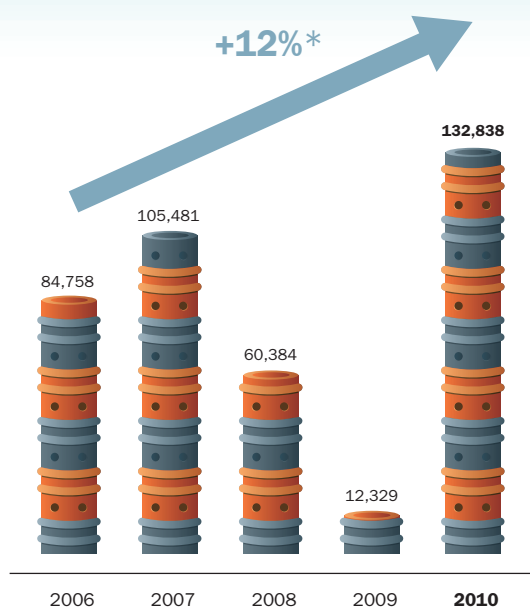


# Financial Highlights

## GROSS PROFIT (HK\$'000)



## NET PROFIT (HK\$'000)



\* Compound Annual Rate Growth (CARG)

## RATIO ANALYSIS

	Year ended 31 December				
	2010	2009	2008	2007	2006
<b>KEY STATISTICS:</b>					
Current ratio	<b>1.23</b>	1.26*	1.05*	1.29*	1.36*
Gearing ratio (net borrowings/ shareholders' equity)	<b>0.19</b>	0.25	0.40	0.35	0.31
Dividend payout ratio	<b>29.9%</b>	—	27.9%	29.8%	30.7%
Gross profit margin	<b>25.9%</b>	15.6%	23.8%	25.6%	29.3%
EBITDA margin	<b>28.7%</b>	26.0%	26.0%	32.2%	32.5%
Net profit margin	<b>12.6%</b>	1.8%	7.0%	13.3%	14.6%
Average days of debtor turnover	<b>80 days</b>	104 days	85 days	92 days	92 days
Average days of inventory turnover	<b>86 days</b>	137 days	127 days	122 days	143 days
<b>PER SHARE DATA:</b>					
Net asset value per share (HK\$)	<b>1.34</b>	1.15	1.35	1.33	1.12
Dividend per share	<b>HK4.3 cents</b>	—	HK2.4 cents	HK4.4 cents	HK3.3 cents
Earnings per share — basic	<b>HK14.39 cents</b>	HK1.66 cents	HK8.18 cents*	HK13.81 cents*	HK11.73 cents*
Earnings per share — diluted	<b>HK13.87 cents</b>	HK1.64 cents	N/A	HK13.68 cents*	HK11.45 cents*

\* Restated

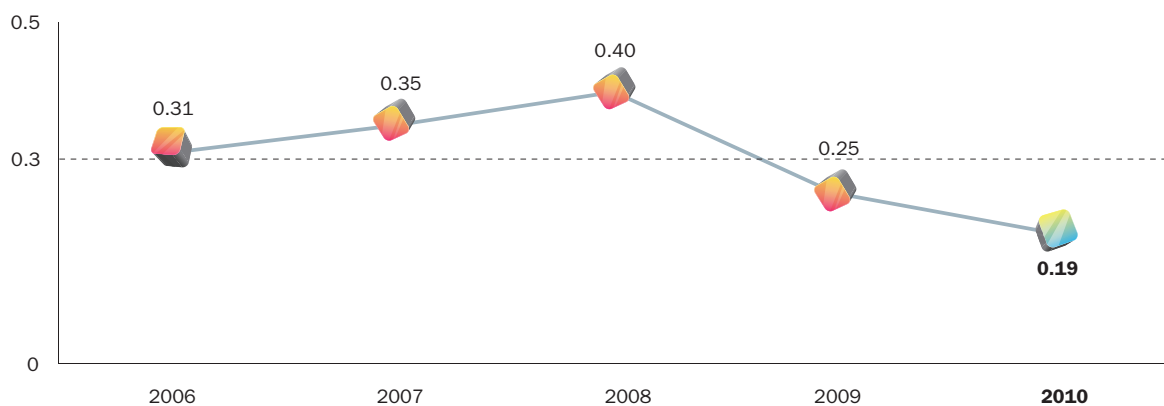


# Financial Highlights

## EQUITY, GROSS DEBT AND CASH AND CASH EQUIVALENTS (HK\$'000)



## NET DEBT TO EQUITY RATIO



# 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 2010.

## BUSINESS REVIEW

2010 marked the twentieth anniversary of the Group. It was a year full of challenges and opportunities. In 2010, we achieved another milestone in the manufacturing capability of our Group — in July, we were accredited AS9100 certification. This certification is a pre-requisite for our entry in the manufacture of components for use in aerospace. In financial terms, our twentieth anniversary was marked by the new records for sales in all our three major lines of business and a new record in gross profit and in net profit.

The recovery in our sales of hard disk drive ("HDD") components and automotive components which began in the second half of 2009 continued in 2010. Our hydraulic equipment business was the last to recover from the global financial crisis. Recovery finally started in 2010 and was quite sharp, especially in the second half of last year. Some customers even required us to make airfreight delivery of certain hydraulic equipment components even though the airfreight costs for some of those components, borne by the customer, were in some cases higher than our invoice amounts for those particular components. As a result, turnover in each of the Group's three major business segments achieved new record highs. Given the operating leverage in our business, the strong recovery in orders and resulting economies of scale meant that margins improved dramatically and we are able to report a new record level of net profit.

The Group recorded total turnover of HK\$1,054,243,000 in 2010, representing an increase of 51.5% as compared with 2009, and net profit attributable to owners of the Company for the year amounted to HK\$132,355,000, an increase of nearly ten times of that in 2009.

## PROSPECTS

In order to diversify our business away from its heavy dependence on HDD components, we have been investing in and diligently developing our hydraulic equipment and automotive components manufacturing businesses. Over the last few years we have steadily expanded our customer list to include a number of international groups that are market leaders in these two sectors. While our business volumes in these two sectors are still small we believe we have succeeded in establishing a secure foothold in these two markets.

China's 12th Five-Year Plan (2011-2015) includes high end machinery as one of its seven "strategic emerging industries" ("SEI") whose rapid development will be actively promoted by the State. These SEI will benefit from measures which include preferential tax, fiscal and procurement policies. As there is a shortage of quality precision components manufacturers in China, most of the domestic high end machinery manufacturers rely on foreign suppliers for precision components.

In order to meet the strong growth in demand in our hydraulic equipment and automotive components businesses and to position ourselves to benefit from China's decision to rapidly develop its SEI, we need to significantly increase our production capacity. To this end we have recently acquired 166,631 sq.m. of land located in the Changshu Economic Development Zone in Jiangsu Province with an option for a further expansion of approximately 133,200 sq.m. and are currently formulating plans for the development of this site in a number of phases. It is expected that the first phase will be operated by the middle of 2011.

# Chairman's Statement



During the global financial crisis we cut back on capital expenditure to the maximum extent possible. This interruption to our capacity expansion and the strong demand from our hydraulic equipment and automotive components customers have resulted in capacity bottlenecks. To help alleviate these bottlenecks, we leased a factory building last year in Changshu, not far from our planned green field site. This factory will also serve for the time being as a base for marketing our future capacity to potential clients in the Yangtze River delta area, which is the home to many automotive and heavy equipment manufacturers in China. This factory is expected to be operational around the middle of this year.

Looking forward, given the bright prospects of our hydraulic equipment and automotive components businesses, we are optimistic that barring unforeseen circumstances, growth will continue and new records in turnover and net profits will be set this year and in future years.

## **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*

22 March 2011

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Sales

Our strong orders momentum has propelled us to new yearly records in all our three major lines of business and in net profit.

The Group's turnover by business segments during the year under review, with comparative figures for 2009, is as follows:

	2010		2009		Growth rate
	HK\$'000	%	HK\$'000	%	%
HDD components	<b>649,658</b>	<b>61.6%</b>	498,506	71.7%	30.3%
Hydraulic equipment components	<b>225,862</b>	<b>21.4%</b>	89,275	12.8%	153.0%
Automotive components	<b>147,179</b>	<b>14.0%</b>	88,002	12.6%	67.2%
Others	<b>31,544</b>	<b>3.0%</b>	19,942	2.9%	58.2%
	<b>1,054,243</b>	<b>100.0%</b>	695,725	100.0%	51.5%

Demand for HDD components softened in the second half year after a very strong first half year but the total sales for the year reached HK\$649,658,000, up 30.3% from HK\$498,506,000 in 2009 and up 8.1% from the previous record of HK\$600,810,000 set in 2008.



# Management Discussion and Analysis

In the hydraulic equipment components business, orders finally started to recover from recession at the start of 2010 and gathered momentum throughout the year. Some customers were so depleted of inventory that they requested airfreight delivery despite its high cost to them. During the year under review, sales of hydraulic equipment components amounted to HK\$225,862,000, more than double the sales in 2009, and also above the previous record of HK\$167,298,000 set in 2008.

Our automotive components business also performed very well in this year in part due to strong growth in China's automotive industry. Sales of automotive components rose by 67.2% from HK\$88,002,000 to HK\$147,179,000 in 2010.

## Gross profit

The strong orders in 2010, resulted in a sharp rebound in the Group's gross profit margin. In 2010, gross profit margin of the Group was approximately 25.9%, which was back to the levels before the global financial crisis (i.e. 2007 and 2008). We were able to earn a gross profit margin comparable to pre-financial crisis levels despite notable increases in wages and salaries in China because of management's efforts to minimize the impact of rising labour cost by improving our production processes and improving our productivity.

## Other income and gains

Other income and gains, mainly comprised the fair value gains on investment property and derivative financial instruments, recorded an amount of HK\$11,580,000 for the year ended 31 December 2010, represented a decrease of HK\$9,799,000 when compared to 2009. The difference is mainly because the foreign exchange gains of HK\$11,410,000 on settlement of Japanese Yen was recorded in 2009 while no exchange gain was recorded in 2010.





# Management Discussion and Analysis

## Selling and distribution costs

Selling and distribution costs increased by 34.0% from HK\$19,155,000 in 2009 to HK\$25,676,000 in 2010. The increase was mainly due to the 51.5% increase in turnover. Selling and distribution costs in 2010 only represented 2.4% of turnover, as compared to 2.8% in 2009. The reduced percentage indicates that the cost savings measures implemented by the Group were successful.

## Administrative expenses

During the year, the Group's general and administrative expenses increased by 25.7% to HK\$88,104,000, which amounted to 8.4% of the Group's turnover. The increase was mainly attributable to the increase in headcount and inflation pushing up staff salaries and general increase in various office expenses.

## Finance costs

Finance costs decreased by 10.3% from HK\$15,985,000 to HK\$14,341,000. The decrease reflects the continuing improvement in the Group's gearing ratio from 25.3% as at 31 December 2009 to 19.1% as at 31 December 2010.

## Profit attributable to owners of the Company

As a result of the foregoing, the profit attributable to owners of the Company increased from HK\$12,587,000 in 2009 to HK\$132,355,000 in 2010, which is historical high.

## 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 HK14.39 cents, representing an increase of 766.9% when compared to HK1.66 cents in 2009.

## DETAILS OF CHARGES ON THE GROUP'S ASSETS

As at 31 December 2010, the Group had total borrowings of HK\$594,675,000 (2009: HK\$431,455,000) 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 2010.

## 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.

# Management Discussion and Analysis

## 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.

As at 31 December 2010, cash per share was HK\$0.39 (31 December 2009: HK\$0.19) and net asset value per share was HK\$1.34 (31 December 2009: HK\$1.15), based on the 929,088,751 ordinary shares in issue (31 December 2009: 915,993,750).

During the year, the Group recorded a net cash inflow from operating activities of HK\$328,514,000 (2009: HK\$185,119,000). With the increase of property, new machineries and equipment, a net cash outflow used in investing activities of HK\$283,489,000 (2009: HK\$147,715,000) was recorded.

Total bank borrowings as at 31 December 2010 increased by 35.9% to HK\$597,899,000 (2009: HK\$440,030,000). However, net borrowings (total borrowings less cash and bank balances) as at 31 December 2010 dropped by 10.9% to HK\$237,475,000 (2009: HK\$266,433,000) and also the gearing ratio (defined as net borrowings divided by shareholders' equity) as at 31 December 2010 dropped to 19.1% when compared to 25.3% as at 31 December 2009.

## HUMAN RESOURCES

As at 31 December 2010, the Group had 4,656 employees, an increase of 12.2% when compared to 4,149 employees as at 31 December 2009.

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 local retirement benefit schemes are also in effect.

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. Staff are rewarded based on performance of the Group as well as on individual performance and contribution.

# Directors and Senior Management

## DIRECTORS

### Executive Directors

**Mr. Chui Siu On**, aged 51, 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, a substantial shareholder of the Company. Mr. Chui is one of the founders of the Group. He is responsible for the overall strategic planning of the Group and establishes operational objectives and assignments. He has over 35 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 47, is an executive director and a member of the executive committee of the Company and a director of certain subsidiaries of the Company. He joined the Group in 1992 and has 28 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 51, 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. Mr. Lai joined the Group in 1992 and is currently responsible for the overall management of the production facilities in Mainland China. He has 36 years of experience in the field of machine augmentation and manufacturing automation.

**Mr. Li Chi Hang**, aged 40, is an executive director and a member of the executive committee of the Company and a director of certain subsidiaries of the Company. Mr. Li joined the Group in 1992 and is currently responsible for the Group's product development and new projects implementation. He has over 22 years of experience in the field of machine augmentation and manufacturing automation.

**Mr. Wong Kwok Keung**, aged 48, 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 31 years of experience in the manufacturing industry.

# Directors and Senior Management

**Mr. Lau Siu Chung**, aged 46, is an executive director of the Company. He is also a member of the executive committee of the Company and the Sales and Marketing Director of the Group. Mr. Lau joined the Group in 1997 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 14 years of experience in marketing and sales of precision components and industrial equipments.

**Mr. Yuen Chi Ho**, aged 43, is an executive director of the Company. He is also a member of the executive committee and the Chief Financial Officer of the Company. Mr. Yuen joined the Group in February 2009 and 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 20 years of experience in audit, accounting and financial management.

## Independent Non-Executive Directors

**Dr. Cheng Ngok**, aged 65, 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 had been a member of the Hospital Governing Committee of Alice Ho Miu Ling Nethersole Hospital from April 1997 to March 2009 and had been a member of the Cluster Tender Board in New Territories East Cluster, Hospital Authority from 2003 to 2010. 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 42, 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.

# Directors and Senior Management

**Mr. Wu Karl Kwok**, aged 47, 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 23 years of international working experience in accounting, financial planning and control, business development, logistic, project management and contract administration in various industries. Mr. Wu is currently the managing director of an international pharmaceutical company. Prior to that, he was a senior consultant and vice president of an international trust company for six years. Mr. Wu's other past roles include a financial controller and company secretary for UDL Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and the chief financial officer and company secretary of Innovis Holdings Limited (currently known as Sino Haijing Holdings Limited), a company listed on the Growth Enterprise Market of the Stock Exchange.

**Mr. Nguyen, Van Tu Peter**, age 67, was appointed as an independent non-executive director of the Company on 1 January 2011. He is a senior counsel and was called to the Bar in England by the Honourable Society of the Middle Temple in 1970. He was an assistant crown counsel and crown counsel in the Legal Department of Hong Kong during the period from August 1970 to November 1974 and after leaving Government service was in private practice as a Barrister in Hong Kong for approximately twenty years. Mr. Nguyen was appointed as Director of Public Prosecutions in the Legal Department of Hong Kong during the period from July 1994 to October 1997 and he was the first and only Chinese to hold such position. Mr. Nguyen was appointed as a Queen's Counsel in 1995 and was a Judge of the Court of First Instance of the High Court, Hong Kong from February 1998 to April 2009. Currently, Mr. Nguyen is an independent non-executive director of Mayer Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1116). He also has been appointed as an independent non-executive director of Combest Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange, stock code: 8190) in March 2011.

## SENIOR MANAGEMENT

**Mr. Yip Mie Leong, Chester**, aged 49, 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 21 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 45, 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 23 years of experience in the manufacturing industry.



# Directors and Senior Management

**Ms. Chiu Tak Chun**, aged 45, 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 17 years of experience in office administration. Ms. Chiu is a fellow member of the International Professional Managers Association.

**Mr. Chui Siu Hung**, aged 42, 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 18 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 38, 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 14 years of experience in the manufacturing industry.

**Mr. Lei Ting Yong**, aged 35, 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 40, is the Financial Controller and Company Secretary of the Company. He joined the Group in October 2007. He holds a Master degree in professional accounting and is a member of the Hong Kong Institute of Certified Public Accountants.

# Corporate Governance Report

The board of directors of the Company (the “Board”) presents this Corporate Governance Report in the Company’s annual report for the year ended 31 December 2010.

## **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 Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) 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.

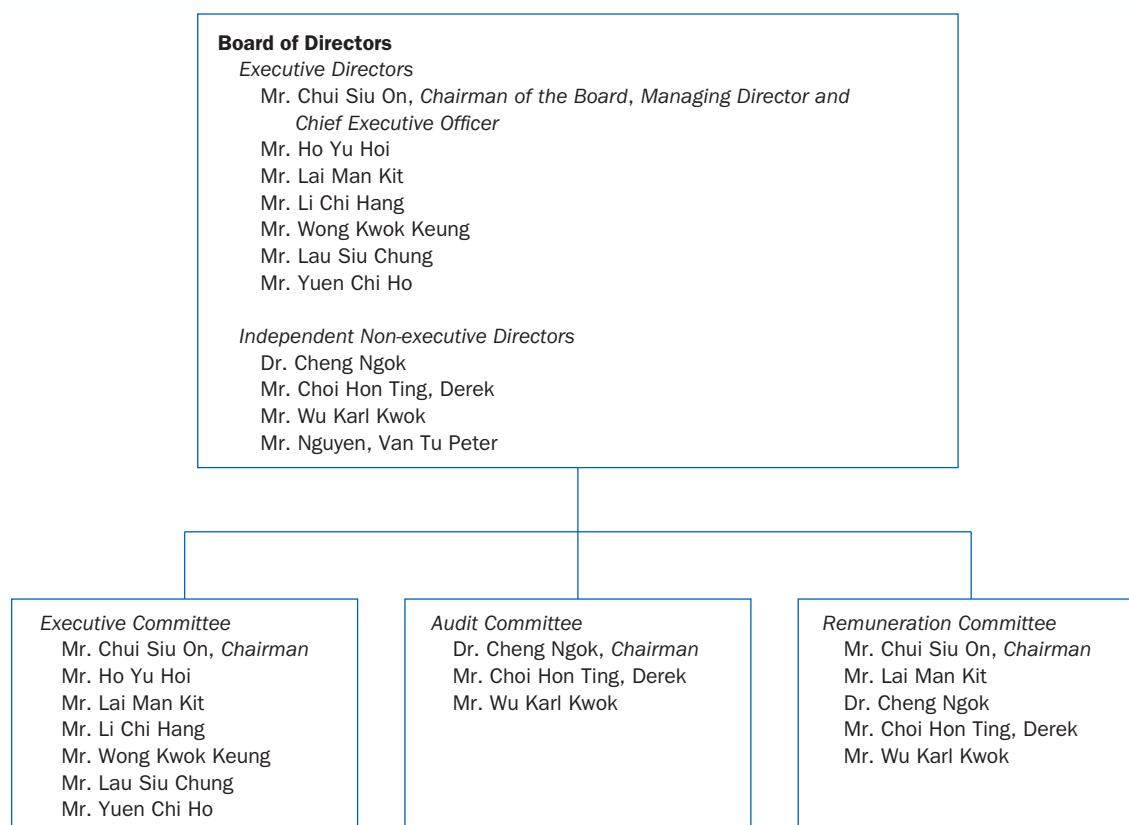
Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice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

All directors carry out their duties 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.

# Corporate Governance Report

## 2. Board Composition

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



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

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time, with the independent non-executive directors expressly identified. 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 Group 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 2010, 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. Having appointed Mr. Nguyen, Van Tu Peter as an additional independent non-executive director of the Company on 1 January 2011, the Company has also adopted the recommended best practice under the CG Code for having at least one-third of its Board members being independent non-executive directors.

# Corporate Governance Report

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 is 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. Nguyen, Van Tu Peter, having been appointed as an independent non-executive director of the Company on 1 January 2011, shall retire and, being eligible, offer himself for re-election at the forthcoming 2011 annual general meeting of the Company. In addition, Mr. Chui Siu On, Mr. Ho Yu Hoi, Mr. Lai Man Kit and Dr. Cheng Ngok 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.

# Corporate Governance Report

During the year ended 31 December 2010, the Board, through its meetings held on 30 March 2010 (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, Mr. Yuen Chi Ho, 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 2010 annual general meeting of the Company (the “2010 AGM”);
- Assessment of the independence of all the independent non-executive directors of the Company;
- Appointment of Mr. Nguyen, Van Tu Peter as an independent non-executive director of the Company; and
- Acceptance of the resignation of Mr. Wan Tak Wing, Gary 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 them to attend. 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 Board meeting is 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 2010 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:

<b>Name of Directors</b>	<b>Attendance/ Number of Meetings</b>
Mr. Chui Siu On, <i>Chairman</i>	8/8
Mr. Ho Yu Hoi	8/8
Mr. Lai Man Kit	8/8
Mr. Li Chi Hang	8/8
Mr. Wong Kwok Keung	8/8
Mr. Lau Siu Chung	8/8
Mr. Yuen Chi Ho	8/8
Mr. Wan Tak Wing, Gary (Note (1))	—
Dr. Cheng Ngok	8/8
Mr. Choi Hon Ting, Derek	8/8
Mr. Wu Karl Kwok	8/8
Mr. Nguyen, Van Tu Peter (Note (2))	—

Notes:

- (1) Mr. Wan Tak Wing, Gary resigned as a non-executive director of the Company on 27 February 2010. No Board meetings was held from 1 January 2010 to the date of his resignation.
- (2) Mr. Nguyen, Van Tu Peter was appointed as an independent non-executive director of the Company on 1 January 2011. Accordingly, the attendance at the Board meetings held during the year ended 31 December 2010 is not applicable to him.

# Corporate Governance Report

## 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 2010.

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.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

## 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 Board 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. All the Board committees should report to the Board on their decisions or recommendations made.

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.

# Corporate Governance Report

## 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 2010 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 2010, 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. Nguyen, Van Tu Peter, the newly appointed director in 2011.

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, <i>Chairman</i>	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

# Corporate Governance Report

## 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 2010.

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 2010. 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, reappointment 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.

# Corporate Governance Report

During the year ended 31 December 2010, the Audit Committee has met twice together with the Company's external auditors and performed the following major tasks:

- Review and discussion of the annual financial statements, results announcement and report for the year ended 31 December 2009, 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 2010 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 2010;
- Discussion and recommendation of the re-appointment of the external auditors; and
- Review of the internal control system of the Group.

The individual attendance records of each member at the Audit Committee meetings during the year are set out below:

<b>Name of Audit Committee Members</b>	<b>Attendance/ Number of Meetings</b>
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 2010 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Group's external auditors in respect of audit services and non-audit services for the year ended 31 December 2010 are analyzed below:

<b>Type of services provided by the external auditors</b>	<b>Fees paid/payable (HK\$)</b>
Audit services:	
— Audit fees for the year ended 31 December 2010	2,167,000
Non-audit services:	
— Tax services and others	522,000
<b>TOTAL:</b>	<b>2,689,000</b>



# Corporate Governance Report

## 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 2010 AGM was held on 18 May 2010. Notice of the 2010 AGM was sent to shareholders at least 20 clear business days before the 2010 AGM. During the year, the Company also held an extraordinary general meeting on 18 May 2010 for approving the change of name of the Company. 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, various rights of shareholder(s), including the right to propose resolutions, are contained in the Articles of Association.

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](http://www.hkexnews.hk)) and the Company ([www.ipegroup.com](http://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 2010.

## CHANGE OF COMPANY NAME

Pursuant to the special resolution passed at the extraordinary general meeting of the Company held during the year, and as approved by the Registrar of Companies in the Cayman Islands, the Company’s name registered in the Cayman Islands has changed to “IPE Group Limited” with effect from 19 May 2010.

Following the above-mentioned change of the Company’s name and the Company’s adoption of “國際精密集團有限公司” as its new Chinese name for identification purposes, and as approved by the Registrar of Companies in Hong Kong, the Company’s name registered in Hong Kong has changed to “IPE Group Limited 國際精密集團有限公司” with effect from 14 June 2010.

## 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 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 120.

An interim dividend of HK2.0 cents per ordinary share was paid on 16 September 2010 (2009: Nil). The Board recommends the payment of a final dividend of HK2.3 cents per ordinary share in respect of the year to shareholders on the register of members on 17 May 2011. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position. Subject to the approval of the Company’s shareholders at the forthcoming annual general meeting of the Company to be held on Tuesday, 17 May 2011, the said final dividend will be paid in cash on or around Monday, 23 May 2011. Details of dividends for the year ended 31 December 2010 are set out in note 12 to the financial statements.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 13 May 2011 to Tuesday, 17 May 2011 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 December 2010 and for attending and voting at the forthcoming annual general meeting, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrar in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 12 May 2011.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling 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 7 of the annual report. This summary does not form part of the audited financial statements.

# Report of the Directors

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment, and investment property 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 property are set out on page 87.

## 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 2010, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$596,612,000, of which HK\$21,379,000 has been proposed as a final dividend for the year. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK\$367,444,000 at 31 December 2010, 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.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$1,286,000 (2009: HK\$2,332,000).

## MAJOR CUSTOMERS AND SUPPLIERS

For the year under review, sales to the Group's five largest customers accounted for 54% of the total sales for the year and sales to the largest customer included therein amounted to 16%. Purchases from the Group's five largest suppliers accounted for 41% of the total purchases for the year and purchases from the largest supplier included therein amounted to 17%.

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.

# Report of the Directors

## 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  
Mr. Yuen Chi Ho

### Non-executive directors:

Dr. Cheng Ngok\*  
Mr. Choi Hon Ting, Derek\*  
Mr. Wu Karl Kwok\*  
Mr. Wan Tak Wing, Gary (resigned on 27 February 2010)

\* *Independent non-executive directors*

Subsequent to the end of the reporting period, on 1 January 2011, Mr. Nguyen, Van Tu Peter was appointed as an independent non-executive director of the Company.

In accordance with Article 86(3) of the Company's articles of association, Mr. Nguyen, Van Tu Peter, will retire at the forthcoming annual general meeting. In addition, pursuant to Article 87 of the Company's articles of association, Mr. Chui Siu On, Mr. Ho Yu Hoi, Mr. Lai Man Kit and Dr. Cheng Ngok, 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, Mr. Wu Karl Kwok and Mr. Nguyen, Van Tu Peter, and as at the date of the report, still considers them to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 17 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.

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.

# Report of the Directors

## 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 a 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 2010, 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 of Hong Kong Limited (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	226,784,475	24.41%
	Directly beneficially owned		7,556,250	0.82%
	Through spouse	2	125,000	0.01%
			234,465,725	25.24%
Mr. Ho Yu Hoi	Directly beneficially owned		59,838,740	6.44%
Mr. Lai Man Kit	Directly beneficially owned		25,524,500	2.75%
	Interests held jointly with spouse	3	1,250,000	0.13%
			26,774,500	2.88%
Mr. Li Chi Hang	Directly beneficially owned		25,088,535	2.70%
Mr. Yuen Chi Ho	Directly beneficially owned		2,009,616	0.22%

\* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2010.

# Report of the Directors

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

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

Notes:

1. These shares were owned by Tottenham Limited ("Tottenham"), the entire issued capital of which was owned by Mr. Chui Siu On. By virtue of his 100% shareholding in Tottenham, Mr. Chui Siu On was deemed to be interested in the 226,784,475 shares of the Company owned by Tottenham pursuant to Part XV of the SFO.

In December 2010, Tottenham carried out a share distribution ("Distribution"), pursuant to which 104,771,775 shares of the Company were distributed in specie to its then shareholders, i.e. Mr. Chui Siu On, Mr. Ho Yu Hoi, Mr. Lai Man Kit and Mr. Li Chi Hang, in accordance with their shareholding percentage, i.e. 68.4%, 16.33%, 7.7% and 7.57% respectively, in Tottenham. Contemporaneously with the Distribution, Mr. Chui Siu On and other then shareholders of Tottenham agreed to carry out the share swap ("Swap"), pursuant to which Mr. Chui Siu On agreed to direct Tottenham to transfer all the shares to which he was entitled in the Distribution to Mr. Ho Yu Hoi, Mr. Lai Man Kit and Mr. Li Chi Hang in consideration of each of Mr. Ho Yu Hoi, Mr. Lai Man Kit and Mr. Li Chi Hang transferring all their respective shares in Tottenham to Mr. Chui Siu On. As at the date hereof after the completion of the Distribution and the Swap, Mr. Chui Siu On wholly and beneficially owns the entire issued share capital of Tottenham.

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 wife, Ms. Kwong Yin No, Irene.

### (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. Lau Siu Chung	Directly beneficially owned	10,288,462	1.11%
Mr. Wong Kwok Keung	Directly beneficially owned	9,288,462	1.00%
Mr. Yuen Chi Ho	Directly beneficially owned	7,009,615	0.75%
Dr. Cheng Ngok	Directly beneficially owned	1,328,846	0.14%
Mr. Choi Hon Ting, Derek	Directly beneficially owned	1,128,846	0.12%
Mr. Wu Karl Kwok	Directly beneficially owned	1,128,846	0.12%

\* The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2010.

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 2010, 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 2010, 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.



# Report of the Directors

## 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 31 December 2010	Date of grant of share options <sup>(2)</sup>	Exercise period of share options	Exercise price of share options <sup>(3)</sup> HK\$ per share
	At 1 January 2010	Granted during the year <sup>(5)</sup>	Exercised during the year <sup>(5)</sup>	Expired/lapsed during the year	Forfeited/cancelled during the year	Re-classification during the year <sup>(1)</sup>					
<b>Directors</b>											
Mr. Wong Kwok Keung	2,644,231	—	(1,000,000)	—	—	—	1,644,231	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	
	—	5,000,000	—	—	—	—	5,000,000	02-06-10	01-04-12 to 11-10-14	0.7200	
	5,288,462	5,000,000	(1,000,000)	—	—	—	9,288,462				
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	
	—	5,000,000	—	—	—	—	5,000,000	02-06-10	01-04-12 to 11-10-14	0.7200	
	5,288,462	5,000,000	—	—	—	—	10,288,462				
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	
	—	5,000,000	—	—	—	—	5,000,000	02-06-10	01-04-12 to 11-10-14	0.7200	
	4,019,231	5,000,000	(2,009,616)	—	—	—	7,009,615				
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	
	—	800,000	—	—	—	—	800,000	02-06-10	01-04-12 to 11-10-14	0.7200	
	1,057,692	800,000	—	(528,846)	—	—	1,328,846				
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	
	—	600,000	—	—	—	—	600,000	02-06-10	01-04-12 to 11-10-14	0.7200	
	1,057,692	600,000	—	(528,846)	—	—	1,128,846				
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	
	—	600,000	—	—	—	—	600,000	02-06-10	01-04-12 to 11-10-14	0.7200	
	1,057,692	600,000	—	(528,846)	—	—	1,128,846				
Mr. Wan Tak Wing, Gary <sup>(4)</sup>	528,846	—	—	—	(528,846)	—	—	01-06-09	01-06-10 to 31-05-14	0.3545	
	18,298,077	17,000,000	(3,009,616)	(1,586,538)	(528,846)	—	30,173,077				

# Report of the Directors

## SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options						At 31 December 2010	Date of grant of share options <sup>(2)</sup>	Exercise period of share options	Exercise price of share options <sup>(3)</sup> HK\$ per share
	At 1 January 2010	Granted during the year <sup>(5)</sup>	Exercised during the year <sup>(5)</sup>	Expired/lapsed during the year	Forfeited/cancelled during the year	Re-classification during the year <sup>(4)</sup>				
<b>Members of senior management and other employees of the Group</b>										
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
	—	—	—	—	—	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
	14,384,615	—	(5,345,000)	—	(2,306)	—	9,037,309	01-06-09	01-06-10 to 31-05-14	0.3545
	2,115,385	—	—	—	(42,308)	—	2,073,077	01-06-09	01-06-11 to 31-05-14	0.3545
	6,451,923	—	—	—	(42,308)	—	6,409,615	01-06-09	01-06-12 to 31-05-14	0.3545
	2,115,385	—	—	—	(42,309)	—	2,073,076	01-06-09	01-06-13 to 31-05-14	0.3545
	—	22,500,000	—	—	—	—	22,500,000	02-06-10	01-04-12 to 11-10-14	0.7200
	—	7,500,000	—	—	—	—	7,500,000	02-06-10	01-04-13 to 11-10-14	0.7200
	—	10,000,000	—	—	—	—	10,000,000	02-06-10	01-04-14 to 11-10-14	0.7200
	28,980,770	40,000,000	(6,085,385)	—	(129,231)	5,288,461	68,054,615			
<b>Suppliers of services</b>										
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	—	(4,000,000)	—	—	—	7,105,769	01-06-09	01-06-10 to 31-05-14	0.3545
	—	5,900,000	—	—	—	—	5,900,000	02-06-10	01-04-12 to 11-10-14	0.7200
	—	900,000	—	—	—	—	900,000	02-06-10	01-04-13 to 11-10-14	0.7200
	—	1,200,000	—	—	—	—	1,200,000	02-06-10	01-04-14 to 11-10-14	0.7200
	16,394,230	8,000,000	(4,000,000)	—	—	(5,288,461)	15,105,769			
	63,673,077	65,000,000	(13,095,001)	(1,586,538)	(658,077)	—	113,333,461			

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

- (1) A supplier of services has been employed by the Group during the year.
- (2) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (3) 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.
- (4) 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.
- (5) The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK\$1.03 per share. The closing price of the Company's shares immediately before the date on which the options were granted during the year was HK\$0.72 per share.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of 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, its holding 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.

# Report of the Directors

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

As at 31 December 2010, 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 shareholder	Notes	Capacity and nature of interests	Number of ordinary shares in the Company	Percentage of the Company's issued share capital*
Tottenham	(a)	Directly beneficially owned	226,784,475	24.41%
Ms. Leung Wing Yi	(b)	Directly beneficially owned	125,000	0.01%
		Through spouse	234,340,725	25.23%
			234,465,725	25.24%
Ms. Low Lay Hwa	(c)	Through spouse	59,838,740	6.44%
DJE Investment S.A.	(d)	Investment manager	72,250,000	7.78%
Mr. Jiang Qi Hang	(e)	Through controlled corporation	50,817,773	5.47%

\* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2010.

Notes:

- (a) The interests of Tottenham 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 disclosed as the interests of Mr. Ho Yu Hoi, the husband of Ms. Low Lay Hwa, in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above. Ms. Low Lay Hwa was deemed to be interested in these shares owned by her husband pursuant to Part XV of the SFO.
- (d) 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.
- (e) 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 2010, 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.

# Report of the Directors

## 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

22 March 2011

# Independent Auditors' Report



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

We have audited the consolidated financial statements of IPE Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 120, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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

22 March 2011

# Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
REVENUE	5	1,054,243	695,725
Cost of sales		(780,942)	(587,363)
Gross profit		273,301	108,362
Other income and gains	5	11,580	21,379
Selling and distribution costs		(25,676)	(19,155)
Administrative expenses		(88,104)	(70,112)
Other expenses		(9,433)	(7,149)
Finance costs	7	(14,341)	(15,985)
PROFIT BEFORE TAX	6	147,327	17,340
Income tax expense	10	(14,489)	(5,011)
PROFIT FOR THE YEAR		132,838	12,329
Attributable to:			
Owners of the Company	11	132,355	12,587
Non-controlling interests		483	(258)
		132,838	12,329
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	13		
Basic		HK14.39 cents	HK1.66 cents
Diluted		HK13.87 cents	HK1.64 cents

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 2010

	Note	2010 HK\$'000	2009 HK\$'000
PROFIT FOR THE YEAR		<b>132,838</b>	12,329
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		<b>59,823</b>	14,296
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		<b>59,823</b>	14,296
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<b>192,661</b>	26,625
Attributable to:			
Owners of the Company	11	<b>192,137</b>	26,877
Non-controlling interests		<b>524</b>	(252)
		<b>192,661</b>	26,625

# Consolidated Statement of Financial Position

31 December 2010

		<b>31 December 2010</b>	31 December 2009	1 January 2009
	Notes	<b>HK\$'000</b>	HK\$'000	HK\$'000
			(Restated)	(Restated)
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	14	<b>1,057,688</b>	1,014,223	1,123,680
Prepaid land lease payments	15	<b>96,824</b>	37,070	37,732
Investment property	16	<b>29,300</b>	25,000	17,000
Loan to an unlisted equity investment	19	<b>5,000</b>	5,000	5,000
Available-for-sale investment	20	<b>150</b>	150	150
Other non-current assets		<b>—</b>	—	95
Deferred tax assets	30	<b>731</b>	862	1,150
<b>Total non-current assets</b>		<b>1,189,693</b>	1,082,305	1,184,807
<b>CURRENT ASSETS</b>				
Inventories	21	<b>186,924</b>	181,183	259,220
Trade receivables	22	<b>240,331</b>	229,871	165,325
Prepayments, deposits and other receivables	23	<b>13,855</b>	10,893	19,673
Cash and cash equivalents	24	<b>360,424</b>	173,597	136,468
<b>Total current assets</b>		<b>801,534</b>	595,544	580,686
<b>CURRENT LIABILITIES</b>				
Trade and bills payables	25	<b>86,994</b>	57,968	68,702
Other payables and accruals	26	<b>44,266</b>	107,763	219,805
Derivative financial instruments	27	<b>—</b>	30	—
Tax payable		<b>12,759</b>	8,271	5,201
Interest-bearing bank and other borrowings	28	<b>509,610</b>	298,106	261,333
<b>Total current liabilities</b>		<b>653,629</b>	472,138	555,041
<b>NET CURRENT ASSETS</b>		<b>147,905</b>	123,406	25,645
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,337,598</b>	1,205,711	1,210,452
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing bank and other borrowings	28	<b>88,289</b>	141,924	255,850
Deferred tax liabilities	30	<b>4,513</b>	2,705	2,408
Other payables and accruals	26	<b>278</b>	188	472
Derivative financial instruments	27	<b>2,608</b>	5,745	6,557
<b>Total non-current liabilities</b>		<b>95,688</b>	150,562	265,287
<b>Net assets</b>		<b>1,241,910</b>	1,055,149	945,165

# Consolidated Statement of Financial Position (Continued)

31 December 2010

	Notes	31 December 2010 HK\$'000	31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
<b>EQUITY</b>				
Equity attributable to owners of the Company				
Issued capital	31	<b>92,909</b>	91,599	69,780
Reserves	33(a)	<b>1,126,252</b>	962,704	874,287
Proposed final dividend	12	<b>21,379</b>	—	—
		<b>1,240,540</b>	1,054,303	944,067
Non-controlling interests		<b>1,370</b>	846	1,098
<b>Total equity</b>		<b>1,241,910</b>	1,055,149	945,165

**CHUI SIU ON**  
Director

**LAI MAN KIT**  
Director

# Consolidated Statement of Changes in Equity

Year ended 31 December 2010

Notes	Attributable to owners of the Company												Total equity HK\$'000
	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	Proposed final dividend HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	
At 1 January 2010	91,599	388,193	(1,116)	12,598	287	3,685	6,966	115,544	436,547	—	1,054,303	846	1,055,149
Profit for the year	—	—	—	—	—	—	—	—	132,355	—	132,355	483	132,838
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	59,782	—	—	59,782	41	59,823
Total comprehensive income for the year	—	—	—	—	—	—	—	59,782	132,355	—	192,137	524	192,661
Issue of shares	31	1,310	6,306	—	—	—	(2,395)	—	—	—	5,221	—	5,221
Share issue expenses	31	—	(101)	—	—	—	—	—	—	—	(101)	—	(101)
Equity-settled share option arrangements	32	—	—	—	—	—	7,383	—	—	—	7,383	—	7,383
Transfer of share option reserve upon the forfeiture or expiry of share options		—	—	—	—	—	(353)	—	353	—	—	—	—
Transfer from retained profits		—	—	727	—	—	—	—	(727)	—	—	—	—
Interim 2010 dividend	12	—	—	—	—	—	—	—	(18,403)	—	(18,403)	—	(18,403)
Proposed final 2010 dividend	12	—	—	—	—	—	—	—	(21,379)	21,379	—	—	—
At 31 December 2010	92,909	394,398*	(1,116)*	13,325*	287*	3,685*	11,601*	175,326*	528,746*	21,379	1,240,540	1,370	1,241,910

\* These reserve accounts comprise the consolidated reserves of HK\$1,126,252,000 (2009: HK\$962,704,000) in the consolidated statement of financial position.

# Consolidated Statement of Changes in Equity (Continued)

Year ended 31 December 2010

Notes	Attributable to owners of the Company											Total equity HK\$'000
	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	Non- controlling interests 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	
Profit for the year	—	—	—	—	—	—	—	—	12,587	12,587	(258)	12,329
Other comprehensive income for the year: Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	14,290	—	14,290	6	14,296
Total comprehensive income for the year	—	—	—	—	—	—	—	14,290	12,587	26,877	(252)	26,625
Issue of shares	21,819	59,413	—	—	—	—	—	—	—	81,232	—	81,232
Share issue expenses	—	(2,315)	—	—	—	—	—	—	—	(2,315)	—	(2,315)
Equity-settled share option arrangements	—	—	—	—	—	—	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 Cash Flows

Year ended 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>147,327</b>	17,340
Adjustments for:			
Depreciation	6, 14	<b>156,178</b>	146,388
Amortisation of other non-current assets		—	95
Recognition of prepaid land lease payments	6, 15	<b>935</b>	903
Provision against inventory obsolescence	6	<b>4,002</b>	9,079
Loss on disposal of items of property, plant and equipment	6	<b>163</b>	1,868
Changes in fair value of investment property	6, 16	<b>(4,300)</b>	(4,822)
Fair value gains, net:			
Derivative financial instruments			
— transactions not qualifying as hedges	6	<b>(3,167)</b>	(782)
Equity-settled share option expense	32	<b>7,383</b>	4,442
Finance costs	7	<b>14,341</b>	15,985
Bank interest income	5	<b>(876)</b>	(253)
Impairment/(reversal of impairment) of trade receivables, net	6, 22	<b>327</b>	(1,969)
		<b>322,313</b>	188,274
(Increase)/decrease in inventories		<b>(2,476)</b>	68,958
Increase in trade receivables		<b>(3,007)</b>	(59,221)
(Increase)/decrease in prepayments, deposits and other receivables		<b>(1,395)</b>	8,852
Increase/(decrease) in trade and bills payables		<b>28,311</b>	(10,854)
Increase in other payables and accruals		<b>5,279</b>	5,240
Cash generated from operations		<b>349,025</b>	201,249
Interest received		<b>876</b>	253
Interest paid		<b>(11,230)</b>	(14,269)
Interest element of finance lease rental payments		<b>(2,131)</b>	(776)
Income taxes paid		<b>(8,026)</b>	(1,338)
Net cash flows from operating activities		<b>328,514</b>	185,119



# Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Net cash flows from operating activities		<b>328,514</b>	185,119
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		<b>(227,374)</b>	(154,050)
Proceeds from disposal of items of property, plant and equipment		<b>4,433</b>	6,335
Prepayment for a land lease		<b>(60,548)</b>	—
Net cash flows used in investing activities		<b>(283,489)</b>	(147,715)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares	31	—	81,232
Share issue expenses	31	<b>(101)</b>	(2,315)
Share options exercised	31(c)	<b>5,221</b>	—
New bank loans and other borrowings		<b>611,057</b>	127,848
Repayment of bank loans and other borrowings		<b>(434,260)</b>	(187,502)
Capital element of finance lease rental payments		<b>(22,497)</b>	(19,914)
Dividends paid	12	<b>(18,403)</b>	—
Net cash flows from/(used in) financing activities		<b>141,017</b>	(651)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		<b>173,534</b>	136,468
Effect of foreign exchange rate changes, net		<b>848</b>	313
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>360,424</b>	173,534
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	24	<b>360,188</b>	114,581
Non-pledged time deposits with original maturity of less than three months when acquired	24	<b>236</b>	59,016
Cash and cash equivalents as stated in the consolidated statement of financial position	24	<b>360,424</b>	173,597
Bank overdrafts	28	—	(63)
Cash and cash equivalents as stated in the consolidated statement of cash flows		<b>360,424</b>	173,534

# Statement of Financial Position

31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	18	43	43
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables	23	235	303
Amounts due from subsidiaries	18	703,333	650,179
Cash and cash equivalents	24	1,352	29,201
Total current assets		704,920	679,683
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	26	156	515
<b>NET CURRENT ASSETS</b>			
		704,764	679,168
Net assets		704,807	679,211
<b>EQUITY</b>			
Issued capital	31	92,909	91,599
Reserves	33(b)	590,519	587,612
Proposed final dividend	12	21,379	—
Total equity		704,807	679,211

**CHUI SIU ON**  
Director

**LAI MAN KIT**  
Director

# Notes to Financial Statements

31 December 2010

## 1. CORPORATE INFORMATION

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

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

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

In the opinion of the directors, the holding company and the ultimate holding company of the Group before the open offer of new shares of the Company in the year 2009 was Tottenham 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(b) 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 property 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**

##### **Basis of consolidation from 1 January 2010**

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 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

# Notes to Financial Statements

31 December 2010

## 2.1 BASIS OF PREPARATION (Continued)

### Basis of consolidation (Continued)

#### Basis of consolidation from 1 January 2010 (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

#### Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the Company, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the Company's shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

# Notes to Financial Statements

31 December 2010

## 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.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
HKFRS 5 Amendments included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary</i>
<i>Improvements to HKFRSs 2009</i>	<i>Amendments to a number of HKFRSs issued in May 2009</i>
HK Interpretation 4 Amendment	<i>Amendment to HK Interpretation 4 Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HK Interpretation 5	<i>Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i>

Other than as further explained below regarding the impact of HK Interpretation 5 and HK Interpretation 4, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

- (a) HK Interpretation 5 requires that a loan that contains a clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. This is irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement.

Prior to the adoption of this interpretation, the Group's term loans were classified in the statement of financial position separately as to the current and non-current liabilities portions based on the maturity dates of repayment. Upon the adoption of the interpretation, the term loans with a "repayable on demand" clause have been reclassified as current liabilities. The interpretation has been applied by the Group retrospectively and comparative amounts have been restated. In addition, as a result of this change and as required by HKAS 1 *Presentation of Financial Statements*, these financial statements also include a consolidated statement of financial position as at 1 January 2009.

Further details of the loan are disclosed in note 28 to the financial statements.

# Notes to Financial Statements

31 December 2010

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

(a) (Continued)

The above change has had no effect on the consolidated income statement and the Company's statement of financial position. The effect on the consolidated statements of financial position as at 31 December 2010, 31 December 2009 and 1 January 2009 is summarised as follows:

	<b>31 December 2010 HK\$'000</b>	31 December 2009 HK\$'000	1 January 2009 HK\$'000
Increase/(decrease) in			
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	<b>195,476</b>	17,815	3,669
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	<b>(195,476)</b>	(17,815)	(3,669)

There was no impact on the net assets of the Group and the Company.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- **HKAS 17 Leases:** Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 *Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

# Notes to Financial Statements

31 December 2010

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

(b) (Continued)

The Group has reassessed its leases in Hong Kong and Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases. As substantially all the risks and rewards associated with the leases in Hong Kong have been transferred to the Group, the leases in Hong Kong have been reclassified from operating leases under “prepaid land lease payments” to finance leases under “property, plant and equipment”. The corresponding amortisation has also been reclassified to depreciation. The effects of the above changes are summarised below:

	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
<i>Consolidated income statement for the year ended 31 December</i>		
Decrease in amortisation of prepaid land lease payments	<b>(25)</b>	(25)
Increase in depreciation of property, plant and equipment	<b>25</b>	25
	—	—
<i>Consolidated statement of financial position at 31 December</i>		
Decrease in prepaid land lease payments, net	<b>(825)</b>	(850)
Increase in property, plant and equipment, net	<b>825</b>	850
	—	—
<i>Consolidated statement of financial position at 1 January</i>		
Decrease in prepaid land lease payments, net		(875)
Increase in property, plant and equipment, net		875
		—

Due to the retrospective application of the amendments which has resulted in the restatement of items in the consolidated statement of financial position, a consolidated statement of financial position as at 1 January 2009, and the related notes affected by the amendments have been presented in these consolidated financial statements.



# Notes to Financial Statements

31 December 2010

## 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 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> <sup>2</sup>
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> <sup>4</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Transfers of Financial Assets</i> <sup>4</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>6</sup>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes — Deferred tax: Recovery of Underlying Assets</i> <sup>5</sup>
HKAS 24 (Revised)	<i>Related Party Disclosures</i> <sup>3</sup>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation — Classification of Rights Issues</i> <sup>1</sup>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> <sup>3</sup>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>2</sup>

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>6</sup> 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.

# Notes to Financial Statements

31 December 2010

## 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.

# Notes to Financial Statements

31 December 2010

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations and goodwill

#### Business combinations prior to 1 January 2010 but after 1 January 2005

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment property), 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, unless the asset is carried at a revalued amount, in which case the impairment loss 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.

# Notes to Financial Statements

31 December 2010

## 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
Leasehold land under finance leases	Over the lease terms
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

# Notes to Financial Statements

31 December 2010

## 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 property. It 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 property 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 disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

### Research and development costs

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

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

# Notes to Financial Statements

31 December 2010

## 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 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 investments, 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.

# Notes to Financial Statements

31 December 2010

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

#### Subsequent measurement

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

(1) *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 by 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) *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 to assess 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. 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.



# Notes to Financial Statements

31 December 2010

## 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; 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.

### 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.

# Notes to Financial Statements

31 December 2010

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

#### Financial assets carried at amortised cost (Continued)

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.

### 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.

# Notes to Financial Statements

31 December 2010

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

#### 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.

#### 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.

# Notes to Financial Statements

31 December 2010

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 a 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 portion 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.

### 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.

# Notes to Financial Statements

31 December 2010

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

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.

# Notes to Financial Statements

31 December 2010

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax (Continued)

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.

# Notes to Financial Statements

31 December 2010

## 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.



# Notes to Financial Statements

31 December 2010

## 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 per employee, 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.

# Notes to Financial Statements

31 December 2010

## 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.

# Notes to Financial Statements

31 December 2010

## 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.

#### **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.

#### **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 were related to recognised tax losses at 31 December 2010 and 2009. The amount of unrecognised tax losses at 31 December 2010 was HK\$26,339,000 (2009: HK\$51,755,000). Further details are set out in note 30 to the financial statements.

# Notes to Financial Statements

31 December 2010

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

### Estimation uncertainty (Continued)

#### 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 the 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 options, volatility and dividend yield and making assumptions about them. The assumptions and models used for the estimation of the fair value for share-based payments are disclosed in note 32 to the financial statements.

## 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 the Group's 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. The adjusted profit before tax is measured consistently with the Group's profit before tax 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.

# Notes to Financial Statements

31 December 2010

## 4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2010	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
<b>Segment revenue:</b>							
Sales to external customers	321,854	219,137	209,069	122,110	113,335	68,738	1,054,243
Intersegment sales	60,565	—	—	—	—	—	60,565
Other revenue	1,868	—	8,836	—	—	—	10,704
	<b>384,287</b>	<b>219,137</b>	<b>217,905</b>	<b>122,110</b>	<b>113,335</b>	<b>68,738</b>	<b>1,125,512</b>
<i>Reconciliation:</i>							
Elimination of intersegment sales							(60,565)
Revenue							<b>1,064,947</b>
<b>Segment results</b>	<b>68,493</b>	<b>32,137</b>	<b>30,661</b>	<b>17,908</b>	<b>16,621</b>	<b>10,081</b>	<b>175,901</b>
<i>Reconciliation:</i>							
Elimination of intersegment results							(15,109)
Interest income							876
Finance costs							(14,341)
Profit before tax							<b>147,327</b>
Income tax expense							(14,489)
Profit for the year							<b>132,838</b>
<b>Segment assets</b>	<b>329,335</b>	<b>34,787</b>	<b>1,623,242</b>	<b>32,005</b>	<b>28,747</b>	<b>5,984</b>	<b>2,054,100</b>
<i>Reconciliation:</i>							
Elimination of intersegment receivables							(63,383)
Corporate and other unallocated assets							510
Total assets							<b>1,991,227</b>
<b>Segment liabilities</b>	<b>18,866</b>	<b>—</b>	<b>757,576</b>	<b>1,295</b>	<b>5,207</b>	<b>29,756</b>	<b>812,700</b>
<i>Reconciliation:</i>							
Elimination of intersegment payables							(63,383)
Total liabilities							<b>749,317</b>

# Notes to Financial Statements

31 December 2010

## 4. OPERATING SEGMENT INFORMATION (Continued)

Year ended			Mainland China, Macau and Hong Kong	North America	Europe	Other countries	Total
31 December 2010	Thailand HK\$'000	Malaysia HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Other segment information:</b>							
Impairment losses recognised in the income statement	1,115	—	3,214	—	—	—	4,329
Depreciation and amortisation	22,852	—	134,261	—	—	—	157,113
Capital expenditure*	34,801	—	184,586	—	—	—	219,387
<hr/>							
Change in fair value of derivative financial instruments							
— Interest rate swap	—	—	(3,137)	—	—	—	(3,137)
— Forward currency contracts	—	—	(30)	—	—	—	(30)
Change in fair value of investment property	—	—	(4,300)	—	—	—	(4,300)
<hr/>							
(Gain)/loss on disposal of items of property, plant and equipment	(652)	—	815	—	—	—	163

\* Capital expenditure consists of additions to property, plant and equipment and prepaid land lease payments.

# Notes to Financial Statements

31 December 2010

## 4. OPERATING SEGMENT INFORMATION (Continued)

Year ended			Mainland China, Macau and Hong Kong	North America	Europe	Other countries	Total
31 December 2009	Thailand	Malaysia	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue:</b>							
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
<i>Reconciliation:</i>							
Elimination of intersegment sales							(16,579)
Revenue							716,851
<b>Segment results</b>	30,157	1,792	1,666	547	419	430	35,011
<i>Reconciliation:</i>							
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
<b>Segment assets</b>	286,419	52,823	1,365,020	15,692	11,915	1,579	1,733,448
<i>Reconciliation:</i>							
Elimination of intersegment receivables							(56,008)
Corporate and other unallocated assets							409
Total assets							1,677,849
<b>Segment liabilities</b>	59,266	—	582,192	1,480	3,959	31,811	678,708
<i>Reconciliation:</i>							
Elimination of intersegment payables							(56,008)
Total liabilities							622,700



# Notes to Financial Statements

31 December 2010

## 4. OPERATING SEGMENT INFORMATION (Continued)

Year ended			Mainland China, Macau and Hong Kong	North America	Europe	Other countries	Total
31 December 2009	Thailand HK\$'000	Malaysia HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Other segment information:</b>							
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
<hr/>							
Change in fair value of derivative financial instruments							
— Interest rate swap	—	—	(812)	—	—	—	(812)
— Forward currency contracts	—	—	30	—	—	—	30
Change in fair value of investment property	—	—	(4,822)	—	—	—	(4,822)
<hr/>							
Loss on disposal of items of property, plant and equipment	—	—	1,868	—	—	—	1,868

\* Capital expenditure consists of additions to property, plant and equipment.

# Notes to Financial Statements

31 December 2010

## 4. OPERATING SEGMENT INFORMATION (Continued)

### Business segment information

#### (a) Revenue by product

	2010 HK\$'000	2009 HK\$'000
HDD components	649,658	498,506
Hydraulic equipment components	225,862	89,275
Automotive components	147,179	88,002
Others	31,544	19,942
	<b>1,054,243</b>	695,725

#### (b) Non-current assets

	2010 HK\$'000	2009 HK\$'000
Thailand	141,730	118,352
Mainland China, Macau and Hong Kong	1,047,232	963,091
	<b>1,188,962</b>	1,081,443

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\$165 million (2009: HK\$146 million) was derived from sales by the HDD components segment to a single customer.

# Notes to Financial Statements

31 December 2010

## 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	2010 HK\$'000	2009 HK\$'000
Revenue			
Sale of goods and materials		<b>1,054,243</b>	695,725
Other income			
Bank interest income		<b>876</b>	253
Reversal of impairment of trade receivables, net	22	—	1,969
Others		<b>3,237</b>	2,113
		<b>4,113</b>	4,335
Gains			
Foreign exchange gains, net		—	11,410
Fair value gains:			
Derivative financial instruments — transactions not qualifying as hedges:			
Interest rate swap		<b>3,137</b>	812
Forward currency contracts		<b>30</b>	—
Fair value gain on investment property	16	<b>4,300</b>	4,822
		<b>7,467</b>	17,044
		<b>11,580</b>	21,379

# Notes to Financial Statements

31 December 2010

## 6. PROFIT BEFORE TAX

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

	Notes	2010 HK\$'000	2009 HK\$'000
Cost of inventories sold*		<b>776,940</b>	578,284
Depreciation	14	<b>156,178</b>	146,388
Amortisation of land lease payments	15	<b>935</b>	903
Auditors' remuneration		<b>2,167</b>	2,054
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		<b>145,093</b>	93,871
Equity-settled share option expense**		<b>5,131</b>	3,160
Pension scheme contributions***		<b>3,302</b>	2,475
		<b>153,526</b>	99,506
Minimum lease payments under operating leases:			
Land and buildings		<b>1,744</b>	983
Equipment		<b>10</b>	33
		<b>1,754</b>	1,016
Foreign exchange differences, net		<b>3,662</b>	(11,410)
Research and development costs****		<b>6,418</b>	11,384
Changes in fair value of investment property	16	<b>(4,300)</b>	(4,822)
Fair value (gains)/losses, net:			
Derivative financial instruments — transactions not qualifying as hedges:			
Interest rate swap	27	<b>(3,137)</b>	(812)
Forward currency contracts	27	<b>(30)</b>	30
		<b>(3,167)</b>	(782)
Loss on disposal of items of property, plant and equipment		<b>163</b>	1,868
Impairment/(reversal of impairment) of trade receivables, net	22	<b>327</b>	(1,969)
Provision against inventory obsolescence	21	<b>4,002</b>	9,079

Notes:

\* The cost of inventories sold includes an amount of approximately HK\$262,018,000 (2009: HK\$208,137,000) relating to the employee benefit 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 2010, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

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

# Notes to Financial Statements

31 December 2010

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2010 HK\$'000	2009 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	10,770	14,086
Interest on finance leases	2,131	776
Financial arrangement fees	980	940
Other interest expense	460	183
	<b>14,341</b>	<b>15,985</b>

## 8. DIRECTORS' REMUNERATION

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

	Group	
	2010 HK\$'000	2009 HK\$'000
Fees	2,742	2,399
Other emoluments:		
Salaries, allowances and benefits in kind	5,194	4,243
Discretionary bonuses	528	—
Equity-settled share option expense	2,252	1,282
Pension scheme contributions	72	60
	<b>8,046</b>	<b>5,585</b>
	<b>10,788</b>	<b>7,984</b>

During the current and prior years, 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 amounts included in the financial statements for the current year and the prior year are included in the above directors' remuneration disclosures.

# Notes to Financial Statements

31 December 2010

## 8. DIRECTORS' REMUNERATION (Continued)

### (a) Independent non-executive directors

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

#### 2010

	Fees HK\$'000	Equity-settled share option expense HK\$'000	Total remuneration HK\$'000
Dr. Cheng Ngok	100	93	193
Mr. Choi Hon Ting, Derek	100	80	180
Mr. Wu Karl Kwok	100	80	180
	<b>300</b>	<b>253</b>	<b>553</b>

#### 2009

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

There was no other emolument payable to the independent non-executive directors during the year (2009: Nil).

# Notes to Financial Statements

31 December 2010

## 8. DIRECTORS' REMUNERATION (Continued)

### (b) Executive directors and non-executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
<b>2010</b>						
Executive directors:						
Mr. Chui Siu On	390	1,220	—	—	12	1,622
Mr. Ho Yu Hoi	402	941	—	—	—	1,343
Mr. Lai Man Kit	360	628	—	—	12	1,000
Mr. Li Chi Hang	200	357	—	—	12	569
Mr. Wong Kwok Keung	360	540	350	696	12	1,958
Mr. Lau Siu Chung	360	624	142	696	12	1,834
Mr. Yuen Chi Ho	360	884	36	607	12	1,899
	<b>2,432</b>	<b>5,194</b>	<b>528</b>	<b>1,999</b>	<b>72</b>	<b>10,225</b>
Non-executive director:						
Mr. Wan Tak Wing, Gary	10	—	—	—	—	10
	<b>10</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>10</b>
	<b>2,442</b>	<b>5,194</b>	<b>528</b>	<b>1,999</b>	<b>72</b>	<b>10,235</b>

	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
<b>2009</b>					
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
	<b>1,989</b>	<b>4,243</b>	<b>1,054</b>	<b>58</b>	<b>7,344</b>
Non-executive directors:					
Mr. Ng Kin Nam	60	—	—	2	62
Mr. Wan Tak Wing, Gary	50	—	57	—	107
	<b>110</b>	<b>—</b>	<b>57</b>	<b>2</b>	<b>169</b>
	<b>2,099</b>	<b>4,243</b>	<b>1,111</b>	<b>60</b>	<b>7,513</b>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil). In addition, no emolument was 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 (2009: Nil).



# Notes to Financial Statements

31 December 2010

## 9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2009: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2009: two) non-director, highest paid employee for the year are as follows:

	Group	
	2010 HK\$'000	2009 HK\$'000
Salaries, allowances and benefits in kind	798	1,703
Discretionary bonuses	200	—
Equity-settled share option expense	855	854
Pension scheme contributions	12	12
	<b>1,865</b>	<b>2,569</b>

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

	Number of employee	
	2010	2009
HK\$1,000,001 to HK\$1,500,000	—	2
HK\$1,500,001 to HK\$2,000,000	1	—
	<b>1</b>	<b>2</b>

During the current year, share options were granted to the non-director, highest paid employee in respect of his services to the Group. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employee's remuneration disclosures. In addition, no emolument was paid by the Group to the non-director, highest paid employee as an inducement to join or upon joining the Group, or as a compensation for loss of office (2009: Nil).

# Notes to Financial Statements

31 December 2010

## 10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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	
	2010 HK\$'000	2009 HK\$'000
Group:		
Current (charge for the year) — Hong Kong	1,608	2,151
Current (charge for the year) — Elsewhere	10,906	2,257
Deferred (note 30)	1,975	603
<b>Total tax charge for the year</b>	<b>14,489</b>	<b>5,011</b>

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	
	2010 HK\$'000	2009 HK\$'000
Profit before tax	147,327	17,340
Tax at the applicable tax rates	30,609	(873)
Expenses not deductible for tax	10,541	15,227
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	1,482	7
Income not subject to tax	(26,871)	(17,138)
Tax losses utilised from previous periods	(2,188)	—
Tax losses not recognised	916	7,788
<b>Tax charge at the Group's effective rate of 9.8% (2009: 28.9%)</b>	<b>14,489</b>	<b>5,011</b>

Guangzhou Xinghao Precision Metal Products Company Limited ("Xing Hao"), a wholly-owned subsidiary of the Company established in the Zengcheng Xiancun Lantian Economic Open Zone, has obtained approval from the local tax authority that it is subject to a reduced tax rate of 15% from the years 2009 to 2011 because it was recognised as High and New Technology Enterprise (高新技術企業), which is entitled to enjoy a reduced corporate income tax rate of 15% according to the local tax regime.

# Notes to Financial Statements

31 December 2010

## 10. INCOME TAX (Continued)

Integrated Precision Engineering (Thailand) Company Limited (“IPE Thailand”), a company incorporated in Thailand, is subject to income tax in Thailand at a rate of 30% (2009: 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 Decree-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 COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 includes a profit of HK\$31,496,000 (2009: HK\$2,105,000) which has been dealt with in the financial statements of the Company (note 33(b)).

## 12. DIVIDENDS

	2010 HK\$'000	2009 HK\$'000
Interim dividend — HK2.0 cents (2009: Nil) per ordinary share	18,403	—
Proposed final dividend — HK2.3 cents (2009: Nil) per ordinary share	21,379	—
	<b>39,782</b>	—

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

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

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

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the 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.

# Notes to Financial Statements

31 December 2010

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (Continued)

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

	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	<b>132,355</b>	12,587
<hr/>		
	<b>Number of shares</b>	
	<b>2010</b>	2009
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<b>919,527,335</b>	758,539,759
Effect of dilution — weighted average number of ordinary shares:		
Share options	<b>34,971,524</b>	8,143,004
	<b>954,498,859</b>	766,682,763

# Notes to Financial Statements

31 December 2010

## 14. PROPERTY, PLANT AND EQUIPMENT

Group	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 2010 (restated)	315,413	3,021	1,239,400	40,820	20,174	25,245	1,644,073
Additions	9,797	—	11,855	2,283	2,657	132,247	158,839
Transfer in/(out)	12,194	—	106,596	9,463	2,088	(130,341)	—
Disposals	(3,674)	—	(16,736)	(2,053)	(6,472)	(1,842)	(30,777)
Exchange realignment	14,559	42	57,996	1,741	608	1,152	76,098
At 31 December 2010	348,289	3,063	1,399,111	52,254	19,055	26,461	1,848,233
Accumulated depreciation:							
At 1 January 2010 (restated)	(76,897)	(1,711)	(516,545)	(21,374)	(13,323)	—	(629,850)
Depreciation provided during the year	(18,828)	(593)	(125,148)	(8,884)	(2,725)	—	(156,178)
Disposals — accumulated depreciation	3,331	—	15,259	1,962	5,629	—	26,181
Exchange realignment	(3,543)	(24)	(25,874)	(926)	(331)	—	(30,698)
At 31 December 2010	(95,937)	(2,328)	(652,308)	(29,222)	(10,750)	—	(790,545)
At 31 December 2010							
Cost	348,289	3,063	1,399,111	52,254	19,055	26,461	1,848,233
Accumulated depreciation	(95,937)	(2,328)	(652,308)	(29,222)	(10,750)	—	(790,545)
Net carrying amount	252,352	735	746,803	23,032	8,305	26,461	1,057,688
At 31 December 2009							
Cost	315,413	3,021	1,239,400	40,820	20,174	25,245	1,644,073
Accumulated depreciation	(76,897)	(1,711)	(516,545)	(21,374)	(13,323)	—	(629,850)
Net carrying amount (restated)	238,516	1,310	722,855	19,446	6,851	25,245	1,014,223

# Notes to Financial Statements

31 December 2010

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

Group	Land and buildings HK\$'000 (Restated)	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 (Restated)
Cost:							
At 1 January 2009	298,953	6,394	1,106,639	33,608	20,011	156,128	1,621,733
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	315,413	3,021	1,239,400	40,820	20,174	25,245	1,644,073
Accumulated depreciation:							
At 1 January 2009	(57,688)	(4,498)	(409,045)	(15,252)	(11,570)	—	(498,053)
Depreciation provided during the year	(18,676)	(591)	(117,445)	(6,909)	(2,767)	—	(146,388)
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	(76,897)	(1,711)	(516,545)	(21,374)	(13,323)	—	(629,850)
At 31 December 2009	315,413	3,021	1,239,400	40,820	20,174	25,245	1,644,073
Cost	315,413	3,021	1,239,400	40,820	20,174	25,245	1,644,073
Accumulated depreciation	(76,897)	(1,711)	(516,545)	(21,374)	(13,323)	—	(629,850)
Net carrying amount	238,516	1,310	722,855	19,446	6,851	25,245	1,014,223

# Notes to Financial Statements

31 December 2010

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

The Group's leasehold land included in property, plant and equipment with a net carrying amount of HK\$825,000 (2009: HK\$850,000) is situated in Hong Kong and is held under a medium term lease.

The freehold land amounting to Thai Baht19,201,000 (equivalent to HK\$4,983,000) included in land and buildings is situated in Thailand (2009: Thai Baht19,201,000 (equivalent to HK\$4,485,000)).

The net carrying amounts 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 2010 amounted to HK\$69,656,000 (2009: HK\$75,865,000).

## 15. PREPAID LAND LEASE PAYMENTS

	Group	
	2010 HK\$'000	2009 HK\$'000
Carrying amount at 1 January (restated)	37,973	38,629
Addition during the year	60,548	—
Recognised during the year (note 6) (restated)	(935)	(903)
Exchange realignment	1,387	247
Carrying amount at 31 December (restated)	98,973	37,973
Current portion included in prepayments, deposits and other receivables	(2,149)	(903)
Non-current portion	96,824	37,070

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

# Notes to Financial Statements

31 December 2010

## 16. INVESTMENT PROPERTY

	Group	
	2010	2009
	HK\$'000	HK\$'000
Carrying amount at 1 January	25,000	17,000
Additions	—	3,178
Net gain from a fair value adjustment (notes 5 and 6)	4,300	4,822
Carrying amount at 31 December	29,300	25,000

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

The Group's investment property was revalued on 31 December 2010 by Centaline Surveyors Limited, independent professionally qualified valuers, at HK\$29,300,000 on an open market, existing use basis.

## 17. GOODWILL

Group	HK\$'000
At 31 December 2009:	
Cost	1,950
Accumulated impairment	(1,950)
Net carrying amount	—
At 31 December 2010:	
Cost	1,950
Accumulated impairment	(1,950)
Net carrying amount	—



# Notes to Financial Statements

31 December 2010

## 18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010 HK\$'000	2009 HK\$'000
Unlisted shares, at cost	43	43

The amounts due from subsidiaries of HK\$703,333,000 (2009: HK\$650,179,000) included in the Company's current assets are unsecured, interest-free and repayable on demand.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Best Device Group Limited ("Best Device")	British Virgin Islands/ Hong Kong	US\$5,528	100%	—	Investment holding
Cyber Starpower Limited	British Virgin Islands/ Hong Kong	US\$1,000	—	100%	Investment holding
Anglo Dynamic Limited	British Virgin Islands/ Hong Kong	US\$2,000	—	100%	Investment holding
Tai Situpa Group Limited	British Virgin Islands/ Hong Kong	US\$2,000	—	100%	Investment holding
Lewiston Group Limited	British Virgin Islands/ Hong Kong	US\$1,000	—	100%	Investment holding
Integrated Precision Engineering (Thailand) Company Limited	Thailand	Thai Baht 150,000,000	—	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	Macao Pataca 100,000	—	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

# Notes to Financial Statements

31 December 2010

## 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		Principal activities
			Direct	Indirect	
Guangzhou Xing Hao Precision Metal Products Company Limited ("Xing Hao")**	PRC/ Mainland China	HK\$721,905,257	—	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 ("Taicang")***	PRC/Mainland China	HK\$5,000,000	—	61%	Surface and deburring treatment services
International Precision Engineering Company Limited	Hong Kong	HK\$1,000	—	100%	Investment holding
Jiangsu Koda Precision Engineering Company Limited ("Jiangsu Koda")****	PRC/Mainland China	US\$28,125,185	—	100%	Manufacture of precision metal components

\* Dongguan Koda is a wholly-foreign-owned enterprise under PRC law with a registered capital of HK\$213,000,000, which has been fully contributed.

\*\* Xing Hao is a wholly-foreign-owned enterprise under PRC law with a registered capital of HK\$959,000,000. Up to 31 December 2010, HK\$721,905,257 has been contributed.

\*\*\* Taicang is a non-wholly-foreign-owned enterprise under PRC law with a registered capital of HK\$5,000,000, which has been fully contributed. Taicang is accounted for as a subsidiary by virtue of the Company's control over it.

\*\*\*\* Jiangsu Koda is a wholly-foreign-owned enterprise under PRC law with a registered capital of US\$40,000,000. Up to 31 December 2010, US\$28,125,185 has been contributed.

## 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 from the year end date.

# Notes to Financial Statements

31 December 2010

## 20. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2010 HK\$'000	2009 HK\$'000
Unlisted equity investment, at cost	150	150

As at 31 December 2010, an unlisted equity investment with a carrying amount of HK\$150,000 (2009: HK\$150,000) was stated at cost because the variability in the range of the reasonable fair value estimates of the unlisted equity investment is significant and hence the directors are of the opinion that its fair value cannot be measured reliably.

## 21. INVENTORIES

	Group	
	2010 HK\$'000	2009 HK\$'000
Raw materials	71,965	66,119
Consumables	44,004	42,886
Work in progress	52,879	43,861
Finished goods	38,293	44,532
	<b>207,141</b>	197,398
Less: Provision against inventory obsolescence	(20,217)	(16,215)
	<b>186,924</b>	181,183

## 22. TRADE RECEIVABLES

	Group	
	2010 HK\$'000	2009 HK\$'000
Trade receivables	240,658	229,871
Impairment	(327)	—
	<b>240,331</b>	229,871

# Notes to Financial Statements

31 December 2010

## 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 90 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	
	2010	2009
	HK\$'000	HK\$'000
Within 1 month	89,319	92,080
1 to 2 months	84,994	77,434
2 to 3 months	46,882	45,237
3 to 4 months	15,535	12,064
4 to 12 months	3,601	2,817
Over 12 months	—	239
	<b>240,331</b>	<b>229,871</b>

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

	Group	
	2010	2009
	HK\$'000	HK\$'000
At 1 January	—	3,938
Impairment losses recognised (note 6)	327	126
Impairment losses reversed (note 6)	—	(2,095)
Amount written off as uncollectible	—	(1,969)
	<b>327</b>	<b>—</b>

Included in the above provision for impairment of trade receivables as at 31 December 2010 was a provision for individually impaired trade receivable of HK\$327,000 (2009: Nil) with a carrying amount before provision of HK\$327,000. The individually impaired trade receivable relates to a customer that was in default and the balance was not expected to be recoverable. The Group did not hold any collateral or other credit enhancements over the balance.

# Notes to Financial Statements

31 December 2010

## 22. TRADE RECEIVABLES (Continued)

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

	Group	
	2010 HK\$'000	2009 HK\$'000
Neither past due nor impaired	208,024	212,857
Less than 90 days past due	31,020	16,475
90 to 180 days past due	499	141
Over 180 days past due	788	398
	<b>240,331</b>	<b>229,871</b>

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 enhancements over these balances.

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010 HK\$'000	2009 HK\$'000 (Restated)	2010 HK\$'000	2009 HK\$'000
Prepayments	5,186	3,179	235	302
Deposits and other receivables	8,669	7,714	—	1
	<b>13,855</b>	10,893	<b>235</b>	303

# Notes to Financial Statements

31 December 2010

## 24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Cash and bank balances	360,188	114,581	1,352	24,199
Non-pledged time deposits	236	59,016	—	5,002
Cash and cash equivalents	360,424	173,597	1,352	29,201

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi (“RMB”) amounted to HK\$108,388,350 (2009: HK\$26,131,544). 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	
	2010 HK\$'000	2009 HK\$'000
Within 1 month	35,222	24,792
1 to 2 months	33,264	21,969
2 to 3 months	16,375	8,458
Over 3 months	2,133	2,749
	86,994	57,968

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

# Notes to Financial Statements

31 December 2010

## 26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Other payables (Note)	<b>23,858</b>	94,570	—	—
Accruals	<b>20,686</b>	13,381	<b>156</b>	515
	<b>44,544</b>	107,951	<b>156</b>	515
Portion classified as non-current:				
Other payables (Note)	<b>(278)</b>	(188)	—	—
Current portion	<b>44,266</b>	107,763	<b>156</b>	515

Note: The non-current portion of other payables as at 31 December 2010 represented a deferred lease payment arising from a rent-free period of two years for the plant of a subsidiary. The non-current portion of the balance as at 31 December 2009 represented a payable for the water pipeline construction project of Integrated Precision Engineering (Thailand) Company Limited in Thailand.

# Notes to Financial Statements

31 December 2010

## 27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2010 HK\$'000	2009 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	2,608	5,745
	2,608	5,745

\* In the year 2009, the Group had entered into a forward currency contract to manage its exchange rate exposure which did not meet the criteria for hedge accounting. The agreement required the Group to buy Japanese Yen with Hong Kong dollars at a pre-agreed exchange rate on pre-determined dates up to January 2011. The contract was settled in December 2010.

\*\* At 31 December 2010, 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\$83,333,333 (2009: 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.



# Notes to Financial Statements

31 December 2010

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	31 December 2010			31 December 2009			1 January 2009		
	Effective contractual interest rate (%)	Maturity	HK\$'000	Effective contractual interest rate (%)	Maturity	HK\$'000 (Restated)	Effective contractual interest rate (%)	Maturity	HK\$'000 (Restated)
Current									
Finance lease payables (note 29)	<b>3.75-10.02</b>	<b>2011</b>	<b>21,839</b>	1.62-10.02	2010	15,366	1.54-10.2	2009	14,056
Unsecured									
Bank overdrafts	—	On demand	—	6.15	On demand	63	—	On demand	—
Bank revolving loans	<b>1.10-5.10</b>	<b>2011</b>	<b>75,800</b>	0.96	2010	50,000	2.00-2.75	On demand	60,000
Bank loans	<b>1.15-5.13</b>	<b>2011</b>	<b>95,675</b>	1.35-4.88	2010	106,240	1.60-6.80	2009	127,574
Other loans	<b>1.49-1.80</b>	<b>2011</b>	<b>71,961</b>	1.33-2.08	2010	86,297	1.99-5.54	2009	51,117
Long term bank loans repayable on demand (note (c))	<b>1.86-5.13</b>	<b>On demand</b>	<b>244,335</b>	1.71-4.88	On demand	40,140	1.7-5.75	On demand	8,586
			<b>509,610</b>			298,106			261,333
Non-current									
Finance lease payables (note 29)	<b>3.75-10.02</b>	<b>2012-2013</b>	<b>18,434</b>	1.62-10.02	2011-2012	20,466	1.54-10.2	2010-2011	77
Unsecured									
Bank loans	<b>1.15-5.13</b>	<b>2012-2014</b>	<b>69,855</b>	1.35-4.88	2011-2014	121,458	1.60-6.80	2010-2011	255,773
			<b>88,289</b>			141,924			255,850
			<b>597,899</b>			440,030			517,183

# Notes to Financial Statements

31 December 2010

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

	Group	
	31 December 2010 HK\$'000	31 December 2009 HK\$'000 (Restated)
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand (note (c))	415,810	196,443
In the second year	63,605	81,205
In the third to fifth years, inclusive	6,250	40,253
	<b>485,665</b>	317,901
Other borrowings repayable:		
Within one year	93,800	101,663
In the second year	16,205	13,050
In the third to fifth years, inclusive	2,229	7,416
	<b>112,234</b>	122,129
	<b>597,899</b>	440,030

### Notes:

- (a) As at 31 December 2010 and 2009, all the interest-bearing bank and other borrowings were unsecured.
- (b) As at 31 December 2010, except for the unsecured bank loans of HK\$9,169,000 (2009: HK\$23,963,000) which were denominated in Thai Baht, the unsecured bank loan of HK\$154,296,000 (2009: Nil) which was denominated in United States dollars and the unsecured bank loan of HK\$11,800,000 (2009: Nil) which was denominated in RMB, all borrowings were in Hong Kong dollars.
- (c) As further explained in notes 2.2 and 40 to the financial statements, due to the adoption of HK Interpretation 5 in the current year, the Group's term loans in the amount of HK\$244,335,000 (2009: HK\$40,140,000) containing a repayment on demand clause have been reclassified as a current liabilities. For the purpose of the above analysis, the loans are included within current interest-bearing bank and other borrowings and analysed into bank loans and overdrafts repayable within one year or on demand.

Based on the maturity terms of the loans, the amounts repayable in respect of the loans are: within one year or on demand HK\$48,859,000 (2009: HK\$22,325,000); in the second year HK\$57,601,000 (2009: HK\$13,356,000); in the third to fifth years, inclusive HK\$53,424,000 (2009: HK\$4,459,000); and beyond five years HK\$84,451,000 (2009: Nil).

Interest rates for all the Group's borrowings are floating.

# Notes to Financial Statements

31 December 2010

## 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 2010, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2010 HK\$'000	Minimum lease payments 2009 HK\$'000	Present value of minimum lease payments 2010 HK\$'000	Present value of minimum lease payments 2009 HK\$'000
Amounts payable:				
Within one year	23,362	17,133	21,839	15,366
In the second year	16,776	13,868	16,206	13,050
In the third to fifth years, inclusive	2,295	7,608	2,228	7,416
Total minimum finance lease payments	42,433	38,609	40,273	35,832
Future finance charges	(2,160)	(2,777)		
Total net finance lease payables	40,273	35,832		
Portion classified as current liabilities (note 28)	(21,839)	(15,366)		
Non-current portion (note 28)	18,434	20,466		

# Notes to Financial Statements

31 December 2010

## 30. DEFERRED TAX

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

### Deferred tax liabilities

Group	2010			Total HK\$'000
	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of property HK\$'000	Withholding tax for distributable profits of the PRC subsidiaries HK\$'000	
At 1 January 2010	821	998	886	2,705
Provision of deferred tax during the year (note 10)	48	275	1,482	1,805
Reversal of withholding tax for distributable profits of the PRC subsidiaries during the year (note 10)	—	—	(58)	(58)
Exchange realignment	61	—	—	61
At 31 December 2010	930	1,273	2,310	4,513

### Deferred tax assets

Group	2010		Total HK\$'000
	Write-off of other receivables HK\$'000	Write-back of inventory provision HK\$'000	
At 1 January 2010	59	803	862
Deferred tax charged to the income statement during the year (note 10)	(14)	(214)	(228)
Exchange realignment	6	91	97
At 31 December 2010	51	680	731

# Notes to Financial Statements

31 December 2010

## 30. DEFERRED TAX (Continued)

### Deferred tax liabilities

Group	2009			Total HK\$'000
	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of property HK\$'000	Withholding tax for distributable profits of the PRC subsidiaries 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		Total HK\$'000
	Write-off of other receivables HK\$'000	Write-back of inventory provision 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

# Notes to Financial Statements

31 December 2010

## 30. DEFERRED TAX (Continued)

### Deferred tax assets (Continued)

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

	Group		Company	
	2010 HK\$000	2009 HK\$000	2010 HK\$000	2009 HK\$000
Tax losses	26,339	51,755	9,462	6,915
Deductible temporary differences	78,662	61,675	—	—
	<b>105,001</b>	113,430	<b>9,462</b>	6,915

The Group has tax losses arising in Mainland China of HK\$2,687,000 (2009: HK\$30,886,000) that will expire in one to five years for offsetting against future taxable profits.

The Group also has tax losses arising in countries and areas outside Mainland China of HK\$23,652,000 (2009: HK\$20,869,000) that are available indefinitely for offsetting against future taxable profits of the companies 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 for 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

	2010 HK\$'000	2009 HK\$'000
Authorised:		
1,500,000,000 (2009: 1,200,000,000) ordinary shares of HK\$0.1 each*	150,000	120,000
Issued and fully paid:		
929,088,751 (2009: 915,993,750) ordinary shares of HK\$0.1 each	92,909	91,599

\* Pursuant to an ordinary resolution passed on 18 May 2010, the authorised share capital of the Company was increased from HK\$120,000,000 to HK\$150,000,000 by the creation of 300,000,000 additional shares of HK\$0.1 each, ranking pari passu in all respects with the existing shares of the Company.

# Notes to Financial Statements

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## 31. SHARE CAPITAL (Continued)

### Shares (Continued)

The movements in share capital for the years ended 31 December 2010 and 2009 were as follows:

	Notes	Number of shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 31 December 2008 and 1 January 2009		697,795,000	69,780	331,095	400,875
Placement of new shares	(a)	35,000,000	3,500	11,781	15,281
Open offer	(b)	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
Share options exercised	(c)	13,095,001	1,310	6,306	7,616
		929,088,751	92,909	394,499	487,408
Share issue expenses		—	—	(101)	(101)
At 31 December 2010		929,088,751	92,909	394,398	487,307

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

- 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.
- 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.
- The subscription rights attaching to 12,354,616 and 740,385 share options were exercised in 2010 at the subscription prices of HK\$0.35 and HK\$1.13 per share, respectively (note 32), resulting in the issue of 13,095,001 shares of HK\$0.1 each for a total cash consideration, before expenses, of approximately HK\$5.2 million. An amount of approximately HK\$2.4 million was transferred from the share option reserve to the share premium account upon the exercise of the share options.

### 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 4,779,500 (2009: 69,779,500) shares, which represented approximately 0.51% (2009: 7.62%) 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.



# Notes to Financial Statements

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## 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:

	2010		2009	
	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	0.50	63,673	1.24	11,288
Granted during the year	0.72	65,000	0.35	52,885
Forfeited during the year	0.35	(658)	1.41	(500)
Exercised during the year	0.40	(13,095)	—	—
Expired during the year	1.33	(1,587)	—	—
At 31 December	0.63	113,333	0.50	63,673

The weighted average share price at the date of exercise for share options exercised during the year was HK\$1.03 per share (2009: No share options were exercised).

# Notes to Financial Statements

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## 32. SHARE OPTION SCHEME (Continued)

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

2010			
Number of options	Exercise price*	Exercise period	
'000	HK\$ per share		
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	
22,018	0.35	01-06-10 to 31-05-14	
2,073	0.35	01-06-11 to 31-05-14	
13,708	0.35	01-06-12 to 31-05-14	
2,073	0.35	01-06-13 to 31-05-14	
45,400	0.72	01-04-12 to 11-10-14	
8,400	0.72	01-04-13 to 11-10-14	
11,200	0.72	01-04-14 to 11-10-14	
113,333			

2009			
Number of options	Exercise price*	Exercise period	
'000	HK\$ per share		
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			

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

The fair value of the share options granted during the year was HK\$13,571,120 (2009: HK\$9,851,900), of which the Group recognised a share option expense of HK\$7,383,000 (2009: HK\$4,442,000) during the year ended 31 December 2010.

# Notes to Financial Statements

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## 32. SHARE OPTION SCHEME (Continued)

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:

	2010	2009
Dividend yield (%)	5.6%	2.6%
Expected volatility (%)	52% ~ 55%	49% ~ 52%
Historical volatility (%)	52% ~ 55%	49% ~ 52%
Risk-free interest rate (%)	1.019% ~ 1.312%	1.055% ~ 1.839%
Expected life of options (year)	3.1 ~ 4.1	3 ~ 4.5
Weighted average share price (HK\$ per share)	0.72	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.

The 13,095,001 share options exercised during the year resulted in the issue of 13,095,001 ordinary shares of the Company and new share capital of HK\$1,309,500 and share premium of HK\$6,306,000 (before issue expenses), as further detailed in note 31 to the financial statements.

At the end of the reporting period, the Company had 113,333,461 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 113,333,461 additional ordinary shares of the Company and additional share capital of HK\$11,333,346, a reversal of share option reserve of HK\$22,721,395 and share premium of HK\$82,180,175 (before issue expenses).

At the date of approval of these financial statements, the Company had 112,896,922 share options outstanding under the Scheme, which represented approximately 12.1% 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 42 and 43 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 2010 and 2009.

# Notes to Financial Statements

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## 33. RESERVES (Continued)

### (b) Company

	Notes	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 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
Transfer of share option reserve upon the forfeiture or expiry of share options		—	—	(117)	—	117	—
Total comprehensive income for the year	11	—	—	—	—	2,105	2,105
At 31 December 2009 and 1 January 2010		371,197	3,685	6,966	(9,958)	215,722	587,612
Issue of shares	31	6,306	—	(2,395)	—	—	3,911
Share issue expenses	31	(101)	—	—	—	—	(101)
Equity-settled share option arrangements	32	—	—	7,383	—	—	7,383
Transfer of share option reserve upon the forfeiture or expiry of share options		—	—	(353)	—	353	—
Total comprehensive income for the year	11	—	—	—	—	31,496	31,496
Interim 2010 dividend	12	—	—	—	—	(18,403)	(18,403)
Proposed final 2010 dividend	12	—	—	—	—	(21,379)	(21,379)
At 31 December 2010		377,402	3,685	11,601	(9,958)	207,789	590,519

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.

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## 34. CONTINGENT LIABILITIES

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

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	1,169,833	917,581
Guarantees given to an electricity company	5,523	1,004	—	—
	<b>5,523</b>	<b>1,004</b>	<b>1,169,833</b>	<b>917,581</b>

As at 31 December 2010, 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\$594,675,000 (2009: HK\$431,455,000).

## 35. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its plant under operating lease arrangements, with leases negotiated for terms of two years. The terms of the leases generally also required the tenants to pay security deposits.

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2010 HK\$'000	2009 HK\$'000
Within one year	238	230
In the second to fifth years, inclusive	238	—
	<b>476</b>	<b>230</b>

# Notes to Financial Statements

31 December 2010

## 35. OPERATING LEASE ARRANGEMENTS (Continued)

### (b) As lessee

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

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	HK\$'000	HK\$'000
Within one year	2,430	469
In the second to fifth years, inclusive	2,311	49
After five years	3,060	—
	<b>7,801</b>	<b>518</b>

## 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	
	2010	2009
	HK\$'000	HK\$'000
Contracted, but not provided for:		
Plant and machinery	1,399	1,899
Construction in progress	6,279	6,171
	<b>7,678</b>	<b>8,070</b>

The Company did not have any significant commitments as at 31 December 2010 and 2009.

# Notes to Financial Statements

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## 37. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2010 HK\$'000	2009 HK\$'000
Short term employee benefits	14,276	12,239
Equity-settled share option expense	4,300	2,697
Post-employment benefits	120	115
Total compensation paid to key management personnel	18,696	15,051

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:

### 2010

#### Financial assets

	Loans and receivables HK\$'000	Group 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	240,331	—	240,331
Financial assets included in prepayments, deposits and other receivables (note 23)	8,669	—	8,669
Cash and cash equivalents (note 24)	360,424	—	360,424
	614,424	150	614,574

# Notes to Financial Statements

31 December 2010

## 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):

**2010**

### Financial liabilities

	Group		Total HK\$'000
	Financial liabilities at fair value through profit or loss HK\$'000	Financial liabilities at amortised cost HK\$'000	
Trade and bills payables	—	86,994	86,994
Financial liabilities included in other payables and accruals (note 26)	—	44,544	44,544
Derivative financial instruments	2,608	—	2,608
Interest-bearing bank and other borrowings	—	597,899	597,899
	<b>2,608</b>	<b>729,437</b>	<b>732,045</b>

2009

### Financial assets

	Group		Total HK\$'000
	Loans and receivables HK\$'000	Available-for-sale financial assets 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) (restated)	7,714	—	7,714
Cash and cash equivalents (note 24)	173,597	—	173,597
	<b>416,182</b>	<b>150</b>	<b>416,332</b>



# Notes to Financial Statements

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## 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 liabilities

	Financial liabilities at fair value through profit or loss HK\$'000	Group 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

2010

Financial assets

	<b>Company Loans and receivables HK\$'000</b>
Amounts due from subsidiaries	<b>703,333</b>
Cash and cash equivalents	<b>1,352</b>
	<b>704,685</b>

Financial liabilities

	<b>Company Financial liabilities at amortised cost HK\$'000</b>
Financial liabilities included in other payables and accruals (note 26)	<b>156</b>

# Notes to Financial Statements

31 December 2010

## 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
Amounts due from subsidiaries	650,179
Cash and cash equivalents	29,201
	679,380

Financial liabilities

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

## 39. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amount and fair value of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Financial liabilities				
Derivative financial instruments	<b>2,608</b>	5,775	<b>2,608</b>	5,775

The fair values of other financial instruments of the Group other than as disclosed above approximate to their carrying amounts. All the fair values of financial instruments of the Company approximate to their carrying amounts.

# Notes to Financial Statements

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## 39. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The Group had an interest rate swap agreement with a bank in Hong Kong. The interest rate swap agreement was measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties and interest rate curves. The carrying amount of interest rate swap is the same as its fair value.

### 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 any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Liabilities measured at fair value as at 31 December 2010:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Derivative financial instruments:				
Interest rate swap	—	2,608	—	2,608

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

The Company had no financial instruments measured at fair value as at 31 December 2010 (2009: Nil).

# Notes to Financial Statements

31 December 2010

## 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.

### 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 69% (2009: 42%) of the Group's sales were denominated in currencies other than the functional currency of the subsidiaries making the sale, whilst approximately 84% (2009: 43%) of costs were 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.

# Notes to Financial Statements

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

### Foreign currency risk (Continued)

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.

	<b>Increase/ (decrease) in exchange rates %</b>	<b>Increase/ (decrease) in profit before tax HK\$'000</b>
<b>2010</b>		
If Hong Kong dollar weakens against United States dollar	<b>5%</b>	<b>8,485</b>
If Hong Kong dollar weakens against Euro	<b>5%</b>	<b>254</b>
If Hong Kong dollar weakens against Japanese Yen	<b>5%</b>	<b>(822)</b>
If Hong Kong dollar strengthens against United States dollar	<b>(5%)</b>	<b>(8,485)</b>
If Hong Kong dollar strengthens against Euro	<b>(5%)</b>	<b>(254)</b>
If Hong Kong dollar strengthens against Japanese Yen	<b>(5%)</b>	<b>822</b>
<b>2009</b>		
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

### 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 notes 28 and 29 to the financial statements.

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 2010, after taking into account the effect of the interest rate swap, approximately 13.9% (2009: 28.4%) of the Group's interest-bearing borrowings bore interest at fixed rates.

# Notes to Financial Statements

31 December 2010

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

### Interest rate risk (Continued)

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
<b>2010</b>		
HK\$	25	(593)
USD	25	(390)
RMB	25	(17)
HK\$	(25)	593
USD	(25)	390
RMB	(25)	17
<b>2009</b>		
HK\$	25	(390)
Thai Baht	25	(122)
HK\$	(25)	390
Thai Baht	(25)	122

### 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.

# Notes to Financial Statements

31 December 2010

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

### Liquidity risk

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

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

#### Group

	2010					Total HK\$'000
	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	
Finance lease payables	—	6,753	16,609	19,071	—	42,433
Interest-bearing bank and other borrowings (excluding finance lease payables) (Note)	257,243	171,177	81,170	70,862	—	580,452
Trade and bills payables	—	84,886	2,106	2	—	86,994
Other payables and accruals	—	33,746	10,520	124	154	44,544
Derivative financial instruments	—	—	—	2,608	—	2,608
	<b>257,243</b>	<b>296,562</b>	<b>110,405</b>	<b>92,667</b>	<b>154</b>	<b>757,031</b>

	2009					Total HK\$'000
	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	
Finance lease payables	—	4,269	12,864	21,476	—	38,609
Interest-bearing bank and other borrowings (excluding finance lease payables) (Note)	41,400	155,762	91,177	125,575	—	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
	<b>41,400</b>	<b>262,822</b>	<b>167,011</b>	<b>152,984</b>	<b>—</b>	<b>624,217</b>

Note: Included in interest-bearing bank and other borrowings is a term loan in the amount of HK\$244,335,000 (2009: HK\$40,140,000). The loan agreement contains a repayment on demand clause giving the bank the unconditional right to call in the loan at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding the above clause, the directors do not believe that the loans will be called back in its entirety within 12 months from the year end date, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the Group's compliance with the loan covenants; the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loans, the contractual undiscounted payments at 31 December 2010 are HK\$50,781,000 in 2011, HK\$62,338,000 in 2012, HK\$55,310,000 in 2013, HK\$34,438,000 in 2014 and HK\$54,376,000 in 2015.

# Notes to Financial Statements

31 December 2010

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

### Liquidity risk (Continued)

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

	2010					Total HK\$'000
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Other payables and accruals	—	156	—	—	—	156
Guarantees given to banks in connection with facilities granted to subsidiaries	594,675	—	—	—	—	594,675
	<b>594,675</b>	<b>156</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>594,831</b>

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

### 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 2010 and 31 December 2009.



# Notes to Financial Statements

31 December 2010

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

### Capital management (Continued)

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 Company. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2010	2009
	HK\$'000	HK\$'000
Interest-bearing bank and other borrowings (note 28)	597,899	440,030
Trade and bills payables (note 25)	86,994	57,968
Other payables and accruals (note 26)	44,544	107,951
Less: Cash and cash equivalents (note 24)	(360,424)	(173,597)
Net debt	369,013	432,352
Equity attributable to owners of the Company	1,240,540	1,054,303
Capital and net debt	1,609,553	1,486,655
Gearing ratio	23%	29%

## 41. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment, and a third statement of financial position as at 1 January 2009 has been presented.

## 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2011.



# IPE GROUP LIMITED

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