IPE Group Limited

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 929)

Annual Report 2012

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. 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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Chui Siu On *(Chairman)*
Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok
Mr. Nguyen, Van Tu Peter

LEGAL ADVISERS TO THE COMPANY

Michael Li & Co

AUDITORS

Ernst & Young
Certified Public Accountants

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

PRINCIPAL BANKERS

Australia and New Zealand Banking Group Limited
Bangkok Bank Public Company Limited
China 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

WEBSITE

http://www.ipegroup.com

STOCK CODE

929

LISTING VENUE

Main Board of The Stock Exchange
of Hong Kong Limited

Contents

Corporate Milestone

2012

Jiangsu Koda started construction of Phase 1 of the development of our Changshu site which will provide 42,000m^2 of production area

IPE (Hong Kong) was accredited Special Supplier Award Asia of Continental Automotive Asia

2011

Guangzhou Xin Hao was accredited Excellent Award of Borgwarner Automotive Components (Ningbo) Company Limited

Jiangsu Koda was accredited ISO 9001: 2008 certification

2010

Guangzhou Xin Hao was accredited AS9100 certification - aerospace certification

Guangzhou Xin Hao was accredited Superior Supplier of Eaton Hydraulics Systems (Jining) Company Limited

Guangzhou Xin Hao was accredited Excellence Supplier of Delphi Shanghai Dynamic Propulsion Systems Company Limited

2009

Guangzhou Xin Hao was accredited High and New Technology Enterprise

Guangzhou Xin Hao was accredited ISO 14001: 2004 certification

Guangzhou Xin Hao was accredited Best Technology Development Supplier of Continental Automotive Wuhu Company Limited

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

Corporate Milestone

2006

Guangzhou Xin Hao was accredited TS16949 certification — automotive certification

2005

Qualified by Bosch, Delphi, Siemens VDO and TRW as a 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 Xin 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

Corporate Profile

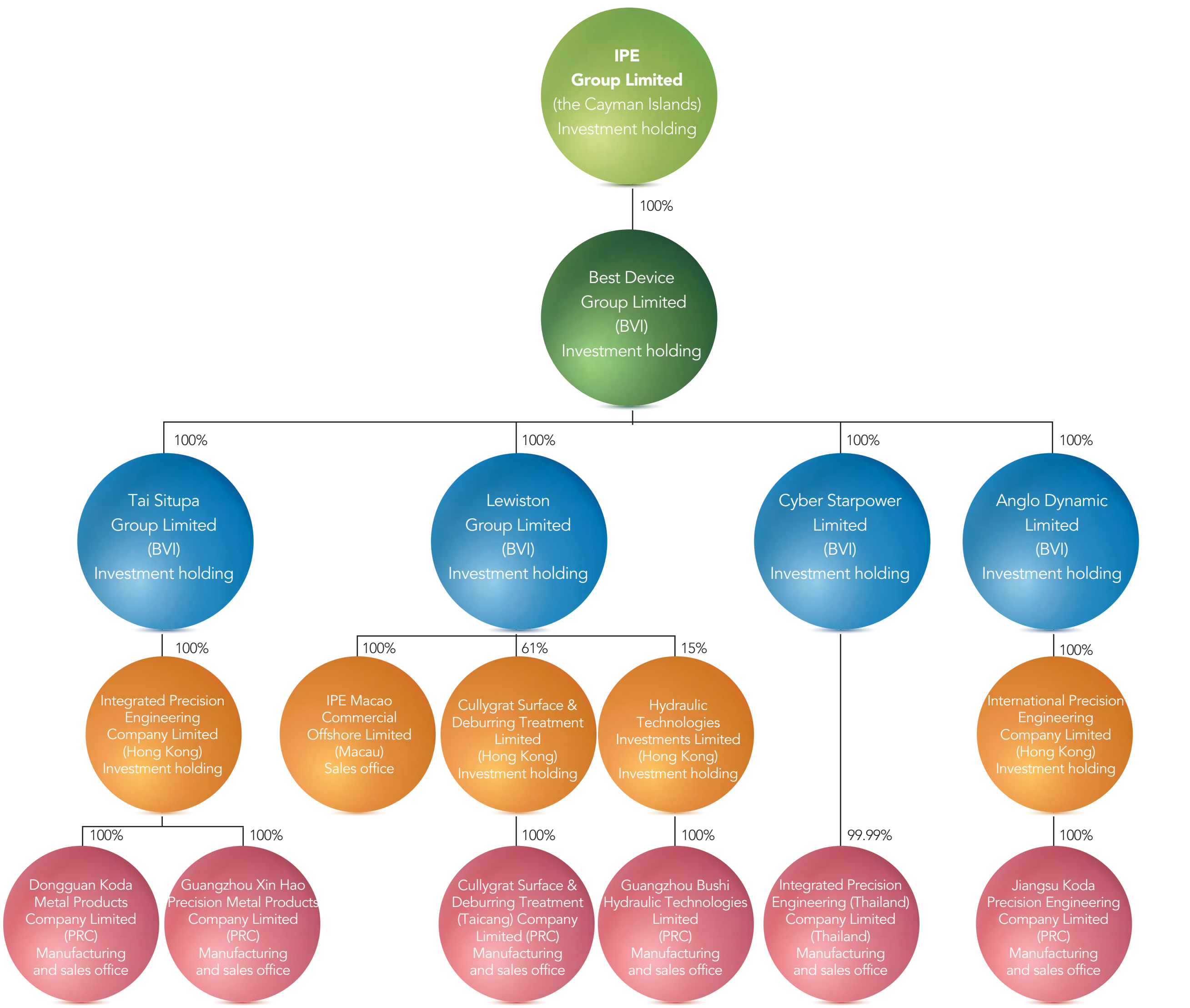
IPE Group Limited (the "Company" or "IPE Group") was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002. The Company is an investment holding company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture 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 is able to provide solutions to our global partners.

GROUP STRUCTURE

Principal subsidiaries and the joint venture of the Company as at 31 December 2012



Financial Highlights

RESULTS

	Year ended 31 December									
	2012		2011		2010		2009		2008	
	HK$'000	**%**	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
REVENUE	**974,652**	**100%**	991,829	100%	1,054,243	100%	695,725	100%	861,716	100%
Cost of sales	**(763,525)**	**78%**	(793,184)	80%	(780,942)	74%	(587,363)	84%	(656,845)	76%
Gross Profit	**211,127**	**22%**	198,645	20%	273,301	26%	108,362	16%	204,871	24%
Other income and gains	**24,080**	**2%**	11,695	1%	11,580	1%	21,379	3%	2,759	0%
Selling and distribution expenses	**(26,875)**	**3%**	(22,743)	2%	(25,676)	2%	(19,155)	3%	(24,244)	3%
Administrative expenses	**(99,972)**	**10%**	(93,689)	9%	(88,104)	9%	(70,112)	10%	(69,995)	8%
Other expenses	**(4,215)**	**0%**	(9,976)	1%	(9,433)	1%	(7,149)	1%	(21,432)	2%
Finance costs	**(16,587)**	**2%**	(16,849)	2%	(14,341)	1%	(15,985)	2%	(23,319)	3%
PROFIT BEFORE TAX	**87,558**	**9%**	67,083	7%	147,327	14%	17,340	3%	68,640	8%
Income tax expense	**(17,124)**	**2%**	(16,778)	2%	(14,489)	1%	(5,011)	1%	(8,256)	1%
PROFIT FOR THE YEAR	**70,434**	**7%**	50,305	5%	132,838	13%	12,329	2%	60,384	7%
Attributable to:										
Owners of the Company	**70,522**	**7%**	49,812	5%	132,355	13%	12,587	2%	61,149	7%
Non-controlling interests	**(88)**	**0%**	493	0%	483	0%	(258)	0%	(765)	0%
	70,434	**7%**	50,305	5%	132,838	13%	12,329	2%	60,384	7%

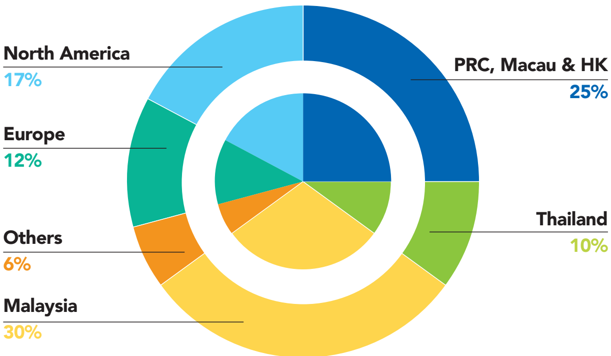
CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	**1,001,941**	1,106,607	1,189,693	1,082,305*	1,184,807*
Total current assets	**969,196**	952,700	801,534	595,544*	580,686*
Total current liabilities	**538,226**	725,861	653,629	472,138*	555,041*
Net current assets	**430,970**	226,839	147,905	123,406*	25,645*
Total non-current liabilities	**24,070**	17,186	95,688	150,562*	265,287*
Total equity	**1,408,841**	1,316,260	1,241,910	1,055,149	945,165

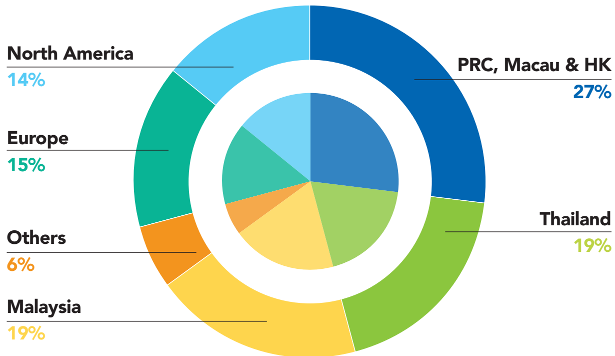
* Restated

Financial Highlights

GEOGRAPHICAL COMBINATION



2012



2011

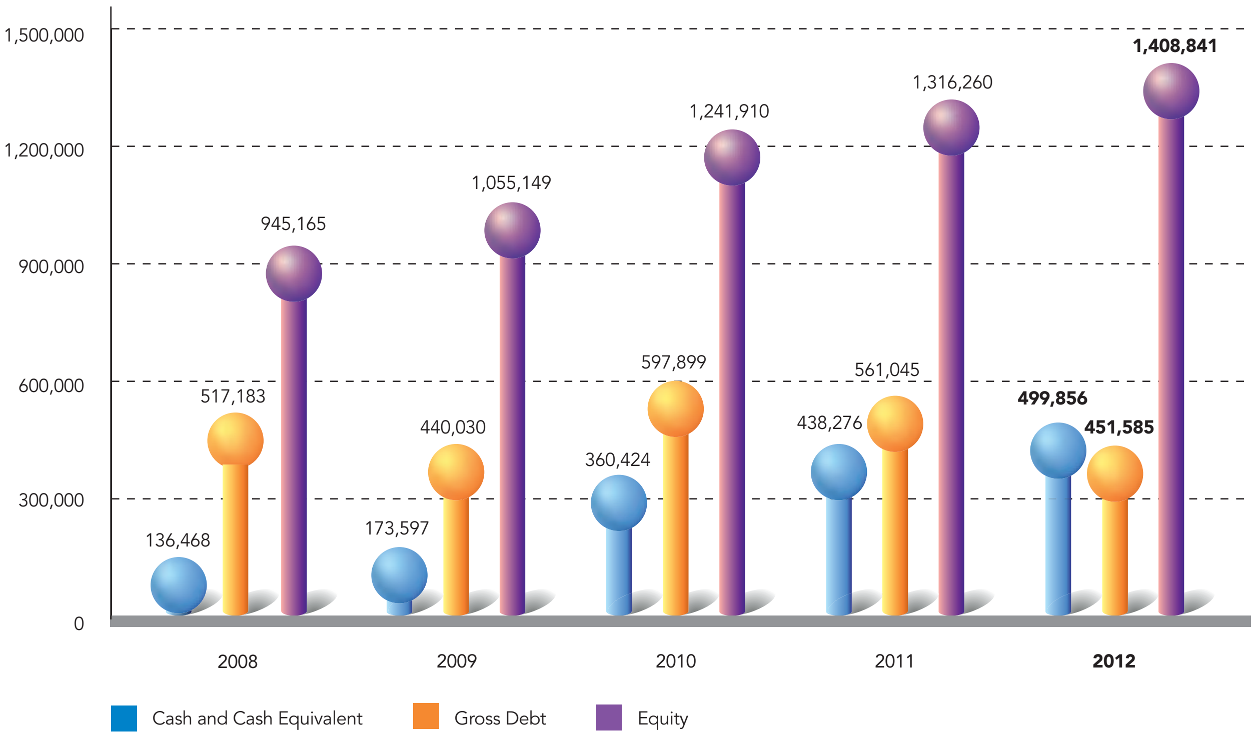
RATIO ANALYSIS

	Year ended 31 December				
	2012	2011	2010	2009	2008
KEY STATISTICS:					
Current ratio	**1.80**	1.31	1.23	1.26*	1.05*
Gearing ratio (net borrowings/ shareholders' equity)	**N/A**	0.09	0.19	0.25	0.40
Dividend payout ratio	**29.1%**	29.7%	29.9%	—	27.9%
Gross profit margin	**21.7%**	20.0%	25.9%	15.6%	23.8%
EBITDA margin	**27.7%**	25.0%	30.2%	26.0%	26.0%
Net profit margin	**7.2%**	5.1%	12.6%	1.8%	7.0%
Average days of debtor turnover	**80 days**	87 days	81 days	104 days	85 days
Average days of inventory turnover	**122 days**	102 days	86 days	137 days	127 days
PER SHARE DATA:					
Net assets value per share (HK$)	**1.51**	1.42	1.34	1.15	1.35
Dividend per share	**HK2.2 cents**	HK1.6 cents	HK4.3 cents	—	HK2.4 cents
Earnings per share — basic	**HK7.60 cents**	HK5.35 cents	HK14.39 cents	HK1.66 cents	HK8.18 cents*
Earnings per share — diluted	**HK7.50 cents**	HK5.11 cents	HK13.87 cents	HK1.64 cents	N/A

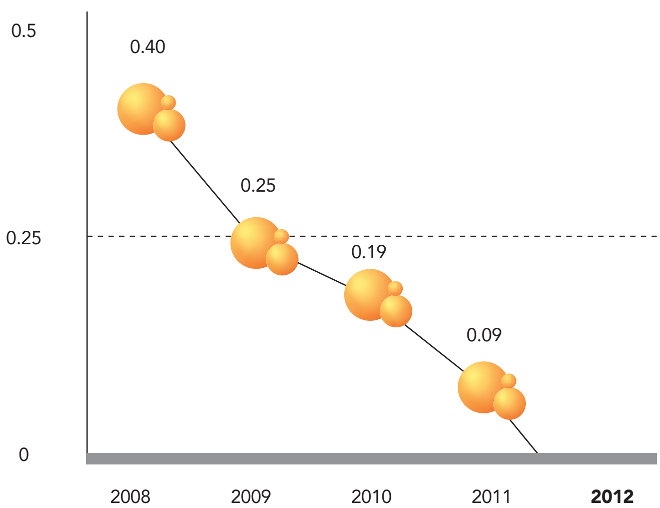
* Restated

Financial Highlights

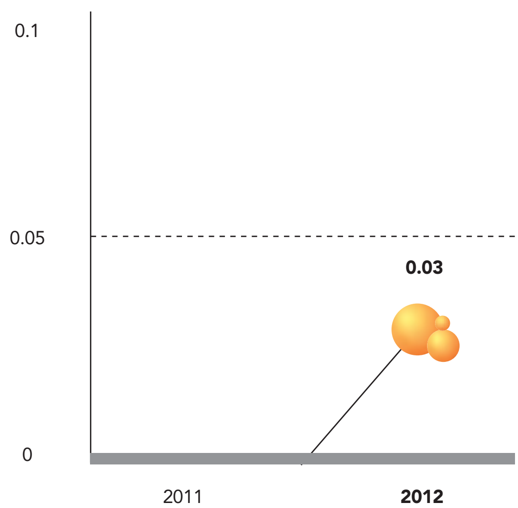
Eq UITY, GROSS DEBT AND CASH AND CASH Eq UIVALENTS
(HK$'000)



NET DEBT TO Eq UITY RATIO



NET CASH TO Eq UITY RATIO



Chairman's Statement

On behalf of the board of directors (the "Board"), I 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 2012.

BUSINESS REVIEW

The year started on an encouraging note with recovery in our HDD components business and continued growth in our automotive components business. However, there was, even early in the year, evidence of weak demand in our hydraulic equipment components business (sales of this business segment fell 12.2% in the first half of 2012 as compared to the first half of 2011) and this weakness intensified in the second half of the year due to the weak and uncertain global economic environment in 2012 with the result that hydraulic equipment components sales fell 20.5% compared to 2011.

Disappointingly, the recovery in HDD components sales in the first half of the year merely reflected adjustments in the personal computer ("PC") market supply chain which had been severely dislocated by two natural disasters in 2011. The global PC market in 2012 experienced its first annual decline since 2001 with the fall in PC sales estimated at 3.7% by one research firm. For the year as a whole, IPE Group's HDD components sales fell 2.1%.

Notwithstanding the challenging macro-economic backdrop, our automotive components business continued to grow at a satisfactory pace and for the year as a whole, this segment recorded sales growth of 21.1%.

Total Group's sales in 2012 amounted to HK$974.7 million, representing a 1.7% decline as compared to 2011. The net profit attributable to owners of the Company for the year amounted to HK$70.5 million, an increase of 41.6% from 2011.

In recent years, the global economy has lurched from one crisis to another. The general economic environment has been weak, so the Group has had little pricing power. There have been periods of a strong upswing in demand but such upswings were generally due to urgent restocking as customers had allowed their inventories to fall too low (in the case of HDD components, the demand surge early in 2012 was associated with dislocations in the supply chain in 2011). Since there was little visibility that the upswings would be sustained, it was difficult to push through price increases. With costs rising, particularly labour costs, our margins have been under pressure despite management's continuous efforts to alleviate such pressure. Margins recovered somewhat in 2012 but constant vigilance is necessary to sustain and hopefully improve margins.

While striving to keep labour costs under control, it is necessary to be competitive to attract and retain staff in an increasingly tight labour market in China. Cost is only one consideration; availability is another; yet another factor is the fact that the flexibility to make changes to the size of the work force in response to changes in market demand is now much diminished. Our Group's flexibility in this regard is also restricted by the fact that as a precision engineering Group, we require a skilled labour force. Consequently, management's focus has been on ways to motivate staff and improve productivity.

To save costs, and be mindful of our environmental footprint, we have sought to reduce expenses including utility expenses. For example, the Group has developed for its own use energy saving LED lighting. Such lighting is being retrofitted in our factories and our new facility in Changshu will be completely lit by our own LED lighting products. To improve productivity we are developing more automation for certain of our production processes (the robots we are developing for our own use could have wide industrial applicability) and it is also intended that part of the capital equipment for our Changshu facility will be made by ourselves.

To improve profitability we have also been rejecting low profitability orders. This policy impacts turnover, but the Group considers that, in the absence of other strategic considerations, profitability should not be sacrificed for volume.

Chairman's Statement

PROSPECTS

Recent economic statistics from certain major economies have been very encouraging and there seems to be greater optimism over global economic prospects in 2013, at least to judge from the performance of world financial markets. Certainly in our case, we have recently been experiencing a recovery in orders in our HDD components and hydraulic equipment components businesses. Meanwhile, the automotive components business continues to grow. Many global uncertainties remain, but barring further financial/economic shocks, we believe the recovery could be sustained.

In line with our policy of focusing on profitability, we have been selective in the orders which we are prepared to accept. Such selectivity reduces pressures on resources and frees management time to focus on our long term growth strategy and the development plans for our Changshu facility. The superstructure work on Phase 1 of this project is proceeding well and is expected to be completed in the third quarter of this year. Various plans for the plant and equipment to be installed and the timing of such investment are under consideration. Our existing businesses generate significant cash flow from operating activities and it is intended that investment in our Changshu facility will be funded by retained earnings and bank financing.

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

19 March 2013

Management Discussion and Analysis

FINANCIAL REVIEW

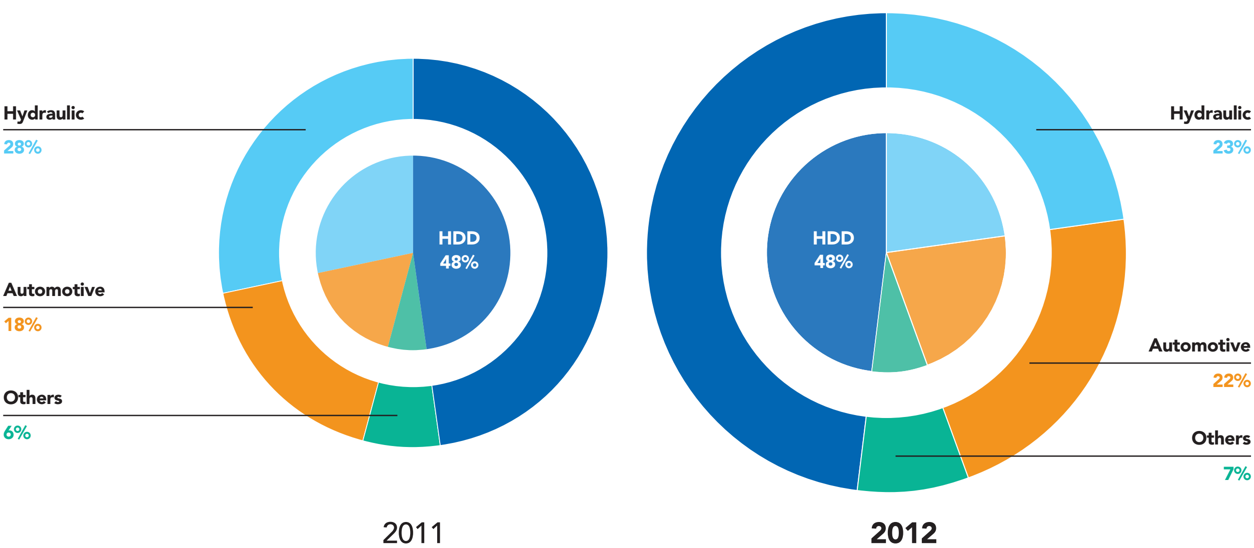
Sales

Sales of the Group decreased by 1.7% in 2012. The decrease was mainly due to the sharp decline in our Group's sales of hydraulic equipment components and rejection of unprofitable orders.

The table below gives a breakdown of the Group's sales by business segments during the year under review, with comparative figures for 2011:

	2012		2011		
	HK$'000	**%**	HK$'000	%	**% Change**
HDD components	**465,803**	**47.8**	475,996	48.0	(2.1)
Hydraulic equipment components	**222,797**	**22.9**	280,130	28.2	(20.5)
Automotive components	**210,438**	**21.6**	173,761	17.5	21.1
Others	**75,614**	**7.7**	61,942	6.3	22.1
	974,652	**100.0**	991,829	100.0	(1.7)

BUSINESS COMBINATION



Management Discussion and Analysis

Gross Profit

The gross profit margin of the Group was 21.7% in 2012, representing an increase of 1.7 percentage points as compared to 2011.

Though the turnover decreased by 1.7%, the Group's gross profit increased to HK$211.1 million in 2012, representing an increase of HK$12.5 million when compared with gross profit in 2011.

The Group had to contend with margin pressures stemming in part from the substantial increase in wages in the PRC and Thailand due to the increase in the minimum wage policy set by the relevant authorities in these two countries. The Group sought to mitigate the impact of cost increases by a combination of improving our production processes, enhancing productivity, increasing product price and rejecting unprofitable orders.

Other Income and Gains

Other income and gains amounted to HK$24.1 million for the year ended 31 December 2012, representing an increase of HK$12.4 million. The amount mainly comprised of foreign exchange gains, bank interest income and fair value gains of interest rate swap and forward currency contracts in the amount of HK$3.6 million, HK$13.4 million and HK$4.6 million, respectively.

Selling and Distribution Expenses

Selling and distribution expenses amounted to HK$26.9 million for the year ended 31 December 2012, representing 2.8% of turnover as compared with 2.3% of turnover in 2011. The increase is mainly due to sharply rising transportation cost and the increase of sales staff's salary.

Administrative Expenses

During the year, the Group's general and administrative expenses increased by 6.7% or HK$6.3 million to HK$100.0 million. The increase was mainly attributable to the increase of various PRC's taxes of HK$4.0 million and inflation pushing up office expenses.

Finance Costs

For the year ended 31 December 2012, overall finance costs slightly decreased to HK$16.6 million, representing a decrease of HK$0.3 million when compared with the year ended 31 December 2011.

The Group's average borrowing fell but the Group's average interest rate increased from 2.9% to 3.3%.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company was HK$70.5 million for the year ended 31 December 2012, representing an increase of 41.6% from HK$49.8 million for the year ended 31 December 2011.

DETAILS OF CHARGES ON THE GROUP'S ASSETS

As at 31 December 2012, the Group had total borrowings of HK$451.6 million (31 December 2011: HK$561.0 million) 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 2012.

LIq UIDITY, 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 2012, cash per share was HK$0.54 (31 December 2011: HK$0.47) and net asset value per share was HK$1.51 (31 December 2011: HK$1.42), based on the 931,087,790 ordinary shares in issue (31 December 2011: 926,635,290).

During the year under review, the Group recorded a net cash inflow from operating activities of HK$235.7 million (2011: HK$129.1 million). With the purchase of property, plant and equipment and the decrease in non-pledged time deposits with maturity over three months of HK$59.4 million, the Group recorded a net cash outflow used in investing activities of HK$0.9 million (2011: HK$194.6 million).

Total bank borrowings as at 31 December 2012 decreased to HK$451.6 million (31 December 2011: HK$561.0 million). The Group is in a net cash position (cash and bank balances less total bank borrowings) as at 31 December 2012 in contrast to net borrowings (total borrowings less cash and bank balances) of HK$122.8 million as at 31 December 2011. The gearing ratio (defined as net borrowings divided by shareholders' equity) as at 31 December 2011 was 9.3%.

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 and Renminbi and a depreciation in value of Thai Baht will adversely affect the Group's profitability. Accordingly, the Group has entered into forward exchange contracts to reduce potential exposure to currency fluctuations.

HUMAN RESOURCES

As at 31 December 2012, the Group had 3,151 employees, a decrease of 27.9% when compared to 4,370 employees as at 31 December 2011.

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

Executive Directors

Mr. Chui Siu On, aged 53, is the Chairman, an executive and managing director, the chairman of both the executive committee and nomination committee and a member of the 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 37 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 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 49, 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 over 30 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 53, 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 over 38 years of experience in the field of machine augmentation and manufacturing automation.

Mr. Li Chi Hang , aged 42, 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 24 years of experience in the field of machine augmentation and manufacturing automation.

Mr. Lau Siu Chung, aged 48, 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 16 years of experience in marketing and sales of precision components and industrial equipments.

Mr. Yuen Chi Ho, aged 45, 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 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 22 years of experience in audit, accounting and financial management.

Directors and Senior Management

Independent Non-executive Directors

Dr. Cheng Ngok, aged 67, is an independent non-executive director, the chairman of both the audit committee and remuneration committee and a member of the nomination 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 until March 2009 and had been a member of the Cluster Tender Board in New Territories East Cluster, Hospital Authority from 2003 to 2010. Presently, he is a retired orthopaedic surgeon and holds directorship in two private companies engaging in medical diagnostic laboratory and manufacturing of medical devices.

Mr. Choi Hon Ting, Derek , aged 44, is an independent non-executive director and a member of the audit committee, remuneration committee and nomination 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 has been elected as a vice chairman of The International Society for Trenchless Technology since 2010.

Mr. Wu Karl Kwok , aged 49, is an independent non-executive director and a member of the audit committee, remuneration committee and nomination 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 25 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 financial controller and company secretary for UDL Holdings Limited, a company listed on 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 Stock Exchange.

Mr. Nguyen, Van Tu Peter, age 69, is an independent non-executive director of the Company and a member of the nomination committee of the Company. Mr. Nguyen joined the Group in 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 Combest Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange, stock code: 8190). He has also been appointed as an independent non-executive director of Goldlion Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 533) in September 2012.

Directors and Senior Management

SENIOR MANAGEMENT

Ms. Chiu Tak Chun, aged 47, is the Purchasing Director of the Group. Ms. Chiu joined the Group in 1996 and is responsible for overall purchase and logistics of the Group. She was granted a graduate diploma in management from the International Professional Managers Association, United Kingdom and has over 19 years of experience in office administration.

Mr. Chui Siu Hung, aged 44, is the Deputy General Manager of the Group. He joined the Group in 1994 and is responsible for the supervision of production department in Guangzhou Xin Hao Precision Metal Products Company Limited 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 20 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 40, is the Deputy General Manager of the Group and is responsible for 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 16 years of experience in the manufacturing industry.

Mr. Lei Ting Yong, aged 38, is the Deputy General Manager of the Group 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 42, is the Financial Controller and Company Secretary of the Company. He joined the Group in 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 2012.

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 Company has applied the principles set out in the former Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code during the period from 1 April 2012 to 31 December 2012 as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "CG Code") (the "Listing Rules").

Throughout the year under review, the Company has complied with the code provisions set out in the CG Code, save for the code provisions A.2.1 and E.1.2. Key corporate governance principles and practices of the Company as well as details of the said deviations 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.

THE BOARD

Responsibilities and Delegation

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.

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.

All directors have 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.

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.

THE BOARD (Continued)

Board Composition

The following chart illustrated the structure and membership of the Board and the Board Committees during the year ended 31 December 2012:

Board of Directors

Executive Directors
- Mr. Chui Siu On, *Chairman of the Board, Managing Director and Chief Executive Officer*
- Mr. Ho Yu Hoi
- Mr. Lai Man Kit
- Mr. Li Chi Hang
- Mr. Lau Siu Chung
- Mr. Yuen Chi Ho
- Mr. Wong Kwok Keung (resigned on 5 July 2012)

Independent Non-executive Directors
- Dr. Cheng Ngok
- Mr. Choi Hon Ting, Derek
- Mr. Wu Karl Kwok
- Mr. Nguyen, Van Tu Peter

Executive Committee
- Mr. Chui Siu On, *Chairman*
- Mr. Ho Yu Hoi
- Mr. Lai Man Kit
- Mr. Li Chi Hang
- Mr. Lau Siu Chung
- Mr. Yuen Chi Ho

Audit Committee
- Dr. Cheng Ngok, *Chairman*
- Mr. Choi Hon Ting, Derek
- Mr. Wu Karl Kwok

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

Nomination Committee
- Mr. Chui Siu On, *Chairman*
- Dr. Cheng Ngok
- Mr. Choi Hon Ting, Derek
- Mr. Wu Karl Kwok
- Mr. Nguyen, Van Tu Peter

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

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules of having at least three independent non-executive directors (representing at least one-third of the Board) with one independent non-executive director, being Mr. Wu Karl Kwok, possessing appropriate professional qualifications and accounting and related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors are independent.

THE BOARD (Continued)

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code 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.

Appointment and Re-election of Directors

Each of the independent non-executive directors is appointed for a term of about 1 year up to the date of holding the forthcoming annual general meeting of the Company (the "2013 AGM"). Each of the executive directors is appointed for a term of 3 years. Such terms of office are subject to early termination or renewal upon expiration.

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. 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.

In accordance with the Articles of Association, Mr. Lau Siu Chung, Mr. Yuen Chi Ho, Dr. Cheng Ngok and Mr. Nguyen, Van Tu Peter shall retire by rotation and, being eligible, offer themselves for re-election at the 2013 AGM. The Board recommended the re-appointment of these retiring directors standing for re-election at the 2013 AGM. The Company's circular, sent together with this annual report, contains detailed information of such directors pursuant to the requirements of the Listing Rules.

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.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

THE BOARD (Continued)

Induction and Continuing Development of Directors (Continued)

During the year ended 31 December 2012, the Company (i) has organized briefings conducted by the professional firms for all its directors, namely, Mr. Chui Siu On, Mr. Ho Yu Hoi, Mr. Lai Man Kit, Mr. Li Chi Hang, Mr. Lau Siu Chung, Mr. Yuen Chi Ho, Mr. Wong Kwok Keung, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek, Mr. Wu Karl Kwok and Mr. Nguyen, Van Tu Peter, on corporate governance and update on the Listing Rules amendments and (ii) has provided reading materials on regulatory update to all the directors for their reference and studying. Besides, Mr. Yuen Chi Ho attended other seminars and training sessions arranged by other professional firms/institutions.

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 2012.

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.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

Up to the date of this annual report, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the Company's compliance of the Own Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

THE BOARD (Continued)

Attendance Records of Directors and Committee Members

The attendance records of each director at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2012 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee (Note 1)	Annual General Meeting
Mr. Chui Siu On	7/7	–	1/1	–	0/1
Mr. Ho Yu Hoi	7/7	–	–	–	0/1
Mr. Lai Man Kit	7/7	–	1/1	–	0/1
Mr. Li Chi Hang	7/7	–	–	–	0/1
Mr. Lau Siu Chung	7/7	–	–	–	0/1
Mr. Yuen Chi Ho	7/7	–	–	–	1/1
Dr. Cheng Ngok	7/7	2/2	1/1	–	1/1
Mr. Choi Hon Ting, Derek	7/7	2/2	1/1	–	1/1
Mr. Wu Karl Kwok	7/7	2/2	1/1	–	1/1
Mr. Nguyen, Van Tu Peter	7/7	–	–	–	1/1
Mr. Wong Kwok Keung (Note 2)	4/4	–	–	–	0/1

Notes:

(1) Subsequent to the setting up of the Nomination Committee, no Nomination Committee meeting was held during the year ended 31 December 2012.

(2) Mr. Wong Kwok Keung resigned as an executive director of the Company on 5 July 2012. Before his resignation, there were 4 Board meetings and 1 general meeting held during the year ended 31 December 2012.

In addition, the Chairman of the Board also held meeting with the independent non-executive directors without the presence of executive directors during the year.

BOARD COMMITTEES

To comply with the new code provision of the CG Code, which requires a listed issuer to establish a nomination committee by 1 April 2012, the Board approved the setting up of its Nomination Committee on 20 March 2012. Currently, the Board has established 4 Board committees, namely, the Executive Committee, Remuneration Committee, Audit Committee and Nomination 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 "www.ipegroup.com" and on the Stock Exchange's website "www.hkexnews.hk" (except for the written terms of reference of the Executive Committee which is available to shareholders upon request). All the Board committees should report to the Board on their decisions or recommendations made.

Executive Committee

The Executive Committee comprises all the executive directors of the Company. The main 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.

BOARD COMMITTEES (Continued)

Remuneration Committee

The Remuneration Committee comprises a total of 5 members, being 3 independent non-executive directors, namely, Dr. Cheng Ngok (Chairman), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok; and 2 executive directors, namely, Mr. Chui Siu On and Mr. Lai Man Kit. Accordingly, the majority of the members are independent non-executive directors.

The main duties of the Remuneration Committee are to (i) make recommendations to the Board on the remuneration packages of executive directors and senior management, the remuneration policy and structure for all directors and senior management (i.e. the model described in the code provision B.1.2(c)(ii) was adopted) and the remuneration of non-executive directors; and (ii) establish transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration.

During the year ended 31 December 2012, the Remuneration Committee has reviewed and discussed the remuneration policy of the Group, remuneration packages of directors and senior staff of the Group and grant of share options of the Company.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

	Number of individuals
Nil to HK$1,000,000	4

Details of the remuneration of each of the directors of the Company for the year ended 31 December 2012 are set out in note 8 to the financial statements.

Audit Committee

The Audit Committee comprises a total of 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, being Mr. Wu Karl Kwok, possessing the appropriate professional qualifications and accounting and related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

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

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

During the year ended 31 December 2012, the Audit Committee has performed the following major tasks:

— Review and discussion of the annual financial results and report for the year ended 31 December 2011 and interim financial results and report for the six months ended 30 June 2012;

— Review of the scope of audit work, auditors' fees and terms of engagement for the year ended 31 December 2012;

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

— Review of the internal control and risk management systems of the Group; and

— Review of the arrangements for employees to raise concerns about possible improprieties.

The external auditors were invited to attend the meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. Besides, there is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditors.

Nomination Committee

As mentioned, the Nomination Committee was set up on 20 March 2012. It comprises a total of 5 members, being 1 executive director, namely, Mr. Chui Siu On (Chairman) and 4 independent non-executive directors, namely, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek, Mr. Wu Karl Kwok and Mr. Nguyen, Van Tu Peter. Accordingly, the majority of the members are independent non-executive directors.

The main duties of the Nomination Committee are to (i) review the Board composition, develop and formulate relevant procedures for the nomination and appointment of directors; (ii) make recommendations to the Board on the appointment and succession planning of directors; and (iii) assess the independence of independent non-executive directors.

Prior to the setting up of the Nomination Committee, the Board as a whole was responsible for the said duties of the Nomination Committee. During the year ended 31 December 2012, the Board, through its meeting held on 20 March 2012 (with the presence of all the directors at that time), 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 2012 annual general meeting of the Company; and

— Assessment of the independence of all the independent non-executive directors of the Company.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2012.

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 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.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and the Group's assets and, with the support of the Audit Committee, for reviewing the effectiveness of such system. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

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 2012 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 2012 are analyzed below:

Type of services provided by the external auditors

	Fees paid/payable (HK$'000)
Audit services:	
Audit fees for the year ended 31 December 2012	2,915
Non-audit services:	
Tax services and others	235
TOTAL:	3,150

COMPANY SECRETARY

During the year ended 31 December 2012, Mr. Tam Yiu Chung, the Company Secretary, has taken no less than 15 hours of relevant professional training. Biographical details of Mr. Tam are set out in the section headed "Directors and Senior Management" in this annual report.

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.

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. Shareholders and investors may send written enquiries or requests to the Company are as follows:

Address:	11/F, Block E1, Hoi Bun Industrial Building, No.6 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong (For the attention of the Chairman of the Board)
Fax:	(852) 2688 6155
Email:	ipehk@ipehk.com.hk

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.

In addition, the general meetings of the Company provide a good opportunity for communication between the Board and the shareholders. Board members and appropriate senior staff of the Group are available to answer questions at the annual general meeting and other shareholders' meetings.

Code provision E.1.2 of the CG Code stipulates that the chairman of a listed issuer should attend the issuer's annual general meeting. Mr. Chui Siu On, the Chairman of the Company, was unable to attend the Company's annual general meeting held on 15 May 2012 due to other engagement. In view of his absence, Mr. Chui had arranged for other directors and management, who are well-versed in the Company's business and affairs, to attend the meeting and communicate with the shareholders of the Company.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings pursuant to the Articles of Association as follows:

(i) Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

(ii) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's head office in Hong Kong or the Company's registration office (i.e. Tricor Investor Services Limited) at least 7 days prior to the date of the general meeting. If the notices are submitted after the dispatch of the notice of the general meeting appointed for such election, the period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end no later than 7 days prior to the date of such general meeting.

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement (as the case may be) to the Company's head office in Hong Kong and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

During the year under review, the Company has not made any changes to its Articles of Association. An up-to-date version of the Articles of Association is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles of Association for further details of the rights of shareholders.

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

Report of the Directors

The board of directors (the "Board") of IPE Group Limited (the "Company") is pleased to present this report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012.

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 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 116.

An interim dividend of HK1.0 cent per ordinary share was paid on 24 September 2012 (2011: HK1.0 cent per ordinary share). The Board has recommended the payment of a final dividend of HK1.2 cents per ordinary share in respect of the year to shareholders on the Register of Members on 24 May 2013 (2011: HK0.6 cent per ordinary share) (the "the Proposed Final Dividend"). 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, 14 May 2013 (the "2013 AGM"), the said final dividend will be paid in cash on Monday, 3 June 2013. Details of dividends for the year ended 31 December 2012 are set out in note 12 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2013 AGM, the Register of Members of the Company will be closed from Friday, 10 May 2013 to Tuesday, 14 May 2013 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2013 AGM, 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, 9 May 2013.

For determining the entitlement to the Proposed Final Dividend, the Register of Members of the Company will be closed from Wednesday, 22 May 2013 to Friday, 24 May 2013 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible to receive the Proposed Final Dividend, 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 Tuesday, 21 May 2013.

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 5 to 7 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND Eq UIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements in the Company's share capital, warrants 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

The Company repurchased a total of 3,140,000 shares on the Stock Exchange during the year ended 31 December 2012. Details of the repurchases are as follows:

Month of repurchases	Total number of shares repurchased	Repurchase price per share		Aggregate consideration
		Highest	Lowest	
		HK$	HK$	HK$'000
April 2012	35,000	0.61	0.61	22
May 2012	1,205,000	0.61	0.57	721
June 2012	1,655,000	0.62	0.59	1,009
December 2012	245,000	0.53	0.53	130
	3,140,000			1,882

The purchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the purchase of the shares of HK$1,568,000 has been charged to the retained profits of the Company. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

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

Except as disclosed above, 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 2012, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$669,239,000, of which HK$11,177,000 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$367,755,000 at 31 December 2012, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company is in a position to pay off its debts as and when they fall due in the ordinary course of business.

Report of the Directors

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$148,000 (2011: HK$326,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 47.9% of the total sales for the year and sales to the largest customer included therein amounted to 19.9%. Purchases from the Group's five largest suppliers accounted for 23.1% of the total purchases for the year and purchases from the largest supplier included therein amounted to 6%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr. Chui Siu On
Mr. Ho Yu Hoi
Mr. Lai Man Kit
Mr. Li Chi Hang
Mr. Lau Siu Chung
Mr. Yuen Chi Ho
Mr. Wong Kwok Keung (resigned on 5 July 2012)

Independent non-executive directors:
Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok
Mr. Nguyen, Van Tu Peter

In accordance with Article 87 of the Company's articles of association, Mr. Lau Siu Chung, Mr. Yuen Chi Ho, Dr. Cheng Ngok and Mr. Nguyen, Van Tu Peter, the existing directors of the Company, will retire by rotation at the 2013 AGM. 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 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except for, 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 2013 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

No director had 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 2012, 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	24.36%
	Directly beneficially owned		7,556,250	0.81%
	Through spouse	2	125,000	0.01%
			234,465,725	25.18%
Mr. Ho Yu Hoi	Directly beneficially owned		31,838,740	3.42%
Mr. Lai Man Kit	Directly beneficially owned		26,774,500	2.88%
Mr. Li Chi Hang	Directly beneficially owned		25,088,535	2.69%
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 2012.

Notes:

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

2. These shares held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On, were also disclosed as Ms. Leung's interests in the section headed "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares" below. Mr. Chui Siu On was deemed to be interested in these 125,000 shares of the Company held by his wife pursuant to Part XV of the SFO.

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

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

Name of director	Capacity and nature of interests	Number of underlying shares in respect of the share options granted	Percentage of underlying shares over the Company's issued capital*
Mr. Chui Siu On	Directly beneficially owned	50,000,000	5.37%
Mr. Lau Siu Chung	Directly beneficially owned	10,288,462	1.10%
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%
Mr. Nguyen, Van Tu Peter	Directly beneficially owned	1,600,000	0.17%

* The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2012.

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 2012, 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 2012, 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.

SHARE OPTION SCHEME

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. Further details are disclosed in note 32 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options								
Name or category of participant	At 1 January 2012	Granted during the year[3]	Exercised during the year[3]	Expired/ lapsed during the year	Forfeited/ cancelled during the year	At 31 December 2012	Date of grant of share options[4]	Exercise period of share options	Exercise price of share options[5] HK$ per share
Directors									
Mr. Chui Siu On[1]	18,000,000	–	–	–	–	18,000,000	19-06-11	01-09-11 to 31-08-18	1.8200
	18,000,000	–	–	–	–	18,000,000	19-06-11	01-09-12 to 31-08-18	1.8200
	14,000,000	–	–	–	–	14,000,000	19-06-11	01-09-13 to 31-08-18	1.8200
	50,000,000	–	–	–	–	50,000,000			
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
	10,288,462	–	–	–	–	10,288,462			
Mr. Yuen Chi Ho	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
	7,009,615	–	–	–	–	7,009,615			
Mr. Wong Kwok Keung[2]	1,644,231	–	(1,644,231)	–	–	–	01-06-09	01-06-10 to 31-05-14	0.3545
	2,644,231	–	(2,640,769)	–	(3,462)	–	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
	9,288,462	–	(4,285,000)	–	(5,003,462)	–			
Dr. Cheng Ngok	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
	1,328,846	–	–	–	–	1,328,846			
Mr. Wu Karl Kwok	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
	1,128,846	–	–	–	–	1,128,846			
Mr. Choi Hon Ting, Derek	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
	1,128,846	–	–	–	–	1,128,846			
Mr. Nguyen, Van Tu Peter	600,000	–	–	–	–	600,000	28-04-11	28-04-11 to 11-10-14	1.5600
	–	1,000,000	–	–	–	1,000,000	23-04-12	01-05-12 to 31-08-16	0.6400
	600,000	1,000,000	–	–	–	1,600,000			
	80,773,077	1,000,000	(4,285,000)	–	(5,003,462)	72,484,615			

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options: At 1 January 2012	Granted during the year[3]	Exercised during the year[3]	Expired/ lapsed during the year	Forfeited/ cancelled during the year	At 31 December 2012	Date of grant of share options[4]	Exercise period of share options	Exercise price of share options[5] HK$ per share
Members of senior management and other employees of the Group									
In aggregate	3,173,077	–	–	(3,173,077)	–	–	13-09-06	01-01-08 to 31-12-12	1.2764
	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
	6,215,577	–	(392,694)	–	–	5,822,883	01-06-09	01-06-10 to 31-05-14	0.3545
	1,577,116	–	(467,788)	–	–	1,109,328	01-06-09	01-06-11 to 31-05-14	0.3545
	6,261,538	–	(2,217,018)	–	(79,425)	3,965,095	01-06-09	01-06-12 to 31-05-14	0.3545
	1,925,000	–	–	–	(359,614)	1,565,386	01-06-09	01-06-13 to 31-05-14	0.3545
	23,400,000	–	–	–	–	23,400,000	02-06-10	01-04-12 to 11-10-14	0.7200
	8,400,000	–	–	–	–	8,400,000	02-06-10	01-04-13 to 11-10-14	0.7200
	11,200,000	–	–	–	–	11,200,000	02-06-10	01-04-14 to 11-10-14	0.7200
	–	20,000,000	–	–	–	20,000,000	23-04-12	01-09-14 to 31-08-16	0.6400
	67,440,769	20,000,000	(3,077,500)	(8,461,538)	(439,039)	75,462,692			
Suppliers of services									
In aggregate	7,105,769	–	(230,000)	–	–	6,875,769	01-06-09	01-06-10 to 31-05-14	0.3545
	5,000,000	–	–	–	–	5,000,000	02-06-10	01-04-12 to 11-10-14	0.7200
	12,105,769	–	(230,000)	–	–	11,875,769			
	160,319,615	21,000,000	(7,592,500)	(8,461,538)	(5,442,501)	159,823,076			

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

(1) The grant of 50,000,000 share options to Mr. Chui Siu On, which exceed the individual limit, was approved by the independent shareholders at the Company's extraordinary general meeting held on 4 July 2011 pursuant to the Listing Rules.

(2) Mr. Wong Kwok Keung resigned as an executive director of the Company on 5 July 2012 and accordingly, the outstanding share options granted to him were forfeited on 5 August 2012 pursuant to the relevant share option scheme.

(3) The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$0.6 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$0.65 per share.

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

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

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 of the directors 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.

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

As at 31 December 2012, the following parties (not being directors or chief executive of the Company) with interests of more than 5% in the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(A) Long 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***
Tottenhill	(a)	Directly beneficially owned	226,784,475	24.36%
Ms. Leung Wing Yi		Directly beneficially owned	125,000	0.01%
	(b)	Through spouse	234,340,725	25.17%
			234,465,725	25.18%
DJE Investment S.A.	(c)	Investment manager	72,250,000	7.76%
Mr. Jiang Qi Hang	(d)	Through controlled corporation	50,817,773	5.46%

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2012.

Notes:

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

(b) These shares were disclosed as the interests of Mr. Chui Siu On, the husband of Ms. Leung Wing Yi, in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above. Ms. Leung Wing Yi was deemed to be interested in these shares owned by her husband pursuant to Part XV of the SFO.

(c) These shares were held by DJE Investment S.A. which was 100% controlled by Dr. Jens Ehrhardt Kapital AG which in turn was 68.5% controlled by Dr. Jens Alfred Karl Ehrhardt. Accordingly, Dr. Jens Ehrhardt Kapital AG and Dr. Jens Alfred Karl Ehrhardt were deemed to be interested in the 72,250,000 shares pursuant to Part XV of the SFO.

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

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

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

Name of substantial shareholder	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 share capital*
Ms. Leung Wing Yi	Through spouse	50,000,000	5.37%

* The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2012.

Note: These underlying 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 underlying shares held by her husband pursuant to Part XV of the SFO.

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

Save as disclosed above, as at 31 December 2012, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the 2013 AGM.

ON BEHALF OF THE BOARD

Chui Siu On
Chairman and Managing Director

Hong Kong
19 March 2013

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

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

We have audited the consolidated financial statements of IPE Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 37 to 116, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 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 2012, 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

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

19 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**974,652**	991,829
Cost of sales		**(763,525)**	(793,184)
Gross profit		**211,127**	198,645
Other income and gains	5	**24,080**	11,695
Selling and distribution expenses		**(26,875)**	(22,743)
Administrative expenses		**(99,972)**	(93,689)
Other expenses		**(4,215)**	(9,976)
Finance costs	7	**(16,587)**	(16,849)
PROFIT BEFORE TAX	6	**87,558**	67,083
Income tax expense	10	**(17,124)**	(16,778)
PROFIT FOR THE YEAR		**70,434**	50,305
Attributable to:			
Owners of the Company	11	**70,522**	49,812
Non-controlling interests		**(88)**	493
		70,434	50,305
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY Eq UITY HOLDERS OF THE COMPANY	13		
Basic		**HK7.60 cents**	HK5.35 cents
Diluted		**HK7.50 cents**	HK5.11 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 2012

	Note	2012 HK$'000	2011 HK$'000
PROFIT FOR THE YEAR		**70,434**	50,305
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**28,915**	43,893
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**28,915**	43,893
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**99,349**	94,198
Attributable to:			
Owners of the Company	11	**99,405**	93,643
Non-controlling interests		**(56)**	555
		99,349	94,198

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**893,899**	994,325
Prepaid land lease payments	15	**97,661**	98,283
Loan to an unlisted equity investment	19	**5,443**	5,000
Available-for-sale investment	20	**150**	150
Deposit for purchase of items of property, plant and equipment		**4,256**	8,113
Deferred tax assets	30	**532**	736
Total non-current assets		**1,001,941**	1,106,607
CURRENT ASSETS			
Inventories	21	**255,901**	256,033
Trade receivables	22	**195,534**	230,542
Prepayments, deposits and other receivables	23	**17,290**	27,849
Derivative financial instruments	27	**615**	–
Cash and cash equivalents	24	**499,856**	438,276
Total current assets		**969,196**	952,700
CURRENT LIABILITIES			
Trade and bills payables	25	**55,420**	96,771
Other payables and accruals	26	**30,334**	55,182
Derivative financial instruments	27	**–**	384
Tax payable		**17,828**	20,958
Interest-bearing bank and other borrowings	28	**434,644**	552,566
Total current liabilities		**538,226**	725,861
NET CURRENT ASSETS		**430,970**	226,839
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,432,911**	1,333,446
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	**16,941**	8,479
Deferred tax liabilities	30	**5,453**	4,206
Other payables and accruals	26	**1,676**	866
Derivative financial instruments	27	**–**	3,635
Total non-current liabilities		**24,070**	17,186
Net assets		**1,408,841**	1,316,260

Consolidated Statement of Financial Position (continued)

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	31	**93,109**	92,664
Reserves	33(a)	**1,302,686**	1,216,111
Proposed final dividend	12	**11,177**	5,560
		1,406,972	1,314,335
Non-controlling interests		**1,869**	1,925
Total equity		**1,408,841**	1,316,260

CHUI SIU ON
Director

LAI MAN KIT
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

		Attributable to owners of the Company													
	Notes	Issued share capital HK$'000 (note 31)	Share premium account HK$'000 (note 31)	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$'000	Exchange fluctuation reserve HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000 (note 12)	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012		92,664	392,938*	(1,116)*	17,222*	287*	3,108*	23,006*	219,157*	1,200*	560,309*	5,560	1,314,335	1,925	1,316,260
Profit for the year		-	-	-	-	-	-	-	-	-	70,522	-	70,522	(88)	70,434
Other comprehensive income for the year: Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	28,883	-	-	-	28,883	32	28,915
Total comprehensive income for the year		-	-	-	-	-	-	-	28,883	-	70,522	-	99,405	(56)	99,349
Issue of shares	31	759	3,359	-	-	-	-	(1,427)	-	-	-	-	2,691	-	2,691
Share issue expenses	31	-	(20)	-	-	-	-	-	-	-	-	-	(20)	-	(20)
Repurchase of shares	31	(314)	(1,568)	-	-	-	314	-	-	-	(314)	-	(1,882)	-	(1,882)
Equity-settled share option arrangements		-	-	-	-	-	-	7,297	-	-	-	-	7,297	-	7,297
Transfer of share option reserve upon the forfeiture or expiry of share options		-	-	-	-	-	-	(3,082)	-	-	3,082	-	-	-	-
Transfer from retained profits		-	-	-	2,931	-	-	-	-	-	(2,931)	-	-	-	-
Transfer of warrant reserve upon the expiry of warrants		-	-	-	-	-	-	-	-	(1,200)	1,200	-	-	-	-
Interim 2012 dividend	12	-	-	-	-	-	-	-	-	-	(9,294)	-	(9,294)	-	(9,294)
Final 2011 dividend declared	12	-	-	-	-	-	-	-	-	-	-	(5,560)	(5,560)	-	(5,560)
Proposed final 2012 dividend	12	-	-	-	-	-	-	-	-	-	(11,177)	11,177	-	-	-
At 31 December 2012		93,109	394,709*	(1,116)*	20,153*	287*	3,422*	25,794*	248,040*	-*	611,397*	11,177	1,406,972	1,869	1,408,841

* These reserve accounts comprise the consolidated reserves of HK$1,302,686,000 (2011: HK$1,216,111,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2012

		Attributable to owners of the Company													
	Notes	Issued share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Statutory surplus reserve HK$'000	Statutory public welfare fund HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		(note 31)	(note 31)	(note 33(a))	(note 33(a))	(note 33(a))						(note 12)			
At 1 January 2011		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
Profit for the year		–	–	–	–	–	–	–	–	–	49,812	–	49,812	493	50,305
Other comprehensive income for the year:															
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	43,831	–	–	–	43,831	62	43,893
Total comprehensive income for the year		–	–	–	–	–	–	–	43,831	–	49,812	–	93,643	555	94,198
Issue of shares	31	332	1,458	–	–	–	–	(614)	–	–	–	–	1,176	–	1,176
Share issue expenses	31	–	(17)	–	–	–	–	–	–	–	–	–	(17)	–	(17)
Repurchase of shares	31	(577)	(2,901)	–	–	–	577	–	–	–	(577)	–	(3,478)	–	(3,478)
Equity-settled share option arrangements		–	–	–	–	–	–	12,019	–	–	–	–	12,019	–	12,019
Transfer from retained profits		–	–	–	3,897	–	–	–	–	–	(3,897)	–	–	–	–
Transfer of reserves		–	–	–	–	–	(1,154)	–	–	–	1,154	–	–	–	–
Issue of warrants		–	–	–	–	–	–	–	–	1,200	–	–	1,200	–	1,200
Interim 2011 dividend	12	–	–	–	–	–	–	–	–	–	(9,369)	–	(9,369)	–	(9,369)
Final 2010 dividend declared	12	–	–	–	–	–	–	–	–	–	–	(21,379)	(21,379)	–	(21,379)
Proposed final 2011 dividend	12	–	–	–	–	–	–	–	–	–	(5,560)	5,560	–	–	–
At 31 December 2011		92,664	392,938*	(1,116)*	17,222*	287*	3,108*	23,006*	219,157*	1,200*	560,309*	5,560	1,314,335	1,925	1,316,260

* These reserve accounts comprise the consolidated reserves of HK$1,216,111,000 (2010: HK$1,126,252,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**87,558**	67,083
Adjustments for:			
Depreciation	6, 14	**163,723**	162,254
Recognition of prepaid land lease payments	6, 15	**2,238**	2,195
Provision against inventory obsolescence	6	**482**	4,551
Loss on disposal of items of property, plant and equipment	6	**868**	204
Gain on disposal of investment property	6, 16	**–**	(1,000)
Government grant		**–**	(46,028)
Fair value (gains)/losses, net:			
Derivative financial instruments			
— transactions not qualified as hedges	6	**(4,634)**	1,411
Equity-settled share option expense		**7,297**	12,019
Finance costs	7	**16,587**	16,849
Bank interest income	5	**(13,356)**	(4,289)
Reversal of impairment of trade receivables	6, 22	**–**	(327)
		260,763	214,922
Increase in inventories		**(350)**	(68,279)
Decrease in trade receivables		**36,427**	10,556
Decrease/(increase) in prepayments, deposits and other receivables		**11,057**	(14,118)
(Decrease)/increase in trade and bills payables		**(41,906)**	8,894
Decrease in other payables and accruals		**(8,672)**	(2,573)
Cash generated from operations		**257,319**	149,402
Interest received		**13,356**	4,289
Interest paid		**(14,568)**	(14,218)
Interest element of finance lease rental payments		**(1,608)**	(1,453)
Income taxes paid		**(18,795)**	(8,910)
Net cash flows from operating activities		**235,704**	129,110
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(61,665)**	(70,693)
Proceeds from disposal of items of property, plant and equipment		**1,893**	4,142
Receipt of government grant		**–**	46,028
Decrease/(increase) in non-pledged time deposits with original maturity of over three months and within one year when acquired		**59,360**	(204,392)
Loan to an unlisted equity investment		**(443)**	–
Proceeds from disposal of investment property	16	**–**	30,300
Net cash flows used in investing activities		**(855)**	(194,615)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Net cash flows used in investing activities		**(855)**	(194,615)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of warrants	31	**–**	1,200
Repurchase of shares	31(b) & (d)	**(1,882)**	(3,478)
Share issue expenses	31	**(20)**	(17)
Share options exercised	31(a) & (c)	**2,691**	1,176
New bank loans and other borrowings		**698,236**	581,841
Repayment of bank loans and other borrowings		**(782,247)**	(594,994)
Capital element of finance lease rental payments		**(25,581)**	(24,722)
Dividends paid	12	**(14,854)**	(30,748)
Net cash flows used in financing activities		**(123,657)**	(69,742)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**111,192**	(135,247)
Cash and cash equivalents at beginning of year		**233,884**	360,424
Effect of foreign exchange rate changes, net		**9,748**	8,707
CASH AND CASH EQUIVALENTS AT END OF YEAR		**354,824**	233,884
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**297,838**	226,165
Non-pledged time deposits with original maturity of less than three months when acquired	24	**56,986**	7,719
Non-pledged time deposits with original maturity of over three months and within one year when acquired	24	**145,032**	204,392
Cash and cash equivalents as stated in the consolidated statement of financial position	24	**499,856**	438,276
Non-pledged time deposits with original maturity of over three months and within one year when acquired	24	**(145,032)**	(204,392)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**354,824**	233,884

Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**43**	43
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**246**	230
Amounts due from subsidiaries	18	**784,845**	666,097
Cash and cash equivalents	24	**6,474**	2,920
Total current assets		**791,565**	669,247
CURRENT LIABILITIES			
Other payables and accruals	26	**44**	31
NET CURRENT ASSETS		**791,521**	669,216
Net assets		**791,564**	669,259
Eq UITY			
Issued capital	31	**93,109**	92,664
Reserves	33(b)	**687,278**	571,035
Proposed final dividend	12	**11,177**	5,560
Total equity		**791,564**	669,259

CHUI SIU ON
Director

LAI MAN KIT
Director

Notes to Financial Statements

31 December 2012

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 Tottenhill Limited, which was incorporated in the British Virgin Islands. Subsequent to the open offer, the Group ceased to have holding companies.

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 derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it 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.

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.

Notes to Financial Statements

31 December 2012

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *— Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) *— Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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

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

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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 an 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.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 depreciates them accordingly.

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 5 to 10 years
Plant and machinery	10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

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

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

An item of property, plant and equipment including 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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.

Subsequent measurement

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

(1) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

(2) 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 other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

(3) Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments. 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 revaluation 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, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments 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 investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

- 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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 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.

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 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 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, net of directly attributable transaction costs.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Subsequent measurement

The subsequent 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 selling 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.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

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 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.

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, 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 an interest rate swap, 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 and non-current portions 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.

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:

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

- when 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.

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. 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) rental income, on a time proportion basis over the lease terms;

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

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

Employee benefits

Share-based payments

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 payments, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share-based payments (Continued)

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 payments, 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.

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

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 for the period from January 2012 to May 2012 and HK$1,250 per month per employee for the period from June 2012 to December 2012, respectively (2011: HK$1,000), 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Foreign currencies

These financial statements are presented in HK$, 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 prevailing 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. Differences arising on settlement or translation of monetary items are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than HK$. As at the end of the reporting period, the assets and liabilities of those entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into HK$ 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 HK$ 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 HK$ at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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, are described 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 2012 and 2011. The amount of unrecognised tax losses at 31 December 2012 was HK$24,411,000 (2011: HK$26,576,000). Further details are set out in note 30 to the financial statements.

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 2012

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2012	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Total HK$'000
Segment revenue:							
Sales to external customers	95,690	296,193	240,608	166,731	120,418	55,012	974,652
Intersegment sales	34,006	–	–	–	–	–	34,006
Other revenue	354	–	10,370	–	–	–	10,724
	130,050	296,193	250,978	166,731	120,418	55,012	1,019,382
Reconciliation:							
Elimination of intersegment sales							(34,006)
Revenue							985,376
Segment results	2,060	30,610	27,335	17,544	13,679	6,247	97,475
Reconciliation:							
Elimination of intersegment results							(6,686)
Interest income							13,356
Finance costs							(16,587)
Profit before tax							87,558
Income tax expense							(17,124)
Profit for the year							70,434
Segment assets	161,404	44,258	1,706,196	35,278	24,443	6,691	1,978,270
Reconciliation:							
Elimination of intersegment receivables							(7,183)
Corporate and other unallocated assets							50
Total assets							1,971,137
Segment liabilities	15,728	–	533,062	3,852	7,182	9,655	569,479
Reconciliation:							
Elimination of intersegment payables							(7,183)
Total liabilities							562,296

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2012	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Total HK$'000
Other segment information:							
Impairment losses (reversed)/ recognised in the income statement	(751)	–	1,233	–	–	–	482
Depreciation and amortisation	21,340	–	144,621	–	–	–	165,961
Capital expenditure*	4,581	–	44,955	–	–	–	49,536
Change in fair value of derivative financial instruments							
— Interest rate swap	–	–	(384)	–	–	–	(384)
— Forward currency contracts	–	–	(4,250)	–	–	–	(4,250)
Loss on disposal of items of property, plant and equipment	375	–	493	–	–	–	868

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

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2011	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Total HK$'000
Segment revenue:							
Sales to external customers	191,644	192,749	263,023	136,450	149,066	58,897	991,829
Intersegment sales	57,325	–	–	–	–	–	57,325
Other revenue	2,706	–	4,700	–	–	–	7,406
	251,675	192,749	267,723	136,450	149,066	58,897	1,056,560
Reconciliation:							
Elimination of intersegment sales							(57,325)
Revenue							999,235
Segment results	1,771	20,091	27,416	14,223	15,538	6,139	85,178
Reconciliation:							
Elimination of intersegment results							(5,535)
Interest income							4,289
Finance costs							(16,849)
Profit before tax							67,083
Income tax expense							(16,778)
Profit for the year							50,305
Segment assets	217,080	48,211	1,743,857	34,903	28,742	9,230	2,082,023
Reconciliation:							
Elimination of intersegment receivables							(22,948)
Corporate and other unallocated assets							232
Total assets							2,059,307
Segment liabilities	19,467	–	703,365	5,012	4,597	33,554	765,995
Reconciliation:							
Elimination of intersegment payables							(22,948)
Total liabilities							743,047

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2011	Thailand HK$'000	Malaysia HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Total HK$'000
Other segment information:							
Impairment losses recognised in the income statement	1,459	–	3,092	–	–	–	4,551
Impairment losses reversed in the income statement	–	–	(327)	–	–	–	(327)
Depreciation and amortisation	22,303	–	142,146	–	–	–	164,449
Capital expenditure*	3,711	–	72,078	–	–	–	75,789
Change in fair value of derivative financial instruments							
— Interest rate swap	–	–	(2,224)	–	–	–	(2,224)
— Forward currency contracts	–	–	3,635	–	–	–	3,635
Gain on disposal of investment property	–	–	(1,000)	–	–	–	(1,000)
(Gain)/loss on disposal of items of property, plant and equipment	(771)	–	975	–	–	–	204

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

4. OPERATING SEGMENT INFORMATION (Continued)

Business segment information

(a) Revenue by product

	2012 HK$'000	2011 HK$'000
HDD components	**465,803**	475,996
Hydraulic equipment components	**222,797**	280,130
Automotive components	**210,438**	173,761
Others	**75,614**	61,942
	974,652	991,829

(b) Non-current assets

	2012 HK$'000	2011 HK$'000
Thailand	**102,794**	117,774
Mainland China, Macau and Hong Kong	**898,615**	988,097
	1,001,409	1,105,871

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

Information about major customers

Revenue of approximately HK$194 million and HK$102 million were derived from sales by the HDD components segment to two customers, respectively (2011: HK$122 million to a single customer).

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Note	**2012 HK$'000**	2011 HK$'000
Revenue			
Sale of goods and materials		**974,652**	991,829
Other income			
Bank interest income		**13,356**	4,289
Reversal of impairment of trade receivables		**–**	327
Others		**2,520**	3,855
		15,876	8,471
Gains			
Gain on disposal of investment property	16	**–**	1,000
Fair value gains:			
Derivative financial instruments			
— transactions not qualified as hedges:			
Interest rate swap		**384**	2,224
Forward currency contracts		**4,250**	–
Foreign exchange differences, net		**3,570**	–
		8,204	3,224
		24,080	11,695

Notes to Financial Statements

31 December 2012

6. PROFIT BEFORE TAX

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

	Notes	2012 HK$'000	2011 HK$'000
Cost of inventories sold*		**763,043**	788,633
Depreciation	14	**163,723**	162,254
Amortisation of land lease payments	15	**2,238**	2,195
Auditors' remuneration		**2,915**	2,448
Employee benefit expense			
(excluding directors' remuneration (note 8)):			
Wages and salaries		**167,375**	173,306
Equity-settled share option expense**		**4,634**	4,699
Pension scheme contributions***		**6,050**	4,857
		178,059	182,862
Minimum lease payments under operating leases:			
Land and buildings		**1,759**	1,946
Equipment		**172**	495
		1,931	2,441
Foreign exchange differences, net		**(3,570)**	1,798
Research and development costs****		**5,057**	6,590
Fair value (gains)/losses, net:			
Derivative financial instruments			
— transactions not qualified as hedges:			
Interest rate swap	27	**(384)**	(2,224)
Forward currency contracts	27	**(4,250)**	3,635
		(4,634)	1,411
Bank interest income		**(13,356)**	(4,289)
Loss on disposal of items of property, plant and equipment		**868**	204
Gain on disposal of investment property	16	**–**	(1,000)
Reversal of impairment of trade receivables	22	**–**	(327)
Provision against inventory obsolescence	21	**482**	4,551

Notes:

* The cost of inventories sold includes an amount of approximately HK$294,622,000 (2011: HK$299,334,000) 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 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: Nil).

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group 2012 HK$'000	2011 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**14,568**	14,218
Interest on finance leases	**1,608**	1,453
Financial arrangement fees	**411**	1,178
	16,587	16,849

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 2012 HK$'000	2011 HK$'000
Fees	**2,700**	2,859
Other emoluments:		
Salaries, allowances and benefits in kind	**4,780**	4,970
Equity-settled share option expense	**2,663**	7,320
Pension scheme contributions	**77**	72
	7,520	12,362
	10,220	15,221

During the current and prior year, some of the directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 32 to the financial statements. 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.

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:

2012

	Fees HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
Dr. Cheng Ngok	**100**	**22**	**122**
Mr. Choi Hon Ting, Derek	**100**	**17**	**117**
Mr. Wu Karl Kwok	**100**	**17**	**117**
Mr. Nguyen, Van Tu Peter	**100**	**231**	**331**
	400	**287**	**687**

2011

	Fees HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
Dr. Cheng Ngok	100	89	189
Mr. Choi Hon Ting, Derek	100	67	167
Mr. Wu Karl Kwok	100	67	167
Mr. Nguyen, Van Tu Peter	100	190	290
	400	413	813

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2012					
Executive directors:					
Mr. Chui Siu On	**390**	**1,220**	**1,766**	**14**	**3,390**
Mr. Ho Yu Hoi	**406**	**941**	**–**	**–**	**1,347**
Mr. Lai Man Kit	**360**	**628**	**–**	**14**	**1,002**
Mr. Li Chi Hang	**240**	**447**	**–**	**14**	**701**
Mr. Wong Kwok Keung	**184**	**276**	**209**	**7**	**676**
Mr. Lau Siu Chung	**360**	**530**	**209**	**14**	**1,113**
Mr. Yuen Chi Ho	**360**	**738**	**192**	**14**	**1,304**
	2,300	**4,780**	**2,376**	**77**	**9,533**

	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
2011					
Executive directors:					
Mr. Chui Siu On	390	1,220	4,772	12	6,394
Mr. Ho Yu Hoi	409	941	–	–	1,350
Mr. Lai Man Kit	360	628	–	12	1,000
Mr. Li Chi Hang	220	405	–	12	637
Mr. Wong Kwok Keung	360	540	725	12	1,637
Mr. Lau Siu Chung	360	516	725	12	1,613
Mr. Yuen Chi Ho	360	720	685	12	1,777
	2,459	4,970	6,907	72	14,408

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as a compensation for loss of office (2011: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included five (2011: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one non-director, highest paid employee in 2011 are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**–**	840
Equity-settled share option expense	**–**	558
Pension scheme contributions	**–**	12
	–	1,410

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

	Number of employee	
	2012	2011
HK$1,000,001 to HK$1,500,000	**–**	1

In 2010, 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 2011 is included in the above non-director, highest paid employee's remuneration disclosures. In addition, no emoluments were 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 in 2011.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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	
	2012	2011
	HK$'000	HK$'000
Group:		
Current (charge for the year) — Hong Kong	**1,784**	1,182
Current (charge for the year) — Elsewhere	**13,881**	15,927
Deferred (note 30)	**1,459**	(331)
Total tax charge for the year	**17,124**	16,778

10. INCOME TAX (Continued)

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	
	2012	2011
	HK$'000	HK$'000
Profit before tax	**87,558**	67,083
Tax at the applicable tax rates	**17,576**	14,541
Expenses not deductible for tax	**10,319**	10,287
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**1,235**	1,268
Income not subject to tax	**(15,050)**	(12,762)
Tax losses utilised from previous periods	**–**	(356)
Tax losses not recognised	**3,044**	3,800
Tax charge at the Group's effective rate of 19.6% (2011: 25.0%)	**17,124**	16,778

Guangzhou Xin Hao Precision Metal Products Company Limited ("Xin 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 in 2009 that it was subject to a reduced tax rate of 15% from the years 2009 to 2011 because it was recognised as a 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. It was subject to a tax rate of 25% for the year ended 31 December 2012.

Integrated Precision Engineering (Thailand) Company Limited ("IPE Thailand"), a company incorporated in Thailand, is subject to income tax in Thailand at a rate of 23% (2011: 30%). IPE Thailand has four production factories, Factory I and Factory II (Phase 1), Factory II (Phase 2) and Factory III. Factory II (Phase 1) and Factory II (Phase 2) are currently enjoying exemptions from income tax granted by the Board of Investment, a government authority in Thailand, for periods of ten years from 1 July 2005 to 30 June 2015 for income generated of Certificate Number 1503(6)/2548 and eight years from 1 April 2011 to 31 March 2019 for income generated of Certificate Number 1666(1)/2553, respectively, and 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/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2012 includes a profit of HK$129,073,000 (2011: a loss of HK$15,700,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. DIVIDENDS

	2012 HK$'000	2011 HK$'000
Interim dividend — HK1.0 cent (2011: HK1.0 cent) per ordinary share	**9,294**	9,369
Proposed final dividend — HK1.2 cents (2011: HK0.6 cent) per ordinary share	**11,177**	5,560
	20,471	14,929

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 Eq UITY HOLDERS OF THE COMPANY

The calculation of the 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 dilutive potential ordinary shares into ordinary shares.

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

	2012 HK$'000	2011 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**70,522**	49,812

	Number of shares 2012	 2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**928,261,495**	930,328,592
Effect of dilution — weighted average number of ordinary shares:		
Share options	**12,124,745**	43,827,120
	940,386,240	974,155,712

14. PROPERTY, PLANT AND Eq UIPMENT

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 2012	355,448	14,652	1,460,218	56,840	21,761	43,550	1,952,469
Additions	4,703	–	1,705	504	446	42,178	49,536
Transfer in/(out)	19,965	25	24,813	1,713	55	(46,571)	–
Disposals	(639)	–	(18,738)	(1,013)	(1,414)	(515)	(22,319)
Exchange realignment	6,865	214	26,742	1,002	301	719	35,843
At 31 December 2012	386,342	14,891	1,494,740	59,046	21,149	39,361	2,015,529
Accumulated depreciation:							
At 1 January 2012	(116,389)	(4,074)	(786,403)	(38,065)	(13,213)	–	(958,144)
Depreciation provided during the year	(17,271)	(1,489)	(134,886)	(7,310)	(2,767)	–	(163,723)
Disposals — accumulated depreciation	311	–	17,432	969	846	–	19,558
Exchange realignment	(2,280)	(108)	(15,993)	(736)	(204)	–	(19,321)
At 31 December 2012	(135,629)	(5,671)	(919,850)	(45,142)	(15,338)	–	(1,121,630)
At 31 December 2012							
Cost	386,342	14,891	1,494,740	59,046	21,149	39,361	2,015,529
Accumulated depreciation	(135,629)	(5,671)	(919,850)	(45,142)	(15,338)	–	(1,121,630)
Net carrying amount	250,713	9,220	574,890	13,904	5,811	39,361	893,899
At 31 December 2011							
Cost	355,448	14,652	1,460,218	56,840	21,761	43,550	1,952,469
Accumulated depreciation	(116,389)	(4,074)	(786,403)	(38,065)	(13,213)	–	(958,144)
Net carrying amount	239,059	10,578	673,815	18,775	8,548	43,550	994,325

14. PROPERTY, PLANT AND Eq UIPMENT (Continued)

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 2011	348,289	3,063	1,399,111	52,254	19,055	26,461	1,848,233
Additions	3,953	181	801	1,188	342	69,324	75,789
Transfer in/(out)	(4,747)	11,188	38,568	2,831	2,491	(50,331)	–
Disposals	–	–	(12,764)	(906)	(550)	(2,657)	(16,877)
Exchange realignment	7,953	220	34,502	1,473	423	753	45,324
At 31 December 2011	355,448	14,652	1,460,218	56,840	21,761	43,550	1,952,469
Accumulated depreciation:							
At 1 January 2011	(95,937)	(2,328)	(652,308)	(29,222)	(10,750)	–	(790,545)
Depreciation provided during the year	(18,121)	(1,695)	(130,852)	(8,809)	(2,777)	–	(162,254)
Disposals — accumulated depreciation	–	–	11,175	806	550	–	12,531
Exchange realignment	(2,331)	(51)	(14,418)	(840)	(236)	–	(17,876)
At 31 December 2011	(116,389)	(4,074)	(786,403)	(38,065)	(13,213)	–	(958,144)
At 31 December 2011							
Cost	355,448	14,652	1,460,218	56,840	21,761	43,550	1,952,469
Accumulated depreciation	(116,389)	(4,074)	(786,403)	(38,065)	(13,213)	–	(958,144)
Net carrying amount	239,059	10,578	673,815	18,775	8,548	43,550	994,325

The Group's leasehold land included in property, plant and equipment with a net carrying amount of HK$780,000 (2011: HK$805,000) 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$4,880,000) included in land and buildings is situated in Thailand (2011: Thai Baht19,201,000 (equivalent to HK$4,746,000)).

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 2012 amounted to HK$76,973,000 (2011: HK$62,692,000).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2012	2011
	HK$'000	HK$'000
Carrying amount at 1 January	**100,478**	98,973
Recognised during the year (note 6)	**(2,238)**	(2,195)
Exchange realignment	**1,659**	3,700
Carrying amount at 31 December	**99,899**	100,478
Current portion included in prepayments, deposits and other receivables	**(2,238)**	(2,195)
Non-current portion	**97,661**	98,283

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

16. INVESTMENT PROPERTY

	Group	
	2012	2011
	HK$'000	HK$'000
Carrying amount at 1 January	**–**	29,300
Disposal of an investment property	**–**	(29,300)
Carrying amount at 31 December	**–**	–

The Group's investment property was situated in Hong Kong and was held under a medium term lease. During the prior year, it was disposed of at a consideration of HK$30,300,000.

17. GOODWILL

Group

	HK$'000
At 31 December 2011:	
Cost	1,950
Accumulated impairment	(1,950)
Net carrying amount	–
At 31 December 2012:	
Cost	**1,950**
Accumulated impairment	**(1,950)**
Net carrying amount	**–**

18. INVESTMENTS IN SUBSIDIARIES

	Company 2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**43**	43

The amounts due from subsidiaries of HK$784,845,000 (2011: HK$666,097,000) included in the Company's current assets are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

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

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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
Guangzhou Xin Hao Precision Metal Products Company Limited ("Xin Hao")**	PRC/ Mainland China	HK$736,045,443	–	100%	Manufacture of precision metal components
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.

** Xin Hao is a wholly-foreign-owned enterprise under PRC law with a registered capital of HK$959,000,000. Up to 31 December 2012, HK$736,045,443 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 2012, US$28,125,185 has been contributed.

19. LOAN TO AN UNLISTED Eq UITY 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 advance is considered as quasi-equity loan to the unlisted equity investment and the loan is not expected to be repaid within the next twelve months from the year end date.

20. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2012	2011
	HK$'000	HK$'000
Unlisted equity investment, at cost	**150**	150

At 31 December 2012, an unlisted equity investment with a carrying amount of HK$150,000 (2011: 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	
	2012	2011
	HK$'000	HK$'000
Raw materials	**85,044**	82,431
Consumables	**45,545**	52,240
Work in progress	**58,441**	65,625
Finished goods	**92,121**	80,505
	281,151	280,801
Less: Provision against inventory obsolescence	**(25,250)**	(24,768)
	255,901	256,033

22. TRADE RECEIVABLES

	Group	
	2012	2011
	HK$'000	HK$'000
Trade receivables	**195,534**	230,542

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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. 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	
	2012	2011
	HK$'000	HK$'000
Within 1 month	**60,498**	83,507
1 to 2 months	**62,147**	69,363
2 to 3 months	**36,459**	45,625
3 to 4 months	**17,702**	13,474
4 to 12 months	**18,728**	18,573
	195,534	230,542

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

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**–**	327
Impairment losses reversed (note 6)	**–**	(327)
	–	–

Included in the above impairment losses reversed of trade receivables as at 31 December 2011 was a reversal of a provision for impairment for individually impaired trade receivable of HK$327,000 with a carrying amount before provision of HK$327,000 as at 31 December 2010. The individually impaired trade receivable relates to a customer that was in default and the balance was not expected to be recoverable.

22. TRADE RECEIVABLES (Continued)

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

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**156,216**	183,172
Less than 90 days past due	**33,579**	39,774
90 to 180 days past due	**4,991**	7,479
Over 180 days past due	**748**	117
	195,534	230,542

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.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**5,330**	5,478	**246**	230
Deposits and other receivables	**11,960**	22,371	**–**	–
	17,290	27,849	**246**	230

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

24. CASH AND CASH Eq UIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**297,838**	226,165	**6,474**	2,920
Time deposits	**202,018**	212,111	**–**	–
Cash and cash equivalents	**499,856**	438,276	**6,474**	2,920

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$251,431,000 (2011: HK$180,253,000). 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 one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and 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	
	2012	2011
	HK$'000	HK$'000
Within 1 month	**21,992**	46,610
1 to 2 months	**19,061**	29,867
2 to 3 months	**9,710**	13,446
Over 3 months	**4,657**	6,848
	55,420	96,771

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

26. OTHER PAYABLES AND ACCRUALS

	Group 2012 HK$'000	2011 HK$'000	Company 2012 HK$'000	2011 HK$'000
Other payables (Note)	**15,163**	31,710	**–**	–
Accruals	**16,847**	24,338	**44**	31
	32,010	56,048	**44**	31
Portion classified as non-current:				
Other payables (Note)	**(1,676)**	(866)	**–**	–
Current portion	**30,334**	55,182	**44**	31

Note: The non-current portion of other payables as at 31 December 2012 and 31 December 2011 mainly represented a deferred lease payment arising from a rent-free period of two years for the plant of a subsidiary.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2012 HK$'000	2011 HK$'000
Derivative financial instruments — transactions not qualified as hedges		
Assets		
Forward currency contracts*		
— current portion	**615**	–
Liabilities		
Forward currency contracts*		
— non-current portion	**–**	3,635
Interest rate swap**		
— current portion	**–**	384

* During the year 2011, the Group entered into three forward currency contracts to manage its exchange rate exposure. These forward currency contracts were not designated for hedge purposes and were measured at fair value through profit or loss. The agreements required the Group to buy RMB with United States dollars ("US$") at pre-agreed exchange rates on pre-determined dates up to July 2013, September 2013 and October 2013, respectively.

During the year 2012, the Group further entered into two forward currency contracts to manage its exchange rate exposure. These forward currency contracts were not designated for hedge purposes and were measured at fair value through profit or loss. The agreements required the Group to buy RMB with US$ at pre-agreed exchange rates on pre-determined dates up to December 2013 and February 2014, respectively. The forward currency contract which was pre-determined to be expired up to February 2014 was terminated with effect from 27 December 2012.

** At 31 December 2011, the Group had an interest rate swap agreement with a bank to manage its interest rate exposure in connection with the Group's long term banking facilities which did not meet the criteria for hedge accounting. A notional amount of HK$27,777,777 with a floating rate was swapped for a fixed rate. The agreement was expired in April 2012.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2012			2011		
Group	**Effective contractual interest rate (%)**	**Maturity**	**HK$'000**	Effective contractual interest rate (%)	Maturity	HK$'000
Current						
Finance lease payables (note 29)	**3.75–4.00**	**2013**	**15,182**	3.75-8.73	2012	16,205
Unsecured						
Bank revolving loans	**1.20–3.03**	**2013**	**116,200**	1.19-3.16	2012	104,001
Bank term loans	**1.98**	**2013**	**6,250**	1.13-1.97	2012	63,606
Other bank loans	**1.62–2.90**	**2013**	**69,253**	1.51-2.62	2012	72,013
Long term bank loans repayable on demand	**2.53-3.78**	**On demand**	**227,759**	2.53–5.03	On demand	296,741
			434,644			552,566
Non-current						
Finance lease payables (note 29)	**4.00**	**2015**	**16,941**	3.75	2013	2,229
Unsecured						
Bank term loans	**–**	**–**	**–**	1.97	2013	6,250
			16,941			8,479
			451,585			561,045

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

	Group	
	31 December 2012 HK$'000	31 December 2011 HK$'000
Analysed into:		
Bank revolving loans, term loans and long term bank loans repayable:		
Within one year or on demand	**350,209**	464,348
In the second year	**–**	6,250
	350,209	470,598
Other bank loans repayable:		
Within one year	**69,253**	72,013
Other borrowings repayable:		
Within one year	**15,182**	16,205
In the second year	**13,481**	2,229
In the third to fifth years, inclusive	**3,460**	–
	32,123	18,434
	451,585	561,045

Notes:

(a) At 31 December 2012 and 2011, all the interest-bearing bank and other borrowings were unsecured.

(b) At 31 December 2012, except for the unsecured bank loans of HK$125,427,000 which were denominated in US$ (2011: bank loans of HK$537,000 denominated in Thai Baht and a bank loan of HK$146,408,000 denominated in US$), all borrowings were in HK$.

(c) The Group's other loans are unsecured, bear interest at rates ranging from 1.25% to 1.5% below the Hong Kong dollar prime rate per annum and are all repayable by 36 monthly equal instalments.

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 within three years.

At 31 December 2012, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2012 HK$'000	Minimum lease payments 2011 HK$'000	Present value of minimum lease payments 2012 HK$'000	Present value of minimum lease payments 2011 HK$'000
Amounts payable:				
Within one year	16,208	16,777	15,182	16,205
In the second year	13,913	2,295	13,481	2,229
In the third to fifth years, inclusive	3,483	–	3,460	–
Total minimum finance lease payments	33,604	19,072	32,123	18,434
Future finance charges	(1,481)	(638)		
Total net finance lease payables	32,123	18,434		
Portion classified as current liabilities (note 28)	(15,182)	(16,205)		
Non-current portion (note 28)	16,941	2,229		

30. DEFERRED TAX

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

Deferred tax liabilities

Group	2012		
	Depreciation allowance in excess of related depreciation HK$'000	Withholding tax for distributable profits of the PRC subsidiaries HK$'000	Total HK$'000
At 1 January 2012	628	3,578	4,206
Deferred tax charged to the income statement during the year (note 10)	2	1,235	1,237
Exchange realignment	10	–	10
At 31 December 2012	640	4,813	5,453

Deferred tax assets

Group	2012 Write-back of inventory provision HK$'000
At 1 January 2012	736
Deferred tax charged to the income statement during the year (note 10)	(222)
Exchange realignment	18
At 31 December 2012	532

30. DEFERRED TAX (Continued)

Deferred tax liabilities

Group	2011			
	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of property HK$'000	Withholding tax for distributable profits of the PRC subsidiaries HK$'000	Total HK$'000
At 1 January 2011	930	1,273	2,310	4,513
Deferred tax (credited)/charged to the income statement during the year (note 10)	(285)	(1,273)	1,268	(290)
Exchange realignment	(17)	–	–	(17)
At 31 December 2011	628	–	3,578	4,206

Deferred tax assets

Group	2011		
	Write-off of other receivables HK$'000	Write-back of inventory provision HK$'000	Total HK$'000
At 1 January 2011	51	680	731
Deferred tax (charged)/credited to the income statement during the year (note 10)	(50)	91	41
Exchange realignment	(1)	(35)	(36)
At 31 December 2011	–	736	736

30. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**24,411**	26,576	**6,722**	–
Deductible temporary differences	**117,507**	101,260	**–**	–
	141,918	127,836	**6,722**	–

The Group has tax losses arising in Mainland China of HK$3,373,000 (2011: HK$25,000) 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$21,038,000 (2011: HK$26,551,000) 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

	2012 HK$'000	2011 HK$'000
Authorised:		
1,500,000,000 (2011: 1,500,000,000) ordinary shares of HK$0.1 each	**150,000**	150,000
Issued and fully paid:		
931,087,790 (2011: 926,635,290) ordinary shares of HK$0.1 each	**93,109**	92,664

The movements in share capital for the years ended 31 December 2012 and 2011 were as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 31 December 2010 and 1 January 2011		929,088,751	92,909	394,398	487,307
Share options exercised	(a)	3,316,539	332	1,458	1,790
Repurchase of shares	(b)	(5,770,000)	(577)	(2,901)	(3,478)
		926,635,290	92,664	392,955	485,619
Share issue expenses		–	–	(17)	(17)
At 31 December 2011		926,635,290	92,664	392,938	485,602
Share options exercised	(c)	7,592,500	759	3,359	4,118
Repurchase of shares	(d)	(3,140,000)	(314)	(1,568)	(1,882)
		931,087,790	93,109	394,729	487,838
Share issue expenses		–	–	(20)	(20)
At 31 December 2012		931,087,790	93,109	394,709	487,818

31. SHARE CAPITAL (Continued)

Shares (Continued)

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

(a) The subscription rights attaching to 3,316,539 share options were exercised in 2011 at the subscription price of HK$0.35 per share (note 32), resulting in the issue of 3,316,539 shares of HK$0.1 each for a total cash consideration, before expenses, of approximately HK$1.2 million. An amount of approximately HK$614,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(b) The Company repurchased its own shares on the Stock Exchange during the year ended 31 December 2011. The shares were cancelled upon repurchase and accordingly the issued capital of the Company was reduced by the nominal value of these shares. The premium on the repurchase was charged against share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

(c) The subscription rights attaching to 7,592,500 share options were exercised in 2012 at the subscription price of HK$0.35 per share (note 32), resulting in the issue of 7,592,500 shares of HK$0.1 each for a total cash consideration, before expenses, of approximately HK$2.7 million. An amount of approximately HK$1,427,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(d) The Company repurchased its own shares on the Stock Exchange during the year ended 31 December 2012. The shares were cancelled upon repurchase and accordingly the issued capital of the Company was reduced by the nominal value of these shares. The premium on the repurchase was charged against share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

Share options

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

Warrants

In 2011, the Company as issuer had entered into the conditional warrant placing agreements with six subscribers in relation to a private placing of a total of 60,000,000 warrants by the Company, at the warrant issue price of HK$0.02. The warrants entitle the subscribers to subscribe for in aggregate 60,000,000 new shares at a subscription price of HK$1.6 per share, payable in cash and subject to adjustment, for a period of 18 months commencing from the date of issue on 13 April 2011. Each warrant carries the right to subscribe for one new share.

During the current year, no warrants were exercised and all were expired as at 31 December 2012.

32. SHARE OPTION SCHEME

The Company's Share Option Scheme 2004 (the "2004 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. In 2011, the Company has terminated the 2004 Scheme and adopted a New Share Option Scheme (the "2011 Scheme") pursuant to a resolution passed in the annual general meeting dated 17 May 2011 which became effective on the same date. The 2011 Scheme will remain in force for ten years commencing from the effective date, after which period no further options will be granted but the provisions of this 2011 Scheme shall remain in full force in all other respects.

2004 Scheme

The purpose of the 2004 Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Under the 2004 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 2004 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 2004 Scheme of the Company shall not, in aggregate, exceed 10% of the total number of shares in issue at any time.

At the date of approval of these financial statements, no further options were available for issue under the 2004 Scheme due to its termination on 17 May 2011 (2011: Nil).

2011 Scheme

The purpose of the 2011 Scheme is to provide incentives and rewards to eligible participants for their contribution to the Group, and/or to enable the Group to recruit and retain high-calibre employees and attract the human resources that are valuable to the Group and any entity in which the Group holds any equity interest (the "Invested Entity"). Under 2011 Scheme, the directors of the Company are authorised at their absolute discretion, to invite directors (including executive, non-executive and independent non-executive directors) of the Group or any Invested Entity, employees (whether full-time or part-time) of the Group or any Invested Entity, suppliers of goods or services to any member of the Group or any Invested Entity, any customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity, 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 2011 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 15 May 2012, the date of approval of the refreshed limit.

As at the date of approval of these financial statements, the total number of shares of the Company available for issue under the 2011 Scheme was 2,671,279 (2011: 43,146,029) shares, which represented approximately 0.29% (2011: 4.66%) of the Company's shares in issue as at that date.

32. SHARE OPTION SCHEME (Continued)

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

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under these schemes 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.

Under these schemes, 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 under these schemes 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 under these schemes 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.

The exercise price in respect of any particular option under these schemes shall be such price as determined by the board of directors 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 under these schemes must be accepted within 28 days from the date of offer, upon payment of a consideration of HK$1 by the grantee. Under 2004 Scheme, 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 2004 Scheme, whichever is earlier. Under 2011 Scheme, share options may be exercised at any time during a period determined and notified by the board of directors of the Company at its absolute discretion, save that such period shall not be more than 10 years from the offer date subject to the provisions for early termination thereof. There is no minimum period for which an option under these schemes 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.

32. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the 2004 Scheme during the year:

	2012		2011	
	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	**0.64**	**110,320**	0.63	113,333
Granted during the year	**–**	**–**	1.56	600
Forfeited during the year	**0.69**	**(5,443)**	0.35	(296)
Exercised during the year	**0.35**	**(7,593)**	0.35	(3,317)
Expired during the year	**1.19**	**(8,461)**	–	–
At 31 December	**0.61**	**88,823**	0.64	110,320

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.60 per share (2011: HK$1.33 per share).

The following share options were outstanding under the 2011 Scheme during the year:

	2012		2011	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.82**	**50,000**	–	–
Granted during the year	**0.64**	**21,000**	1.82	50,000
At 31 December	**1.47**	**71,000**	1.82	50,000

No share options under 2011 Scheme were exercised during the year.

32. SHARE OPTION SCHEME (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period under 2004 Scheme are as follows:

2012 Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
16,929	0.35	01-06-10 to 31-05-14
1,110	0.35	01-06-11 to 31-05-14
8,619	0.35	01-06-12 to 31-05-14
1,565	0.35	01-06-13 to 31-05-14
40,400	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
600	1.56	28-04-11 to 11-10-14
88,823		

2011 Number of options '000	Exercise price* HK$ per share	Exercise period
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
19,196	0.35	01-06-10 to 31-05-14
1,578	0.35	01-06-11 to 31-05-14
13,560	0.35	01-06-12 to 31-05-14
1,925	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
600	1.56	28-04-11 to 11-10-14
110,320		

32. SHARE OPTION SCHEME (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period under 2011 Scheme are as follows:

2012 Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
18,000	1.82	01-09-11 to 31-08-18
18,000	1.82	01-09-12 to 31-08-18
14,000	1.82	01-09-13 to 31-08-18
1,000	0.64	01-05-12 to 31-08-16
20,000	0.64	01-09-14 to 31-08-16
71,000		

2011 Number of options '000	Exercise price* HK$ per share	Exercise period
18,000	1.82	01-09-11 to 31-08-18
18,000	1.82	01-09-12 to 31-08-18
14,000	1.82	01-09-13 to 31-08-18
50,000		

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

The fair value of the share options granted during the year was HK$5,255,000 (2011: HK$8,238,000) of which the Group recognised a share option expense of HK$1,726,000 (2011: HK$4,772,000) during the year ended 31 December 2012.

32. SHARE OPTION SCHEME (Continued)

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

Under 2004 Scheme

	2011
Dividend yield (%)	3.65%
Expected volatility (%)	51%
Historical volatility (%)	51%
Risk-free interest rate (%)	0.45%
Expected life of options (year)	1.73
Weighted average share price (HK$ per share)	1.56

Under 2011 Scheme

	2012	2011
Dividend yield (%)	**2.58%**	3.65%
Expected volatility (%)	**57%**	55% ~ 56%
Historical volatility (%)	**57%**	55% ~ 56%
Risk-free interest rate (%)	**0.45%**	0.88% ~ 1.22%
Expected life of options (year)	**4.36**	3.71 ~ 4.71
Weighted average share price (HK$ per share)	**0.64**	1.82

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 7,592,500 share options exercised under 2004 Scheme during the year resulted in the issue of 7,592,500 ordinary shares of the Company and new share capital of HK$759,000 and share premium of HK$3,359,000 (before issue expenses), as further detailed in note 31 to the financial statements.

32. SHARE OPTION SCHEME (Continued)

At the end of the reporting period, the outstanding options of the Company are as follow:

(a) 2004 Scheme

The Company had 88,823,076 share options outstanding under this scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 88,823,076 additional ordinary shares of the Company and additional share capital of HK$8,882,308, a reversal of share option reserve of HK$17,651,131 and share premium of HK$62,782,873 (before issue expenses).

(b) 2011 Scheme

The Company had 71,000,000 share options outstanding under this scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 71,000,000 additional ordinary shares of the Company and additional share capital of HK$7,100,000, a reversal of share option reserve of HK$13,302,800 and share premium of HK$110,642,800 (before issue expenses).

Subsequent to the end of the reporting period, on 15 January 2013, a total of 90,000,000 share options were granted under the 2011 Scheme, among which 7,000,000 share options were granted to a director of the Company in respect of his service to the Group in the forthcoming year. These share options vest on 1 April 2014 and have an exercise price of HK$0.71 per share and an exercise period ranging from 1 April 2014 to 31 December 2017. The price of the Company's shares at the date of grant was HK$0.68 per share.

At the date of approval of these financial statements, the Company had 88,483,076 and 161,000,000 share options outstanding under the 2004 Scheme and 2011 Scheme, respectively, which represented approximately 9.5% and 17.3% of the Company's shares in issue as at that date, respectively.

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 41 and 42 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 2012 and 2011.

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	Warrant reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2011		377,402	3,685	11,601	(9,958)	–	207,789	590,519
Issue of shares	31	1,458	–	(614)	–	–	–	844
Share issue expenses	31	(17)	–	–	–	–	–	(17)
Issue of warrants		–	–	–	–	1,200	–	1,200
Repurchase of shares	31	(2,901)	577	–	–	–	(577)	(2,901)
Equity-settled share option arrangements		–	–	12,019	–	–	–	12,019
Transfer of reserves		–	(1,154)	–	–	–	1,154	–
Total comprehensive loss for the year	11	–	–	–	–	–	(15,700)	(15,700)
Interim 2011 dividend	12	–	–	–	–	–	(9,369)	(9,369)
Proposed final 2011 dividend	12	–	–	–	–	–	(5,560)	(5,560)
At 31 December 2011 and 1 January 2012		375,942	3,108	23,006	(9,958)	1,200	177,737	571,035
Issue of shares	31	3,359	–	(1,427)	–	–	–	1,932
Share issue expenses	31	(20)	–	–	–	–	–	(20)
Transfer of warrant reserve upon the expiry of warrants		–	–	–	–	(1,200)	1,200	–
Repurchase of shares	31	(1,568)	314	–	–	–	(314)	(1,568)
Equity-settled share option arrangements		–	–	7,297	–	–	–	7,297
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	(3,082)	–	–	3,082	–
Total comprehensive income for the year	11	–	–	–	–	–	129,073	129,073
Interim 2012 dividend	12	–	–	–	–	–	(9,294)	(9,294)
Proposed final 2012 dividend	12	–	–	–	–	–	(11,177)	(11,177)
At 31 December 2012		377,713	3,422	25,794	(9,958)	–	290,307	687,278

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

34. CONTINGENT LIABILITIES

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**1,164,355**	1,088,308
Guarantees given to an electricity company	**1,333**	1,413	**–**	–
Guarantees given to an energy reduction program	**71**	–	**–**	–
	1,404	1,413	**1,164,355**	1,088,308

At 31 December 2012, 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$451,585,000 (2011: HK$561,030,000).

During the year 2008, the Hong Kong Inland Revenue Department has initiated a review on, inter alia, the eligibility of depreciation allowance for certain machinery for Hong Kong profits tax purpose for the past years for Integrated Precision Engineering Company Limited, a wholly-owned subsidiary of the Company. The Group is now gathering relevant information to support the deduction claim in prior years, and the directors of the Company are of the opinion that there is adequate evidence to support the Group's position. The directors of the Company consider that it is premature to draw a conclusion on the possible outcome of the review.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of 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 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**1,027**	247
In the second to third years, inclusive	**1,050**	–
	2,077	247

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 nine years. None of these leases include contingent rentals.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**1,004**	3,092
In the second to fifth years, inclusive	**2,377**	2,393
After five years	**2,056**	3,177
	5,437	8,662

36. COMMITMENTS

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

	Group	
	2012	2011
	HK$'000	HK$'000
Contracted, but not provided for:		
Plant and machinery	**5,630**	10,922
Buildings	**74,233**	6,580
	79,863	17,502

The Company did not have any significant commitments as at 31 December 2012 and 2011.

37. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2012 HK$'000	2011 HK$'000
Short term employee benefits	13,515	13,395
Equity-settled share option expense	3,012	9,369
Post-employment benefits	187	132
Total compensation paid to key management personnel	16,714	22,896

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:

2012

Financial assets

	Group			
	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investment	–	–	150	150
Trade receivables	–	195,534	–	195,534
Financial assets included in prepayments, deposits and other receivables (note 23)	–	11,960	–	11,960
Derivative financial instruments	615	–	–	615
Cash and cash equivalents (note 24)	–	499,856	–	499,856
	615	707,350	150	708,115

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)

2012

Financial liabilities

	Group Financial liabilities at amortised cost HK$'000
Trade and bills payables	**55,420**
Financial liabilities included in other payables and accruals	**22,192**
Interest-bearing bank and other borrowings	**451,585**
	529,197

2011

Financial assets

	Group		
	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investment	–	150	150
Trade receivables	230,542	–	230,542
Financial assets included in prepayments, deposits and other receivables (note 23)	22,371	–	22,371
Cash and cash equivalents (note 24)	438,276	–	438,276
	691,189	150	691,339

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)

2011

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade and bills payables	–	96,771	96,771
Financial liabilities included in other payables and accruals	–	44,384	44,384
Derivative financial instruments	4,019	–	4,019
Interest-bearing bank and other borrowings	–	561,045	561,045
	4,019	702,200	706,219

2012

Financial assets

	Company
	Loans and receivables HK$'000
Amounts due from subsidiaries	**784,845**
Cash and cash equivalents	**6,474**
	791,319

Financial liabilities

	Company
	Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals (note 26)	**44**

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)

2011

Financial assets

	Company Loans and receivables HK$'000
Amounts due from subsidiaries	666,097
Cash and cash equivalents	2,920
	669,017

Financial liabilities

	Company Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals (note 26)	31

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	
	2012 **HK$'000**	2011 HK$'000	**2012** **HK$'000**	2011 HK$'000
Financial assets				
Derivative financial instruments	**615**	–	**615**	–
Financial liabilities				
Derivative financial instruments	**–**	4,019	**–**	4,019

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.

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.

In the current year and prior year, the Group enters into forward currency contracts with three creditworthy banks in Hong Kong. Forward currency contracts are measured using valuation technique similar to forward pricing model, using present value calculations. The model incorporates various market observable inputs including the credit quality of counterparties, and foreign exchange spot and forward rates. The carrying amounts of forward currency contracts are the same as their fair values.

In 2011, the Group also entered into an interest rate swap agreement with a creditworthy bank in Hong Kong. The interest rate swap was measured using valuation technique similar to swap model, using present value calculation. The model incorporated various market observable inputs including the credit quality of counterparties and interest rate curves. The carrying amount of the interest rate swap was the same as its fair value. The interest rate swap agreement was expired in April 2012.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values 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)

39. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value as at 31 December 2012:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments:				
Forward currency contracts	–	615	–	615

Liabilities measured at fair value as at 31 December 2011:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments:				
Forward currency contracts	–	3,635	–	3,635
Interest rate swap	–	384	–	384
	–	4,019	–	4,019

The Company had no financial instruments measured at fair value as at 31 December 2012 (2011: Nil).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and 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 and bills 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 of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements. Management manages and monitors these exposures to ensure that appropriate measures are implemented in a timely and effective manner.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by certain subsidiaries in currencies other than the subsidiaries' functional currencies. Approximately 71% (2011: 67%) of the Group's sales were denominated in currencies other than the functional currency of the subsidiaries making the sale, whilst approximately 32% (2011: 56%) of costs were denominated in the subsidiaries' functional currencies. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

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

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

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax HK$'000
2012		
If HK$ weakens against US$	**5%**	**12,790**
If HK$ weakens against Euro	**5%**	**454**
If HK$ weakens against Japanese Yen	**5%**	**(420)**
If HK$ strengthens against US$	**(5%)**	**(12,790)**
If HK$ strengthens against Euro	**(5%)**	**(454)**
If HK$ strengthens against Japanese Yen	**(5%)**	**420**
2011		
If HK$ weakens against US$	5%	15,708
If HK$ weakens against Euro	5%	593
If HK$ weakens against Japanese Yen	5%	(733)
If HK$ strengthens against US$	(5%)	(15,708)
If HK$ strengthens against Euro	(5%)	(593)
If HK$ strengthens against Japanese Yen	(5%)	733

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

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

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, respectively.

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 entered into an interest rate swap in 2011, in which the Group agreed 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 was designated to hedge underlying debt obligations. At 31 December 2011, after taking into account the effect of the interest rate swap, approximately 5.0% of the Group's interest-bearing borrowings bore interest at fixed rates. The interest rate swap agreement was expired in April 2012.

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$'000
2012		
HK$	**25**	**(302)**
US$	**25**	**(277)**
HK$	**(25)**	**302**
US$	**(25)**	**277**
2011		
HK$	25	(521)
US$	25	(336)
HK$	(25)	521
US$	(25)	336

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

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

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

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

Liquidity risk

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

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

	2012					
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Finance lease payables	–	5,770	10,438	17,396	–	33,604
Interest-bearing bank and other borrowings (excluding finance lease payables)	237,222	192,143	–	–	–	429,365
Trade and bills payables	–	52,719	2,701	–	–	55,420
Other payables and accruals	–	20,729	234	272	957	22,192
	237,222	271,361	13,373	17,668	957	540,581

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	2011					
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Finance lease payables	–	5,029	11,748	2,295	–	19,072
Interest-bearing bank and other borrowings (excluding finance lease payables)	315,782	202,710	41,398	6,260	–	566,150
Trade and bills payables	–	93,583	3,188	–	–	96,771
Other payables and accruals	–	42,262	1,256	139	727	44,384
Derivative financial instruments	–	–	384	3,635	–	4,019
	315,782	343,584	57,974	12,329	727	730,396

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

	2012					
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to 12 months HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Other payables and accruals	**44**	**–**	**–**	**–**	**–**	**44**
Guarantees given to banks in connection with facilities granted to subsidiaries	**451,585**	**–**	**–**	**–**	**–**	**451,585**
	451,629	**–**	**–**	**–**	**–**	**451,629**

	2011					
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Other payables and accruals	31	–	–	–	–	31
Guarantees given to banks in connection with facilities granted to subsidiaries	561,030	–	–	–	–	561,030
	561,061	–	–	–	–	561,061

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 2012 and 31 December 2011.

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	
	2012	2011
	HK$'000	HK$'000
Interest-bearing bank and other borrowings (note 28)	**451,585**	561,045
Trade and bills payables (note 25)	**55,420**	96,771
Other payables and accruals (note 26)	**32,010**	56,048
Less: Cash and cash equivalents (note 24)	**(499,856)**	(438,276)
Net debt	**39,159**	275,588
Equity attributable to owners of the Company	**1,406,972**	1,314,335
Capital and net debt	**1,446,131**	1,589,923
Gearing ratio	**3%**	17%

41. COMPARATIVE AMOUNTS

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2013.

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