

CHAIRMAN'S STATEMENT



"Quality is the Key to Success"

I am pleased and honored to present my first annual report of IPE Group Limited for the year ended 31 December 2004 to all shareholders, following the initial public offer ("IPO") of the Company's shares on The Stock Exchange of Hong Kong Limited on 1st November 2004.

The consolidated turnover of the Group for the year 2004 was approximately HK\$281.7 million, representing an increase of 35% as compared to Year 2003; while profit attributable to shareholders was HK\$50.7 million, representing a significant growth of 20% compared to previous year. Basic earnings per share increased by 13% from HK\$0.114 in Year 2003 to HK\$0.129 in Year 2004. The

Group recorded a net cash inflow from operations of HK\$47.1 million, which is a big improvement from Year 2003's HK\$12.7 million.

Year 2004 is not a smooth year. First of all, the Company experienced a wild fluctuation of raw material prices, especially in the first half of the year. Besides the continuous inflation of Japanese Yen also gives some impact on our financial position as most of the Group's machinery, equipment and raw materials are imported from Japan. In the second half of the year, the situation becomes stable as we are able to diversify our sourcing risk and get longer term fixed price supplies contracts from suppliers. As a result, gross margin of the Group still dropped by approximately 7.9%





from Year 2003. However, thanks to the economic of scale effect and our continuous effort to monitor the fixed overhead, net profit margin only dropped by approximately 2.3% overall.

Looking forward, the Group needs to prepare for the possible further fluctuation of raw material prices in Year 2005. However the management has implemented lots of measures in order to reduce the exposure of the Group. We do not expect a further significant drop in gross profit margin in Year 2005. In Year 2005, we will continue to invest a lot in new plant expansion and bring in more high tech new machineries, mainly from Japan and Europe, in order to cater for

the increasing sales orders from existing customers and potential customers. We expect a higher gearing ratio in the next three years due to our rapid expansion strategy but we believe shareholders will eventually enjoy the fruit when operation of new plant commences.

The Company is penetrating into the hydraulic components industry and automotive components industry and we expect business from these industries will increase rapidly in the next few years and eventually becomes one of the cash cows of IPE Group.

Sales from hydraulic components and automotive components will grow rapidly and eventually becomes one of the cash cows of IPE Group



Quality is the key to success. For future business strategy, the Group will equip itself with more skillful labour, engineers and high tech machines so as to strengthen the Group.

At the right time the Board will consider other means of expansion possibilities and diversify our business further into other industries.

I would also like to thank our shareholders for their continued support and my colleagues working in IPE Group for their hard work and dedication in the past.

On Behalf of the Board
IPE Group Limited

Chui Siu On
Chairman