

DIRECTORS' REPORT

The board of directors (the "Board") have pleasure in submitting their annual report together with the audited consolidated financial statements of IPE Group Limited (the "Company") and its subsidiaries (collectively the "Group") to the shareholders for the year ended 31 December 2004.

GROUP REORGANIZATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). Pursuant to reorganization (the "Reorganization") in preparation for the listing of the shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Best Device Group Limited, the then holding company of other companies comprising the Group, through a share swap and became the holding company of the companies comprising the Group on 25 June 2004. Further details of the reorganization are set out in note 1 to the financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and sales of high precision metal components used in a variety of applications. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total sales
The largest customer	26%
Five largest customers in aggregate	81%
	Percentage of the Group's total purchases
The largest supplier	48%
Five largest suppliers in aggregate	72%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

RESULTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 25 to 70.

The directors recommended the payment of a final dividend of HK\$0.018 per share in respect of the year, to the shareholders on the register of members on 3 June 2005.

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CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 31 May 2005 to Friday, 3 June 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Monday, 30 May 2005.

TRANSFER TO RESERVES

The movements of the reserves of the Group and of the Company during the year are set out in note 30 to the financial statements.

FIXED ASSETS

During the year, the Group acquired fixed assets for approximately HK\$156.1 million to improve the Group's production capacity. Details of these acquisitions and other movements in fixed assets are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 28 to the financial statements.

PROPERTIES

Properties interest held for investment by the Group are as follows:—

<u>Description</u>	<u>Lease expiring</u>	<u>Approx. floor area attributable to the Group</u>
Unit B, Golden Lake Villa, No. 29 Silver Cape Road, Sai Kung, New Territories, Hong Kong	2047	2,317 sq.ft.
Room E on Level 16, Shen Fang Commercial Building, amid An Zhen Xi Li Si Qu, Chaoyang District, Beijing, the PRC	2064	1,617 sq.ft.

SHARE OPTION SCHEME

As at the date of this Annual Report, the Company has granted 35,000,000 options, representing 7% of the existing issued share capital of the Company, which have not yet been exercised. Accordingly, 15,000,000 options, representing 3% of the existing issued share capital of the Company, can be granted by the Company under the limit of the share option scheme.

Details of the share option scheme of the Company are set out in note 29 to the financial statements. The Directors consider that it is not appropriate to disclose the value of the share options granted during the year because any valuation of the options would be subject to a number of assumptions that would be subjective and uncertain. Owing to the reason set out above, the Directors believe that any calculation of the value of the Company's share options would not be meaningful and would be misleading to the shareholders.

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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.

DIRECTORS

The directors up to the date of this report were:

Executive directors

Chui Siu On (*Chairman and Managing Director*)

Ng Kin Nam (*Vice Chairman*)

Ho Yu Hoi

Lai Man Kit

Li Chi Hang

Independent non-executive directors

Cheng Ngok

Choi Hon Ting, Derek

Wu Karl Kwok

(appointed on 23 June 2004)

(appointed on 23 June 2004)

Messrs Chui Siu On and Ng Kin Nam will retire by rotation at the forthcoming annual general meeting in accordance with article 87 of the Company's articles of association and, being eligible, they will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

At 31 December 2004, the interests of the directors of the Company in the shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:-

(1) Interests in the shares of the Company

Name of director	Long/short position	Capacity	Number of shares of the Company	Percentage of the Company's issued share capital
Mr. Chui Siu On	Long	Interest of corporation	372,500,000 (Note)	74.5%

Note: These shares were owned by Tottenhill Limited, the substantial shareholder of the Company. The entire issued share capital of Tottenhill Limited was owned as to approximately 51.29% by Mr. Chui Siu On, as to approximately 25.01% by Mr. Ng Kin Nam, as to approximately 13.89% by Mr. Ho Yu Hoi, as to approximately 6.02% by Mr. Lai Man Kit and as to approximately 3.79% by Mr. Li Chi Hang. All the shareholders of Tottenhill Limited are executive directors of the Company.

By virtue of the 51.29% shareholding interests in Tottenhill Limited, Mr. Chui Siu On was deemed to be interested in the 372,500,000 shares of the Company owned by Tottenhill Limited pursuant to Part XV of the SFO.

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(2) Interests in the shares of an associated corporation – Tottenham Limited

Name of director	Long/short position	Capacity	Number of shares of Tottenham Limited	Percentage of the issued share capital of Tottenham Limited
Mr. Chui Siu On	Long	Beneficial owner	1,134	51.29%
Mr. Ng Kin Nam	Long	Beneficial owner	553	25.01%
Mr. Ho Yu Hoi	Long	Beneficial owner	307	13.89%
Mr. Lai Man Kit	Long	Beneficial owner	133	6.02%
Mr. Li Chi Hang	Long	Beneficial owner	84	3.79%

In addition to the above, at 31 December 2004, 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 then minimum company membership requirements.

Save as disclosed above, at 31 December 2004, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

At 31 December 2004, the following interest of over 5% in the issued share capital of the Company was recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Long/Short position	Capacity	Number of shares	Percentage of the Company's issued share capital
Tottenham Limited (Note)	Long	Beneficial owner	372,500,000	74.5%

Note: The interest in Tottenham Limited was also disclosed as interests of Mr. Chui Siu On in the above section headed "Directors' interests in the shares of the Company and its associated corporation".

Save as disclosed above, at 31 December 2004, no persons, other than the Company's directors whose interests and short positions are set out in the above section headed "Directors' interests in the shares of the Company and its associated corporation", had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the company, its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The listing of the Company's shares on the Stock Exchange commenced on 1 November 2004. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from 1 November 2004 to 31 December 2004.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2004 are set out in notes 22 to 24 on the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the group for the last four financial years is set out on page 7 of the annual report.

RETIREMENT SCHEMES

Particulars of these retirement schemes are set out in note 11 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to the accounting period commencing on 1 January 2005 throughout the accounting period currently under review.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive directors, namely Dr. Cheng Ngok (the Chairman of the Committee), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited accounts for the year ended 31 December 2004.

AUDITORS

The financial statements have been audited by CCIF CPA Limited. A resolution to re-appoint CCIF CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the board

Chui Siu On

Chairman

Hong Kong, 21 March 2005