Chairman's Statement

"Quality is the Key to Success"

LAYING THE FOUNDATION FOR FUTURE GROWTH

Immediately after our listing in 2004, we decided to accelerate the execution of our expansion programme given in our prospectus to benefit from the strong growth in demand for precision metal components from the three main industries we serve. We made remarkable progress in 2005 laying the foundation for sustained strong growth into the forseeable future.

During 2005 we made excellent progress developing our business. It has been our experience that gaining the confidence of potential customers is a lengthy process. To qualify as an approved supplier we must prove the reliability of our products given their "mission critical" nature. Reflecting the results of sustained marketing and engineering efforts over several years, IPE Group was qualified by Bosch, Delphi, Siemens VDO and TRW as a qualified vendor in 2005. In addition, we secured two long-term contracts with a total value of approximately US$10 million for the supply of automotive components over the next 3 to 5 years. Based on the orders we have, we expect our sales of automotive components will jump significantly in 2006.

To cater for the growth we expected, last year we invested HK$387 million in plant, equipment and new production facilities, up 148% from the HK$156 million we invested in 2004. This year our planned capital expenditure is HK$200 million. We shall commence production in Phase 2 and Phase 3 of our Guangzhou plant this year which will bring our total production capacity at the end of this year to approximately 600 million pieces per annum.

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With the increased capacity that will be coming on stream, we shall have greater flexibility to schedule production efficiently. We shall be devoting all the production capacity in Phase 2 of our Guangzhou facility to the production of HDD components. Phase 3 of our Guangzhou facility will be dedicated to the production of hydraulic and automotive components and will give us the ability to "tune" different parts of the plant to the efficient production of different types of components. The impact of more efficient production and of operating leverage should be seen in operating profit margins in 2006 and beyond.

To cater for the growth we anticipated we also had to invest in human resources and we continue to do so just as we continue to invest aggressively in plant and equipment. It is not just a matter of hiring more workers and engineers to enable us to increase production, we also had to increase our management staff and strenghten our management systems to ensure good corporate governance. An example of our action in this regard is our decision last year to appoint Ernst & Young as our auditors.

We are operating in a high precision industry and our components are "mission critical" parts of the end products of which they form part. A fault in one of our components can result in costly failure of the end product so we must invest in training our staff, not just in production but also in R&D and in ensuring stringent quality control. Apart from new product development and research on cost reduction for existing products, our R&D team also develops certain proprietary production machinery and we also make part of the toolings we use in our production processes. Investments in staff training have costs and having made these investments, we must make the additional investment to provide the working environment and other incentives including, where appropriate, share options, to ensure we are able to retain staff. The cost of share options granted have reduced our reported profits in year 2005 but we consider the benefit will be spread over many years in the future and reflected in the future growth of the Company. Last year our total number of employees grew from 2,024 to 3,044 of which 444 are employed in quality control and R&D. We are proud that we have just been accredited with the demanding TS16949 quality standard in March 2006.

In 2005, sales of HDD components recorded a year-on-year growth of 51.5%. We maintained our position as the world's second largest manufacturer of HDD pivot shafts and housing with an estimated global market share of over 20%. Sales of hydraulic components rose 42.7% in 2005. Sales of auto-components jumped 215.7%, but this was from a very low base as this business segment is at a start up stage and orders were more of a trial nature. As mentioned above, we expect sales of auto-components to be much more meaningful this year and we shall be devoting more engineering and financial resources to develop new automotive components projects.

We are very excited about the future growth prospects of our automotive components business. The jump in orders we have received is a major step forward in the diversification of our Group's business. Our longer term target is that the three main industry sectors we service should each account for about one-third of sales in value terms.

HDDs are the dominant form of storage in computers and demand for storage continues to grow dramatically with the growing use of broadband connectivity and more sophisticated software. Furthermore, HDDs, are finding new applications in a wide range of consumer electronic products such as music players, digital video recorders video-game consoles, digital cameras and global-positioning systems in automobiles. For most applications, storage capacity, particularly for video data, is most cost effectively met using HDDs rather than flash memory. HDD manufacturers are innovating at such a rate that the price per gigabyte of HDD memory is falling at least as fast as flash so the cost advantage of HDDs is maintained. Worldwide shipments of HDDs are forecast to grow at a compound rate of 15% per year.

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The strong growth in demand we expect from the hydraulic and auto-components sectors stem from the outsourcing trend underway in these two industries. In particular, the China Association of Automobile Manufacturer forecasts that auto parts exports from China will grow 35% per year during 2005-2010.

Based on the information we have from our clients and by reference to market research reports, the three industry sectors we service are expected to maintain a strong growth in demand for many years.

Our very rapid expansion has been funded by a combination of debt and equity. Furthermore, we have also tried to strike a balance between short term and long term debt. Last year, we raised HK$111 million in the form of equity through a share placement in May 2005 and we also drew down a HK$200 million term loan facility in August 2005. As at the end of 2005 our net debt to equity ratio was 42%. On 12 April 2006, the Company announced a share placement of 120,000,000 shares at the placing price of HK$1.87 per placing share to institutional investors through a top-up placing exercise. The net proceeds of approximately HK$212.5 million will be applied as to approximately HK$96 million for acquisition of new plant and machineries and as to the remaining for general working capital uses to cope with the increase in the Group's production capacity. We expect we shall be able to fund future capital expenditure by a combination of bank borrowings, equipment lease financing and retained earnings in near future.

I would like to express my deepest gratitude to all our shareholders, customers, business partners and suppliers for their continuous support to the Group. I also sincerely appreciate the efforts of our management and staff and thank them for their contribution and commitment to the Company. I believe that last year we laid a solid foundation for future strong growth and I sincerely thank all our stakeholders helping us build on that foundation.

Chui Siu On
Chairman