

Management Discussion and Analysis



Head office and research and development centre of the Group in Guangzhou, China commenced operations in February 2006

BUSINESS REVIEW

The Group is principally engaged in manufacturing high precision metal components for HDDs, hydraulic equipments, automotive parts, and components for other applications. Equipped with fully automatic Computer Numerical Control ("CNC") lathes, grinding machines, die casting machines and heat treatment equipment, the Group is able to adjust its production lines, tooling and equipment to manufacture various kinds of high precision components and assembled parts according to customer's different specifications.

The Group's consistently high quality products continued to gain support from its customers during the year with the aggregate sales volume increased substantially by 43.3% as follows:

	2006 HK\$'000	%	2005 HK\$'000	%	YoY %
HDD pivot components	315,263	54%	225,447	55%	40%
HDD spindle motor components	152,565	26%	101,456	25%	50%
	467,828	80%	326,903	80%	43%
Hydraulic equipment components	91,151	16%	62,986	16%	45%
Automotive components	11,252	2%	1,026	1%	997%
Others	11,411	2%	15,062	3%	(24)%
	581,642	100%	405,977	100%	43%

Management Discussion and Analysis

HDD components

Sales of HDD pivot components increased by 39.8% to HK\$315,263,000 and sales of HDD spindle motor components increased by 50.4% to HK\$152,565,000 in 2006.

HDD components are mainly found in consumer electronics applications, desktop computers, notebook systems, portable applications and enterprises applications. According to industry specialists, year 2006 shipments of HDD reached 435 million units, representing a growth of over 14% from year 2005.

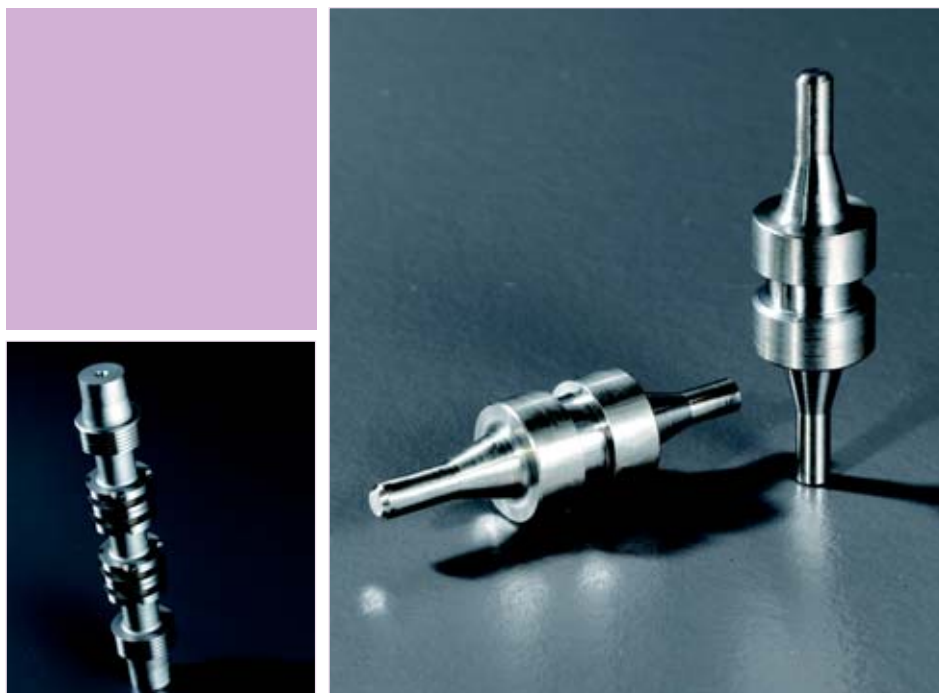
Year 2007 outlook remains strong as the launch of Microsoft Vista should stimulate users to speed up the replacement of their old PCs to a faster PCs with bigger storage capacity. While flash memory continues to take over the MP3 and the lower end of the storage market, high demand of Xbox 360 and PlayStation is driving the use of more 2.5 inch HDD in consumer electronics applications on the other hand. Further higher-capacity solutions at 250 GB-and-above will increasingly drive the market, thanks to a personal video recorder migration to higher-definition (HD) technology that consumes storage quicker. Analysts are forecasting 500 GB-and-above solutions to grow sharply as the result of growing sales of multimedia PCs, media PC centers, and the growth of increased digital content from global customers.

Automotive components

IPE is a qualified automotive component supplier to several tier-1 auto parts makers and has been working on projects with them since being first qualified. For the year 2006 sales of automotive components grew about 10 times from HK\$1,026,000 to HK\$11,252,000 because more new projects were kicked off in year 2006.

Outlook for the coming years is bright. In 2005, China exported US\$8 billion worth of auto-parts to the world and industry analysts estimate the export market will grow by 30% year-on-year over the next 5 years.

US and European automakers are further accelerating sourcing from China, due to the urgent need to reduce overall production costs. Further domestic auto groups are opening up the procurement process to source auto-parts from domestic independent suppliers. IPE, being a local independent auto-parts maker with economies of scale and financial capacity, is best positioned to capture the emerging opportunities.



Management Discussion and Analysis

Hydraulic equipment components

The Group is currently producing turning parts such as shafts, spools, cartridges, pistons, poppets, plungers and caps, which are the critical components usually found in industrial valves, pumps and gear boxes.

In year 2006 sales of hydraulic components grew 45% to HK\$91,151,000 (2005: HK\$62,986,000).

Similar to the situation in the automotive component industry, future growth in the hydraulic equipment components business is mainly fuelled by the general outsourcing trend such that US buyers and European buyers are starting to buy more components from China suppliers to improve their competitiveness. Further, more multi-national hydraulic equipment companies are setting up joint ventures in China and they are keen on sourcing of high quality precision hydraulic components from qualified domestic suppliers with solid track record.

FINANCIAL REVIEW

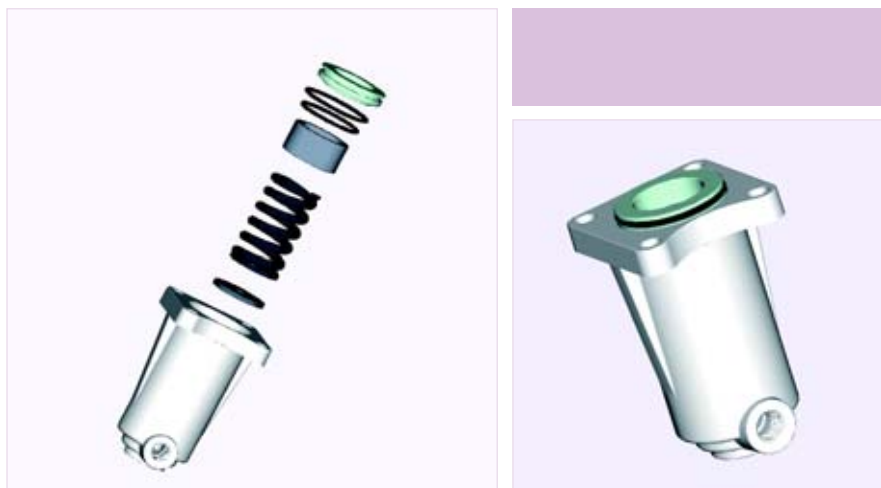
The strong increase in turnover reflects the Group's success in growing organically and through diversification into other non-HDD sector business. As a result the Group recorded a gross profit increase by 37.7% to HK\$170,215,000 in 2006. Gross profit margin dropped slightly from year 2005's 30.5% to 2006's 29.3%, mainly due to the continuous increase in metal prices throughout year 2006, which price differences could not be totally shifted to customers. In addition, more new machinery was employed during the year to generate additional new capacity to support the growing business but some machinery installed during 2006 were not able to generate immediate revenue in 2006 due to relevant qualification and final clearance from customers yet to be obtained. As a result depreciation costs increased by 64.5% to HK\$75,415,000 (2005: HK\$45,834,000), which also contributed to the slight drop in gross profit margin in 2006.

Other income and gains recorded in 2006 mainly comprised foreign exchange gains on settlement of Japanese Yen and Thai Baht, interest income and other gains in fair value of the investment properties and derivative financial instruments.

Selling and distribution costs mainly comprised outward freight charges, sample freight costs, trip and overseas traveling expenses. The 22.6% increase in selling and distribution costs was mainly attributable to the bigger volume of airfreight shipment and CIF shipment made during the year, which was in line with the growth of the business in 2006.



Management Discussion and Analysis



Administrative expenses increased by 10.7% to HK\$53,257,000 (2005: HK\$48,113,000), which was mainly attributable to the increase in headcount from 3,044 in the beginning of the year to 4,087 at the end of year 2006; and the incurring of additional variable overhead costs as associated with the increase in the volume of business.

Other expenses mainly comprised research and development costs of HK\$3,619,000, loss on disposal of fixed assets of HK\$1,956,000, loss on interest rate swap contract of HK\$1,222,000 and increase in provision for bad debts of HK\$1,357,000.

Finance costs increased substantially to HK\$23,497,000 (2005: HK\$12,216,000), which was mainly attributable to the draw down of syndication loans of HK\$200,000,000 in August 2005 and the draw down of other term loans amounted to HK\$136,069,000 throughout 2006 to finance the Group's expansion plan. Total interest-bearing bank and other borrowings as at 31 December 2006 was HK\$385,785,000, representing an increase of 7.2% from HK\$359,832,000 as at 31 December 2005.

Profit attributable to ordinary equity holders of the Company was HK\$84,758,000, representing an increase of 31.6% from HK\$64,398,000 in 2005. Basic earnings per share was HK\$0.1240, representing an increase of 9.2% from HK\$0.1136 in 2005.

Details of Charges on the Group's Assets

As at 31 December 2006, the Group's total borrowings of approximately HK\$385,785,000 were secured by corporate guarantee issued by the Company and the Group had no pledged deposits to secure its banking facilities at 31 December 2006.

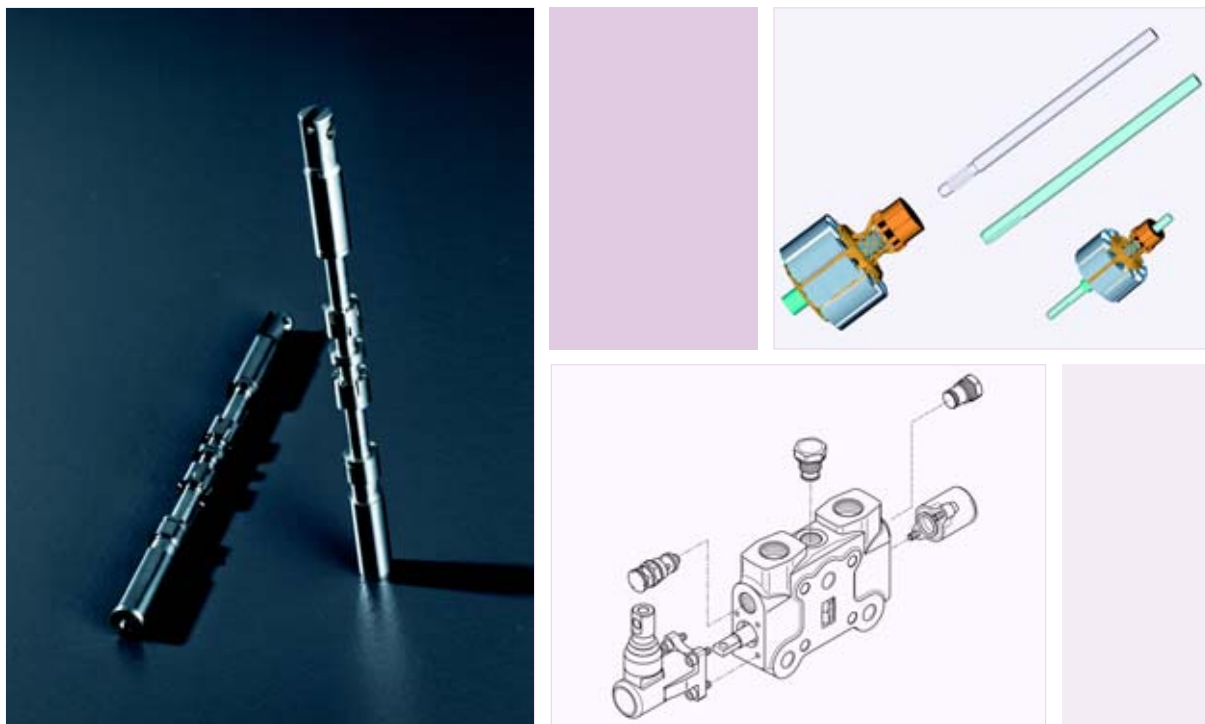
Currency Exposure and Management

The Group operates globally and is thus exposed to foreign exchange risk. Its revenue is mainly denominated in US dollars, while major raw materials, machineries and manufacturing overhead are settled in Japanese Yen, Renminbi, Thai Baht and Hong Kong dollars. Apart from US dollars and Hong Kong dollars which are pegged to US dollars, the Group entered into forward currency contracts, mainly for Japanese Yen, with a view to reducing the potential exposure to currency fluctuations.

Assets and Liabilities

As at 31 December 2006, the Group had total net assets of HK\$807,183,000 (2005: HK\$484,743,000). The significant increase in the net assets was attributable to the placing of 120,000,000 new shares to institutional investors and individual investors at HK\$1.87 per share during the year and the result of a net profit of HK\$84,758,000 reported in year 2006.

Management Discussion and Analysis



Liquidity, Financial Resources and Financial Ratios

As at 31 December 2006, cash per share was HK\$0.19 (2005: HK\$0.26) and net asset per share was HK\$1.12 (2005: HK\$0.81), based on 722,960,000 issued ordinary shares (2005: 601,070,000 issued ordinary shares).

The Group had cash to current liabilities ratio of 0.37 (2005: 0.39) as at 31 December 2006.

Net debt (all interest-bearing bank and other borrowings less cash) to equity ratio was 0.31 (2005: 0.42) as at 31 December 2006.

Human Resources and Remuneration Policies

In line with the Group's business expansion, experienced engineers and skillful talents were recruited during the year. As at 31 December 2006, the total headcount of the Group was 4,087 (2005: 3,044).

We place high value on own employees as they are our greatest assets to grow with the Group. We encourage on-the-job training in diversified fields that address to both personal developments and work skills. We also provide workshops for staff at different level to improve work safety and build up team spirit. Our staff were rewarded based on performance of the Company as well as their personal performance and contributions.

A share option scheme has been adopted for selected participants (including full-time employees) as incentives or rewards for their contributions to the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

Management Discussion and Analysis

SUPPLEMENTARY INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

The Company repurchased its 860,000 listed shares on the Stock Exchange during the year ended 31 December 2006. Such shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

Details of the repurchases are summarised as follows:

Date of repurchase	Number of shares repurchased	Repurchase price per share		Total consideration HK\$'000
		Highest HK\$	Lowest HK\$	
11 December 2006	100,000	1.19	1.19	119
18 December 2006	190,000	1.20	1.17	227
21 December 2006	315,000	1.20	1.15	369
27 December 2006	215,000	1.25	1.24	268
28 December 2006	40,000	1.23	1.20	49
	860,000			1,032

Except as disclosed above, neither the Company, nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Final Dividend

The board of directors of the Company recommended the payment of a final dividend of HK1.8 cents per share for the year ended 31 December 2006 (2005: HK1.8 cents) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at Monday, 21 May 2007. Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on Monday, 21 May 2007, the said final dividend will be paid to the Company's shareholders around Friday, 25 May 2007.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 16 May 2007 to Monday, 21 May 2007 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 December 2006 and for attending the annual general meeting of the Company to be held on Monday, 21 May 2007, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms 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 not later than 4:30 p.m. on Tuesday, 15 May 2007.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The board of directors of the Company is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, except that there is no separation of the role of Chairman and Chief Executive Officer. Mr. Chui Siu On currently assumes the role of both the Chairman and the Chief Executive Officer of the Company. The board of directors of the Company believes that this structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies. As such, it is beneficial to the business prospects of the Group.

Management Discussion and Analysis

Audit Committee

The Audit Committee of the Company, comprising the three independent non-executive directors, namely Dr. Cheng Ngok (the Chairman of the Audit Committee), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, has reviewed with senior management of the Group and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting process including the review of the Company's consolidated financial statements for the year ended 31 December 2006.