

# Report of the Directors

The directors of IPE Group Limited (the "Company") are pleased to present their 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 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 110.

An interim dividend of HK1.5 cents per ordinary share was paid on 5 October 2006. The directors recommend the payment of a final dividend of HK1.8 cents per ordinary share in respect of the year to shareholders on the register of members on 21 May 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet. Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on 21 May 2007, the said final dividend will be paid to the Company's shareholders on around 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, unregistered holders of shares of the Company should ensure that 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.

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## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 16 to the financial statements, respectively.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 30 and 31 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK\$406,217,000, of which HK\$13,013,000 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\$325,573,000 at 31 December 2006, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## 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

During the year, the Company repurchased certain of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and these shares were subsequently cancelled by the Company. Further details of these transactions are set out in note 30 to the financial statements.

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.

## DONATIONS FOR CHARITABLE AND OTHER PURPOSES

During the year, the Group made donation for charitable and other purposes totalling HK\$669,000 (2005: Nil).

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 72% of the total sales for the year and sales to the largest customer included therein amounted to 24%. Purchases from the Group's five largest suppliers accounted for less than 80% of the total purchases for the year and purchases from the largest supplier included therein amounted to 30%.

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 share capital) had any beneficial interest in the Group's five largest customers and suppliers.

# Report of the Directors

## 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. Wong Kwok Keung (appointed on 1 January 2006)

### Non-executive directors:

Mr. Ng Kin Nam  
Dr. Cheng Ngok\*  
Mr. Choi Hon Ting, Derek\*  
Mr. Wu Karl Kwok\*

\* *Independent non-executive directors*

In accordance with clause 87 of the Company's articles of association, Mr. Li Chi Hang, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, the existing directors of the Company, will retire as directors of the Company by rotation at the forthcoming general meeting and, being eligible, will offer themselves for re-election at the said meeting.

The Company has received annual confirmations of independence from Messrs. Cheng Ngok, Choi Hon Ting, Derek and Wu Karl Kwok, 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 20 to 22 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except for Mr. Wong Kwok Keung, has entered into a service agreement with the Company for an initial term of three years commencing on 1 January 2004 until terminated by not less than three months' notice in writing served by either party to the other.

The Company has issued a letter of appointment to Mr. Wong Kwok Keung in respect of his acting as executive director of the Company for an initial term of three years commencing from 1 January 2006.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting 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 Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

# Report of the Directors

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests and short positions of the directors, in the share capital and underlying shares of the Company or its associated corporations (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 Main Board of the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

### (A) Long positions in ordinary shares of the Company:

Name of director	Capacity and nature of interest	Notes	Number of ordinary shares in the Company	Percentage of the Company's issued share capital
Mr. Chui Siu On	Through controlled corporation	1	352,500,000	48.758%
	Directly beneficially owned		4,895,000	0.677%
	Through spouse	2	100,000	0.014%
			357,495,000	49.449%
Mr. Ng Kin Nam	Directly beneficially owned		7,670,000	1.061%
Mr. Ho Yu Hoi	Directly beneficially owned		4,550,000	0.629%

#### Notes:

- These shares were owned by Tottenhill Limited, the entire issued share capital of which was owned as to approximately 51.3% by Mr. Chui Siu On, 25.0% by Mr. Ng Kin Nam, 13.9% by Mr. Ho Yu Hoi, 6.0% by Mr. Lai Man Kit and 3.8% by Mr. Li Chi Hang. By virtue of his 51.3% shareholding in Tottenhill Limited, Mr. Chui Siu On was deemed to be interested in the entire 352,500,000 shares owned by Tottenhill Limited pursuant to Part XV of the SFO.
- The shares held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On, were also disclosed as Ms. Leung's personal interest in the section headed "Substantial shareholders' and other persons' interests in shares and underlying shares" below. Mr. Chui Siu On was deemed to be interested in these 100,000 shares held by his wife pursuant to Part XV of the SFO.

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## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(Continued)

(B) Long positions in the ordinary shares of associated corporation – Tottenhill Limited, the Company's holding company:

Name of director	Capacity and nature of interest	Number of ordinary shares in Tottenhill Limited	Percentage of Tottenhill Limited's issued share capital
Mr. Chui Siu On	Directly beneficially owned	180,832,500	51.3%
Mr. Ng Kin Nam	Directly beneficially owned	88,125,000	25.0%
Mr. Ho Yu Hoi	Directly beneficially owned	48,997,500	13.9%
Mr. Lai Man Kit	Directly beneficially owned	21,150,000	6.0%
Mr. Li Chi Hang	Directly beneficially owned	13,395,000	3.8%

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

Name of director	Capacity and nature of interest	Number of underlying shares in respect of the share options granted	Percentage of the underlying shares over the Company's issued share capital
Mr. Chui Siu On	Directly beneficially owned	3,000,000	0.415%
Mr. Ng Kin Nam	Directly beneficially owned	500,000	0.069%
Mr. Ho Yu Hoi	Directly beneficially owned	5,000,000	0.692%
Mr. Lai Man Kit	Directly beneficially owned	5,000,000	0.692%
Mr. Li Chi Hang	Directly beneficially owned	5,000,000	0.692%
Mr. Wong Kwok Keung	Directly beneficially owned	3,550,000	0.491%
Dr. Cheng Ngok	Directly beneficially owned	500,000	0.069%
Mr. Choi Hon Ting, Derek	Directly beneficially owned	500,000	0.069%
Mr. Wu Karl Kwok	Directly beneficially owned	500,000	0.069%

Note: Details of the above share options as required to be disclosed by the Listing Rules have been disclosed in note 31 to the financial statements.

In addition to the above, as at 31 December 2006, 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 2006, none of the directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' interests and short positions in shares and underlying shares" above and "Share option schemes" below and in the share option scheme disclosures in note 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

# Report of the Directors

## SHARE OPTION SCHEME

The directors have estimated the values of the share options granted during the year, calculated using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options HK\$
An employee	3,000,000	1,020,000

The binomial model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were set out as above. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the following persons (not being directors or chief executives of the Company) with interests of more than 5% of the issued share capital 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 shareholders	Notes	Capacity and nature of interest	Number of ordinary shares in the Company	Percentage of the Company's issued share capital
Tottenham Limited	(a)	Directly beneficially owned	352,500,000	48.758%
Ms. Leung Wing Yi	(b)	Directly beneficially owned Through spouse	100,000 357,395,000	0.014% 49.435%
			357,495,000	49.449%
Invesco Hong Kong Limited		Investment manager	42,485,000	5.877%
JPMorgan Chase & Co.	(c) & (d)	Through controlled corporations	47,810,000	6.613%
JPMorgan Asset Management Holdings Inc.	(c)	Through controlled corporations	20,575,000	2.846%
JPMorgan Asset Management (Asia) Inc.	(c)	Through controlled corporations	20,575,000	2.846%
JF Asset Management Limited	(c)	Investment manager	20,575,000	2.846%
JPMorgan Chase Bank, N.A.	(d)	Custodian corporation/ approved lending agent	27,235,000	3.767%

#### Notes:

- (a) The interest of Tottenham Limited was also disclosed as the interest of Mr. Chui Siu On in the above section headed "Directors' interests and short positions in shares and underlying shares".
- (b) These shares were disclosed as the personal and corporate interests of Mr. Chui Siu On, the husband of Mr. Leung Wing Yi, in the section headed "Directors' 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 20,575,000 shares of Company were held by JF Asset Management Limited which was a wholly-owned subsidiary of JPMorgan Asset Management (Asia) Inc. which in turn was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc. JPMorgan Asset Management Holdings Inc. was a wholly-owned subsidiary of JPMorgan Chase & Co. Accordingly, JPMorgan Chase & Co., JPMorgan Asset Management Holdings Inc. and JPMorgan Asset Management (Asia) Inc. were deemed to be interested in the 20,575,000 shares of the Company pursuant to Part XV of the SFO.
- (d) JPMorgan Chase & Co. was deemed to be interested in the 27,235,000 shares of the Company through its wholly-owned subsidiary "JPMorgan Chase Bank, N.A." pursuant to Part XV of the SFO.

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## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS 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 interest	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	3,000,000	0.415%

*Note:* Ms. Leung Wing Yi was deemed to be interested in 3,000,000 share options of the Company owned by her husband, Mr. Chui Siu On, pursuant to Part XV of the SFO. Details of such share options as required to be disclosed by the Listing Rules have been disclosed in note 31 to the financial statements.

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a 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 share capital was held by the public as at the date of this report.

## CORPORATE GOVERNANCE

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

## GENERAL DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

As detailed in the Company's press announcement dated 24 June 2005, a loan facility was arranged by Standard Chartered Bank (Hong Kong) Limited as the coordinating arranger and accepted by Integrated Precision Engineering Company Limited, a subsidiary of the Company, as the borrower (the "Loan Facility"). Pursuant to the Loan Facility, a term loan facility of the sum of HK\$200,000,000 was made available to the Group for a term of three years commencing from 24 June 2005.

It is one of the conditions of the Loan Facility that Mr. Chui Siu On, Mr. Ng Kin Nam and Mr. Ho Yu Hoi, the directors of the Company, must beneficially own (directly or indirectly) in aggregate at least 40% (which was revised from 45% to 40% as announced by the Company's press announcement dated 12 April 2006) of the issued share capital of the Company; Mr. Chui Siu On must be (directly or indirectly) the single largest beneficial shareholder of the Company; and Mr. Chui Siu On must maintain control of the Company throughout the life of the Loan Facility. A breach of the aforesaid condition will constitute an event of default under the Loan Facility and cancel all or any part of commitments under the Loan Facility and all amounts outstanding under the Loan Facility will immediately become due and payable.

As the above specific performance obligation as imposed under the Loan Facility continues to exist as at 31 December 2006, the Company is required to make the above disclosure pursuant to Rule 13.21 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). In addition, the above performance obligation has been duly satisfied up to the date of the approval of these financial statements.



# Report of the Directors

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 41 to the financial statements.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chui Siu On**

*Chairman and Managing Director*

Hong Kong  
16 April 2007