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IPE GROUP LIMITED

IPE集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 929)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

Financial Highlights

1. Revenue for the year decreased by 19.3% to HK\$695,725,000 (2008: HK\$861,716,000).
2. Profit for the year decreased by 79.6% to HK\$12,329,000 (2008: HK\$60,384,000).
3. Basic earnings per share for the year was HK1.66 cents (2008: HK8.18 cents).
4. Net asset value per share as at 31 December 2009 was HK\$1.15 (2008: HK\$1.35).
5. Gearing ratio (which is net borrowings divided by shareholders' equity) was 25.3% as at 31 December 2009 (2008: 40.3%).
6. The Board does not recommend the payment of any final dividend for the year ended 31 December 2009 (2008: Nil).

The board of directors (the “Board”) of IPE Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group” or “IPE Group”) for the year ended 31 December 2009, together with the comparative results for the previous year:

Consolidated Income Statement

		Year ended 31 December	
		2009	2008
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	3&4	695,725	861,716
Cost of sales		<u>(587,363)</u>	<u>(656,845)</u>
Gross profit		108,362	204,871
Other income and gains	4	21,379	2,759
Selling and distribution costs		(19,155)	(24,244)
Administrative expenses		(70,112)	(69,995)
Other expenses		(7,149)	(21,432)
Finance costs	6	<u>(15,985)</u>	<u>(23,319)</u>
PROFIT BEFORE TAX	5	17,340	68,640
Income tax expense	7	<u>(5,011)</u>	<u>(8,256)</u>
PROFIT FOR THE YEAR		<u>12,329</u>	<u>60,384</u>
Attributable to:			
Owners of the parent		12,587	61,149
Minority interests		<u>(258)</u>	<u>(765)</u>
		<u>12,329</u>	<u>60,384</u>
DIVIDENDS	8		
Interim dividend paid		<u>–</u>	<u>16,824</u>
		<u>–</u>	<u>16,824</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		(Restated)
Basic		<u>HK 1.66 cents</u>	<u>HK 8.18 cents</u>
Diluted		<u>HK 1.64 cents</u>	<u>N/A</u>

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>12,329</u>	<u>60,384</u>
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	<u>14,296</u>	<u>(15,519)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>14,296</u>	<u>(15,519)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>26,625</u>	<u>44,865</u>
Attributable to:		
Owners of the parent	26,877	45,534
Minority interests	<u>(252)</u>	<u>(669)</u>
	<u>26,625</u>	<u>44,865</u>

Consolidated Statement of Financial Position

		As at 31 December	
		2009	2008
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,013,373	1,122,805
Prepaid land lease payments		37,895	38,582
Investment properties		25,000	17,000
Loan to an unlisted equity investment		5,000	5,000
Available-for-sale investment		150	150
Other non-current assets		–	95
Deferred tax assets		862	1,150
Total non-current assets		1,082,280	1,184,782
CURRENT ASSETS			
Inventories	11	181,183	259,220
Trade receivables	12	229,871	165,325
Prepayments, deposits and other receivables		10,918	19,698
Cash and cash equivalents		173,597	136,468
Total current assets		595,569	580,711
CURRENT LIABILITIES			
Trade and bills payables	13	57,968	68,702
Other payables and accruals	14	107,763	219,805
Derivative financial instruments		30	–
Tax payable		8,271	5,201
Interest-bearing bank and other borrowings		280,291	257,664
Total current liabilities		454,323	551,372
NET CURRENT ASSETS		141,246	29,339
TOTAL ASSETS LESS CURRENT LIABILITIES		1,223,526	1,214,121
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		159,739	259,519
Deferred tax liabilities		2,705	2,408
Other payables and accruals	14	188	472
Derivative financial instruments		5,745	6,557
Total non-current liabilities		168,377	268,956
Net assets		1,055,149	945,165
EQUITY			
Equity attributable to owners of the parent			
Issued capital		91,599	69,780
Reserves		962,704	874,287
		1,054,303	944,067
Minority interests		846	1,098
Total equity		1,055,149	945,165

Consolidated Statement of Cash Flows

	Year ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	17,340	68,640
Adjustments for:		
Depreciation	146,363	131,311
Amortisation of other non-current assets	95	95
Recognition of prepaid land lease payments	928	922
Provision against inventory obsolescence	9,079	2,124
Loss/(gain) on disposal of items of property, plant and equipment, net	1,868	(133)
Fair value (gains)/losses on investment properties	(4,822)	3,000
Fair value (gains)/losses, net:		
Derivative financial instruments		
– transactions not qualifying as hedges	(782)	6,334
Equity-settled share option expense	4,442	563
Finance costs	15,985	23,319
Bank interest income	(253)	(1,993)
(Reversal of impairment losses)/impairment losses of trade receivables, net	(1,969)	3,938
	188,274	238,120
Decrease/(increase) in inventories	68,958	(63,112)
(Increase)/decrease in trade receivables	(59,221)	37,077
Decrease/(increase) in prepayments, deposits and other receivables	8,852	(5,281)
Increase in a loan to an unlisted equity investment	–	(2,150)
Decrease in trade and bills payables	(10,854)	(41,422)
Increase in other payables and accruals	5,240	9,094
	201,249	172,326
Cash generated from operations	201,249	172,326
Interest received	253	1,993
Interest paid	(14,269)	(20,901)
Interest element of finance lease rental payments	(776)	(1,434)
Income taxes paid	(1,338)	(9,350)
	185,119	142,634
Net cash flows from operating activities	185,119	142,634

Consolidated Statement of Cash Flows (Continued)

	Year ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Net cash flows from operating activities	<u>185,119</u>	<u>142,634</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(154,050)	(142,429)
Proceeds from disposal of items of property, plant and equipment	6,335	2,022
Proceeds from disposal of an investment property	<u>–</u>	<u>1,046</u>
Net cash flows used in investing activities	<u>(147,715)</u>	<u>(139,361)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	81,232	–
Share issue expenses	(2,315)	–
Repurchase of shares	–	(29,027)
Share options exercised	–	8,312
New bank loans and other borrowings	127,848	402,592
Repayment of bank loans and other borrowings	(187,502)	(416,691)
Capital element of finance lease rental payments	(19,914)	(29,648)
Dividends paid	<u>–</u>	<u>(33,838)</u>
Net cash flows used in financing activities	<u>(651)</u>	<u>(98,300)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	36,753	(95,027)
Cash and cash equivalents at beginning of year	136,468	233,950
Effect of foreign exchange rate changes, net	<u>313</u>	<u>(2,455)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>173,534</u>	<u>136,468</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	114,581	98,439
Non-pledged time deposits with original maturity of less than three months when acquired	<u>59,016</u>	<u>38,029</u>
Cash and cash equivalents as stated in the consolidated statement of financial position	173,597	136,468
Bank overdrafts	<u>(63)</u>	<u>–</u>
Cash and cash equivalents as stated in the consolidated statement of cash flows	<u>173,534</u>	<u>136,468</u>

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 10 July 2002 under the Companies Law. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 1 November 2004.

The principal place of business is located at 11th Floor, Block E1, Hoi Bun Industrial Building, No. 6 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong.

The principal activities of the Group during the year were manufacture and sale of precision metal components for hard disk drives (“HDD”), hydraulic equipment, automotive parts and components for other applications.

In the opinion of the directors, the holding company and the ultimate holding company of the Group is Tottenhill Limited, which was incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of a subsidiary in a prior year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combination to the fair value of the identifiable assets acquired, at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, plus costs directly attributable to the acquisition.

Minority interests represent the interests of an outside shareholder not held by the Group in the results and net assets of a subsidiary of the Company.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

* Included in Improvements to HKFRSs 2009 (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

(b) Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or result of operations of the Group.

(c) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures and the revised liquidity risk disclosures are presented in the Annual Report of the Group.

(d) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 3 to the financial statements.

(e) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(f) Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfill a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC)-Int 15 replaces HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of the real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

(l) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and

the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers* (adopted from 1 July 2009)

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

- (n)** In October 2008, the HKICPA issued its first Improvements to HKFRSs which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the geographical locations of the customers and has six reportable operating segments as follows:

- (a) Thailand;
- (b) Malaysia;
- (c) Mainland China, Macau and Hong Kong;
- (d) North America;
- (e) Europe; and
- (f) Other countries.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income and finance costs are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

3. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2009	Thailand HK\$'000	Malaysia HK\$'000	Mainland China, Macau and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	Total HK\$'000
Segment revenue:							
Sales to external customers	255,209	162,514	151,370	49,572	38,041	39,019	695,725
Intersegment sales	16,569	–	10	–	–	–	16,579
Other revenue	4,898	–	16,228	–	–	–	21,126
	<u>276,676</u>	<u>162,514</u>	<u>167,608</u>	<u>49,572</u>	<u>38,041</u>	<u>39,019</u>	<u>733,430</u>
<i>Reconciliation:</i>							
Elimination of intersegment sales							(16,579)
Revenue							<u>716,851</u>
Segment results	28,218	1,792	3,605	547	419	430	35,011
<i>Reconciliation:</i>							
Elimination of intersegment results							(1,939)
Interest income							253
Finance costs							(15,985)
Profit before tax							17,340
Income tax expense							(5,011)
Profit for the year							<u>12,329</u>
Segment assets	230,820	52,823	1,420,619	15,692	11,915	1,579	1,733,448
<i>Reconciliation:</i>							
Elimination of intersegment receivables							(56,008)
Corporate and other unallocated assets							409
Total assets							<u>1,677,849</u>
Segment liabilities	115,270	–	526,188	1,480	3,959	31,811	678,708
<i>Reconciliation:</i>							
Elimination of intersegment payables							(56,008)
Total liabilities							<u>622,700</u>
Other segment information:							
Impairment losses recognised in the income statement	–	–	7,110	–	–	–	7,110
Depreciation and amortisation	22,094	–	125,292	–	–	–	147,386
Capital expenditure*	1,739	–	34,077	–	–	–	35,816
Change in fair value of derivative financial instruments							
– Interest rate swap	–	–	(812)	–	–	–	(812)
– Forward currency contracts	–	–	30	–	–	–	30
Fair value gains on investment properties	–	–	(4,822)	–	–	–	(4,822)
Loss on disposal of items of property, plant and equipment	<u>–</u>	<u>–</u>	<u>1,868</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,868</u>

* Capital expenditure consists of additions to property, plant and equipment, intangible assets and investment properties including assets from the acquisition of a subsidiary.

3. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2008	Thailand HK\$'000	Malaysia HK\$'000	Mainland China, Macau and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	Total HK\$'000
Segment revenue:							
Sales to external customers	300,135	217,990	135,867	76,341	95,074	36,309	861,716
Intersegment sales	83,272	–	20	–	–	–	83,292
Other revenue	205	–	561	–	–	–	766
	383,612	217,990	136,448	76,341	95,074	36,309	945,774
<i>Reconciliation:</i>							
Elimination of intersegment sales							(83,292)
Revenue							862,482
Segment results	30,672	23,018	33,325	8,061	10,039	3,834	108,949
<i>Reconciliation:</i>							
Elimination of intersegment results							(18,983)
Interest income							1,993
Finance costs							(23,319)
Profit before tax							68,640
Income tax expense							(8,256)
Profit for the year							60,384
Segment assets	226,904	45,908	1,510,216	20,787	11,369	8,773	1,823,957
<i>Reconciliation:</i>							
Elimination of intersegment receivables							(59,478)
Corporate and other unallocated assets							1,014
Total assets							1,765,493
Segment liabilities	109,841	–	711,592	1,220	3,426	53,512	879,591
<i>Reconciliation:</i>							
Elimination of intersegment payables							(59,478)
Corporate and other unallocated liabilities							215
Total liabilities							820,328
Other segment information:							
Impairment losses recognised in the income statement	–	–	6,062	–	–	–	6,062
Depreciation and amortisation	21,940	–	110,388	–	–	–	132,328
Capital expenditure	23,752	–	270,943	–	–	–	294,695
Change in fair value of derivative financial instruments							
– Interest rate swap	–	–	6,265	–	–	–	6,265
– Forward currency contracts	–	–	69	–	–	–	69
Fair value loss on investment properties	–	–	3,000	–	–	–	3,000
Gain on disposal of items of property, plant and equipment	–	–	(133)	–	–	–	(133)

3. OPERATING SEGMENT INFORMATION *(Continued)*

Business segment information

(a) Revenue by products

	Year ended 31 December	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
HDD components	498,506	600,810
Hydraulic equipment components	89,275	167,298
Automotive components	88,002	57,468
Others	19,942	36,140
	<u>695,725</u>	<u>861,716</u>

(b) Non-current assets

	As at 31 December	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Thailand	118,352	133,307
Mainland China, Macau and Hong Kong	963,066	1,050,325
	<u>1,081,418</u>	<u>1,183,632</u>

The non-current asset information above is based on the location of assets and excludes deferred tax assets.

Information about a major customer

Revenue of approximately HK\$146 million (2008: HK\$152 million) was derived from sales by the HDD components segment to a single customer.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	Year ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Revenue		
Sale of goods and materials	695,725	861,716
Other income		
Bank interest income	253	1,993
Other income on reversal of impairment losses of trade receivables, net	1,969	–
Others	2,113	633
	4,335	2,626
Gains		
Foreign exchange gains, net	11,410	–
Fair value gains:		
Derivative financial instruments		
– transactions not qualifying as hedges:		
Interest rate swap	812	–
Fair value gains on investment property, net	4,822	–
Gain on disposal of items of property, plant and equipment	–	133
	17,044	133
	21,379	2,759

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Year ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Cost of inventories sold	587,363	656,845
Depreciation	146,363	131,311
Recognition of prepaid land lease payments	928	922
Equity-settled share option expense	4,442	563
Auditors' remuneration	2,054	2,067
Employee benefits expense (excluding directors' remuneration):		
Wages and salaries	93,871	100,229
Pension scheme contributions	2,475	2,505
	96,346	102,734
Minimum lease payments under operating leases:		
Land and buildings	983	1,084
Equipment	33	39
	1,016	1,123
Foreign exchange differences, net	(11,410)	5,120
Research and development costs	11,384	12,638
Changes in fair value of investment property	(4,822)	3,000
Fair value (gains)/losses, net:		
Derivative financial instruments – transactions not qualifying as hedges:		
Interest rate swap	(812)	6,265
Forward currency contracts	30	69
	(782)	6,334
Loss/(gain) on disposal of items of property, plant and equipment	1,868	(133)
(Reversal of impairment losses)/impairment losses of trade receivables, net	(1,969)	3,938
Provision against inventory obsolescence	9,079	2,124

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable		
within five years	14,086	20,879
Interest on finance leases	776	1,434
Financial arrangement fees	940	984
Other interest expense	183	22
	<u>15,985</u>	<u>23,319</u>

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Year ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	2,151	–
Current – Elsewhere		
Charge for the year	2,257	8,479
Deferred	603	(223)
Total tax charge for the year	<u>5,011</u>	<u>8,256</u>

8. DIVIDENDS

	Year ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Interim dividend – Nil (2008: HK2.4 cents per ordinary share)	–	16,824
	<u>–</u>	<u>16,824</u>

The Board of the Company does not recommend the payment of any final dividend for the year ended 31 December 2009 (2008: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the open offer during the year.

The calculation of diluted earnings per share for the year ended 31 December 2009 was based on the profit for that year attributable to owners of the parent. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during that year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares, as adjusted for the open offer during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2008 in respect of a dilution as the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
<u>Earnings</u>		
Profit attributable to owners of the parent		
used in the basic earnings per share calculation	<u>12,587</u>	<u>61,149</u>
	Number of shares	
	2009	2008
		(Restated)
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation*	758,539,759	747,945,793
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>8,143,004</u>	<u>–</u>
	<u>766,682,763</u>	<u>747,945,793</u>

* *The weighted average numbers of ordinary shares in 2009 and 2008 have been retrospectively adjusted for the open offer taken place on 18 December 2009.*

10. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:							
At 1 January 2009	297,734	6,394	1,106,639	33,608	20,011	156,128	1,620,514
Additions	264	–	8,355	6,358	363	20,476	35,816
Transfer in/(out)	12,610	–	134,267	1,539	871	(149,287)	–
Transfer to investment property	–	–	–	–	–	(3,178)	(3,178)
Disposals	–	(3,380)	(24,559)	(1,079)	(1,216)	–	(30,234)
Exchange realignment	3,586	7	14,698	394	145	1,106	19,936
At 31 December 2009	<u>314,194</u>	<u>3,021</u>	<u>1,239,400</u>	<u>40,820</u>	<u>20,174</u>	<u>25,245</u>	<u>1,642,854</u>
Accumulated depreciation and impairment:							
At 1 January 2009	(57,344)	(4,498)	(409,045)	(15,252)	(11,570)	–	(497,709)
Depreciation provided during the year	(18,651)	(591)	(117,445)	(6,909)	(2,767)	–	(146,363)
Disposals-depreciation	202	3,380	16,394	978	1,077	–	22,031
Exchange realignment	(735)	(2)	(6,449)	(191)	(63)	–	(7,440)
At 31 December 2009	<u>(76,528)</u>	<u>(1,711)</u>	<u>(516,545)</u>	<u>(21,374)</u>	<u>(13,323)</u>	<u>–</u>	<u>(629,481)</u>
At 31 December 2009:							
Cost	314,194	3,021	1,239,400	40,820	20,174	25,245	1,642,854
Accumulated depreciation	<u>(76,528)</u>	<u>(1,711)</u>	<u>(516,545)</u>	<u>(21,374)</u>	<u>(13,323)</u>	<u>–</u>	<u>(629,481)</u>
Net carrying amount	<u>237,666</u>	<u>1,310</u>	<u>722,855</u>	<u>19,446</u>	<u>6,851</u>	<u>25,245</u>	<u>1,013,373</u>
At 31 December 2008							
Cost	297,734	6,394	1,106,639	33,608	20,011	156,128	1,620,514
Accumulated depreciation	<u>(57,344)</u>	<u>(4,498)</u>	<u>(409,045)</u>	<u>(15,252)</u>	<u>(11,570)</u>	<u>–</u>	<u>(497,709)</u>
Net carrying amount	<u>240,390</u>	<u>1,896</u>	<u>697,594</u>	<u>18,356</u>	<u>8,441</u>	<u>156,128</u>	<u>1,122,805</u>

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group	Freehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:							
At 1 January 2008	276,579	5,240	957,608	25,743	15,787	44,081	1,325,038
Additions	5,021	29	21,577	4,397	2,327	261,344	294,695
Transfer in/(out)	10,025	1,125	133,770	3,374	3,228	(151,522)	–
Disposals	–	–	(11,427)	(357)	(1,516)	–	(13,300)
Exchange realignment	6,109	–	5,111	451	185	2,225	14,081
At 31 December 2008	<u>297,734</u>	<u>6,394</u>	<u>1,106,639</u>	<u>33,608</u>	<u>20,011</u>	<u>156,128</u>	<u>1,620,514</u>
Accumulated depreciation and impairment:							
At 1 January 2008	(38,687)	(3,892)	(320,502)	(9,597)	(10,554)	–	(383,232)
Depreciation provided during the year	(18,541)	(606)	(103,819)	(6,070)	(2,275)	–	(131,311)
Disposals – depreciation	–	–	9,746	321	1,344	–	11,411
Exchange realignment	(116)	–	5,530	94	(85)	–	5,423
At 31 December 2008	<u>(57,344)</u>	<u>(4,498)</u>	<u>(409,045)</u>	<u>(15,252)</u>	<u>(11,570)</u>	<u>–</u>	<u>(497,709)</u>
At 31 December 2008							
Cost	297,734	6,394	1,106,639	33,608	20,011	156,128	1,620,514
Accumulated depreciation	<u>(57,344)</u>	<u>(4,498)</u>	<u>(409,045)</u>	<u>(15,252)</u>	<u>(11,570)</u>	<u>–</u>	<u>(497,709)</u>
Net carrying amount	<u>240,390</u>	<u>1,896</u>	<u>697,594</u>	<u>18,356</u>	<u>8,441</u>	<u>156,128</u>	<u>1,122,805</u>

The freehold land amounting to Thai Baht19,201,000 (equivalent to HK\$4,485,000) included in freehold land and buildings is situated in Thailand (2008: Thai Baht19,201,000 (equivalent to HK\$4,282,000)).

The net book values of the Group's property, plant and equipment held under finance leases included in the total amount of plant and machinery as at 31 December 2009 amounted to HK\$75,865,000 (2008: HK\$67,612,000).

11. INVENTORIES

	As at 31 December	
	2009	2008
	HK\$'000	HK\$'000
Raw materials	66,119	114,548
Consumables	42,886	43,461
Work in progress	43,861	49,982
Finished goods	<u>44,532</u>	<u>58,365</u>
	197,398	266,356
Less: Provision against inventory obsolescence	<u>(16,215)</u>	<u>(7,136)</u>
	<u>181,183</u>	<u>259,220</u>

12. TRADE RECEIVABLES

	As at 31 December	
	2009	2008
	HK\$'000	HK\$'000
Trade receivables	229,871	169,263
Impairment	—	(3,938)
	<u>229,871</u>	<u>165,325</u>

The Group's trading terms with its customers are mainly on credit, except for new customers where payments in advance are normally required. The credit period generally ranges from 30 to 120 days, but longer credit terms will be granted to certain major customers with the approval of the directors. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December	
	2009	2008
	HK\$'000	HK\$'000
Within 1 month	92,080	31,409
1 to 2 months	77,434	49,888
2 to 3 months	45,237	59,569
3 to 4 months	12,064	20,889
4 to 12 months	2,817	6,420
Over 12 months	239	1,088
	<u>229,871</u>	<u>169,263</u>

The movements in provision for impairment of trade receivables are as follows:

	2009	2008
	HK\$'000	HK\$'000
At 1 January	3,938	—
Impairment losses recognised (<i>note 5</i>)	126	3,938
Impairment losses reversed (<i>note 5</i>)	(2,095)	—
Amount written off as uncollectible	(1,969)	—
	<u>—</u>	<u>3,938</u>

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	As at 31 December	
	2009	2008
	HK\$'000	HK\$'000
Neither past due nor impaired	212,857	81,297
Less than 90 days past due	16,475	80,458
90 to 180 days past due	141	3,562
Over 180 days past due	398	8
	229,871	165,325

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

13. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December	
	2009	2008
	HK\$'000	HK\$'000
Within 1 month	24,792	12,584
1 to 2 months	21,969	20,485
2 to 3 months	8,458	17,480
Over 3 months	2,749	18,153
	57,968	68,702

The trade and bills payables are non-interest-bearing and are normally settled on terms ranging from 30 to 90 days.

14. OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2009	2008
	HK\$'000	HK\$'000
Other payables (<i>Note</i>)	94,570	212,424
Accruals	<u>13,381</u>	<u>7,853</u>
	107,951	220,277
Portion classified as non-current:		
Other payables (<i>Note</i>)	<u>(188)</u>	<u>(472)</u>
Current portion	<u>107,763</u>	<u>219,805</u>

Note: Other payables included an amount of HK\$472,000 (2008: HK\$747,000) which represented a payable for the water pipeline construction project of Integrated Precision Engineering (Thailand) Company Limited in Thailand. This amount is unsecured, interest-free and repayable within two years. Of this amount HK\$284,000 (2008: HK\$275,000) is repayable within one year, the remaining HK\$188,000 (2008: HK\$472,000) is repayable in the second year (2008: second to third years). The remaining other payables are unsecured, interest-free and are repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The year 2009 was a turbulent year, with most economies rocked by the global financial crisis that erupted in 2008. Fortunately, the world did not slide into a Great Depression, as some feared in 2008. Buoyed by the massive stimulus packages implemented by governments worldwide, the global economy began to stabilise in the second quarter of 2009 and since then, many countries have reported a return to economic growth. For IPE Group, facing a terrible start to the year, we did not expect a year ago that we would set a new record for monthly sales in 2009! After a sustained recovery in the computer industry which resulted in a recovery in our sales of hard disk drives (HDD) components beginning in the second quarter, and with support from the recovery in demand for our automotive components, the fourth quarter has been strong for the Group, especially in December, when we set a new record for monthly revenue. Based on our fourth quarter results, the Group's business is now back to pre-crisis level.

In 2009, we started with a terrible first quarter and had a loss in the first half year. However, with the encouraging improvement in the Group's performance in the second half of 2009, turnover for the full year amounted to HK\$695,725,000, representing a drop of 19.3% as compared with 2008 and we did manage to record a profit attributable to owners of the parent for the full year amounted to HK\$12,587,000, representing a drop of 79.4% as compared with 2008.

Prospects

There remains concern about the strength of the global economic recovery, which in a number of major economies remains anaemic. There is also concern that certain developed countries face large budget deficits and other problems that cannot be easily or quickly resolved, and these problems could have adverse consequences for global growth. However, the Group is sanguine about both its short term and long term prospects.

The Group is confident about its short term prospects because the up trend in demand for HDD components and automotive components that began in the second quarter of 2009 remains intact. Indeed, our HDD customers are forecasting continuing growth in demand for hard disk drives and have recommended that we increase our capacity. Meanwhile, our orders for automotive components continue to grow. Furthermore, we are now beginning to experience some recovery in demand for hydraulic equipment components.

The Group is positive about its longer term prospects because the Group's three main operating divisions are long lead time businesses in terms of building customer relationships based on quality and reliability rather than just price competitiveness. The recent recall problems of certain Japanese car brands in the US highlight the importance of quality and reliability. Where quality and reliability are at a premium, the marketing of our precision engineering capability can take a long time. Successful marketing enables us to become "accredited" and this is generally followed by a series of small "trial" orders, the successful execution of which then gradually gives rise to larger orders. This build up to high volume production is inherently time consuming. The development of our automotive components

business over the last five years indicates that our automotive components are now fully accepted by our customers as being of good quality at a competitive price from a reliable supplier so we expect to manufacture in steadily larger volume production runs in future. We believe that faced with the current difficult operating environment, IPE's customers will seek to outsource more of their components requirements to safeguard their competitiveness and potential customers are looking to outsourcing to strong companies. At the same time, the recession has been weeding out weaker competitors.

To take advantage of these circumstances we have strengthened our financial position and to cater for anticipated future growth, we are also looking at plans to expand the capacity of all our operating divisions, with a particular emphasis on our automotive components business where we see the greatest potential for strong long term growth.

Financial Review

Sales

The Group's turnover by business segments during the year under review, with comparative figures in 2008, is as follows:

	1H 09	2H 09	FY 09	1H 08	2H 08	FY 08	Year %
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	change
HDD components	165,819	332,687	498,506	327,001	273,809	600,810	-17.0%
Hydraulic equipment components	42,991	46,284	89,275	88,843	78,455	167,298	-46.6%
Automotive components	33,621	54,381	88,002	34,605	22,863	57,468	53.1%
Others	8,646	11,296	19,942	20,042	16,098	36,140	-44.8%
	<u>251,077</u>	<u>444,648</u>	<u>695,725</u>	<u>470,491</u>	<u>391,225</u>	<u>861,716</u>	<u>-19.3%</u>

The demand for computers, especially netbook computers, was quite resilient in 2009, and this translated into good demand for HDD components which rebounded in the second quarter of 2009 and has since then remained strong. Our sales of HDD components in the second half of 2009 was HK\$332,687,000, more than double sales in the first half of 2009 and even above the previous record set in the first half of 2008. While this is a new sales record by only a small margin, it does represent a full recovery to pre-crisis level. However, given the sharp drop in the first quarter of 2009 due to the impact of the financial crisis, for the year as a whole, sales of HDD components decreased by 17.0% from HK\$600,810,000 in 2008 to HK\$498,506,000 in 2009.

The performance of our hydraulic equipment components business was disappointing. Sales decreased by 46.6% to HK\$89,275,000 in 2009 when compared to 2008. Demand for our hydraulic equipment components remained depressed throughout the year with scant signs of recovery in our markets in the US and Europe.

During the year, governments in a number of countries began implementing various measures to stimulate their economies. China's stimulus package was one of the most vigorous compared to those of other countries and China recorded in 2009 impressive real GDP growth at a rate well ahead of the rest of the world. The automotive market in the PRC benefitted from its stimulus package and the resulting strong demand buoyed sales of our automotive components. Sales of this segment recorded a growth of 53.1% to HK\$88,002,000 in 2009 when compared to 2008. This is a very gratifying performance when one considers that sales of this segment was only HK\$1,026,000 four years ago in 2005.

Gross profit

Due to the decrease in turnover, gross profit of the Group for the year ended 31 December 2009 fell to HK\$108,362,000 from HK\$204,871,000 in 2008. Although we had a satisfactory performance in the second half of 2009, when we recorded a gross profit margin of 23.5%, the overall gross profit margin for the whole year fell to 15.6% because of the sharp drop of turnover in the first half of 2009.

Other income

Other income increased by HK\$18,620,000 for the year ended 31 December 2009 when compared to 2008. The total amount of HK\$21,379,000 recorded in 2009 mainly comprised foreign exchange gains on settlement of Japanese Yen and the fair value gains on investment property. In 2009, Japanese Yen depreciated steadily in the first half of 2009 and then reversed to appreciate in the second half of 2009. For the year as a whole, the Group recorded an exchange gain of HK\$11,410,000. With the stabilization of the economy in Hong Kong, the property market rapidly recovered and, as a result, the Group's investment property recorded a fair value gain of HK\$4,822,000.

Selling and distribution costs

Selling and distribution costs decreased by 21.0% from HK\$24,244,000 for the year ended 31 December 2008 to HK\$19,155,000 for the year ended 31 December 2009. The decrease was in line with the sales decline of 19.3%.

Administrative expenses

During the year under review, administrative expenses amounted to HK\$70,112,000, marginally higher than the amount of HK\$69,995,000 in 2008.

Finance costs

Finance costs decreased by 31.5% from HK\$23,319,000 to HK\$15,985,000, due to the decline in interest rates and a reduction in interest-bearing bank loans and other borrowings.

Profit attributable to owners of the parent

As a result of the foregoing, the profit attributable to owners of the parent decreased from HK\$61,149,000 for the year ended 31 December 2008 to HK\$12,587,000 for the year ended 31 December 2009.

Basic earnings per share attributable to ordinary equity holders

Basic earnings per share attributable to ordinary equity holders for the year under review came to HK1.66 cents, representing a decrease of 79.7% when compared to HK8.18 cents in 2008.

Details of Charges on the Group's Assets

As at 31 December 2009, the Group had total borrowings of HK\$431,455,000 (2008: HK\$517,183,000) secured by corporate guarantee made by the Company. The Group had no charges on any of its assets for its banking facilities as at 31 December 2009.

Currency Exposure and Management

The Group is exposed to fluctuations in foreign exchange rates. Since most of the Group's revenue is denominated in US dollars, whereas most of the Group's expenses, such as costs of major raw materials and machineries and production expenses, are denominated in Japanese Yen, Renminbi, Thai Baht and Hong Kong dollars, fluctuations in exchange rates can materially affect the Group; in particular, an appreciation in value of Japanese Yen will adversely affect the Group's profitability. Accordingly, the Group has entered into forward exchange contracts to reduce potential exposure to currency fluctuations.

Liquidity, Financial Resources and Financial Ratios

The Group generally finances its operations with internally generated cash flow as well as banking facilities provided by its bankers.

In December 2009, the Group successfully completed an open offer and the net proceeds amounted to approximately HK\$63,757,000. The net proceeds of the open offer has strengthened the Group's financial position and enable it to better benefit from recovery.

As at 31 December 2009, cash per share was HK\$0.19 (2008: HK\$0.20) and net asset value per share was HK\$1.15 (2008: HK\$1.35), based on the 915,993,750 ordinary shares in issue (2008: 697,795,000).

During the year under review, the Group recorded a net cash inflow from operating activities of HK\$185,119,000 (2008: HK\$142,634,000). Due to the settlement of the previous years' purchases of new machineries and equipment amounting to HK\$154,050,000, a net cash outflow from investing activities of HK\$147,715,000 (2008: HK\$139,361,000) was recorded. Taking into account proceeds from issue of shares and additional bank loans and after repayment of some of the bank loans, the Group recorded a net cash outflow from financing activities of HK\$651,000 (2008: HK\$98,300,000). As at 31 December 2009, the Group had cash and cash equivalents of HK\$173,597,000 (2008: HK\$136,468,000).

As at 31 December 2009, total bank borrowings of the Group amounted to approximately HK\$440,030,000 (2008: HK\$517,183,000), representing a decrease of 14.9% as compared to that of 2008, and net borrowings (total borrowings less cash and bank balances) of HK\$266,433,000 (2008: HK\$380,715,000). The gearing ratio defined as net borrowings divided by shareholders' equity was 25.3% as at 31 December 2009 when compared to 40.3% as at 31 December 2008.

Human Resources

The Company recognises human resources as one of the Group's most important assets. Even during the downturn last year, we decided early on that laying off employees would be a last resort in our cost reduction effort. Therefore, we received strong support from employees at all levels. We are glad that we have survived the downturn without any unnecessary scaling down of our operations. This helped the Group tremendously in coping with and taking advantage of the strong upturn momentum in the later part of the year.

The Group has a share option scheme in place for selected participants as incentive and reward for their contribution to the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also offered to employees.

The Group encourages employees to seek training to strengthen their work skills and for personal development. The Group also provides workshops for staff at different levels to enhance their knowledge of work safety and to build team spirit among them. Staff are rewarded based on performance of the Group as well as individual performance and contribution.

The Company, together with its subsidiaries, had 4,149 employees as at 31 December 2009, an increase of 30.0% when compared to 3,192 employees as at 31 December 2008.

SUPPLEMENTARY INFORMATION

Purchase, redemption or sale of listed securities of the Company

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2009.

Final Dividend

The Board does not recommend the payment of any final dividend for the year ended 31 December 2009 (2008: Nil).

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 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 to the Listing Rules, except that there is no separation of the roles of Chairman and Chief Executive Officer as stipulated in the code provision A.2.1.

Currently, Mr. Chui Siu On assumes the roles of both Chairman and Chief Executive Officer of the Company. As one of the founders of the Group, he has extensive experience in the design and manufacture of automation equipment, precision mechanical components and machinery parts. The Board believes that by holding both roles Mr. Chui will be able to provide 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 of the Group. The structure is therefore beneficial to the Group.

Audit Committee

The Audit Committee of the Company, comprising the three independent non-executive directors, namely, Dr. Cheng Ngok (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 processes including the review of the Company's consolidated financial statements for the year ended 31 December 2009.

Publication on the Websites of the Company and the Stock Exchange

The results announcement is published on the Company's website (www.ipegroup.com) and the Stock Exchange's website (www.hkexnews.hk). The 2009 Annual Report will be despatched to shareholders of the Company and will be made available on the websites of the Company and the Stock Exchange in due course.

Board of Directors

As at the date of this announcement, the Board comprises the following directors:

Executive Directors:

Mr. Chui Siu On
Mr. Ho Yu Hoi
Mr. Lai Man Kit
Mr. Li Chi Hang
Mr. Wong Kwok Keung
Mr. Lau Siu Chung
Mr. Yuen Chi Ho

Independent Non-Executive Directors:

Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok

By order of the Board
Chui Siu On
Chairman
IPE Group Limited

Hong Kong, 30 March 2010