

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



## IPE GROUP LIMITED

國際精密集團有限公司\*

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 929)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board of Directors (the “Board”) of IPE Group Limited (the “Company”) would like to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2017, together with the comparative figures for the previous corresponding period as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
<b>REVENUE</b>	4&5	<b>453,755</b>	424,197
Cost of sales		<b>(295,021)</b>	(295,648)
Gross profit		<b>158,734</b>	128,549
Other income and gains	5	<b>3,481</b>	15,290
Selling and distribution expenses		<b>(11,527)</b>	(10,468)
Administrative expenses		<b>(54,698)</b>	(51,201)
Other expenses		<b>(12,296)</b>	(6,485)
Finance costs	6	<b>(6,900)</b>	(7,371)
<b>PROFIT BEFORE TAX</b>	7	<b>76,794</b>	68,314
Income tax expense	8	<b>(8,952)</b>	(17,191)
<b>PROFIT FOR THE PERIOD</b>		<b>67,842</b>	51,123
<b>Attributable to:</b>			
Owners of the Company		<b>68,014</b>	51,355
Non-controlling interests		<b>(172)</b>	(232)
		<b>67,842</b>	51,123
<b>EARNINGS PER SHARE</b>	9		
Basic		<b>HK6.5 cents</b>	HK5.1 cents
Diluted		<b>N/A</b>	HK5.0 cents
<b>INTERIM DIVIDEND PER SHARE</b>	10	<b>HK2.2 cents</b>	HK2.0 cents

\* For identification purposes only

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Profit for the period</b>	<b>67,842</b>	<b>51,123</b>
<b>Other comprehensive income/(expenses):</b>		
Exchange differences on translation of foreign operations	<u>60,887</u>	<u>(18,632)</u>
<b>Total comprehensive income for the period</b>	<u><b>128,729</b></u>	<u><b>32,491</b></u>
<b>Attributable to:</b>		
Owners of the Company	<b>128,820</b>	<b>32,757</b>
Non-controlling interests	<u>(91)</u>	<u>(266)</u>
	<u><b>128,729</b></u>	<u><b>32,491</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>11</i>	668,473	662,095
Prepaid land lease payments		80,787	79,069
Available-for-sale investment		9,779	–
Deposits for purchase of non-current assets		9,969	5,714
Deferred tax assets		3,274	3,190
		772,282	750,068
<b>CURRENT ASSETS</b>			
Inventories	<i>12</i>	207,723	184,460
Trade receivables	<i>13</i>	249,037	219,421
Prepayments, deposits and other receivables		40,569	22,768
Cash and cash equivalents		1,069,100	961,592
		1,566,429	1,388,241
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	<i>14</i>	65,043	55,641
Other payables and accruals		45,160	39,067
Tax payable		2,617	12,142
Interest-bearing bank and other borrowings		411,576	292,641
		524,396	399,491
<b>NET CURRENT ASSETS</b>		<b>1,042,033</b>	<b>988,750</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,814,315</b>	<b>1,738,818</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

	At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	208,625	237,875
Deferred tax liabilities	9,542	9,302
Other payables and accruals	1,003	945
	<u>219,170</u>	<u>248,122</u>
Total non-current liabilities	<u>219,170</u>	<u>248,122</u>
Net assets	<u>1,595,145</u>	<u>1,490,696</u>
<b>EQUITY</b>		
Equity attributable to owners of the Company		
Issued capital	105,225	105,225
Reserves	1,487,969	1,383,429
	<u>1,593,194</u>	<u>1,488,654</u>
Non-controlling interests	1,951	2,042
Total equity	<u>1,595,145</u>	<u>1,490,696</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b> <i>HK\$'000</i>	<b>(Unaudited)</b> <i>HK\$'000</i>
Net cash flows from operating activities	<u>58,578</u>	<u>180,284</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of items of property, plant and equipment	(41,793)	(81,603)
Proceeds from disposal of items of property, plant and equipment	3,856	6,902
Dividend received from an unlisted equity investment	–	1,197
Decrease in non-pledged time deposits with original maturity of over three months and within one year when acquired	–	10,122
Receipt of repayment of loan to an unlisted equity investment	–	61
Investment in an unlisted equity investment	<u>(9,779)</u>	<u>–</u>
Net cash flows used in investing activities	<u>(47,716)</u>	<u>(63,321)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Share options exercised	–	80,096
New bank loans and other borrowings	268,599	434,860
Repayment of bank loans and other borrowings	(179,825)	(546,644)
Dividend paid to non-controlling interests	–	(858)
Dividends paid to the shareholders of the Company	<u>(26,306)</u>	<u>(21,045)</u>
Net cash flows from/(used in) financing activities	<u>62,468</u>	<u>(53,591)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>73,330</b>	<b>63,372</b>
Cash and cash equivalents at beginning of period	961,592	686,915
Effect of foreign exchange rate changes, net	<u>34,178</u>	<u>(9,459)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u><u>1,069,100</u></u>	<u><u>740,828</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	830,175	730,413
Non-pledged time deposits with original maturity of less than three months when acquired	<u>238,925</u>	<u>10,415</u>
Cash and cash equivalents as stated in the consolidated statement of financial position	<u><u>1,069,100</u></u>	<u><u>740,828</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)	Attributable to owners of the Company											
	Issued capital	Share premium account	Contributed surplus	Statutory			Share options reserve	Exchange fluctuation reserve	Retained profits	Total	Non- controlling interests	Total equity
				surplus reserve	public welfare fund	Capital redemption reserve						
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	105,225	489,197	(1,116)	42,682	287	7,905	8,452	45,719	790,303	1,488,654	2,042	1,490,696
Profit for the period	-	-	-	-	-	-	-	-	68,014	68,014	(172)	67,842
Other comprehensive expenses for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	60,806	-	60,806	81	60,887
Total comprehensive income for the period	-	-	-	-	-	-	-	60,806	68,014	128,820	(91)	128,729
Cancellation of share option arrangement	-	-	-	-	-	-	(8,452)	-	8,452	-	-	-
Equity-settled share option	-	-	-	-	-	-	2,026	-	-	2,026	-	2,026
Final 2016 dividend declared	-	-	-	-	-	-	-	-	(26,306)	(26,306)	-	(26,306)
At 30 June 2017	<u>105,225</u>	<u>489,197*</u>	<u>(1,116)*</u>	<u>42,682*</u>	<u>287*</u>	<u>7,905*</u>	<u>2,026*</u>	<u>106,525*</u>	<u>840,463*</u>	<u>1,593,194</u>	<u>1,951</u>	<u>1,595,145</u>
At 1 January 2016	92,815	395,214	(1,116)	35,397	287	7,905	34,756	137,621	729,477	1,432,356	3,704	1,436,060
Profit for the period	-	-	-	-	-	-	-	-	51,355	51,355	(232)	51,123
Other comprehensive expenses for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(18,598)	-	(18,598)	(34)	(18,632)
Total comprehensive income for the period	-	-	-	-	-	-	-	(18,598)	51,355	32,757	(266)	32,491
Issue of shares upon exercise of share option	12,410	93,990	-	-	-	-	(26,304)	-	-	80,096	-	80,096
Final 2015 dividend declared	-	-	-	-	-	-	-	-	(21,045)	(21,045)	-	(21,045)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(858)	(858)
At 30 June 2016	<u>105,225</u>	<u>489,204*</u>	<u>(1,116)*</u>	<u>35,397*</u>	<u>287*</u>	<u>7,905*</u>	<u>8,452*</u>	<u>119,023*</u>	<u>759,787*</u>	<u>1,524,164</u>	<u>2,580</u>	<u>1,526,744</u>

\* *These reserve accounts comprise the consolidated reserves of HK\$1,487,969,000 (30 June 2016: HK\$1,418,939,000) in the condensed consolidated statement of financial position.*

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*Six months ended 30 June 2017*

## 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 of Cayman Islands. 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 activities of the Group are the manufacture and sale of precision metal components for hard disk drives, hydraulic equipment components, automotive parts and components for other applications.

## 2. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

## 3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies applied in the unaudited condensed consolidated financial statements are consistent with those applied in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning 1 January 2017.

The adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

## 4. 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: (1) Thailand; (2) Malaysia; (3) Mainland China, Macau and Hong Kong; (4) North America; (5) Europe; and (6) Other countries.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment result is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax 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.

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

#### 4. OPERATING SEGMENT INFORMATION (Continued)

	Six months ended 30 June 2017 (Unaudited)						
	Thailand <i>HK\$'000</i>	Malaysia <i>HK\$'000</i>	Mainland China, Macau and Hong Kong <i>HK\$'000</i>	North America <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Other countries <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment revenue:</b>							
Sales to external customers	31,417	63,303	106,949	137,240	98,812	16,034	453,755
Inter-segment sales	1,601	-	-	-	-	-	1,601
Other revenue	69	-	1,619	-	-	-	1,688
	<u>33,087</u>	<u>63,303</u>	<u>108,568</u>	<u>137,240</u>	<u>98,812</u>	<u>16,034</u>	<u>457,044</u>
Reconciliation:							
Elimination at inter-segment sales							<u>(1,601)</u>
Revenue							<u>455,443</u>
<b>Segment results</b>	<b>7,416</b>	<b>11,043</b>	<b>18,657</b>	<b>24,314</b>	<b>17,712</b>	<b>2,802</b>	<b>81,944</b>
Reconciliation:							
Elimination at inter-segment results							(43)
Interest income							1,793
Finance costs							<u>(6,900)</u>
Profit before tax							76,794
Income tax expense							<u>(8,952)</u>
Profit for the period							<u><u>67,842</u></u>



#### 4. OPERATING SEGMENT INFORMATION (Continued)

	Six months ended 30 June 2016 (Unaudited)						Total HK\$'000
	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	
<b>Segment revenue:</b>							
Sales to external customers	25,156	78,709	94,170	124,147	87,369	14,646	424,197
Inter-segment sales	598	–	–	–	–	–	598
Other revenue	245	–	14,154	–	–	–	14,399
	<u>25,999</u>	<u>78,709</u>	<u>108,324</u>	<u>124,147</u>	<u>87,369</u>	<u>14,646</u>	<u>439,194</u>
Reconciliation:							
Elimination at inter-segment sales							<u>(598)</u>
Revenue							<u>438,596</u>
<b>Segment results</b>	2,825	14,286	17,095	22,150	15,860	2,643	74,859
Reconciliation:							
Elimination at inter-segment results							(65)
Interest income							891
Finance costs							<u>(7,371)</u>
Profit before tax							68,314
Income tax expense							<u>(17,191)</u>
Profit for the period							<u><u>51,123</u></u>

## 5. REVENUE AND 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 period.

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

	Six months ended 30 June	
	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Revenue</b>		
Sale of goods and materials	<u>453,755</u>	<u>424,197</u>
<b>Other income</b>		
Bank interest income	1,793	891
Reversal of impairment of trade receivable	415	–
Others	<u>1,273</u>	<u>1,683</u>
	<b>3,481</b>	<b>2,574</b>
<b>Gains</b>		
Foreign exchange differences, net	–	5,084
Gain on disposal of an unlisted equity investment	<u>–</u>	<u>7,632</u>
	<u>–</u>	<u>12,716</u>
	<b>3,481</b>	<b>15,290</b>

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	5,958	5,600
Financial arrangement fees	<u>942</u>	<u>1,771</u>
	<b>6,900</b>	<b>7,371</b>

## 7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	295,021	295,648
Depreciation	54,882	63,803
Amortization of land lease payments	1,032	1,075
Equity-settled share option expenses	2,026	–
Auditors' remuneration	1,510	1,371
Foreign exchange differences, net	7,477	–
Loss on disposal of items of property, plant and equipment	497	1,326
Provision against inventory obsolescence	–	5,161
	<u>          </u>	<u>          </u>

## 8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (16.5% for the six months ended 30 June 2016) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	8,692	17,187
Deferred	260	4
	<u>          </u>	<u>          </u>
Total tax charge for the period	<u>8,952</u>	<u>17,191</u>

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2017 is based on the profit attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, 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.

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

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Earnings</b>		
Profit attributable to owners of the Company used in the basic earnings per share calculation	<b>68,014</b>	51,355
	<b>Number of shares</b>	<b>(in thousands)</b>
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<b>1,052,254</b>	1,014,637
Effect of dilution — weighted average number of ordinary shares: Share options	—	18,363
	<b>1,052,254</b>	1,033,000

## 10. INTERIM DIVIDEND

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim dividend — HK2.2 cents per ordinary share (2016: HK2.0 cents)	<b>23,150</b>	21,045

At the Board meeting held on 14 August 2017, the Board declared an interim dividend of HK2.2 cents per ordinary share (2016: HK2.0 cents).

## 11. PROPERTY, PLANT AND EQUIPMENT

Unaudited	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:							
At 1 January 2017	617,138	13,778	1,317,386	69,519	19,522	24,746	2,062,089
Additions	3,434	–	5,057	1,220	3,116	28,966	41,793
Transfer in/(out)	5,307	131	8,822	2,603	1,296	(18,159)	–
Disposals	–	–	(3,368)	(627)	(2,042)	(3,505)	(9,542)
Exchange realignment	23,074	420	50,944	2,556	534	970	78,498
	<u>648,953</u>	<u>14,329</u>	<u>1,378,841</u>	<u>75,271</u>	<u>22,426</u>	<u>33,018</u>	<u>2,172,838</u>
At 30 June 2017							
Accumulated depreciation:							
At 1 January 2017	(211,422)	(5,800)	(1,114,121)	(53,034)	(15,617)	–	(1,399,994)
Depreciation provided during the period	(17,365)	(1,092)	(33,019)	(2,788)	(618)	–	(54,882)
Disposals – accumulated depreciation	–	–	2,824	616	1,713	–	5,153
Exchange realignment	(8,373)	(154)	(43,682)	(1,964)	(469)	–	(54,642)
	<u>(237,160)</u>	<u>(7,046)</u>	<u>(1,187,998)</u>	<u>(57,170)</u>	<u>(14,991)</u>	<u>–</u>	<u>(1,504,365)</u>
At 30 June 2017							
Cost	648,953	14,329	1,378,841	75,271	22,426	33,018	2,172,838
Accumulated depreciation	(237,160)	(7,046)	(1,187,998)	(57,170)	(14,991)	–	(1,504,365)
	<u>411,793</u>	<u>7,283</u>	<u>190,843</u>	<u>18,101</u>	<u>7,435</u>	<u>33,018</u>	<u>668,473</u>
Net carrying amount							
At 31 December 2016							
Cost	617,138	13,778	1,317,386	69,519	19,522	24,746	2,062,089
Accumulated depreciation	(211,422)	(5,800)	(1,114,121)	(53,034)	(15,617)	–	(1,399,994)
	<u>405,716</u>	<u>7,978</u>	<u>203,265</u>	<u>16,485</u>	<u>3,905</u>	<u>24,746</u>	<u>662,095</u>
Net carrying amount							

## 12. INVENTORIES

	At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
Raw materials	69,524	64,680
Consumables	34,461	32,454
Work in progress	60,219	47,295
Finished goods	91,212	87,530
	<u>255,416</u>	<u>231,959</u>
Provision against inventory obsolescence	(47,693)	(47,499)
	<u>207,723</u>	<u>184,460</u>

## 13. TRADE RECEIVABLES

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 maintains 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 transaction date, is as follows:

	At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
Within 1 month	103,026	74,768
1 to 2 months	72,224	71,808
2 to 3 months	36,253	40,040
3 to 4 months	24,649	27,772
4 to 12 months	12,972	5,593
Over 1 year	5,697	5,445
	<u>254,821</u>	<u>225,426</u>
Less: impairment	(5,784)	(6,005)
	<u>249,037</u>	<u>219,421</u>

#### 14. 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:

	At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
Within 1 month	36,474	18,172
1 to 2 months	19,542	19,164
2 to 3 months	6,518	12,767
Over 3 months	2,509	5,538
	<u>65,043</u>	<u>55,641</u>

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

### MANAGEMENT DISCUSSION AND ANALYSIS

#### BUSINESS REVIEW

Steering continuous development in 2016, the Group continued its efforts to enhance productivity. While striking a balance among all of its business segments and improving profitability, the Group managed to maintain a high growth rate for its automotive components business. However, the hard disk drives (“HDD”) components market underperformed due to its competition with solid state drives (“SSD”). Accordingly, the Group recorded total revenue of HK\$453.8 million for the first half year ended 30 June 2017, an increase of 7.0% from total revenue of HK\$424.2 million in the corresponding period of last year. Meanwhile, the Group’s unaudited net profit amounted to HK\$67.8 million for the period under review, an increase of 32.7% as compared with unaudited net profit of HK\$51.1 million in the first half of last year.

The Group's turnover by business segments during the interim period is shown below:

	1H 2017		1H 2016		% change
	HK\$'000	%	HK\$'000	%	
Automotive components	<b>203,196</b>	<b>44.8</b>	172,965	40.8	+17.5
Hydraulic equipment components	<b>127,285</b>	<b>28.0</b>	121,133	28.6	+5.1
HDD components	<b>94,897</b>	<b>20.9</b>	104,399	24.6	-9.1
Other	<b>28,377</b>	<b>6.3</b>	25,700	6.0	+10.4
	<b><u>453,755</u></b>	<b>100.0</b>	<b><u>424,197</u></b>	100.0	+7.0

With regard to sales of automotive components, the number of orders placed by existing customers continued to increase with reinforced confidence as we have focused on providing quality products and maintained mutual trust with customers. The Group recorded sales of HK\$203.2 million in the first half of 2017, an increase of 17.5% as compared with sales of the first half of last year. At the same time, sales of automotive components continued to grow since we diversified into this segment. As a result, this business accounted for the largest segment of 44.8% of the Group's sales.

Given the challenging global business environment of hydraulic equipment manufacturers, we are pleased that sales of the hydraulic equipment components amounted to HK\$127.3 million in the first half of 2017, which represented that we still achieved an increase of 5.1% as compared to sales of HK\$121.1 million in the first half of last year.

In respect of the HDD components business, on the one hand, the global demand for personal computers has not increased significantly, on the other hand, the demand for HDD was inevitably affected under its competition with SSD. During the first half of this year, sales of our HDD components amounted to HK\$94.9 million with a decline of 9.1% as compared with sales in the first half of last year.

For the six months ended 30 June 2017, sales of other precision components amounted to HK\$28.4 million, an increase of 10.4% as compared with sales in the first half of last year.

## FINANCIAL REVIEW

With respect to mass production of precision components, in addition to the extremely high requirements on production equipment and technical level, the Company spared no efforts in maintaining high product quality and catering to the needs of its customers so as to remain highly competitive. Therefore, we have gained trust from the world's top and quality customers, and established long-term relationship.



After years of business development, the Company focused on balanced segment development to prevent overall sales from being affected by the decline of a single segment. With customers' trust in our product quality, the Company enhanced its bargaining power in order to improve overall profits. For the six months ended 30 June 2017, gross profit margin was 35.0%, representing an increase of 4.7 percentage points as compared with 30.3% in the corresponding period of last year.

Other income and gains, which amounted to HK\$3.5 million in the first half of 2017, decreased by HK\$11.8 million when compared to the corresponding period in 2016. The decrease was mainly due to the gain on disposal of an unlisted equity investment of HK\$7.6 million and an exchange gain of HK\$5.1 million in the corresponding period of last year, while no such items incurred in the first half of this year.

During the period under review, selling and distribution expenses amounted to HK\$11.5 million, accounting for 2.5% of the Group's turnover. Such expenses also accounted for 2.5% of the Group's turnover in the corresponding period of 2016. This reflected the Group's ability to maintain a reasonable level of operation to avoid rising expenses due to inflation.

During the period under review, the Group's administrative expenses increased by 6.8% from HK\$51.2 million to HK\$54.7 million as compared to the corresponding period of 2016. The increase was mainly due to an increase in share option expenses of HK\$2.0 million and an increase in directors' remuneration of HK\$2.2 million.

Although interest expenses increased slightly by HK\$0.4 million, overall finance costs decreased by 6.4% or HK\$0.5 million to HK\$6.9 million when compared to the corresponding period in 2016 due to a decrease in financial arrangement fees of HK\$0.8 million.

For the six months ended 30 June 2017, the Group recorded a net profit of HK\$67.8 million, representing an increase of 32.7% when compared to the six months ended 30 June 2016.

## **CHARGES ON THE GROUP'S ASSETS**

As at 30 June 2017, the Group had total borrowings of HK\$620.2 million (31 December 2016: HK\$530.5 million) secured by corporate guarantee made by the Company. The Group had no charges on any of its assets for its banking facilities as at 30 June 2017 (31 December 2016: Nil).

## **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. As at 30 June 2017, cash per share was HK\$1.02 (31 December 2016: HK\$0.91) and net asset value per share was HK\$1.52 (31 December 2016: HK\$1.42), based on the 1,052,254,135 ordinary shares in issue (31 December 2016: 1,052,254,135 ordinary shares). During the period under review, the Group recorded a net cash inflow from operating activities of HK\$58.6 million (2016: HK\$180.3 million). With the purchase of property, plant and equipment of HK\$41.8 million, the Group recorded a net cash outflow in investing activities of HK\$47.7 million (2016: net cash outflow of HK\$63.3 million).

The total bank borrowings as at 30 June 2017 increased to HK\$620.2 million (31 December 2016: HK\$530.5 million). The Group is in a net cash position (cash and bank balances less total bank borrowings) of HK\$448.9 million as at 30 June 2017 (31 December 2016: HK\$431.1 million).

## **CURRENCY EXPOSURE AND MANAGEMENT**

The Group is exposed to fluctuations in foreign exchange rates. Since most of our Group's revenue is denominated in US dollars, whereas most of our Group's expenses, such as costs of major raw materials, 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, the fluctuation of Renminbi will adversely affect the Group's profitability. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of Renminbi and will closely monitor its impact on the performance of the Group and consider appropriate hedging measures in the future when necessary.

## **HUMAN RESOURCES**

As at 30 June 2017, the Group had 2,253 employees, a slight increase of 97 employees when compared to 2,156 employees as at 31 December 2016.

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 local retirement benefit schemes are also in effect.

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. Staff are rewarded based on performance of the Group as well as on individual performance and contribution.

## **PROSPECT**

We are optimistic about the prospect of our automotive components business. As for maintaining high quality, we do not sacrifice product quality for sales. Therefore, it is expected that the business will experience a stable growth. In addition, since the Group has maintained relationship with the existing customers of automotive components for years, we are relatively optimistic about the prospect of this business segment.

The hydraulic equipment market remains weak and is yet to be fully recovered. Therefore, the Group remains cautious about the short-term prospect of this business. Although the market of capital goods has been sluggish over recent years, which caused a downturn in the market of hydraulic equipment, the Group believes there is still a huge room for the development of hydraulic equipment components. Moreover, taking into account the balance and multi-faceted development of businesses, the Group will continue to invest resources in expanding this business development.

In relation to the HDD components business, although HDD is still the cheapest and the most stable storage device, we believe the market will be dominated by SSD in the future and it will be difficult to record the same sales volume as what we did at the early stage. Therefore, we are cautious about the business prospect of HDD components. The Group will arrange a long-term resources allocation in order to avoid a decline in overall profitability due to recession in the HDD components business in the future.

In addition to the fundamental business development as mentioned above, we will continue to allocate resources to the robot business. We will initially make use of such robots in our production in order to solve problems such as rising labor costs and shortage of labor by enhancing production automation, and will not rule out the possibility of external sales of such robots upon future development. Furthermore, in the second half of the year, the Group will strengthen its cooperation with educational institutions in Mainland China for research and development projects so as to pursue higher production efficiency and better product quality. In the long run, we also hope that the Group can maintain high profitability.

## **SUPPLEMENTARY INFORMATION**

### **Purchase, Redemption or Sale of Listed Securities of the Company**

During the six months ended 30 June 2017, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's shares on the Stock Exchange (2016: Nil).

### **Interim Dividend**

The Board recommends the payment of an interim dividend of HK\$0.022 per share for the six months ended 30 June 2017 (2016: HK\$0.020). The interim dividend will be paid in cash on Friday, 8 September 2017 to the shareholders whose names appear on the Register of Members of the Company as at the close of business on Wednesday, 30 August 2017.

### **Closure of Register of Members**

The Register of Members of the Company will be closed from Tuesday, 29 August 2017 to Wednesday, 30 August 2017 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the interim dividend for the six months ended 30 June 2017, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 28 August 2017.

## 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 Corporate Governance Code contained in Appendix 14 to the Listing Rules (the “CG Code”) during the period under review except that there was no separation of the roles of Chairman and Chief Executive Officer as specified in the code provision A.2.1 of the CG Code during the period from 1 January 2017 to 1 June 2017. During the said period, Mr. Chui Siu On has acted as the Chairman and the Chief Executive Officer of the Company. The Board considered that such arrangement provided the Group with strong and consistent leadership and allowed for more effective and efficient business planning and decisions. To achieve clear division of responsibilities between the management of board and the day-to-day management of business, Mr. Zeng Guangsheng has been appointed as the Chairman of the Company on 2 June 2017.

## Audit Committee

The Audit Committee of the Company, comprising three independent non-executive directors, namely Dr. Cheng Ngok (Chairman of the Audit Committee), Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony, has reviewed with senior management of the Group the accounting principles and practices adopted by the Group and discussed internal control and financial reporting processes including the review of the Company’s interim report for the six months ended 30 June 2017.

## Board of Directors

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

*Executive Directors:*

Mr. Zeng Guangsheng (*Chairman*)  
Mr. Chui Siu On (*Chief Executive Officer*)  
Mr. Lau Siu Chung  
Ms. Chiu Tak Chun  
Mr. Wu Kai Ping

*Non-Executive Director:*

Ms. Zeng Jing

*Independent Non-Executive Directors:*

Dr. Cheng Ngok  
Mr. Yang Rusheng  
Mr. Cheung, Chun Yue Anthony

By order of the Board  
**IPE Group Limited**  
**Zeng Guangsheng**  
*Chairman*

Hong Kong, 14 August 2017