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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 2018

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 2018, together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
REVENUE	4&5	480,540	453,755
Cost of sales		(330,280)	(295,021)
Gross profit		150,260	158,734
Other income and gains	5	6,760	3,481
Selling and distribution expenses		(13,966)	(11,527)
Administrative expenses		(69,588)	(54,698)
Other expenses		(12,795)	(12,296)
Finance costs	6	(8,657)	(6,900)
Share of loss from an associate		(659)	–
PROFIT BEFORE TAX	7	51,355	76,794
Income tax expense	8	(6,072)	(8,952)
PROFIT FOR THE PERIOD		45,283	67,842
Attributable to:			
Owners of the Company		45,618	68,014
Non-controlling interests		(335)	(172)
		45,283	67,842
EARNINGS PER SHARE	9		
Basic		HK4.3 cents	HK6.5 cents
Diluted		N/A	N/A
INTERIM DIVIDEND PER SHARE	10	HK0.9 cent	HK2.2 cents

* For identification purposes only

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	45,283	67,842
Other comprehensive (loss)/income:		
Exchange differences on translation of foreign operations	<u>(22,799)</u>	<u>60,887</u>
Total comprehensive income for the period	<u>22,484</u>	<u>128,729</u>
Attributable to:		
Owners of the Company	22,784	128,820
Non-controlling interests	<u>(300)</u>	<u>(91)</u>
	<u>22,484</u>	<u>128,729</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2018 (Unaudited) <i>HK\$'000</i>	At 31 December 2017 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	798,524	775,257
Prepaid land lease payments		80,938	83,101
Investment in an associate		2,173	2,844
Deposits for purchase of non-current assets		10,954	16,414
Deferred tax assets		5,387	5,427
		<hr/>	<hr/>
Total non-current assets		897,976	883,043
CURRENT ASSETS			
Inventories	<i>12</i>	264,928	227,809
Trade receivables	<i>13</i>	281,227	266,630
Prepayments, deposits and other receivables		43,776	40,106
Cash and cash equivalents		843,995	913,434
		<hr/>	<hr/>
Total current assets		1,433,926	1,447,979
CURRENT LIABILITIES			
Trade and bills payables	<i>14</i>	73,049	60,672
Other payables and accruals		46,098	46,944
Tax payable		3,397	6,232
Interest-bearing bank and other borrowings		479,338	325,129
		<hr/>	<hr/>
Total current liabilities		601,882	438,977
NET CURRENT ASSETS		<hr/> 832,044 <hr/>	<hr/> 1,009,002 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 1,730,020 <hr/>	<hr/> 1,892,045 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

	At 30 June 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	–	179,375
Deferred tax liabilities	10,061	10,101
Other payables and accruals	1,276	1,294
	<hr/>	<hr/>
Total non-current liabilities	11,337	190,770
	<hr/>	<hr/>
Net assets	1,718,683	1,701,275
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	105,225	105,225
Reserves	1,612,364	1,594,656
	<hr/>	<hr/>
	1,717,589	1,699,881
	<hr/>	<hr/>
Non-controlling interests	1,094	1,394
	<hr/>	<hr/>
Total equity	1,718,683	1,701,275
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash flows from operating activities	<u>70,422</u>	<u>58,578</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(84,626)	(41,793)
Proceeds from disposal of items of property, plant and equipment	602	3,856
Investment in an unlisted equity investment	–	(9,779)
Net cash flows used in investing activities	<u>(84,024)</u>	<u>(47,716)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans and other borrowings	210,665	268,599
Repayment of bank loans and other borrowings	(236,602)	(179,825)
Dividends paid to the shareholders of the Company	(16,836)	(26,306)
Net cash flows (used in)/from financing activities	<u>(42,773)</u>	<u>62,468</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(56,375)	73,330
Cash and cash equivalents at beginning of period	913,434	961,592
Effect of foreign exchange rate changes, net	<u>(13,064)</u>	<u>34,178</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>843,995</u>	<u>1,069,100</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	689,399	830,175
Non-pledged time deposits with original maturity of less than three months when acquired	<u>154,596</u>	<u>238,925</u>
Cash and cash equivalents as stated in the consolidated statement of financial position	<u>843,995</u>	<u>1,069,100</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)	Attributable to owners of the Company												
	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Statutory				Share options reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
				Statutory surplus reserve <i>HK\$'000</i>	public welfare fund <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>						
At 1 January 2018	105,225	489,197	(1,116)	45,718	287	7,905	13,720	177,874	861,071	1,699,881	1,394	1,701,275	
Profit for the period	-	-	-	92	-	-	-	-	45,526	45,618	(335)	45,283	
Other comprehensive expenses for the period:													
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(22,834)	-	(22,834)	35	(22,799)	
Total comprehensive income for the period	-	-	-	92	-	-	-	(22,834)	45,526	22,784	(300)	22,484	
Equity-settled share option	-	-	-	-	-	-	11,760	-	-	11,760	-	11,760	
Final 2017 dividend declared	-	-	-	-	-	-	-	-	(16,836)	(16,836)	-	(16,836)	
At 30 June 2018	<u>105,225</u>	<u>489,197*</u>	<u>(1,116)*</u>	<u>45,810*</u>	<u>287*</u>	<u>7,905*</u>	<u>25,480*</u>	<u>155,040*</u>	<u>889,761*</u>	<u>1,717,589</u>	<u>1,094</u>	<u>1,718,683</u>	
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 income 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>	

* *These reserve accounts comprise the consolidated reserves of HK\$1,612,364,000 (30 June 2017: HK\$1,487,969,000) in the condensed consolidated statement of financial position.*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2018

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 automotive parts, hydraulic equipment components, hard disk drives (“HDD”) 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 2017.

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 2018.

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 2018 (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	
Segment revenue:							
Sales to external customers	30,357	53,314	149,271	122,352	108,875	16,371	480,540
Inter-segment sales	8,043	-	-	-	-	-	8,043
Other revenue	69	-	4,118	-	-	-	4,187
	<u>38,469</u>	<u>53,314</u>	<u>153,389</u>	<u>122,352</u>	<u>108,875</u>	<u>16,371</u>	<u>492,770</u>
Reconciliation:							
Elimination at inter-segment sales							<u>(8,043)</u>
Revenue							<u>484,727</u>
Segment results	6,449	6,138	16,526	14,411	13,014	1,943	58,481
Reconciliation:							
Elimination at inter-segment results							<u>(1,042)</u>
Interest income							<u>2,573</u>
Finance costs							<u>(8,657)</u>
Profit before tax							<u>51,355</u>
Income tax expense							<u>(6,072)</u>
Profit for the period							<u><u>45,283</u></u>

4. OPERATING SEGMENT INFORMATION (Continued)

	Six months ended 30 June 2017 (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	
Segment revenue:							
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>
Segment results	7,416	11,043	18,657	24,314	17,712	2,802	81,944
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>

5. REVENUE AND OTHER INCOME AND GAINS

Revenue, 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	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Revenue		
Sale of goods and materials	<u>480,540</u>	<u>453,755</u>
Other income		
Bank interest income	2,573	1,793
Reversal of impairment of trade receivable	–	415
Others	<u>807</u>	<u>1,273</u>
	3,380	3,481
Gains		
Foreign exchange differences, net	<u>3,380</u>	<u>–</u>
	6,760	3,481

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	7,715	5,958
Financial arrangement fees	<u>942</u>	<u>942</u>
	8,657	6,900

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Cost of inventories sold	330,280	295,021
Depreciation	63,271	54,882
Amortization of land lease payments	1,120	1,032
Equity-settled share option expenses	11,760	2,026
Auditors' remuneration	1,448	1,510
Foreign exchange differences, net	(3,380)	7,477
Loss on disposal of items of property, plant and equipment	903	497
Provision against inventory obsolescence	4,404	–
Impairment of trade receivables	3	–
	<u>330,280</u>	<u>295,021</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 2017) 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	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Current	6,132	8,692
Deferred	(60)	260
	<u>6,132</u>	<u>8,952</u>
Total tax charge for the period	<u>6,072</u>	<u>8,952</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 2018 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:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit attributable to owners of the Company used in the basic earnings per share calculation	<u>45,618</u>	<u>68,014</u>
	Number of shares (in thousands)	
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,052,254	1,052,254
Effect of dilution — weighted average number of ordinary shares: Share options	<u>—</u>	<u>—</u>
	<u>1,052,254</u>	<u>1,052,254</u>

10. INTERIM DIVIDEND

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend — HK0.9 cent per ordinary share (2017: HK2.2 cents)	<u>9,470</u>	<u>23,150</u>

At the Board meeting held on 27 August 2018, the Board declared an interim dividend of HK0.9 cent per ordinary share (2017: HK2.2 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 2018	678,647	16,366	1,556,868	80,260	23,049	43,567	2,398,757
Additions	70,661	712	16,317	1,921	167	6,836	96,614
Disposals	–	–	–	(221)	(2,098)	–	(2,319)
Exchange realignment	(8,826)	(218)	(19,529)	(1,104)	(208)	(837)	(30,722)
At 30 June 2018	<u>740,482</u>	<u>16,860</u>	<u>1,553,656</u>	<u>80,856</u>	<u>20,910</u>	<u>49,566</u>	<u>2,462,330</u>
Accumulated depreciation:							
At 1 January 2018	(265,659)	(8,549)	(1,271,248)	(61,760)	(16,284)	–	(1,623,500)
Depreciation provided during the period	(19,228)	(1,445)	(38,330)	(3,414)	(854)	–	(63,271)
Disposals – accumulated depreciation	–	–	–	215	599	–	814
Exchange realignment	4,177	144	16,726	925	179	–	22,151
At 30 June 2018	<u>(280,710)</u>	<u>(9,850)</u>	<u>(1,292,852)</u>	<u>(64,034)</u>	<u>(16,360)</u>	<u>–</u>	<u>(1,663,806)</u>
At 30 June 2018							
Cost	740,482	16,860	1,553,656	80,856	20,910	49,566	2,462,330
Accumulated depreciation	<u>(280,710)</u>	<u>(9,850)</u>	<u>(1,292,852)</u>	<u>(64,034)</u>	<u>(16,360)</u>	<u>–</u>	<u>(1,663,806)</u>
Net carrying amount	<u><u>459,772</u></u>	<u><u>7,010</u></u>	<u><u>260,804</u></u>	<u><u>16,822</u></u>	<u><u>4,550</u></u>	<u><u>49,566</u></u>	<u><u>798,524</u></u>
At 31 December 2017							
Cost	678,647	16,366	1,556,868	80,260	23,049	43,567	2,398,757
Accumulated depreciation	<u>(265,659)</u>	<u>(8,549)</u>	<u>(1,271,248)</u>	<u>(61,760)</u>	<u>(16,284)</u>	<u>–</u>	<u>(1,623,500)</u>
Net carrying amount	<u><u>412,988</u></u>	<u><u>7,817</u></u>	<u><u>285,620</u></u>	<u><u>18,500</u></u>	<u><u>6,765</u></u>	<u><u>43,567</u></u>	<u><u>775,257</u></u>

12. INVENTORIES

	At 30 June 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
Raw materials	74,497	82,287
Consumables	46,906	45,383
Work in progress	83,292	65,805
Finished goods	118,000	87,697
	<u>322,695</u>	<u>281,172</u>
Less: Provision against inventory obsolescence	(57,767)	(53,363)
	<u><u>264,928</u></u>	<u><u>227,809</u></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 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
Within 1 month	84,530	100,814
1 to 2 months	81,936	74,986
2 to 3 months	54,117	43,938
3 to 4 months	48,157	32,455
4 to 12 months	12,487	14,437
Over 1 year	6,384	6,461
	<u>287,611</u>	<u>273,091</u>
Less: impairment	(6,384)	(6,461)
	<u><u>281,227</u></u>	<u><u>266,630</u></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 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
Within 1 month	28,533	25,814
1 to 2 months	26,513	24,414
2 to 3 months	17,028	9,619
Over 3 months	975	825
	<hr/> 73,049 <hr/>	<hr/> 60,672 <hr/>

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

Driven by the growth of automotive components and hydraulic equipment components, the Group's revenue in the first half of 2018 increased by 5.9% to HK\$480,540,000 (as of the first half of 2017: HK\$453,755,000).

However, the Group's production lines are mainly located in China while the exchange rate of Renminbi stayed at a high position at the beginning of this year, lead to a rise in the Group's production cost. Consequently, the Group's unaudited net profit for the six months ended 30 June 2018 was HK\$45,283,000 as compared to that of HK\$67,842,000 for the same period in 2017, representing a drop of 33.3%.

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

	1H 2018		1H 2017		% CHANGE
	HK\$'000	%	HK\$'000	%	
Automotive components	239,735	49.9	203,196	44.8	+18.0
Hydraulic equipment components	130,523	27.2	127,285	28.0	+2.5
HDD components	83,409	17.4	94,897	20.9	-12.1
Others	26,873	5.5	28,377	6.3	-5.3
	<u>480,540</u>	100.0	<u>453,755</u>	100.0	+5.9

Sales of automotive components, the principle business of the Group, accounted for 49.9% of the overall sales as compared to 44.8% for the first half of last year. The Group recorded sales of HK\$239,735,000 in the first half of 2018, an increase of 18.0% over the sales of HK\$203,196,000 in the first half of 2017.

Driven by the recovery of the overall hydraulic equipment market, sales of hydraulic equipment components achieved a sales volume of HK\$130,523,000 in the first half of 2018, an increase of HK\$3,238,000 or 2.5% from the sales of HK\$127,285,000 in the first half of last year.

In respect of the HDD components business, during the first half of this year, sales of our HDD components amounted to HK\$83,409,000 with a decline of HK\$11,488,000 or 12.1% as compared with sales in the first half of 2017.

For the six months ended 30 June 2018, sales of other precision components amounted to HK\$26,873,000, a decrease of HK\$1,504,000 or 5.3% as compared with sales in the same period of 2017.

FINANCIAL REVIEW

The Group mainly provides high precision components to the top-tier multi-national customers. Therefore, the sales business is export-oriented and the income is settled in US dollars. However, the Group's production base is concentrated in China. In light of a rising momentum of Renminbi, the cost incurred in China increased upon settlement. In addition, for the purpose of stable production capacity, the salary of employees is adjusted, thus affecting the profit of the Group. The gross profit as of 30 June 2018 was HK\$150,260,000 and the gross profit margin was 31.3%, compared with the gross profit of HK\$158,734,000 for the same period in 2017, while the gross profit margin was 35.0%, a drop of 3.7 percentage points.

In addition, selling and distribution expenses amounted to HK\$13,966,000 in the first half of 2018, accounting for 2.9% of the Group's turnover, representing an increase of HK\$2,439,000 compared to the same period in 2017. The increase was mainly due to the increase in sales revenue. Besides, adjustments on salary and increments of headcounts also led to an increase in such expenses.

For the first half of 2018, the Group's administrative expenses amounted to HK\$69,588,000, representing an increase of HK\$14,890,000 over the same period in 2017. The increase was mainly due to an increase in share option expenses of HK\$9,734,000 and the increase in salaries and allowances of HK\$5,641,000.

The finance costs of the first half of 2018 was HK\$8,657,000 as compared to that of HK\$6,900,000 for the same period in 2017, representing an increase of HK\$1,757,000. Although the bank loan balance decreased from HK\$504,504,000 as at 31 December 2017 to HK\$479,338,000 as at 30 June 2018, overall finance costs increased as the cost of borrowings rose in a faster pace.

For the six months ended 30 June 2018, the Group's unaudited net profit amounted to HK\$45,283,000, representing a decrease of HK\$22,559,000 or 33.3% when compared with the unaudited net profit of HK\$67,842,000 for the same period in 2017.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2018, the Group had total borrowings of HK\$479,338,000 (31 December 2017: HK\$504,504,000) secured by corporate guarantee made by the Company. The Group had no charges on any of its assets for its banking facilities as at 30 June 2018 (31 December 2017: 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 2018, cash per share was HK\$0.80 (31 December 2017: HK\$0.87) and net asset value per share was HK\$1.63 (31 December 2017: HK\$1.62), based on the 1,052,254,135 ordinary shares in issue (31 December 2017: 1,052,254,135 ordinary shares). During the period under review, the Group recorded a net cash inflow from operating activities of HK\$70,422,000 (2017: HK\$58,578,000). With the purchase of property, plant and equipment of HK\$84,626,000, the Group recorded a net cash outflow in investing activities of HK\$84,024,000 (2017: net cash outflow of HK\$47,716,000).

The total bank borrowings as at 30 June 2018 decreased to HK\$479,338,000 (31 December 2017: HK\$504,504,000). The Group is in a net cash position (cash and bank balances less total bank borrowings) of HK\$364,657,000 as at 30 June 2018 (31 December 2017: HK\$408,930,000).

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, 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 2018, the Group had 2,565 employees, a slight increase of 236 employees when compared to 2,329 employees as at 31 December 2017.

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

The Group expects that its automotive components business will remain the major contributor in its sales volume, and the Group will actively explore quality high-ended customers to stick to its long-term development plans. In recent years, the automotive components business experienced a growth in its purchase orders. Although the Group has invested more resources in the automotive components business, the Group still attaches great importance to the hydraulic equipment components business in order to achieve a balanced development of our business. With the development of the hydraulic equipment components business in the past years, the Group still achieved stable sales under the fierce market competition. Moreover, in light of a recovery trend of the market, it is expected that the hydraulic equipment components business will develop in a steady manner.

In the recent Sino-US trade war, since the Company's automotive components and hydraulic equipment components are mainly produced in China while the major customers are top-tier multi-national companies and the products are sold to Europe and the United States, under the impact of a tariff imposed by the United States, purchase orders for our business are inevitably subject to a certain extent of fluctuations. However, so far only few products of the Company's automotive components and hydraulic equipment components fall into the categories involving tariffs. The Group has been recognized as a quality supplier by our customers in the past. At this stage, the customers also expressed their willingness to discuss with the Group about how to share the tariffs in the future, seek solutions and reduce the impact of tariffs.

Recently, many officials and experts anticipated that the Sino-US trade war is unlikely to end in the foreseeable future. Therefore, the Group is cautious about such trade war while identifying other feasible ways to mitigate its impacts.

Although the sales of HDD components decreased in the first half of 2018 as compared to the same period in 2017, purchase orders in the second half of 2018 were still able to maintain the current level and the HDD components business was not under the direct impact of the Sino-US trade war. Therefore, no sharp reduction in sales volume is expected in the short term. The Group also continued to carry out resource reallocation for production to minimize the impact of dropping sales of HDD components.

Finally, as catering to the needs of the Group's production is still the primary goal of developing the robot business, the Group carried out automation and optimization of its production process to strengthen its production capacity. Once the suitable opportunity emerges, external sales will be made after consolidating the foundation of such business, with a hope to diversify the Group's business portfolio.

SUPPLEMENTARY INFORMATION

Purchase, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2018, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's shares on the Stock Exchange (2017: Nil).

Interim Dividend

The Board recommends the payment of an interim dividend of HK\$0.009 per share for the six months ended 30 June 2018 (2017: HK\$0.022). The interim dividend will be paid in cash on Friday, 21 September 2018 to the shareholders whose names appear on the Register of Members of the Company as at the close of business on Wednesday, 12 September 2018.

Closure of Register of Members

The Register of Members of the Company will be closed from Tuesday, 11 September 2018 to Wednesday, 12 September 2018 (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 2018, 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, 10 September 2018.

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.

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 risk management, internal control and financial reporting processes including the review of the Company's interim report for the six months ended 30 June 2018.

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. Ng Hoi 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, 27 August 2018