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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)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018**

#### **FINANCIAL HIGHLIGHTS**

1. Revenue for the year increased by 0.2% to HK\$943.5 million (2017: HK\$941.4 million).
2. Gross profit margin for the year decreased to 30.8% (2017: 34.4%).
3. Profit for the year decreased by 26.4% to HK\$84.5 million (2017: HK\$114.7 million).
4. Basic earnings per share for the year was HK8.11 cents (2017: HK10.91 cents).
5. Net asset value per share as at 31 December 2018 was HK\$1.61 (2017: HK\$1.62).
6. The Group was in a net cash position (i.e. cash and bank balances less total bank borrowings) as at 31 December 2018 in the amount of HK\$403.4 million or equivalent to HK38.34 cents per share (2017: HK\$408.9 million or HK38.86 cents per share).
7. The Board of Directors does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: HK1.6 cents per share).

\* For identification purposes only

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”) for the year ended 31 December 2018, together with the comparative results for the previous year:

**Consolidated Statement of Profit or Loss**  
for the year ended 31 December 2018

	<i>Notes</i>	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
REVENUE	3	<b>943,476</b>	941,438
Cost of sales		<u>(652,687)</u>	<u>(618,010)</u>
Gross profit		<b>290,789</b>	323,428
Other income	4	<b>8,557</b>	7,017
Distribution expenses		<b>(26,535)</b>	(23,778)
Administrative expenses and other expenses		<b>(152,887)</b>	(160,639)
PROFIT FROM OPERATIONS		<u><b>119,924</b></u>	<u>146,028</u>
Finance costs	5(a)	<b>(18,471)</b>	(15,972)
Share of loss of an associate		<u><b>(1,271)</b></u>	<u>(17)</u>
PROFIT BEFORE TAX	5	<b>100,182</b>	130,039
Income tax	6	<u><b>(15,720)</b></u>	<u>(15,327)</u>
PROFIT FOR THE YEAR		<u><b>84,462</b></u>	<u>114,712</u>
Attributable to:			
Equity shareholders of the Company		<b>85,328</b>	114,808
Non-controlling interests		<u><b>(866)</b></u>	<u>(96)</u>
		<u><b>84,462</b></u>	<u>114,712</u>
EARNINGS PER SHARE	8		
Basic		<u><b>HK8.11 cents</b></u>	<u>HK10.91 cents</u>
Diluted		<u><b>HK8.11 cents</b></u>	<u>HK10.83 cents</u>

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
*for the year ended 31 December 2018*

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
PROFIT FOR THE YEAR	<u><b>84,462</b></u>	<u>114,712</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Exchange differences on translation of foreign operations	<u><b>(80,959)</b></u>	<u>132,344</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><b>3,503</b></u>	<u>247,056</u>
Attributable to:		
Equity shareholders of the Company	<b>4,325</b>	246,963
Non-controlling interests	<u><b>(822)</b></u>	<u>93</u>
	<u><b>3,503</b></u>	<u>247,056</u>

## Consolidated Statement of Financial Position

		<b>31 December</b>	31 December
		<b>2018</b>	2017
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment and leasehold land	9	<b>737,495</b>	775,257
Lease prepayments		<b>76,848</b>	83,101
Interests in an associate		<b>1,480</b>	2,844
Deposits for purchase of non-current assets		<b>4,269</b>	16,414
Deferred tax assets		<b>8,608</b>	5,427
		<hr/>	<hr/>
Total non-current assets		<b>828,700</b>	883,043
<b>CURRENT ASSETS</b>			
Inventories	10	<b>284,463</b>	227,809
Trade and other receivables	11	<b>301,992</b>	306,736
Cash and cash equivalents		<b>840,181</b>	913,434
		<hr/>	<hr/>
Total current assets		<b>1,426,636</b>	1,447,979
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	<b>110,311</b>	107,616
Bank loans		<b>436,775</b>	325,129
Tax payable		<b>3,784</b>	6,232
		<hr/>	<hr/>
Total current liabilities		<b>550,870</b>	438,977
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		<b>875,766</b>	1,009,002
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,704,466</b>	1,892,045
		<hr/>	<hr/>

**Consolidated Statement of Financial Position (Continued)**

	<b>31 December 2018 HK\$'000</b>	31 December 2017 HK\$'000
<b>NON-CURRENT LIABILITIES</b>		
Bank loans	–	179,375
Other payables	<b>1,299</b>	1,294
Deferred tax liabilities	<b>10,302</b>	10,101
	<hr/>	<hr/>
Total non-current liabilities	<b>11,601</b>	190,770
	<hr/>	<hr/>
Net assets	<b>1,692,865</b>	1,701,275
	<hr/> <hr/>	<hr/> <hr/>
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>105,225</b>	105,225
Reserves	<b>1,588,355</b>	1,594,656
	<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company	<b>1,693,580</b>	1,699,881
	<hr/>	<hr/>
Non-controlling interests	<b>(715)</b>	1,394
	<hr/>	<hr/>
Total equity	<b>1,692,865</b>	1,701,275
	<hr/> <hr/>	<hr/> <hr/>

## 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 of the 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 place of business is located at Unit 5–6, 23/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Hong Kong.

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

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual 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 requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange.

#### (b) Changes in accounting policies and disclosures

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- (i) HKFRS 9, *Financial instruments*
- (ii) HKFRS 15, *Revenue from contracts with customers*
- (iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements.

### 3. REVENUE AND OPERATING SEGMENT INFORMATION

#### (a) Revenue

The principal activities of the Group are the manufacturing and sale of precision components products. Further details regarding the Group's principal activities are disclosed in note 3(b).

##### (i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Sales of automotive components	<b>465,070</b>	438,009
Sales of hydraulic equipment components	<b>263,476</b>	255,326
Sales of HDD components	<b>165,964</b>	179,018
Others	<b>48,966</b>	69,085
	<hr/>	<hr/>
Total	<b>943,476</b>	941,438
	<hr/> <hr/>	<hr/> <hr/>

The Group's customer base is diversified and does not include any individual customer (2017: Nil) with whom transactions have exceeded 10% of the Group's revenue.

- (ii) As at 31 December 2018, there were no revenue expected to be recognised in the future arising from contracts with customers in existence.

#### (b) Segment reporting

The Group manages its businesses by divisions, which are organised by the geographical locations of the customers. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following six reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

(i) *Segment results*

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment sales of products, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is gross profit. The Group's senior executive management is provided with segment information concerning segment revenue and gross profit.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	2018						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>Revenue from external customers recognised by point in time</b>	57,889	108,335	293,750	235,070	218,725	29,707	943,476
Inter-segment revenue	15,430	–	–	–	–	–	15,430
<b>Reportable segment revenue</b>	<b>73,319</b>	<b>108,335</b>	<b>293,750</b>	<b>235,070</b>	<b>218,725</b>	<b>29,707</b>	<b>958,906</b>
<b>Reportable segment profit</b>							
Gross profit	<u>17,842</u>	<u>33,390</u>	<u>90,537</u>	<u>72,451</u>	<u>67,413</u>	<u>9,156</u>	<u>290,789</u>
	2017						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>Revenue from external customers recognised by point in time</b>	58,161	120,328	259,332	275,548	194,785	33,284	941,438
Inter-segment revenue	7,999	–	–	–	–	–	7,999
<b>Reportable segment revenue</b>	<b>66,160</b>	<b>120,328</b>	<b>259,332</b>	<b>275,548</b>	<b>194,785</b>	<b>33,284</b>	<b>949,437</b>
<b>Reportable segment profit</b>							
Gross profit	<u>20,007</u>	<u>41,226</u>	<u>88,951</u>	<u>94,789</u>	<u>67,006</u>	<u>11,449</u>	<u>323,428</u>



#### 4. OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest income	6,601	4,383
Rental income	77	358
Others	1,879	2,276
	<u>8,557</u>	<u>7,017</u>

#### 5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>(a) Finance costs</b>		
Interest on bank loans	16,587	14,088
Financial arrangement fees	1,884	1,884
	<u>18,471</u>	<u>15,972</u>
<b>(b) Staff costs</b>		
Contributions to defined contribution retirement plan	12,263	10,584
Equity-settled share-based payment expenses	15,680	13,720
Salaries, wages and other benefits	241,177	184,232
	<u>269,120</u>	<u>208,536</u>
<b>(c) Other items</b>		
Cost of inventories	646,391	612,146
Depreciation	121,321	112,792
Amortisation of lease prepayments	2,158	2,100
Operating lease charges	1,508	1,472
Net foreign exchange (gain)/loss	(9,592)	20,074
Research and development costs	22,942	12,515
Auditor's remuneration		
— audit services	1,800	2,400
— other services	699	901
Loss on disposal of items of property, plant and equipment	714	570
Impairment losses/(written back) on:		
— investment in associate	—	7,330
— trade receivables	556	7
— other receivable	(1,046)	—
	<u>(1,046)</u>	<u>—</u>

## 6. INCOME TAX

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Current tax</b>		
Provision for current income tax	<b>19,502</b>	13,496
(Over)/under-provision in prior years	<b>(443)</b>	2,991
	<u><b>19,059</b></u>	<u>16,487</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>(3,339)</b>	(1,160)
	<u><b>15,720</b></u>	<u>15,327</u>

## 7. DIVIDENDS

	<b>Year ended 31 December</b>	
	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interim dividend — HK0.9 cent (2017: HK2.2 cents) per ordinary share	<b>9,470</b>	23,150
Proposed final dividend — Nil (2017: HK1.6 cents) per ordinary share	<b>–</b>	16,836
	<u><b>9,470</b></u>	<u>39,986</u>

The Board of Directors does not recommend the payment of final dividend for the year ended 31 December 2018.

## 8. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$85,328,000 (2017: HK\$114,808,000) and the weighted average of 1,052,254,135 ordinary shares (2017: 1,052,254,135 ordinary shares) in issue during the year.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$85,328,000 (2017: HK\$114,808,000) and the weighted average number of ordinary shares of 1,052,254,135 shares (2017: 1,060,209,466 shares), calculated as follows:

*Weighted average number of ordinary shares (diluted)*

	<b>2018</b>	2017
Weighted average number of ordinary shares at 31 December	<b>1,052,254,135</b>	1,052,254,135
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<b>–</b>	7,955,331
Weighted average number of ordinary shares (diluted) at 31 December	<u><b>1,052,254,135</b></u>	<u>1,060,209,466</u>

## 9. PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

	Land and buildings HK\$'000	Leasehold improvements 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 2017	617,138	13,778	1,317,386	69,519	19,522	24,746	2,062,089
Additions	3,810	1,456	122,470	3,963	3,819	42,591	178,109
Transfer from construction in progress	7,428	134	8,980	2,676	794	(20,012)	-
Disposals	-	-	(5,162)	(1,592)	(2,265)	(6,330)	(15,349)
Exchange adjustment	50,271	998	113,194	5,694	1,179	2,572	173,908
At 31 December 2017	<u>678,647</u>	<u>16,366</u>	<u>1,556,868</u>	<u>80,260</u>	<u>23,049</u>	<u>43,567</u>	<u>2,398,757</u>
At 1 January 2018	678,647	16,366	1,556,868	80,260	23,049	43,567	2,398,757
Additions	70,768	686	33,021	5,451	1,739	9,469	121,134
Transfer from construction in progress	-	2,828	1,120	-	-	(5,161)	(1,213)
Disposals	-	-	(2,964)	(1,049)	(5,408)	-	(9,421)
Exchange adjustment	(30,436)	(758)	(68,187)	(3,865)	(791)	(2,364)	(106,401)
At 31 December 2018	<u>718,979</u>	<u>19,122</u>	<u>1,519,858</u>	<u>80,797</u>	<u>18,589</u>	<u>45,511</u>	<u>2,402,856</u>
Accumulated depreciation:							
At 1 January 2017	(211,422)	(5,800)	(1,114,121)	(53,034)	(15,617)	-	(1,399,994)
Charge for the year	(35,536)	(2,349)	(67,424)	(5,907)	(1,576)	-	(112,792)
Written back on disposals	-	-	4,491	1,560	1,936	-	7,987
Exchange adjustment	(18,701)	(400)	(94,194)	(4,379)	(1,027)	-	(118,701)
At 31 December 2017	<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>
At 1 January 2018	(265,659)	(8,549)	(1,271,248)	(61,760)	(16,284)	-	(1,623,500)
Charge for the year	(37,240)	(2,849)	(73,007)	(6,713)	(1,512)	-	(121,321)
Written back on disposals	-	-	2,950	1,026	2,954	-	6,930
Exchange adjustment	12,574	449	55,861	3,028	618	-	72,530
At 31 December 2018	<u>(290,325)</u>	<u>(10,949)</u>	<u>(1,285,444)</u>	<u>(64,419)</u>	<u>(14,224)</u>	<u>-</u>	<u>(1,665,361)</u>
Net book value:							
At 31 December 2018	<u>428,654</u>	<u>8,173</u>	<u>234,414</u>	<u>16,378</u>	<u>4,365</u>	<u>45,511</u>	<u>737,495</u>
At 31 December 2017	<u>412,988</u>	<u>7,817</u>	<u>285,620</u>	<u>18,500</u>	<u>6,765</u>	<u>43,567</u>	<u>775,257</u>

The freehold land amounting to THB19,201,000 (equivalent to HK\$4,633,000) included in land and buildings is situated in Thailand (2017: THB19,201,000 (equivalent to HK\$4,613,000)).

As at 31 December 2018, the Group is in the process of applying for the title certificates of certain properties with carrying value of approximately HK\$28,745,000 as at 31 December 2018 (2017: HK\$33,001,000). The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

## 10. INVENTORIES

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Raw materials	<b>65,303</b>	74,962
Consumables	<b>26,630</b>	36,026
Work in progress	<b>70,913</b>	64,812
Finished goods	<b>121,617</b>	52,009
	<u><b>284,463</b></u>	<u>227,809</u>

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Carrying amount of inventories sold	<b>652,687</b>	618,010
Write down of inventories	<b>(6,296)</b>	(5,864)
Cost of inventories	<u><b>646,391</b></u>	<u>612,146</u>

## 11. TRADE AND OTHER RECEIVABLES

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade debtors and bills receivable, net of loss allowance	<b>264,658</b>	266,630
Other debtors	<b>29,961</b>	26,927
Financial assets measured at amortised cost	<b>294,619</b>	293,557
Deposits and prepayments	<b>7,373</b>	13,179
	<u><b>301,992</b></u>	<u>306,736</u>

## Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors (which are included in trade debtors and bills receivables), based on the invoice date and net of loss allowance, is as follows:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 1 month	<b>91,388</b>	100,814
1 to 2 months	<b>70,772</b>	74,986
2 to 3 months	<b>51,135</b>	43,938
3 to 4 months	<b>33,854</b>	32,455
4 to 12 months	<b>17,509</b>	14,437
	<u><b>264,658</b></u>	<u>266,630</u>

Trade debtors are due within 60 to 120 days from the date of billing.

## 12. TRADE AND OTHER PAYABLES

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables	<b>60,759</b>	60,672
Other payables	<b>26,623</b>	23,808
Accruals	<b>24,228</b>	24,430
	<u><b>111,610</b></u>	<u>108,910</u>
Portion classified as non-current:		
Other payables	<b>(1,299)</b>	(1,294)
	<u><b>110,311</b></u>	<u>107,616</u>

As of the end of the reporting period, the ageing analysis of trade payables based on the invoice date, is as follows:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 1 month	<b>26,241</b>	25,814
1 to 2 months	<b>22,087</b>	24,414
2 to 3 months	<b>9,737</b>	9,619
Over 3 months	<b>2,694</b>	825
	<u><b>60,759</b></u>	<u>60,672</u>

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group prides itself on producing high-quality products for our customers as a cutting edge metal working solutions provider. The Group has won recognition and awards from internationally renowned customers and has become an indispensable partner in their supply chain.

Since the outbreak of the US-China trade conflicts in the third quarter of 2018, the conflicts between the two major economies have left a pessimistic outlook on global economy. In addition, as the Group's production bases were mainly located in China, our customers had to pay the temporary tariffs imposed on exports of our products to the US as a result of the US-China trade conflicts. Amid such operating environment, the Group achieved sales of HK\$943,476,000 in 2018, representing a slight increase of 0.2% as compared to that of HK\$941,438,000 in 2017.

In 2018, the automotive components business achieved a growth of 6.2% as compared to 2017 due to the implementation of customer diversification strategy and shifting its sales focus to China to mitigate the impacts from the US-China trade conflicts. The sales to North America accounted for 29.3% of the Company's total sales in 2017 and 24.9% in 2018. Meanwhile, the sales to China accounted for 27.5% of the Company's total sales in 2017 and 31.1% in 2018, representing a growth of 3.6%. Due to the effective implementation of such strategies, there has been no significant decline in sales. The Group's sales of automotive components amounted to HK\$465,070,000 in 2018, representing an increase of HK\$27,061,000 as compared to that of HK\$438,009,000 last year. Furthermore, in 2018, the Group was successfully admitted to the recognised supplier lists of well-known domestic automotive manufacturers and expanded into automotive manufacturer market in China.

Due to the downturn in the overall automotive market in the second half of the year, the Group immediately strengthened its efforts in securing sales orders for hydraulic equipment components and deployed existing production lines to satisfy such demand to mitigate decline in sales. As a result, the sales of hydraulic equipment components for the whole year achieved an increase of 3.2%, so as to ease the pressure on decreasing sales of HDD components. Therefore, the sales of hydraulic equipment components of HK\$263,476,000 in 2018 was recorded, representing an increase of HK\$8,150,000 as compared to that of HK\$255,326,000 in 2017.

In 2018, the Group's sales of HDD components business amounted to HK\$165,964,000, representing a decrease of approximately 7.3% as compared to that of HK\$179,018,000 in 2017. At the same time, the Group has gradually deployed its existing production lines for HDD components business to automotive components business so as to avoid wasting production capacity.

The Group face the uncertainties in the global economy caused by the US-China trade conflicts and increase in labour costs, the Group recorded a gross profit margin of 30.8% in 2018, representing a decrease of 3.6% as compared to 34.4% last year.

Due to the interest rate hike on borrowings and the payment to senior staff resigned for their past contribution, the net profit attributable to equity shareholders for the year amounted to HK\$85,328,000, representing a decrease of HK\$29,480,000 or 25.7% as compared to that of HK\$114,808,000 in 2017.

## **OUTLOOK**

The Group's automotive components business accounted for nearly half of its annual sales. In order to develop this business in a steady and healthy manner, the Group took the initiative to fight for more customer orders, obtain a larger share of market and secure larger orders. The Group also focused on developing new customers, especially automotive manufacturers in China. In addition, in response to the gradual development of new energy automotive in the global automotive industry, the Group will focus on the trend of new energy automotive components business and tap into such customers with a view to expand its automotive components business.

In the past few years, the Group put certain self-developed robots into its production lines such as the inspection process and gained considerable progress. The Group will therefore strengthen automation and enhance its existing production efficiency. In particular, the Group has set automated production lines as primary goal for products which have large sales order and required more workers so that the automated production line would reduce the pressure on shortage of workers, enhance our product quality and reduce our production costs. The Group will also continue to enhance its self-developed robots and improve its quality.

The Group devoted more resources in research and development in 2018 and the annual research and development costs amounted to HK\$22,942,000, representing an increase of HK\$10,427,000 or 83.3% as compared to that of HK\$12,515,000 last year. In addition to investing resources internally, the Group also signed a strategic framework cooperation agreement with Huanan Industrial Technology Research Institute of Zhejiang University during the year to integrate the resources, personnel and technologies of both parties, establish strategic cooperation and achieve development collectively. By setting up a collaborative platform for technology transfer, the Group will make good use of the scientific research achievements of the tertiary institution. In 2018, Guangzhou Xin Hao Precision Metal Products Company Limited, a wholly-owned subsidiary of the Group, has been accredited with High and New-Technology Enterprise (國家高新技術企業), recognizing the achievements of the Group in previous technological research and development. In the coming year, the Group will intensify collaboration with well-known institutions in respect of research and development of robots, reducers and valves to achieve breakthroughs. The Group will apply such research and development works to its automation transformation and put more resources to improve its production efficiency.

## **FINANCIAL REVIEW**

The automotive components business maintained its growth for years, making up the decline in the HDD components business. The Group's overall sales amounted to HK\$943,476,000 for the year ended 31 December 2018, representing an increase of HK\$2,038,000 or 0.2% as compared to that of HK\$941,438,000 last year.

The Group's sales by business segments, together with sales in 2017 are shown below for comparison.

	2018		2017		Change
	HK\$'000	%	HK\$'000	%	%
Automotive components	465,070	49.3	438,009	46.5	+6.2
Hydraulic equipment components	263,476	27.9	255,326	27.1	+3.2
HDD components	165,964	17.6	179,018	19.0	-7.3
Others	48,966	5.2	69,085	7.4	-29.1
	<u>943,476</u>	<u>100.0</u>	<u>941,438</u>	<u>100.0</u>	<u>+0.2</u>

For the year ended 31 December 2018, other income of the Group amounted to HK\$8,557,000. In 2018, the Group recorded an increase in bank interest income of HK\$2,218,000 as compared to last year.

In addition, distribution expenses amounted to HK\$26,535,000 in 2018, accounting for 2.8% of the Group's sales, representing an increase of HK\$2,757,000, which was mainly due to the tariffs imposed on certain components sales to customers in the US.

For the year ended 31 December 2018, administrative expenses and other expenses amounted to HK\$152,887,000, representing a decrease of 4.8% or HK\$7,752,000 as compared to last year. The decrease was mainly due to the Group recorded a foreign exchange gain of HK\$9,592,000 as compared to exchange loss of HK\$20,074,000 in 2017. Besides, the absence of expense in this year, namely a provision for impairment loss on investment in an associate of HK\$7,300,000, would further decrease the administrative expenses and other expenses. The impact of decrease in abovementioned expenses have been partially offset by increase in salaries and allowances of HK\$10,405,000, and an increase in resources devoted in research and development of HK\$10,427,000 in 2018.

The finance costs for the year amounted to HK\$18,471,000, mainly due to the increase in interest rate of bank loans, resulting in an increase in interest expenses. The finance costs increased by HK\$2,499,000 as compared to that of HK\$15,972,000 in 2017.

For the year ended 31 December 2018, profit attributable to equity shareholders of the Group amounted to HK\$85,328,000, representing a decrease of 25.7% as compared to HK\$114,808,000 last year.

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

As at 31 December 2018, the Group had total borrowings of HK\$436,775,000 (31 December 2017: HK\$504,504,000) secured by corporate guarantee given by the Company. The Group had no charge on any of its assets for its banking facilities as at 31 December 2018.



## **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 31 December 2018, cash per share was HK\$0.80 (31 December 2017: HK\$0.87) and net asset value per share was HK\$1.61 (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\$180,434,000 (2017: HK\$180,126,000). The Group recorded a net cash outflow in investing activities of HK\$98,544,000 (2017: net cash outflow of HK\$185,836,000).

The total bank borrowings as at 31 December 2018 amounted to HK\$436,775,000 (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\$403,406,000 as at 31 December 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.

## **HUMAN RESOURCES**

As at 31 December 2018, the Group had 2,369 employees, a slight increase of 40 employees or 1.7% 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.

## **SUPPLEMENTARY INFORMATION**

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

During the year ended 31 December 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).

## **Final Dividend**

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: HK1.6 cents per share).

## **Closure of Register of Members**

The register of members of the Company will be closed from Wednesday, 15 May 2019 to Monday, 20 May 2019 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the right to attend and vote at the Company's annual general Meeting to be held on Monday, 20 May 2019, all transfers 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, no later than 4:30 p.m. on Tuesday, 14 May 2019 for registration of transfer.

## **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 Rules Governing the Listing of Securities on the Stock Exchange (the "CG Code") during the year 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. After the resignation of Mr. Chui Siu On as the Chief Executive Officer of the Company with effect from 29 October 2018, Mr. Zeng Guangsheng has assumed the roles of both Chairman of the Board and Chief Executive Officer of the Company. The Board believes that by assuming both roles, Mr. Zeng will be able to provide the Group with strong and consistent leadership, allowing 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 three independent non-executive directors, namely, Mr. Yang Rusheng (Chairman of the Audit Committee), Mr. Cheung, Chun Yue Anthony and Mr. Mei Weiyi, has reviewed with senior management of the Group and external auditors the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting processes including the review of the Company's consolidated financial statements for the year ended 31 December 2018.

## Scope of Work of KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

## Board of Directors

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

*Executive Directors:*

Mr. Zeng Guangsheng (*Chairman and  
Chief Executive Officer*)

Mr. Ng Hoi Ping

*Non-Executive Director:*

Ms. Zeng Jing

*Independent Non-Executive Directors:*

Mr. Yang Rusheng

Mr. Cheung, Chun Yue Anthony

Mr. Mei Weiyi

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

Hong Kong, 25 March 2019