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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 2020

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 2020, together with the comparative figures for the previous corresponding period as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
<b>Revenue</b>	Notes 4&5	338,286	403,831
Cost of sales		(268,257)	(317,088)
<b>Gross profit</b>		70,029	86,743
Other income	5	16,434	8,810
Distribution costs		(9,727)	(7,125)
Administrative expense and other expense		(67,021)	(62,563)
<b>Profit from operations</b>		9,715	25,865
Finance costs	6	(4,387)	(8,032)
Share of losses of an associate		(1,806)	(762)
<b>Profit before taxation</b>	7	3,522	17,071
Income tax	8	(1,336)	(1,347)
<b>Profit for the period</b>		2,186	15,724
<b>Attributable to:</b>			
Equity shareholders of the Company		2,645	15,870
Non-controlling interests		(459)	(146)
<b>Profit for the period</b>		2,186	15,724
<b>Earnings per share</b>	9		
Basic		HK0.3 cents	HK1.5 cents
Diluted		HK0.3 cents	HK1.5 cents
<b>Interim dividend per share</b>		Nil	Nil

\* For identification purposes only

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2020 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>
<b>Profit for the period</b>	<b>2,186</b>	15,724
<b>Other comprehensive income:</b>		
Exchange difference on translation of foreign operation	<u>(61,889)</u>	<u>4,802</u>
<b>Total comprehensive income for the period</b>	<u>(59,703)</u>	<u>20,526</u>
<b>Attributable to:</b>		
Equity shareholders of the Company	(59,241)	20,668
Non-controlling interests	<u>(462)</u>	<u>(142)</u>
<b>Total comprehensive income for the period</b>	<u><b>(59,703)</b></u>	<u><b>20,526</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	At <b>30 June</b> <b>2020</b> <b>(Unaudited)</b> <b>HK\$'000</b>	At 31 December 2019 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>10</i>	<b>605,820</b>	648,445
Interest in an associate		<b>1,215</b>	3,064
Right-of-use assets		<b>73,020</b>	78,052
Deposits for purchase of non-current assets		<b>6,448</b>	1,813
Deferred tax assets		<b>10,743</b>	10,982
		<hr/>	<hr/>
Total non-current assets		<b>697,246</b>	742,356
<b>CURRENT ASSETS</b>			
Inventories	<i>11</i>	<b>238,162</b>	243,480
Trade receivables	<i>12</i>	<b>192,376</b>	229,249
Prepayments, deposits and other receivables		<b>45,774</b>	44,374
Cash and bank balances	<i>13</i>	<b>855,569</b>	847,093
		<hr/>	<hr/>
Total current assets		<b>1,331,881</b>	1,364,196
<b>CURRENT LIABILITIES</b>			
Trade payables	<i>14</i>	<b>56,572</b>	65,848
Other payables and accruals		<b>69,874</b>	44,088
Lease liabilities		<b>1,432</b>	1,291
Tax payables		<b>2,546</b>	6,939
Bank loans		<b>53,668</b>	53,769
		<hr/>	<hr/>
Total current liabilities		<b>184,092</b>	171,935
<b>NET CURRENT ASSETS</b>		<hr/> <b>1,147,789</b>	<hr/> 1,192,261
<b>TOTAL ASSETS</b>			
<b>LESS CURRENT LIABILITIES</b>		<hr/> <b>1,845,035</b>	<hr/> 1,934,617

	At 30 June 2020 (Unaudited) <i>HK\$'000</i>	At 31 December 2019 (Audited) <i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>		
Bank loans	177,780	204,697
Lease liabilities	715	1,403
Deferred tax liabilities	10,341	10,381
Other payables	<u>2,057</u>	<u>2,139</u>
Total non-current liabilities	<u>190,893</u>	<u>218,620</u>
Net assets	<u>1,654,142</u>	<u>1,715,997</u>
<b>CAPITAL AND RESERVES</b>		
Equity attributable to owners of the Company		
Share capital	105,225	105,225
Reserves	<u>1,550,536</u>	<u>1,611,929</u>
	1,655,761	1,717,154
Non-controlling interests	<u>(1,619)</u>	<u>(1,157)</u>
Total equity	<u>1,654,142</u>	<u>1,715,997</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<i>Note</i>	<b>2020</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2019 <b>(Unaudited)</b> <b>HK\$'000</b>
Net cash generated from operating activities		<u>111,422</u>	<u>111,754</u>
<b>INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(19,954)	(6,598)
Proceeds from disposal of items of property, plant and equipment		1,573	582
Purchases of financial assets		(4,413)	–
Proceeds from disposal of financial assets		<u>5,782</u>	<u>–</u>
Net cash used in investing activities		<u>(17,012)</u>	<u>(6,016)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from bank loans		–	255,000
Repayment of bank loans		(27,018)	(411,849)
Principal payments of lease liabilities		(547)	(595)
Increase in pledged bank deposits		<u>–</u>	<u>(1,600)</u>
Net cash used in financing activities		<u>(27,565)</u>	<u>(159,044)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>66,845</b>	<b>(53,306)</b>
Cash and cash equivalents at beginning of period		<b>847,093</b>	840,181
Effect of foreign exchange rate changes		<u>(58,369)</u>	<u>4,024</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>			
		<u><b>855,569</b></u>	<u>790,899</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balance		<b>714,020</b>	673,511
Non-pledged time deposits with original maturity of less than three months when acquired		<u>141,549</u>	<u>117,388</u>
Cash and cash equivalents	<i>13</i>	<u><b>855,569</b></u>	<u>790,899</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						
At 1 January 2020	105,225	472,201	15,880	51,924	287	7,905	24,696	80,100	958,936	1,717,154	(1,157)	1,715,997
Profit for the period	-	-	-	-	-	-	-	-	2,645	2,645	(459)	2,186
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(61,886)	-	(61,886)	(3)	(61,889)
Total comprehensive income for the period	-	-	-	-	-	-	-	(61,886)	2,645	(59,241)	(462)	(59,703)
Final 2019 dividend declared	-	-	-	-	-	-	-	-	(5,261)	(5,261)	-	(5,261)
Equity-settled share options arrangements (Note)	-	-	-	-	-	-	3,109	-	-	3,109	-	3,109
At 30 June 2020	<u>105,225</u>	<u>472,201</u>	<u>15,880</u>	<u>51,924</u>	<u>287</u>	<u>7,905</u>	<u>27,805</u>	<u>18,214</u>	<u>956,320</u>	<u>1,655,761</u>	<u>(1,619)</u>	<u>1,654,142</u>
At 1 January 2019	105,225	489,197	(1,116)	50,711	287	7,905	24,696	96,871	919,804	1,693,580	(715)	1,692,865
Profit for the period	-	-	-	-	-	-	-	-	15,870	15,870	(146)	15,724
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	4,798	-	4,798	4	4,802
Total comprehensive income for the period	-	-	-	-	-	-	-	4,798	15,870	20,668	(142)	20,526
At 30 June 2019	<u>105,225</u>	<u>489,197</u>	<u>(1,116)</u>	<u>50,711</u>	<u>287</u>	<u>7,905</u>	<u>24,696</u>	<u>101,669</u>	<u>935,674</u>	<u>1,714,248</u>	<u>(857)</u>	<u>1,713,391</u>

*Note:*

On 3 April 2020, the Company granted 54,300,000 share options to the Company's directors and employees at exercise price of HK\$0.9 per share.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*Six months ended 30 June 2020*

## 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 2019.

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

### **3. PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

#### **3.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”**

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ended 31 December 2020.

#### **3.2 Impacts and accounting policies on application of Amendments to HKFRS 3 “Definition of a Business”**

##### *3.2.1 Accounting policies*

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

##### *3.2.2 Transition and summary of effects*

The amendments had no impact on the condensed consolidated financial statements of the Group.



#### 4. OPERATING SEGMENT INFORMATION

##### 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.

##### *Segment results, assets and liabilities*

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.

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. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

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

##### Segment reporting (Continued)

##### Segment results, assets and liabilities (Continued)

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 six months ended 30 June 2020 and 2019 is set out below.

	Six months ended 30 June 2020 (Unaudited)						
	Thailand	Malaysia	Mainland China Macau and Hong Kong	North America	Europe	Other Countries	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers recognised by point in time	8,970	40,469	149,497	63,963	67,484	7,903	338,286
Inter-segment revenue	5,502	–	–	–	–	–	5,502
<b>Reportable segment revenue</b>	<b>14,472</b>	<b>40,469</b>	<b>149,497</b>	<b>63,963</b>	<b>67,484</b>	<b>7,903</b>	<b>343,788</b>
<b>Reportable segment profit</b>							
Gross profit	<u>1,857</u>	<u>8,378</u>	<u>30,947</u>	<u>13,241</u>	<u>13,970</u>	<u>1,636</u>	<u>70,029</u>
	Six months ended 30 June 2019 (Unaudited)						
	Thailand	Malaysia	Mainland China Macau and Hong Kong	North America	Europe	Other Countries	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers recognised by point in time	11,402	35,528	148,948	94,386	101,961	11,606	403,831
Inter-segment revenue	1,213	–	–	–	–	–	1,213
<b>Reportable segment revenue</b>	<b>12,615</b>	<b>35,528</b>	<b>148,948</b>	<b>94,386</b>	<b>101,961</b>	<b>11,606</b>	<b>405,044</b>
<b>Reportable segment profit</b>							
Gross profit	<u>2,449</u>	<u>7,631</u>	<u>31,995</u>	<u>20,274</u>	<u>21,901</u>	<u>2,493</u>	<u>86,743</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 disaggregated as follows:

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
<b>Revenue</b>		
Sale of automotive components	180,773	220,862
Sale of hydraulic equipment components	88,833	118,329
Sale of HDD components	49,439	46,930
Others	19,241	17,710
	<u>338,286</u>	<u>403,831</u>
<b>Other income</b>		
Bank interest income	6,935	3,980
Government grants	120	1,708
Reversal of impairment of trade and other receivables	257	2,123
Others	1,715	894
	<u>9,027</u>	<u>8,705</u>
<b>Gains</b>		
Gain on disposal of items of property, plant and equipment	522	105
Gain on disposal of financial assets	1,369	–
Foreign exchange difference, net	5,516	–
	<u>16,434</u>	<u>8,810</u>

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2020 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>
Interest on bank loans	3,496	6,937
Financial arrangement fees	853	1,069
Interest on lease liabilities	38	26
	<u>4,387</u>	<u>8,032</u>

## 7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>
Cost of inventory sold	268,257	317,088
Depreciation on property, plant and equipment	56,799	53,061
Depreciation on right-of-use assets	1,234	1,494
Equity-settled share option expenses	3,109	–
Auditors' remuneration	1,266	1,445
Foreign exchange differences, net	(5,516)	3,276
Gain on disposal of items of property, plant and equipment	(522)	(105)
Provision against inventory obsolescence	–	85
Reversal of impairment of trade and other receivables	257	2,123
	<u>268,257</u>	<u>317,088</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 2019) 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	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Current	1,336	1,347
Deferred	—	—
Total tax charge for the period	<u>1,336</u>	<u>1,347</u>

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to equity shareholders 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 2020 is based on the profit attributable to equity shareholders 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	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
<b>Earnings</b>		
Profit attributable to equity shareholders of the Company used in the basic earnings per share calculation	<u>2,645</u>	<u>15,870</u>
	<b>Number of shares (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	<u>1,052,254</u>	<u>1,052,254</u>

## 10. PROPERTY, PLANT AND EQUIPMENT

	Land and building	Leasehold improvement	Plant and Machinery	Furniture and Fixtures	Motor car	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>(Unaudited)</b>							
<b>Cost:</b>							
At 1 January 2020	713,905	19,000	1,512,460	85,289	17,462	44,141	2,392,257
Additions	2,259	–	12,663	3,517	959	556	19,954
Disposals	–	–	(30,505)	(1,124)	(2,943)	–	(34,572)
Exchange realignment	(13,745)	(279)	(33,636)	(1,623)	(1,003)	(5,330)	(55,616)
<b>At 30 June 2020</b>	<b>702,419</b>	<b>18,721</b>	<b>1,460,982</b>	<b>86,059</b>	<b>14,475</b>	<b>39,367</b>	<b>2,322,023</b>
<b>Accumulated depreciation:</b>							
At 1 January 2020	323,332	14,013	1,324,013	68,495	13,959	–	1,743,812
Depreciation provided during the period	14,785	1,603	25,853	13,959	599	–	56,799
Disposals	–	–	(29,771)	(807)	(2,943)	–	(33,521)
Exchange realignment	(7,088)	(236)	(41,175)	(1,416)	(972)	–	(50,887)
<b>At 30 June 2020</b>	<b>331,029</b>	<b>15,380</b>	<b>1,278,920</b>	<b>80,231</b>	<b>10,643</b>	<b>–</b>	<b>1,716,203</b>
<b>Net carrying amount</b>							
Cost	702,419	18,721	1,460,982	86,059	14,475	39,367	2,322,023
Accumulated depreciation	(331,029)	(15,380)	(1,278,920)	(80,231)	(10,643)	–	(1,716,203)
<b>At 30 June 2020</b>	<b>371,390</b>	<b>3,341</b>	<b>182,062</b>	<b>5,828</b>	<b>3,832</b>	<b>39,367</b>	<b>605,820</b>
<b>(Audited)</b>							
<b>Net carrying amount</b>							
Cost	713,905	19,000	1,512,460	85,289	17,462	44,141	2,392,257
Accumulated depreciation	(323,332)	(14,013)	(1,324,013)	(68,495)	(13,959)	–	(1,743,812)
<b>At 31 December 2019</b>	<b>390,573</b>	<b>4,987</b>	<b>188,447</b>	<b>16,794</b>	<b>3,503</b>	<b>44,141</b>	<b>648,445</b>

## 11. INVENTORIES

	At 30 June 2020 (Unaudited) <i>HK\$'000</i>	At 31 December 2019 (Audited) <i>HK\$'000</i>
Raw materials	64,158	64,476
Consumables	46,264	48,131
Work in progress	64,729	64,002
Finished goods	112,415	125,945
	<hr/>	<hr/>
	287,566	302,554
Less: Provision against inventory obsolescence	49,404	59,074
	<hr/>	<hr/>
	<b>238,162</b>	<b>243,480</b>

## 12. 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 60 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 invoice date, is as follows:

	At 30 June 2020 (Unaudited) <i>HK\$'000</i>	At 31 December 2019 (Audited) <i>HK\$'000</i>
Within 1 month	63,569	90,894
1 to 2 months	50,126	59,098
2 to 3 months	43,114	41,868
3 to 4 months	28,192	24,531
4 to 12 months	7,645	13,216
Over 1 year	298	467
	<hr/>	<hr/>
	192,944	230,074
Less: impairment	568	825
	<hr/>	<hr/>
	<b>192,376</b>	<b>229,249</b>

### 13. CASH AND BANK BALANCE

	At 30 June 2020 (Unaudited) HK\$'000	At 31 December 2019 (Audited) HK\$'000
Cash and bank balances	714,020	602,607
Non-pledged time deposits with original maturity of less than three months when acquired	<u>141,549</u>	<u>244,486</u>
Cash and cash equivalents	<u>855,569</u>	<u>847,093</u>

### 14. TRADE PAYABLES

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

	At 30 June 2020 (Unaudited) HK\$'000	At 31 December 2019 (Audited) HK\$'000
Within 1 month	16,477	38,402
1 to 2 months	22,774	14,142
2 to 3 months	15,691	12,498
Over 3 months	<u>1,630</u>	<u>806</u>
	<u>56,572</u>	<u>65,848</u>

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

### 15. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	At 30 June 2020 (Unaudited) HK\$'000	At 31 December 2019 (Audited) HK\$'000
Contracted but not provided for:		
Buildings	857	992
Plant and machinery	<u>3,334</u>	<u>2,915</u>
	<u>4,191</u>	<u>3,907</u>



## CHAIRMAN'S STATEMENT

On behalf of the board of directors (the “**Board**”), I hereby present to shareholders the first half-year results of IPE Group Limited (“**IPE**” or the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**” or “**IPE Group**”) for the six months ended 30 June 2020.

## BUSINESS REVIEW

The outbreak of new coronavirus (COVID-19) has rapidly swept through the world and the situation in overseas countries is even more severe. Exported sale account for a larger proportion of the Group's business. During the pandemic, customers in Europe and the United States had shut down factories to different extents in order to curb the spread of the pandemic. Some customers had cancelled orders or postponed the delivery date.

Facing the unprecedented challenges brought by the pandemic, the Group's sales and profits declined significantly as a result. First of all, according to the business segments of the Group below, the sales of several businesses dropped under the pandemic in the first half of this year as compared to the first half of last year.

	1H 2020		1H 2019		Change %
	HK\$'000	%	HK\$'000	%	
Automotive components	<b>180,773</b>	<b>53.4</b>	220,862	54.7	-18.2
Hydraulic equipment components	<b>88,833</b>	<b>26.3</b>	118,329	29.3	-24.9
HDD components	<b>49,439</b>	<b>14.6</b>	46,930	11.6	+5.3
Others	<b>19,241</b>	<b>5.7</b>	17,710	4.4	+8.6
	<b><u>338,286</u></b>	<b>100.0</b>	<b><u>403,831</u></b>	100.0	-16.2

At the same time, following China's first-ever negative growth in imported cars in 2019, the Group switched to extend its reach to domestic customers and marched into the market of high-end and highly precision hydraulic components. We actively adjusted our sales and production operation models and coped with the demands of the domestic customers. We would continue to increase our domestic market share in the future in order to alleviate our over-reliance on overseas customers' orders. Secondly, the Sino-US trade dispute has been increasingly tense, resulting in global political and economic instability and also affecting overseas customers' orders. In face of the unstable orders from customers, the Group actively maintained cooperative relationships and increased cooperation opportunities for new projects.

The customers of the automotive and hydraulic equipment components are mainly dispersed in European and U.S. regions. The sales of the automotive components in the first half of 2020 as reflected in above business segments amounted to HK\$180,773,000, representing a decrease of 18.2% as compared to the first half of last year. With regards to the hydraulic equipment components, the sales in the first half of 2020 amounted to HK\$88,833,000, representing a decrease of 24.9% as compared to the first half of last year. As mentioned above, European and U.S. regions have been severely impacted by the pandemic, resulting in the sales of the Group in North America in the first half of this year amounted to HK\$63,963,000, representing a decrease of 32.2% compared to HK\$94,386,000 of the first half of last year; the sales in Europe in the first half of this year amounted to HK\$67,484,000, representing a decrease of 33.8% compared to HK\$101,961,000 of the first half of last year. The sales of the Group in PRC regions in the first half of this year amounted to HK\$149,497,000, which was approximate to the sales of HK\$148,948,000 in the first half of last year.

For HDD components, the sales in the first half of this year amounted to HK\$49,439,000, representing a slight increase as compared to the first half of last year, but it was yet to recover to previous sales levels. The customers are not from the epicenter of the pandemic, thus the sales is similar to that before the pandemic.

When the coronavirus broke out at the beginning of this year, in order to strengthen the suppression of the spread of the pandemic, provinces and cities in China had requested enterprises to postpone the resumption of work and had called on enterprises to shut down operation completely in order to avoid infection and spreading. The main production base of the Group is located in China, thus the domestic production bases had followed the order from local authority to shut down operation, which caused a serious blow to the Group. Meanwhile, the pandemic also resulted in slowdown of the Group's new projects, which seriously hindered our expansion to domestic customers.

Facing the unsettled pandemic, the Group places solid financial operations as the top priority and monitors the upcoming overdue payments for the return of accounts receivable. We would enhance our inventory control, optimize supplier resources and streamline the procurement cycle, so as to ensure shortening of fund flow minimization of inventory risks. Idle funds would be utilized to increase returns from deposit.

With the ease of the pandemic situation in China in the second quarter, the existing equipment had been improved and optimized to promote automated production. At the same time, we strengthened the control of outsourced processing procedures and optimized production cycles and gradually improved the environmental protection management system for legal and standardized disposal and discharge of wastes.

The Group officially opened the IPE College of Engineers this year, purchased thousands of reference books and provided a quiet reading room for employees to enrich relevant knowledge. Also, we arranged lectures and trainings and implemented an annual study point scheme, so as to cultivate diverse talents for the enterprise.

Additionally, the Group arose the awareness of intellectual property protection and cultivated research and development skills of relevant staff. It also made substantial investment in patent applications and innovations so as to increase the values of the Group's intangible assets. We will establish an excellent team to be well poised for the economic recovery in the second half of the year.

## **FINANCIAL REVIEW**

Under the effect of the COVID-19 pandemic, the shutdown of customers' factories or delay of delivery time had resulted in the decline of turnover. For the six months ended 30 June 2020, the Group recorded sales of HK\$338,286,000, representing a decrease of HK\$65,545,000 or 16.2% as compared to the first half of last year.

The Group engages in a capital intensive industry, thus fixed costs account for a larger proportion. When turnover decreases, economies of scale cannot be achieved and thus our gross profit would record a larger decline. The gross profit in the first half of this year amounted to HK\$70,029,000, representing a decrease of HK\$16,714,000 or 19.3% as compared to HK\$86,743,000 in the first half of last year. The gross profit in the first half of this year was 20.7%, representing a drop of 0.8% as compared to 21.5% in the first half of last year.

Other income to in the first half of this year increased by HK\$7,624,000 over the first half of last year HK\$16,434,000. We mainly utilized our idle funds to generate bank interest incomes, which an increase of HK\$2,955,000 as compared to the first half of last year was recorded. Moreover, benefitting from the appreciation of the US dollar exchange rate, our exchange gain amounted to HK\$5,516,000.

Distribution costs in the first half of this year amounted to HK\$9,727,000, representing an increase of HK\$2,602,000 as compared to that of the first half of last year. Such increase was mainly due to the tax refund of HK\$1,667,000 from the tariffs of importing components to the United States in the first half of last year; however, no waiver of such tariffs had been granted in the first half of this year, thus there was no tax refunds. Besides, due to suspended needed to bear or reduced services of transportation during the pandemic, therefore, the Group bore higher transportation cost, which had already increased by HK\$984,000 in the first half of this year.

Administrative expense and other expenses were HK\$67,021,000 in the first half of this year; representing an increase of HK\$4,458,000 or 7.1% as compared to HK\$62,563,000 in the first half of last year.

In respect of cost increase, share options were granted in April of this year and hence resulted in equity-settled share options expenses amounted to HK\$3,109,000. Besides, the COVID-19 broke out at the beginning of this year and authorities in China implemented corresponding prevention and control measures. The Group followed the instructions of the authorities and implemented appropriate prevention and control measures which led to work suspension of the domestic production bases, during which a costs of HK\$4,805,000 was incurred. On the other hand, when compared with the first half of last year in the terms of cost reduction, our salaries and allowances recorded a decrease of HK\$2,002,000. Also, while an exchange loss of HK\$3,276,000 was recorded in 2019, such loss was not incurred in the first half of this year, leading to a reduction in overall cost.

Finance costs amounted to HK\$4,387,000 in the first half of this year, representing a decrease of HK\$3,645,000 or 45.4% as compared to HK\$8,032,000 in the first half of last year. The decrease was mainly due to reduction in overall loan amounts and a slight decrease in interest rates for bank borrowings.

For the six months ended 30 June 2020, the Group recorded an unaudited net profit of HK\$2,186,000, representing a decrease of HK\$13,538,000 or 86.1% as compared to HK\$15,724,000 in the first half of last year.

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

As at 30 June 2020, the Group had total borrowings amounted HK\$231,448,000 (31 December 2019: HK\$258,466,000) which were secured by corporate guarantee given by the Company. The Group had no charge on any of its assets for its banking facilities as at 30 June 2020 (31 December 2019: 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 the banks. As at 30 June 2020, cash attributable to each share amounted to HK\$0.81 (31 December 2019: HK\$0.81), which was the same as that of last year, based on the 1,052,254,135 ordinary shares in issue (31 December 2019: 1,052,254,135 ordinary shares). The net asset value per share amounted to HK\$1.57, representing a decrease of HK\$0.06 or 3.7% as compared to HK\$1.63 as at 31 December 2019.

During the six months ended 30 June 2020, the Group recorded a net cash inflow from operating activities of HK\$111,422,000. Although the sales in the first half of this year dropped 16.2% as compared to the first half of last year, the net cash inflow from operating activities still maintained at last year's level, mainly attributable to our control of costs and expenses, effective monitoring of monitor our procurement level and expediting the collection of accounts receivable.

Confronting with the pandemic outbreak, the Group budgeted our capital expenditures prudently. The net cash outflow from investment activities for 2020 was HK\$17,012,000, representing an increase of HK\$10,996,000 as compared to the net cash outflow of HK\$6,016,000 in the first half of last year.

With regards to financing activities, the Group did not seek for new bank borrowings in the first half of this year, in hope to spend prudently under the impact of the pandemic. Therefore, the net cash outflow from financing activities in 2020 was HK\$27,565,000 (the net cash outflow from financing activities in the first half of last year was HK\$159,044,000, mainly due to the repayment of bank loans), which was used to repay existing bank loans. The net increase in cash and cash equivalents in the first half of 2020 is HK\$66,845,000 while the net decrease of cash and cash equivalents was HK\$53,306,000 in the first half of last year, mainly caused by repayment of bank loans.

In terms of bank borrowings, the total bank borrowings of the Group as at 30 June 2020 amounted to HK\$231,448,000, representing a decrease of HK\$27,018,000 as compared to HK\$258,466,000 as at 31 December 2019. Under the impacts of the pandemic, the Group swiftly controlled procurement quantities to avoid cancellation of customers' orders. Such act provided some risk exposure to the Group. As at 30 June 2020, the net cash, calculated by cash and bank balances less total bank borrowings, of the Group amounted to HK\$624,121,000, representing an increase of HK\$35,494,000 as compared with HK\$588,627,000 as at 31 December 2019.

## **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**

After the official launch of the IPE Engineering Conference, we have invited experienced expert and consultants to be lecturers to provide trainings to the talents of the Group through lectures, practical drills and engineer forums, with an intention to nurture industry elites with high-quality, professionalism and management. We will strengthen the school-enterprise cooperation and have established a school-enterprise cooperation with Guangzhou Mechanical and Electrical Technician College this year as well as organized the IPE order-based classes. Furthermore, we have established a school-enterprise cooperation with the XinHua College of Sun Yat-Sen University and signed an off-campus practice base agreement. The Group recruited a number of post-graduates and fresh graduates from national target universities. We have implemented an important measure for talent pool, which is our commitment in a talent development plan for the nurturing of industry elites. We have established connections with the teams of professors from national key universities in hydraulic profession, including the dean and doctoral instructors from Yanshan University, Lanzhou University of Technology, Harbin Institute of Technology, Shanghai Jiao Tong University and Tongji University, etc., so as to consolidate the project cooperation and talents intake. We have improved the benefits of employees, modified the remuneration of technicians and engineers, re-arranged the working hours and implemented humanized management, so as to motivate our employees to further create values.

In addition, the Group has a share option scheme in place as an encouragement and rewards to selected participants for their contributions to the Group. Furthermore, the Group has set up a mandatory provident fund and local retirement benefit scheme for our staff.

As at 30 June 2020, the Group had a total of 2,181 employees, representing a decrease of 86 employees or 3.8% as compared to 2,267 employees as at 30 June 2019.

## **PROSPECT**

In the second half of the year, the Group aims to continue to adhere to “promoting transformation, preventing risks, improving efficiency” as our operating policy and “reducing costs, enhancing efficiency, improving quality” as our production principles, so as to achieve safe production with zero incidents, zero cases and zero losses. Since the outbreak of the pandemic, there was no infected case in the production bases. We will endeavor in our prevention efforts and implement corresponding measures in advance. Despite Europe and the U.S. has been gradually releasing the lockdown recently and resumed economic activities, however, the Group believes that the whole world will be threatened by economic downturn and the second phase of COVID-19 pandemic in short to medium term, thus striking a severe blow to the confidence of consumer and causing the market to remain sluggish.

The business environment would be more intricate in future. In the midst of Sino-U.S. tension and the resurgence of COVID-19, the Group will consistently implement a series of measures to expand new markets, new customers and new products continuously, so as to identify new profit drivers. We will accelerate the development progress of new projects, enhance quality control, utilize the idle productivity and increase the share of purchase from the existing customers from multi-national corporations. Also, we will speed up to develop hydraulic components with high technology content, high demand and high added-value, so as to become the core supplier of customers.

In the first half of this year, we have continued to strengthen our inventory control, reduce the inventory of materials, optimize the procurement of resources, shorten the procurement cycle, strengthen the management of suppliers and speed up the response to customers' orders. On the other hand, we will focus on continuous reduction of our costs, control of our capital risk and collection of proceeds from sales. We will utilize the idle funds reasonably and increase our capital yield, while at the same time to enhance our standardized management and lean production, so as to increase our product efficiency.

At last, on behalf of the Board, I would like to express my heartfelt thanks to all our employees for their contributions and efforts to our Group.

## **SUPPLEMENTARY INFORMATION**

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

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

### **Interim Dividend**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: Nil).

## **Corporate Governance**

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the 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. 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 Shareholders of the Company as a whole.

## **Audit Committee**

The Audit Committee of the Company, comprising four independent non-executive directors, namely Mr. Yang Rusheng (Chairman of the Audit Committee), Mr. Cheung, Chun Yue Anthony, Mr. Mei Weiyi and Mr. Xu Bing, has reviewed together 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 as well as reviewed the interim results of the Group for the six months ended 30 June 2020.



## **Publication of Interim Results Announcement and Interim Report**

This interim results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://www.ipegroup.com>) respectively. The interim report for the six months ended 30 June 2020 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the same websites in due course.

## **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 Directors:*

Ms. Zeng Jing  
Mr. Chen Kuangguo

*Independent Non-Executive Directors:*

Mr. Yang Rusheng  
Mr. Cheung, Chun Yue Anthony  
Mr. Mei Weiyi  
Mr. Xu Bing

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

Hong Kong, 24 August 2020