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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 2019

FINANCIAL HIGHLIGHTS

1. Revenue for the year decreased by 13.9% to HK\$812.2 million (2018: HK\$943.5 million).
2. Gross profit margin for the year decreased to 22.3% (2018: 30.8%).
3. Profit for the year decreased by 51.3% to HK\$41.1 million (2018: HK\$84.5 million).
4. Basic earnings per share for the year was HK3.83 cents (2018: HK8.11 cents).
5. Net asset value per share as at 31 December 2019 was HK\$1.63 (2018: HK\$1.61).
6. The Group was in a net cash position (i.e. cash and bank balances less total bank borrowings) as at 31 December 2019 in the amount of HK\$588.6 million or equivalent to HK55.94 cents per share (2018: HK\$403.4 million or HK38.34 cents per share).
7. The Board recommended the payment of a final dividend of HK0.5 cents per share for the year (2018: Nil).

* 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 2019, together with the comparative results for the previous year:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019

		2019	2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>(Note)</i> <i>HK\$'000</i>
Revenue	3	812,177	943,476
Cost of sales		<u>(631,249)</u>	<u>(652,687)</u>
Gross profit		180,928	290,789
Other income	4	19,913	8,557
Distribution costs		(15,959)	(26,535)
Administrative expenses and other expenses		<u>(123,524)</u>	<u>(152,887)</u>
Profit from operations		61,358	119,924
Finance costs	5(a)	(14,430)	(18,471)
Share of profit/(losses) of an associate		<u>1,650</u>	<u>(1,271)</u>
Profit before taxation	5	48,578	100,182
Income tax	6	<u>(7,467)</u>	<u>(15,720)</u>
Profit for the year		<u>41,111</u>	<u>84,462</u>
Attributable to:			
Equity shareholders of the Company		40,345	85,328
Non-controlling interests		<u>766</u>	<u>(866)</u>
Profit for the year		<u>41,111</u>	<u>84,462</u>
Earnings per share	7		
Basic and diluted		<u>HK3.83 cents</u>	<u>HK8.11 cents</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019

	2019	2018
	<i>HK\$'000</i>	<i>(Note)</i> <i>HK\$'000</i>
Profit for the year	41,111	84,462
Other comprehensive income for the year		
Exchange differences on translation of foreign operations	<u>(16,809)</u>	<u>(80,959)</u>
Total comprehensive income for the year	<u>24,302</u>	<u>3,503</u>
Attributable to:		
Equity shareholders of the Company	23,574	4,325
Non-controlling interests	<u>728</u>	<u>(822)</u>
Total comprehensive income for the year	<u>24,302</u>	<u>3,503</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December 2019	31 December 2018 <i>(Note)</i>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	8	726,497	737,495
Lease prepayments		–	76,848
Interest in an associate		3,064	1,480
Deposits for purchase of non-current assets		1,813	4,269
Deferred tax assets		10,982	8,608
		742,356	828,700
Current assets			
Inventories	9	243,480	284,463
Trade and other receivables	10	273,623	301,992
Cash and cash equivalents		847,093	840,181
		1,364,196	1,426,636
Current liabilities			
Trade and other payables	11	109,936	110,311
Bank loans		53,769	436,775
Lease liabilities		1,291	–
Tax payable		6,939	3,784
		171,935	550,870
Net current assets		1,192,261	875,766
Total assets less current liabilities		1,934,617	1,704,466

	31 December 2019	31 December 2018 <i>(Note)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Bank loans	204,697	–
Lease liabilities	1,403	–
Other payables	2,139	1,299
Deferred tax liabilities	10,381	10,302
	<u>218,620</u>	<u>11,601</u>
NET ASSETS	<u>1,715,997</u>	<u>1,692,865</u>
CAPITAL AND RESERVES		
Share capital	105,225	105,225
Reserves	1,611,929	1,588,355
	<u>1,717,154</u>	<u>1,693,580</u>
Total equity attributable to equity shareholders of the Company	1,717,154	1,693,580
Non-controlling interests	<u>(1,157)</u>	<u>(715)</u>
TOTAL EQUITY	<u>1,715,997</u>	<u>1,692,865</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

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 of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the “**Group**”) and the Group’s interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

3. REVENUE AND OPERATING SEGMENT INFORMATION

(a) Revenue

Disaggregation of revenue

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

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of automotive components	449,302	465,070
Sales of hydraulic equipment components	228,038	263,476
Sales of Hard Disk Driver (“HDD”) components	92,452	165,964
Others	42,385	48,966
	<hr/>	<hr/>
Total	812,177	943,476
	<hr/>	<hr/>

The Group's customer base is diversified and does not include any individual customer (2018: Nil) with whom transactions have exceeded 10% of the Group's revenue.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for precision components products as the remaining performance obligations under the contracts for sales of precision components products had an original expected duration of one year or less.

(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.

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.

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 2019 and 2018 is set out below.

	2019						
	Thailand <i>HK\$'000</i>	Malaysia <i>HK\$'000</i>	Mainland China, Macau and Hong Kong <i>HK\$'000</i>	North America <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Other countries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers recognised by point in time	19,868	73,251	316,668	188,040	190,579	23,771	812,177
Inter-segment revenue	6,855	-	-	-	-	-	6,855
Reportable segment revenue	26,723	73,251	316,668	188,040	190,579	23,771	819,032
Reportable segment profit							
Gross profit	<u>4,459</u>	<u>16,441</u>	<u>70,255</u>	<u>42,205</u>	<u>42,774</u>	<u>4,794</u>	<u>180,928</u>
	2018						
	Thailand <i>HK\$'000</i>	Malaysia <i>HK\$'000</i>	Mainland China, Macau and Hong Kong <i>HK\$'000</i>	North America <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Other countries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers recognised by point in time	57,889	108,335	293,750	235,070	218,725	29,707	943,476
Inter-segment revenue	15,430	-	-	-	-	-	15,430
Reportable segment revenue	73,319	108,335	293,750	235,070	218,725	29,707	958,906
Reportable segment profit							
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>

4. OTHER INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest income	11,341	6,601
Government grants	3,361	–
Rental income	3	77
Others	5,208	1,879
	<u>19,913</u>	<u>8,557</u>

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
(a) Finance costs		
Interest on bank loans	12,385	16,587
Financial arrangement fees	1,923	1,884
Interest on lease liabilities	122	–
	<u>14,430</u>	<u>18,471</u>
(b) Staff costs		
Salaries, wages and other benefits	204,888	241,177
Contributions to defined contribution retirement plan	12,327	12,263
Equity-settled share-based payment expenses	–	15,680
	<u>217,215</u>	<u>269,120</u>
(c) Other items		
Cost of inventories	631,249	652,687
Depreciation		
– owned property, plant and equipment	107,864	121,321
– right-of-use assets	1,249	–
Amortisation of leasehold land	2,071	2,158
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	1,508
Lease payments not included in the measurement of lease liabilities	108	–
Net foreign exchange loss/(gain)	3,424	(9,592)
Research and development costs	16,099	22,942
Auditor's remuneration		
– audit services	1,800	1,800
– other services	733	699
(Gain)/loss on disposal of items of property, plant and equipment	(47)	714
(Reversal)/provision of impairment losses		
– trade receivables	(515)	556
– other receivables	–	(1,046)
	<u>–</u>	<u>(1,046)</u>

6. INCOME TAX

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax		
Provision for current income tax	10,818	19,502
Over-provision in prior years	(888)	(443)
	9,930	19,059
Deferred tax		
Origination and reversal of temporary differences	(2,463)	(3,339)
	7,467	15,720

7. 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\$40,345,000 (2018: HK\$85,328,000) and the weighted average of 1,052,254,135 ordinary shares (2018: 1,052,254,135 ordinary shares) in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for year ended 31 December 2019 and 2018 were the same as the basic earnings per share.

At 31 December 2019, 40,000,000 share options (2018: 42,000,000 share options) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices of the Company's shares for the period during which the options were outstanding.

8. PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

	Ownership interests in leasehold land held for own use carried at cost <i>HK\$'000</i>	Other properties leased for own use carried at cost <i>HK\$'000</i>	Freehold 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	–	–	70,768	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	–	–	718,979	19,122	1,519,858	80,797	18,589	45,511	2,402,856
Impact on initial application of HKFRS 16 (Note)	78,920	3,500	–	–	–	–	–	–	82,420
At 1 January 2019	78,920	3,500	718,979	19,122	1,519,858	80,797	18,589	45,511	2,485,276
Additions	–	369	606	150	18,369	6,389	779	356	27,018
Transfer from construction in progress	–	–	–	–	75	–	–	(75)	–
Disposals	–	–	–	–	(17,921)	(2,029)	(1,721)	(1,098)	(22,769)
Exchange adjustment	(1,475)	(3)	(5,680)	(272)	(7,921)	132	(185)	(553)	(15,957)
At 31 December 2019	77,445	3,866	713,905	19,000	1,512,460	85,289	17,462	44,141	2,473,568
Accumulated depreciation:									
At 1 January 2018	–	–	(265,659)	(8,549)	(1,271,248)	(61,760)	(16,284)	–	(1,623,500)
Charge for the year (Note 5)	–	–	(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	–	–	(290,325)	(10,949)	(1,285,444)	(64,419)	(14,224)	–	(1,665,361)
Charge for the year	(2,071)	(1,249)	(34,961)	(3,283)	(61,431)	(6,955)	(1,234)	–	(111,184)
Written back on disposals	–	–	–	–	17,750	1,977	1,333	–	21,060
Exchange adjustment	38	23	1,954	219	5,112	902	166	–	8,414
At 31 December 2019	(2,033)	(1,226)	(323,332)	(14,013)	(1,324,013)	(68,495)	(13,959)	–	(1,747,071)
Net book value:									
At 31 December 2019	75,412	2,640	390,573	4,987	188,447	16,794	3,503	44,141	726,497
At 31 December 2018	–	–	428,654	8,173	234,414	16,378	4,365	45,511	737,495

Note:

- (i) The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17.
- (ii) The freehold land amounting to THB19,201,000 (equivalent to HK\$5,008,000) included in freehold land and buildings is situated in Thailand (2018: THB19,201,000 (equivalent to HK\$4,613,000)).
- (iii) As at 31 December 2019, the Group is in the process of applying for the title certificates of a land use right and certain properties with carrying value of approximately HK\$2,319,000 (2018: HK\$3,281,000) and HK\$26,143,000 (2018: HK\$28,745,000), respectively. 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.

9. INVENTORIES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Raw materials	51,458	65,303
Consumables	24,963	26,630
Work in progress	61,583	70,913
Finished goods	105,476	121,617
	243,840	284,463

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Carrying amount of inventories sold	629,770	646,391
Write-down of inventories	1,479	6,296
Cost of inventories	631,249	652,687

10. TRADE AND OTHER RECEIVABLES

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors, net of loss allowance	226,646	264,658
Bills receivables	2,603	–
Amount due from an associate	3,432	–
Other debtors	33,216	29,961
	<hr/>	<hr/>
Financial assets measured at amortised cost	265,897	294,619
Deposits and prepayments	7,726	7,373
	<hr/>	<hr/>
	273,623	301,992
	<hr/> <hr/>	<hr/> <hr/>

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:

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	90,806	91,388
1 to 2 months	59,098	70,772
2 to 3 months	41,868	51,135
3 to 4 months	24,531	33,854
4 to 12 months	12,946	17,509
	<hr/>	<hr/>
	229,249	264,658
	<hr/> <hr/>	<hr/> <hr/>

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

11. TRADE AND OTHER PAYABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables	65,848	60,759
Interest payables	470	–
Other payables	23,269	26,623
Accruals	22,488	24,228
	<u>112,075</u>	<u>111,610</u>
Portion classified as non-current:		
Other payables	<u>(2,139)</u>	<u>(1,299)</u>
Current portion	<u>109,936</u>	<u>110,311</u>

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 1 month	38,402	26,241
1 to 2 months	14,142	22,087
2 to 3 months	12,498	9,737
Over 3 months	806	2,694
	<u>65,848</u>	<u>60,759</u>

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

12. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Dividend declared and paid during the year (2018: HK0.9 cents per ordinary share)	–	9,470
Final dividend proposed after the end of the reporting period of HK0.5 cents per ordinary share (2018: nil)	<u>5,261</u>	<u>–</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's sales by business segments, together with sales in 2018 are shown below for comparison.

	2019		2018		Change
	HK\$'000	%	HK\$'000	%	%
Automotive components	449,302	55.3	465,070	49.3	-3.4
Hydraulic equipment components	228,038	28.1	263,476	27.9	-13.5
HDD components	92,452	11.4	165,964	17.6	-44.3
Others	42,385	5.2	48,966	5.2	-13.4
	<u>812,177</u>	<u>100.0</u>	<u>943,476</u>	<u>100.0</u>	-13.9

Since 2015, the global outgoing amount of HDD has been continuously decreasing. The Group also expected such market would keep sliding into recession. Therefore, we have been actively searching for new markets and enhancing our business expansion years ago, so as to offset the effect of the sales downturn of HDD by implementing several measures like utilizing relevant idle equipment. Such market deteriorated rapidly in 2019, the sale of the HDD components of the Group amounted to HK\$92,452,000, representing a decrease of HK\$73,512,000 or 44.3% as compared to the corresponding period of last year.

On the other hand, since the sales of global automotive market has reached the peak in 2017, it has shown a downward trend in general until now. Secondly, the automotive market in the People's Republic of China (the "PRC") also faced negative growth for the first time in two decades. The major customers of the Company are located in Europe and the America. However, since the automotive supply chain has been globalized and the components are assembled in Europe and the America and supply back to China, the end customers are from the PRC. Therefore, the sale of the automotive components of the Company are also encumbered by the decline of the PRC's automotive market. The growth of hydraulic industry will be limited as a recession of infrastructures. In addition, the Sino-US trade dispute commencing on the fourth quarter of 2018 was long-lasting, and the complicated and varying disputes have led to market fluctuation as well as the frequent changes of customers' orders. The sale from US customers amounted to HK\$235,070,000 in 2018, but decreased to HK\$188,040,000 in 2019, representing a decrease of HK\$47,030,000 or 20.0%, the effect of which was more serious. Progresses have been made in the development of new domestic customers and new projects, but being affected by the market, the increase has yet to reach the expected target. Therefore, under the influence of above various factors, the overall sale of the Group in 2019 amounted to HK\$812,177,000, representing a decrease of HK\$131,299,000 or 13.9% as compared to 2018.

Since the industry where the Group operates has larger investments with higher operating leverage, when the number of orders decreased and not all production equipment are fully utilized, the gross profit would be affected to a relatively large extent. Therefore, the gross profit amounted to HK\$180,928,000 in 2019, representing a decrease of HK\$109,861,000 or 37.8% as compared to HK\$290,789,000 of last year.

While facing the complicated and sluggish operating environment, the operating results have dropped. Nevertheless, the Group has carried out active measures which have made some achievements and achieved cost reduction and efficiency enhancement.

In addition to relocating some production lines to our factory in Thailand to avoid the tariffs of selling products to the United States, idle resources have been arranged for the expansion into the 3C market which has commenced production since the third quarter of 2019, so as to expand sales. Meanwhile, our production bases are adjusted to release the potential of Changshu production base, so as to enable it to be the driving force of capacity expansion of the Group in the future. Furthermore, the sales team has devoted more resources to develop new customers, among which, Heng Li Hydraulic, a domestic industry leader, have already commenced new projects. During the year, apart from researching and developing new products of automotive and hydraulic components, some new products have been launched for boosting the future sales, such as the cartridge valve accessories.

With regard to procurement, we will expand new suppliers and introduce new suppliers to carry out healthy competition. In addition to cost reduction, the supply chain will become more healthy and stable. Furthermore, we will match the most optimal supplier according to the demands of different products. During the year, we have developed new suppliers in India and the PRC, so as to solve the issues like long supply chain of material and low flexibility in European regions.

For production, we strictly adhere to safe production and hold safety production education trainings as planned, organize safety activities and carry out investigation and handling of potential hazards of production safety on a monthly basis as well as raising employees' safety awareness and safety skills by strengthening regulatory measures comprehensively. For environmental protection, we inspect our environmental works daily and carry out rectifications timely when potential hazards of environment are identified. We will detect the sewage, exhaust gas and noise generated by the Company regularly to avoid affecting our production level. Also, the Group promotes the improvement of production workmanship, optimization of procedures, production automation as well as carrying out assembling and commissioning works, so as to strengthen on market competitiveness. The Company held the first monthly activity in relation to quality improvement at the first time. With the participation of staff in each production base, the activity themed as "raising awareness, strengthening management,

facilitating improvement, maintaining development” was held with a variety of contents and forms. Approximately 18,000 participants have submitted their proposals for quality improvement, subscribers for an wechat group has increased to more than 1,000 persons, 500 participants have taken part in the online and offline quiz contest, more than 400 awardees and more than 300 effective and reasonable suggestions.

The Company commenced industry-university-research cooperation with clear direction, the results of which has gradually become conspicuous. The industry-university-research cooperation with Tsinghua University includes the cooperative development of harmonic reducer simulation design, gear measurement and flexible assembly technology of hydraulic shuttle valve. With respect to such cooperative development, the Company established project cooperation relationships with the mechanical laboratory and precision measurement laboratory of Tsinghua University respectively. Besides, the cooperation with Zhejiang University and South China Research Institute of Zhejiang University mainly focuses on the development of hydraulic technology and products, industrial automatic equipment and automation solutions. Through specific market demands and project cooperation, the industry-university-research cooperation and run-in between Zhejiang University and the Group can be strengthened, laying the foundation for further deepening the cooperation by bringing the respective advantages of both parties into full play. The cooperation with South China University of Technology during the year mainly covered the design, research and development of decelerators as well as the joint application of research projects. Subsequently, the Company will ensure the smooth progression of the above various industry-university-research activities and implement outcomes into practice by improving trainings and introduction of senior talents.

The internal audit department was established during the year and participated in the audit of constructor and fixed assets procurement. Its scope of work mainly comprises internal control audit, operation audit and audit on construction, with an aim to strengthen cost control and minimize relevant risks.

After being recognized as a high and new technology enterprise earlier, we have been communicating with PRC government at all levels and apply for relevant supporting policies, so as to obtain government subsidies in harsh time and facilitate the development of the Company. Secondly, we will reduce our capital expenditures and increase our interest income from existing funds. Furthermore, for the tariffs caused by Sino-US disputes, the Company apply for the exemption of tariffs of individual components to relieve our burden.

Contributed by the concerted effort of the Group, the net profit attributable to shareholders of the year amounted to HK\$41,111,000, even though representing a decrease of HK\$43,351,000 or 51.3% as compared to HK\$84,462,000 in 2018, the effect of the drop of operating gross profits has already been reduced to a large extent.

PROSPECT

In 2019, the Group faced challenges from various aspects, such as the seesaw atmosphere between Sino-US trade parties, the decline of HDD business, product transformation and the rise of competitors in the same industry. The Group has finalized relevant measures and such measures need to be implemented perseveringly and consistently to pay off. In addition to developing new customers (especially treating PRC's customers as the main target), we will strengthen the cooperation between automobile manufacturers and other suppliers. In addition, we will accelerate the transformation of production bases of the Group. What's more necessary is to improve the rules and regulations and implement standardized management, so as to achieve lean production, control the operating risks and lower the cost. Meanwhile, we will improve our craftsmanship and enhance our quality, and instill the idea of enhancing quality to each production line. We will treat the improvement of craftsmanship as one of our major emphases in daily works and set up specific prizes. Certainly, in respect of operating management, we will strictly control the quality of raw materials, purchased accessories and production materials, so as to be worthy of the name of cutting-edge method working solutions provider.

For the operating principles next year, we will consistently adhere to “promoting transformation, preventing risks, improving efficiency” as our goal and bear in mind the production principles of “reducing costs, improving efficiency, improving quality”, so as to achieve safe production with zero incidents, zero cases and zero losses throughout the year. We will strive to tackle the complicated operating environment with three focuses of “increase income, improve quality, upgrade”, expand new markets, new customers and new products continuously, identify new profit drivers and proactively promote standardized management and lean production, so as to achieve the missions of the Group.

Therefore, we have set several directions for next year to complete three main goals. First of all, we will endeavor to maintain sales growth; protect our cooperation relationships with existing customers and develop the domestic market actively; organize trainings for relevant employees on a regular basis and participate in seminars relevant to our industry, so as to seek for projects in new sectors; and pay attention to the developments and changes of the Sino-US trade war to take corresponding measures.

In addition, we will enhance our cost control and search for the solution to lower the supply cost, such as introducing new suppliers and negotiating with service providers for new measures to lower the cost. Furthermore, we will increase the responding speed of the supply chain, improve flexibility and agility, and pay attention to the safety of the supply chain and control the supply risks, as well as carrying out internal optimization and control our inventory level.

Secondly, we will optimize our cost management, financial analysis and audit, so as to enhance internal control, improve resource distribution and boost operating efficiency. We will strengthen the auditing work on project approval, assessment of fixed asset investment and project settlement.

In addition, we will continuously make the effort to train talents, including the establishment of comprehensive delineation of organizational functions, organizational structures, post management system and remuneration system. We will also introduce and nurture a number of young technical talents in professions ranging from digitally-controlled processing, hydraulic technology, electro-mechanical integration, machinery design and manufacture as well as its automation and robot technology from well-known colleges in the PRC. Furthermore, we will expand the school-enterprise cooperation with various schools in Guangzhou and intends to mass-transfer approximately 90 technicians and trainees to professional counterparts in June 2020, so as to supplement reserve talents in production and technology.

During the preparation of this annual report, it is in the middle of hard time for the world to fight against the novel Coronavirus. On behalf of the Board, I would like to wish this epidemic to be controlled as soon as possible and everyone can return to their normal lives. Also, I would like to express my heartfelt thanks to all our employees for their contributions and efforts to our Group throughout many years.

FINANCIAL REVIEW

Against the backdrop of the decrease of overall revenue, especially the speedy decrease of the orders of HDD components, the revenue of the Group for the year ended 31 December 2019 amounted HK\$812,177,000, representing a decrease of HK\$131,299,000 or 13.9% as compared to HK\$943,476,000 of last year.

The Group produces high-quality products with high-precision equipment, which is a capital-intensive industry. When the revenue drops, the economy of scale cannot be brought into full utilization, resulting in the relatively sharp decrease of the Group's gross profit. The gross profit for 2019 was 22.3%, representing a decrease of 8.5% as compared to 30.8% of last year. The gross profit margin for 2019 amounted to HK\$180,928,000, representing a decrease of HK\$109,861,000 or 37.8% as compared to HK\$290,789,000 of last year.

For the year ended 31 December 2019, other revenue amounted to HK\$19,913,000, as compared to HK\$8,557,000 in the corresponding period last year. Bank interest income for 2019 amounted to HK\$11,341,000, representing an increase of HK\$4,740,000 as compared to HK\$6,601,000 in the corresponding period of last year. Secondly, the Group proactively applied for relevant subsidies from the government and successfully received HK\$3,361,000 (2018: nil). In addition, since we had made provisions for receivables which have been fully recovered during 2019, thus recording a reversal of receivables of HK\$2,079,000 (2018: nil).

Sales and distribution expenses for 2019 amounted to HK\$15,959,000, representing a decrease of HK\$10,576,000 or 39.9% as compared to last year, mainly due to the tax refund of HK\$7,027,000 for the tariffs of importing components to the United States last year.

Administration expenses and other expenses for 2019 amounted to HK\$123,524,000, representing a decrease of HK\$29,363,000 or 19.2% as compared to HK\$152,887,000 in the corresponding period of last year. We mainly reduced our costs on the amortization of share options decreased by HK\$15,680,000, salaries and allowances decreased by HK\$13,046,000, directors' remuneration decreased by HK\$6,783,000 and maintenance costs decreased by HK\$3,373,000. On the other hand, due to the effects of exchange rates, the foreign exchange loss for 2019 amounted to HK\$3,424,000, as compared to the foreign exchange gain of HK\$9,592,000 in last year. Under the comparison of foreign exchange loss, such expense increased by HK\$13,016,000.

While focusing on the reduction of expenditure and under the principle of prudent investments, the Company reduced financing amounts and urged to lower the borrowing rates. Therefore, finance cost for 2019 amounted to HK\$14,430,000, representing a decrease of HK\$4,041,000 or 21.8% as compared to 2018.

For the year ended 31 December 2019, the profit attributable to the owners of the Group amounted to HK\$41,111,000, representing a decrease of HK\$43,351,000 or 51.3% as compared to the attributable profit of HK\$84,462,000 last year.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2019, the Group had total borrowings of HK\$258,466,000 (31 December 2018: HK\$436,775,000) 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 2019.

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 2019, cash per share amounted to HK\$0.81, which increased slightly as compared to HK\$0.80 last year, based on the 1,052,254,135 ordinary shares in issue (31 December 2018: 1,052,254,135 ordinary shares). Under the principle of steady financial management, the net asset value per share for 2019 amounted to HK\$1.63, representing a slight increase as compared to HK\$1.61 last year.

With regard to cash flow, despite the decrease in revenue, driven by cost rationalization and high-quality customers, combined with previous default of receivables recovered, the Group recorded a net cash inflow from operating activities of HK\$228,696,000 in 2019, compared with the a cash inflow from operating activities of HK\$180,434,000 in 2018. The cash inflow from operating activities did not record any backslide. Against the backdrop of the decrease in the number of sale orders, capital expenditure would only be made after prudent consideration. Therefore, the net cash outflow from investment activities for 2019 amounted to HK\$19,274,000, representing a significant decrease of HK\$79,270,000 compared with the net cash outflow of HK\$98,544,000 in 2018.

In terms of bank borrowings, interest expenses were also reduced. Therefore, as at 31 December 2019, total bank borrowings amounted to HK\$258,466,000, representing a decrease of HK\$178,309,000 as compared with HK\$436,775,000 in 2018. While facing the decrease in the number of sale orders, the Group explored new customers and new products on one hand, while ensuring the recovery of receivables under the principle of prudent wealth management. The Group also reduced its daily expenses and reduced capital investments by utilizing existing production equipment to the fullest extent, thus net cash, calculated by cash and bank balances less total bank borrowings, will be improved, so as to enable the Group to have more funds to respond to the negative surroundings and seize future development opportunities. As at 31 December 2019, the net cash, calculated by cash and bank balances less total bank borrowings, amounted to HK\$588,627,000, representing an increase of HK\$185,221,000 as compared with HK\$403,406,000 as at 31 December 2018.

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

In addition to the improvement of the safety awareness and safety skills of our employees as mentioned above, we have commenced recreational activities for our staff in various types, such as movie shows, Chinese chess competition, badminton match, basketball match, etc. We have also organized design activities for setting up IPE Engineering Institute. Furthermore, we have put effort in promoting brand establishment and promote corporate culture and share important events of the Group through channels like WeChat public account, so as to increase the sense of belonging and cohesion of our staff.

Furthermore, we have strengthened our team establishment and collaboration with colleges to nurture talents, such as participating colleges' job fairs. We have established talent cooperation at the college-enterprises level with colleges like Guangzhou College of South China University of Technology, Guangdong Polytechnic Normal University, Guangzhou Huali Technician College and GETC and organize the IPE order-based classes. Also, training sessions and lectures were held to complete trainings in respect of IATF16949 Five Major Tools and quality control. In addition, the Company completed the filing works of a government-subsidized project named "New Apprenticeship" of a number of apprentices with Human Resources and Social Security Bureau of Zengcheng Municipality, Guangzhou, so as to enhance the occupational techniques of technical staff.

The Group has a share option scheme in place as an encouragement and awards to selected participants for their contributions to the Group. The Company has set up a mandatory provident fund and local retirement benefit scheme for our staff.

As at 31 December 2019, the Company had a total of 2,229 employees, representing a decrease of 140 employees or 5.9% when compared to 2,369 employees as at 31 December 2018.

SUPPLEMENTARY INFORMATION

Purchase, Redemption or Sale of Listed Securities of the Company

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

Final Dividend

The Board recommends a proposed final dividend of HK0.5 cents per share for the year ended 31 December 2019 (the "**Proposed Final Dividend**") (2018: Nil), subject to the approval of the shareholders at the Company's annual general meeting to be held on Friday, 12 June 2020 (the "**2020 AGM**"). The Proposed Final Dividend will be paid in cash on 6 July 2020 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 22 June 2020.

Closure of Register of Members

The Register of Members of the Company will be closed during the following periods:

- (i) From Tuesday, 9 June 2020 to Friday, 12 June 2020 (both days inclusive), during that period no transfer of shares will be effected. In order to qualify for the right to attend and vote at the 2020 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 8 June 2020 for registration of transfer.
- (ii) From Friday, 19 June 2020 to Monday, 22 June 2020 (both days inclusive), during that period no transfer of shares will be effected. In order to be eligible to receive the Proposed Final Dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Thursday, 18 June 2020 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 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 Group.

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 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 consolidated financial statements for the year ended 31 December 2019 with senior management of the Group and external auditor.

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 2019 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 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, 23 March 2020