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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 2020

FINANCIAL HIGHLIGHTS

1. Revenue for the year decreased by 2.3% to HK\$793.7 million (2019: HK\$812.2 million).
2. Gross profit margin for the year was 23.0% (2019: 22.3%).
3. Profit for the year decreased by 29.4% to HK\$29.0 million (2019: HK\$41.1 million).
4. Basic earnings per share for the year was HK2.60 cents (2019: HK3.83 cents).
5. Net asset value per share as at 31 December 2020 was HK\$1.79 (2019: HK\$1.63).
6. The Group was in a net cash position (i.e. cash and bank balances less total bank borrowings) as at 31 December 2020 in the amount of HK\$723.2 million or equivalent to HK68.73 cents per share (2019: HK\$588.6 million or HK55.94 cents per share).
7. The Board does not recommend the payment of a final dividend (2019: HK0.5 cents per share for the year).

* 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 2020, together with the comparative results for the previous year:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	3	793,731	812,177
Cost of sales		<u>(611,264)</u>	<u>(631,249)</u>
Gross profit		182,467	180,928
Other income	4	35,436	19,913
Distribution costs		(19,384)	(15,959)
Reversal of impairment losses related to trade receivables		170	515
Administrative expenses and other expenses		<u>(146,841)</u>	<u>(124,039)</u>
Profit from operations		51,848	61,358
Finance costs	5(a)	(7,499)	(14,430)
Share of (loss)/profit of an associate		<u>(2,146)</u>	<u>1,650</u>
Profit before taxation	5	42,203	48,578
Income tax	6	<u>(13,164)</u>	<u>(7,467)</u>
Profit for the year		<u>29,039</u>	<u>41,111</u>
Attributable to:			
Equity shareholders of the Company		27,410	40,345
Non-controlling interests		<u>1,629</u>	<u>766</u>
Profit for the year		<u>29,039</u>	<u>41,111</u>
Earnings per share	7		
Basic and diluted		<u>HK2.60 cents</u>	<u>HK3.83 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	29,039	41,111
Other comprehensive income for the year		
(after tax adjustment)		
Items that will not be reclassified to profit or loss		
– Surplus on revaluation of investment properties reclassified from property, plant and equipment	34,527	–
Items that may be reclassified subsequently to profit or loss		
– Exchange differences on translation of foreign operations	<u>97,715</u>	<u>(16,809)</u>
Total comprehensive income for the year	<u>161,281</u>	<u>24,302</u>
Attributable to:		
Equity shareholders of the Company	159,722	23,574
Non-controlling interests	<u>1,559</u>	<u>728</u>
Total comprehensive income for the year	<u>161,281</u>	<u>24,302</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December 2020	31 December 2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Investment properties	8	128,082	–
Property, plant and equipment	8	664,647	726,497
Interest in an associate		896	3,064
Deposits for purchase of non-current assets		11,261	1,813
Deferred tax assets		13,621	10,982
		818,507	742,356
Current assets			
Inventories	9	219,173	243,480
Trade and other receivables	10	313,359	273,623
Pledged and restricted deposits		3,672	–
Cash and cash equivalents		924,246	847,093
		1,460,450	1,364,196
Current liabilities			
Trade and other payables	11	152,724	109,936
Contract liabilities		624	–
Bank loans		53,769	53,769
Lease liabilities		1,123	1,291
Tax payable		19,325	6,939
		227,565	171,935
Net current assets		1,232,885	1,192,261
Total assets less current liabilities		2,051,392	1,934,617

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Non-current liabilities		
Bank loans	150,862	204,697
Lease liabilities	366	1,403
Other payables	2,475	2,139
Deferred tax liabilities	17,395	10,381
	<u>171,098</u>	<u>218,620</u>
NET ASSETS	<u>1,880,294</u>	<u>1,715,997</u>
CAPITAL AND RESERVES		
Share capital	105,225	105,225
Reserves	1,775,720	1,611,929
	<u>1,880,945</u>	<u>1,717,154</u>
Total equity attributable to equity shareholders of the Company	1,880,945	1,717,154
Non-controlling interests	<u>(651)</u>	<u>(1,157)</u>
TOTAL EQUITY	<u>1,880,294</u>	<u>1,715,997</u>

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, electronic equipment components and components for other applications.

2. SIGNIFICANT ACCOUNTING POLICIES

(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 disclosure 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 amendments to 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 2020 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 except for investment properties that are measured at fair value.

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 Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“**COVID-19-related rent concessions**”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred.

None of the amendments have had a material effect on how the Group’s results and financial position for the current or prior years have been prepared or presented in these financial statements.

3. REVENUE AND SEGMENT REPORTING

(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).

Disaggregation of revenue

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

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of automotive components	456,253	449,302
Sales of hydraulic equipment components	192,478	228,038
Sales of electronic equipment components	111,264	101,276
Others	33,736	33,561
	<hr/>	<hr/>
Total	793,731	812,177
	<hr/> <hr/>	<hr/> <hr/>

The Group's customer base is diversified and does not include any individual customer (2019: Nil) with whom transactions have exceeded 10% of the Group's revenue.

(b) Segment reporting

(i) Segment results

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 2020 and 2019 is set out below.

	2020						
	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	15,969	83,913	381,784	132,527	161,635	17,903	793,731
Inter-segment revenue	13,988	-	-	-	-	-	13,988
Reportable segment revenue	29,957	83,913	381,784	132,527	161,635	17,903	807,719
Reportable segment profit							
Gross profit	<u>3,671</u>	<u>19,290</u>	<u>87,766</u>	<u>30,466</u>	<u>37,157</u>	<u>4,117</u>	<u>182,467</u>
	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>

(ii) *Geographic information*

The geographical location of customers is based on the location at which the goods delivered, and the Group's revenue from external customers were disclosed in Note 3(b)(i).

The following table sets out information about the geographical location of the Group's investment property, other property, plant and equipment, interests in associates and deposits for purchase of non-current assets ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, and the location of operations, in the case of interests in associates and joint venture.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland China	696,835	617,896
Hong Kong and Macau	70,486	75,193
Thailand	37,565	38,285
	<u>804,886</u>	<u>731,374</u>

4. **OTHER INCOME**

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest income	13,682	11,341
Government grants	15,049	3,361
Valuation gains on investment properties	1,428	–
Net realised gains on trading of securities	1,332	–
Others	3,945	5,211
	<u>35,436</u>	<u>19,913</u>

5. PROFIT BEFORE TAXATION

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(a) Finance costs		
Interest on bank loans	5,714	12,385
Financial arrangement fees	1,705	1,923
Interest on lease liabilities	80	122
	<u>7,499</u>	<u>14,430</u>
(b) Staff costs		
Salaries, wages and other benefits	208,457	204,888
Contributions to defined contribution retirement plan	7,855	12,327
Equity-settled share-based payment expenses	9,330	–
	<u>225,642</u>	<u>217,215</u>
(c) Other items		
Cost of inventories	611,264	631,249
Depreciation		
– owned property, plant and equipment	81,463	107,864
– right-of-use assets	1,294	1,249
Amortisation of leasehold land	2,006	2,071
Lease payments not included in the measurement of lease liabilities	81	108
Net foreign exchange loss	3,199	3,424
Research and development costs	30,140	16,099
Auditor's remuneration		
– audit services	1,700	1,800
– other services	727	733
Loss/(gain) on disposal of items of other property, plant and equipment	595	(47)

6. INCOME TAX

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax		
Provision for current income tax	10,344	10,818
Under/(over) provision in prior years (<i>Note</i>)	9,649	(888)
	<u>19,993</u>	<u>9,930</u>
Deferred tax		
Origination and reversal of temporary differences	(6,829)	(2,463)
	<u>13,164</u>	<u>7,467</u>

Note: The Hong Kong Inland Revenue Department (“**IRD**”) initiated a review on the tax affairs of certain subsidiaries of the Group for prior years, inter alia, the eligibility of depreciation allowance for certain machinery, deductibility of expenses and taxability of trading profits of those subsidiaries for Hong Kong profits tax purposes of the past years. After taking into consideration of purchase of tax reserve certificates in prior years, the Group had agreed with the IRD to pay an additional tax expense of HK\$6,271,000 to settle the above-mentioned tax review during the year ended 31 December 2020.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$27,410,000 (2019: HK\$40,345,000) and the weighted average of 1,052,254,000 ordinary shares (2019: 1,052,254,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for year ended 31 December 2020 and 2019 were the same as the basic earnings per share.

At 31 December 2020, 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. INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in leasehold land held for own use carried at cost HK\$'000	Other properties leased for own use carried at cost HK\$'000	Freehold land and buildings HK\$'000	Leasehold improvement HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation:										
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
Representing:										
Cost	77,445	3,866	713,905	19,000	1,512,460	85,289	17,462	44,141	-	2,473,568
Additions	-	-	7,552	-	35,832	10,117	2,014	18,002	-	73,517
Transfer from construction in progress	-	-	-	-	15,448	1,115	-	(16,563)	-	-
Disposals	-	-	(55)	-	(33,579)	(3,376)	(4,816)	-	-	(41,826)
Surplus on revaluation	36,383	-	-	-	-	-	-	-	-	36,383
Transfer to investment properties	(49,091)	-	(37,034)	-	-	-	-	(33,277)	119,402	-
Fair value adjustment	-	-	-	-	-	-	-	-	1,428	1,428
Exchange adjustment	4,288	216	34,836	935	79,947	5,672	615	1,232	7,252	134,993
At 31 December 2020	69,025	4,082	719,204	19,935	1,610,108	98,817	15,275	13,535	128,082	2,678,063
Representing:										
Cost	69,025	4,082	719,204	19,935	1,610,108	98,817	15,275	13,535	-	2,549,981
Valuation-2020	-	-	-	-	-	-	-	-	128,082	128,082
	69,025	4,082	719,204	19,935	1,610,108	98,817	15,275	13,535	128,082	2,678,063
Accumulated depreciation:										
At 1 January 2019	-	-	(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)
Charge for the year	(2,006)	(1,294)	(25,987)	(2,388)	(44,269)	(7,668)	(1,151)	-	-	(84,763)
Written back on disposals	-	-	28	-	31,239	1,809	4,816	-	-	37,892
Elimination on revaluation	316	-	9,633	-	-	-	-	-	-	9,949
Exchange adjustment	(235)	(79)	(19,052)	(866)	(76,487)	(4,046)	(576)	-	-	(101,341)
At 31 December 2020	(3,958)	(2,599)	(358,710)	(17,267)	(1,413,530)	(78,400)	(10,870)	-	-	(1,885,334)
Net book value:										
At 31 December 2020	65,067	1,483	360,494	2,668	196,578	20,417	4,405	13,535	128,082	792,729
At 31 December 2019	75,412	2,640	390,573	4,987	188,447	16,794	3,503	44,141	-	726,497

9. INVENTORIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Raw materials	53,295	51,458
Consumables	16,465	24,963
Work in progress	66,909	61,583
Finished goods	82,504	105,476
	<u>219,173</u>	<u>243,480</u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Carrying amount of inventories sold	604,921	629,770
Write-down of inventories	6,343	1,479
	<u>611,264</u>	<u>631,249</u>

10. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade debtors, net of loss allowance	269,953	226,646
Bills receivables	2,508	2,603
Amount due from an associate	2,211	3,432
Other debtors	10,204	13,522
	<hr/>	<hr/>
Financial assets measured at amortised cost	284,876	246,203
Deposits and prepayments	18,022	12,264
Deductible input VAT	10,461	15,156
	<hr/>	<hr/>
	313,359	273,623
	<hr/> <hr/>	<hr/> <hr/>

All of trade and other receivables are expected to be recovered or recognised as expense within one year.

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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	114,421	90,806
1 to 2 months	75,882	59,098
2 to 3 months	54,619	41,868
3 to 4 months	24,851	24,531
4 to 12 months	2,688	12,946
	<hr/>	<hr/>
	272,461	229,249
	<hr/> <hr/>	<hr/> <hr/>

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

11. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	91,495	65,848
Interest payables	161	470
Other payables	43,198	23,269
Accruals	<u>20,345</u>	<u>22,488</u>
	155,199	112,075
Portion classified as non-current:		
Other payables	<u>(2,475)</u>	<u>(2,139)</u>
Current portion	<u>152,724</u>	<u>109,936</u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	41,127	38,402
1 to 2 months	28,645	14,142
2 to 3 months	15,452	12,498
Over 3 months	<u>6,271</u>	<u>806</u>
	<u>91,495</u>	<u>65,848</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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Final dividend proposed after the end of the reporting period of HK Nil cents per ordinary share (2019: HK0.5 cents)	<u>–</u>	<u>5,261</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

At the beginning of 2020, COVID-19 started to break out in China and quickly spread to the whole world. Both the Group and our customers were impacted. The overseas pandemic was more severe, so there were difficulties in our mass production while the new projects were slowing down. The Group had faced great pressure on our production.

Our exporting business mainly to Europe and the United States was seriously struck. The delayed resumption of work in order to prevent and control the pandemic, the suspension of our customers' work and production, and the canceled or postponed sales orders, had a negative impact on the original sales target. Therefore, our sales in the first half of 2020 amounted to HK\$338,286,000, representing a decrease of HK\$65,545,000 or 16.2%, as compared to the corresponding period of last year.

In the second half of 2020, while the easing of COVID-19 in China, the economies in Europe and the United States gradually recovered. All the departments of the Group fully cooperated to seize the perfect opportunity from the gradual recovery of global economy, the Group not only maintained good relationship with customers and seized market opportunities to obtain much more orders than our expectation, but also used technical reserves to gain a firm foothold in the supply chain of domestic high-precision hydraulic products. The sales achieved a V-shaped rebound by increasing 34.6% as compared to the first half of the year; In terms of sales scale, in the second half of 2020 it had exceeded that in the second half of 2019 (HK\$408,346,000), and approximately increased by 11.5% or HK\$47,099,000, reaching the sales scale in 2018 as well.

The trade war between China and the United States had been repeated. At the beginning of the year, the US Customs imposed a 25% tariff on imported products, thus the costs of customers and the Group were increased, orders were reduced, and the scale of exports to and profits from the United States fell across the board. The unstable political environment in the United States had added more uncertainties and operational risks to the Group's future exports to it.

As for business performance, the following comparing in the table may help to understand the whole picture:

	2020		2019		Change	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Automotive components	456,253	57.5	449,302	55.3	+6,951	+1.5
Hydraulic equipment components	192,478	24.2	228,038	28.1	-35,560	-15.6
Electronic equipment components	111,264	14.0	101,276	12.5	+9,988	+9.9
Others	33,736	4.3	33,561	4.1	+175	+0.5
	<u>793,731</u>	<u>100.0</u>	<u>812,177</u>	<u>100.0</u>	<u>-18,446</u>	<u>-2.3</u>

When the pandemic gradually stabilized in the second half of the year, customers of automotive components resumed their production more quickly, and the Group cooperated with them to resume the production as soon as possible. Therefore, as compared to last year, sales of automotive components in 2020 recorded HK\$456,253,000, representing an increase of HK\$6,951,000 or 1.5%, and accounted for half of the Group's total sales in terms overall sales; The Group develops all its businesses in a balanced manner to avoid concentration risks.

Regarding the hydraulic equipment components business, one of the Group's major strategic businesses, the Group invested more funds and talents during the year, focusing on developing the domestic market, such as relief valve components, i.e. high-precision hydraulic products, and production lines to obtain new orders from customers, which was highly recognized by our heavyweights, Heng Li Hydraulic and Lonking Holdings. During the year, we promoted the design and development of high-precision hydraulic products, and focused on the market of relief valves and other high-end hydraulic products monopolized by overseas manufacturers, striving to achieve import substitution and share the domestic market of hydraulic products; However, due to a series of unstable factors such as the impact of the pandemic, the project that was originally planned for mass production in the middle of the year had been postponed. Sales of hydraulic equipment components amounted to HK\$192,478,000, representing a decrease of HK\$35,560,000 or 15.6%, as compared to last year.

In addition to the business of hard disk drive (“HDD”) components in the past, the Group has entered the Computer, Consumer electronics, and Communications (“3C”) industry in recent years, of which the business has been integrated into the electronic equipment components business segment, to meet the business strategy for the future. As these customers were less affected by the pandemic, the sales in 2020 increased by HK\$9,988,000 or 9.9%, as compared to last year.

Furthermore, taking COVID-19 as an opportunity and being a producer of personal protective equipment, the Group has entered the medical instruments field, in accordance with the Group’s strategic goals, to increase the diversification of businesses in the future.

With the continuous increase in sales orders, the Group’s existing production capacity has obvious limitation, and is in great need of expansion. The main difficulties are concentrated in machinery and human resources. By paying close attention to market trends to shorten the time of information transmission, our sales department carefully selects high-quality customers and participates in process monitoring, e.g. production arrangements and shipments, to implement a rapid response mechanism for the linkage of supply, production and sales. Meanwhile, many breakthroughs in the research and development (“R&D”) of new projects have been made and result in mass production, of which the products have been delivered to the customers, such as Eaton, Danfoss, Delphi, Magneti Marelli, Shanghai Winkelmann Longchuan (“SWL”) Motorcomponents, Vitesco Automotive Changchun, etc.

With the concerted efforts from R&D, engineering and production, the Group focuses on the “goal of automation” to improve production efficiency and conformance rate. The production department continues to optimize the existing production process to promote lean production. In addition to using automation to improve the conformance rate, and the Company also encourages the production department to provide various specific plans for lean production through activities during the year, so as to reach the goal of lean production in multiple dimensions.

In terms of procurement, by developing various domestic and foreign suppliers, we have optimized the selection channel of suppliers, and formulated a reasonable and effective supply model. Meanwhile, we have comprehensively negotiated with suppliers to extend the payments or agree with the payment for goods in acceptance bills to reduce the capital occupation from cash payment; By improving evaluation of suppliers, we have cooperated with suppliers to establish the unified internal quality control standards, and strengthened the audits in supplier quality management, therefore the overall quality of suppliers throughout the year has been improved.

Focusing on the strategic development of hydraulic business, the Group concentrated on the hydraulic industry-university-research cooperation during the year, actively expanding the resources from domestic colleges and universities, and establishing relationships with the professors of domestic key hydraulic institutions, including the deans and doctoral supervisors from Tsinghua University, Yanshan University, Lanzhou University of Technology, Harbin Institute of Technology, Shanghai Jiao Tong University and Tongji University, to lay the foundation for long-term planning such as project cooperation and talent introduction. A technical cooperation agreement with Fluid Transmission and Control Department at Lanzhou University of Technology was signed for the design and research on solenoid valve products, aiming to break through the technical bottleneck. Furthermore, we had in-depth cooperation with Zhejiang University in hydraulic field, and jointly applied for the Leading Innovation Team Project in Zengcheng District. Taking the advantages of the State Key Laboratory of Zhejiang University, the intensive cultivation in hydraulic field will enable us to participate in the formulation of international standards.

Although overseas pandemic continued to repeat and greatly impacted the Group's overseas marketing, all departments have worked together to improve customer management, supplier management, financial management, process optimization of supply, production and marketing, talent reserves in core and key technologies, and operating cost control comprehensively. An internal audit and supervision mechanism involving a number of institutions has been established to manage the efficiency, while work of increasing revenue, improving quality, reducing consumption and upgrading production, and exploitation of potentialities have been steadily implemented, with a view to raising the overall efficiency of the Group's management, enhancing our core competitiveness, and laying a solid foundation for strategic transformation.

In view of the uncertainties from the pandemic, it may impact our orders and logistics supply chain. The Group has taken actions to preserve sufficient cash and strengthen the liquidity. It has also prepared a certain amount of banking facilities to meet possible funding needs. As a manufacturing enterprise, the Group inevitably needs employees to work on the production line, and relies on a supply chain, especially the logistics. However, the Group can still reduce the impact from the pandemic through various measures, e.g. online meetings and strictly control of the entry of persons and cargo from areas with severe pandemic. During the pandemic, a subsidiary producing personal protective equipment had been established, in accordance with the Group's strategic goals, to increase the diversification of businesses in the future. Meanwhile, the Group continues to reform the supply chain, and communicates closely with customers at home and abroad to gain insight into changes as soon as possible.

In addition, the Group has been very cautious in investing funds and production equipment to prevent the impact from the uncertainties of the pandemic, while the outbreak has already delayed its business promotion activities and several business opportunities such as the discussion and negotiation with customers about new products. After the outbreak in early February 2020, our main domestic production plants followed the initiative from local government and ceased production for about two weeks. Moreover, the interruption of the supply chain and the holidays of employees during the Spring Festival have affected the production progress of the Group. The pandemic resulted in the decrease of the Group's revenue in 2020 by approximately 10% and the increase of additional costs, while Chinese and Hong Kong governments gave us a total subsidy of HK\$800,000 for the pandemic.

Paying close attention to the development of the pandemic and maintaining close communication with relevant government departments, the Group ensures the safety of employees and stable operations. It will make corresponding adjustments to measures and plans for pandemic prevention, operations and business development in due course.

PROSPECT

The Group will focus on the policy of “Increasing income, Improving quality, Reducing wastage, and Upgrading”, concentrate all its efforts on the intricate business environment, continuously expand new markets, customers and products, exploit new profitable points, and implement standardized management and lean production; this is the main direction of its future development.

Based on past experience, our key goals for improvement in the future include: improving the response speed of the supply chain to increase the flexibility of supply, paying attention to the safety of the supply chain and the level of supply risk to further optimize and control the inventory, as well as strengthening procurement management, and abandoning and realizing the stock in a timely manner.

In addition, especially for the hydraulic industry, we will pay more attention to the needs of high-end manufacturing and breakthroughs in imported technologies, the design and development of high-end hydraulic products to be accelerated, the substitution of imported hydraulic products to be gradually realized, the Group's market share in domestic hydraulic products to be further expanded and the R&D and manufacturing of independent intellectual property products to be strengthened.

In terms of talent cultivating, we will establish a completed separation of duties, organizational structure, position management system and job descriptions, formulate an updated salary standard for all job levels, and introduce key talents at mid-to-high level for key positions. We will exploit and obtain an insight into the information of external key talent market, update the talent map of the benchmark industry and target companies, and promote the introduction of key talents at mid-to-high level through multiple channels. We also plan to put priority on introducing and training of high-quality young technical backbones in hydraulic technology, mechanical engineering and medical instruments from the target universities.

In 2021, we will strive for the double-digit growth both in sales of automotive components and hydraulic equipment components, and at the same time make technical reserves to expand in 3C industry and medical instruments industry. Therefore, we will ensure the maintenance of existing customer partnership, and transform into a “product + technical service” of sales model to actively develop the domestic market. Meanwhile, we will actively seek out projects in new fields, regularly organize training of relevant staff, and actively participate in industry-related exchange seminars, in order to break into new fields. Furthermore, we will enter the field of medical instruments, with sufficient technical reserves and preparation in dealing with various risks in this new field.

During the past year, COVID-19 broke out globally. Although the stabilizing pandemic in specific countries and recently available coronavirus vaccines resulted in the Group’s recovered sales since the second half of 2020, there are still many countries around the world that have not yet controlled the pandemic, while variant viruses frequently arise. It is difficult to prevent the pandemic from repeating in the future. Therefore, we always pay attention to the pandemic at home and abroad, and actively develop the domestic market to hedge the significant impact on our foreign markets.

On behalf of the Board, I would like to wish this pandemic from COVID-19 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

Affected by the pandemic, the revenue in the first half of the year decreased by HK\$65,545,000 or 16.2%, as compared to the corresponding period last year. As the impact of the pandemic has weakened, which has been brought under control in China, and the economy has recovered, the revenue in the second half of the year rebounded significantly, increasing by HK\$47,099,000 or 11.5%, as compared to the corresponding period last year. Therefore, for the year ended 31 December 2020, the Group recorded a revenue of HK\$793,731,000, representing a decrease of HK\$18,446,000 or 2.3%, as compared to the revenue of HK\$812,177,000 last year.

The Group has strengthened cost monitoring and actively developed new products. Therefore in 2020, gross profit margin amounted to HK\$182,467,000 and gross profit margin was 23.0%, in the same level compared to the gross profit of HK\$180,928,000 and gross profit margin of 22.3% last year.

In the overall economic downturn resulted from the pandemic, the Group was actively increasing revenue and reducing expenditures, using existing resources to create revenue. In 2020, bank interest income amounted to HK\$13,682,000, increasing by 20.6% or HK\$2,341,000 as compared to last year; in addition, at the end of 2020, some of the domestic plants were leased out, while under the accounting standards, corresponding properties recorded an investment property revaluation gain of HK\$1,428,000 (2019: nil). In addition, the Chinese government provided a one-off subsidy to companies that were hit by the pandemic. In 2020, the Group received government subsidies of HK\$15,049,000, increasing by HK\$11,688,000, as compared to HK\$3,361,000 last year. Therefore, other income was HK\$35,436,000, representing an increase of 78.0% or HK\$15,523,000, as compared to last year.

Under the impact of the trade war between China and the United States, changes in distribution costs were mainly due to the acquisition of earlier import tariff refunds of HK\$7,027,000 imposed by the United States in 2019. However, since this tariff policy was changed in 2020, the Group has no longer got the tax refund. Therefore, without this one-off tax refund in 2020, the export declaration fee increased by HK\$5,227,000 as compared to last year; overall, the distribution costs in 2020 were HK\$19,384,000, increasing from HK\$15,959,000 last year by HK\$3,425,000. Save as the above one-off tariff refund, distribution costs accounted for 2.4% of revenue, which was similar to last year.

The administrative expenses and other expenses in 2020 amounted to HK\$146,841,000; increasing by HK\$22,802,000 or 18.4%, as compared to HK\$124,039,000 last year. Even in the pandemic, the Group continued to invest resources in long-term research and development, speeding up the implementation of automation projects, etc., thus R&D expenses increased by HK\$14,042,000 as compared to last year. In addition, when the share options were granted in early 2020, the equity-settled share-based payment expense incurred was HK\$9,330,000 (2019: nil); while the outbreak of COVID-19 at the beginning of the year, the Chinese authorities took preventive and control measures, so the Group complied with the instruction of relevant authorities to take appropriate preventive and control measures, which resulted in the suspension of domestic production bases, and the expenses incurred were HK\$4,805,000 (2019: nil); On the other hand, some plants were converted to investment properties to increase revenue, with the revised estimate useful live of certain freehold land and building to reflect latest consumption pattern, and resulted in the decrease of depreciation expense by HK\$4,652,000. Moreover, domestic companies reduced their tax surcharges by HK\$3,042,000 as compared to last year; while we avoided business travel during the pandemic, the car expenses were reduced by HK\$1,179,000.

In the shadow of the pandemic, in order to avoid the impact on sales orders and use own funds under the principle of prudence in financial management, the bank loan amount is reduced, and the financing cost in 2020 amounted to HK\$7,499,000, decreasing by HK\$6,931,000 or 48.0%, as compared to HK\$14,430,000 last year.

Regarding the performance of associates, struck by the pandemic, their business failed to carry out as usual, and the profit level was affected accordingly. Therefore, as of 31 December 2020, the share of losses of associates were HK\$2,146,000 (2019: share of profit of an associate: HK\$1,650,000), increasing by HK\$3,796,000 as compared to last year.

Furthermore, in terms of income tax, due to the rebound of sales orders in 2020, the profits of domestic wholly-owned subsidiaries recovered, and with the support of government subsidies, they showed a turn from loss to profit. As a result, the overall income tax as of 31 December 2020 was HK\$13,164,000, increasing by HK\$5,697,000, as compared to HK\$7,467,000 last year.

The profit attributable to equity shareholders of the Company for the year ended 31 December 2020 amounted to HK\$27,410,000, decreasing by HK\$12,935,000 or 32.1%, as compared to HK\$40,345,000 last year.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2020, the Group had total borrowings of HK\$204,631,000, decreased by HK\$53,835,000, as compared to HK\$258,466,000 last year, secured by corporate guarantee given by the Company and its subsidiaries. Besides, as at 31 December 2020, the Group pledged deposits of HK\$3,672,000 to issue letters of guarantee. Except for pledged and restricted deposit, the Group had no charge on any of its assets for its banking facilities as at 31 December 2020.

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 2020, cash per share amounted to HK\$0.88, compared to HK\$0.81 last year, based on the 1,052,254,135 ordinary shares in issue (31 December 2019: 1,052,254,135 ordinary shares). Although profits have declined, the Company still holds sufficient funds to face sudden changes. Under the principle of prudence in financial management, the net asset value per share for 2020 amounted to HK\$1.79, representing an increase even in the pandemic as compared to HK\$1.63 last year.

The net cash inflow generated by the Group's operations in 2020 was HK\$161,740,000, representing a decrease as compared to HK\$228,696,000 last year due to a significant decline in sales orders. In order to avoid the risk of impairment caused by the backlog of raw materials, the management strictly controlled the purchase of raw materials to deplete the inventories in the warehouse first, which resulted in a large reduction in relevant funds invested; after digesting the backlogged stock, there is no too much inventories available this year. Secondly, the long cycle of accounts receivable in the industry should also be blamed. The accounts receivable collected last year came from the sales in the fourth quarter of the previous year. Revenue in 2020 was similar to that of last year, therefore, there is no such factor affecting cash inflows from operating businesses.

In terms of capital expenditures, the Group believes that despite the impact of the pandemic in the short-term economic level and setbacks in sales orders, since the vaccines will be available, the investment projects in stable industries possess development potential. Therefore, the net cash outflows from investment activities in 2020 was HK\$51,779,000, representing an increase of HK\$32,505,000 as compared to HK\$19,274,000 last year.

In terms of bank borrowings, in addition to reducing unnecessary interest expenses, the Group did not make new bank borrowings in order to avoid credit risk, and repaid loans on time. Therefore, as of 31 December 2020, the total bank borrowings amounted to HK\$204,631,000, decreasing by HK\$53,835,000 as compared to HK\$258,466,000 in 2019.

Facing the not fully controlled pandemic, the Group developed new customers and new products, and at the same time, under the principle of prudence in financial management, it ensured the collection of accounts receivable, reduced daily expenses, and made full use of existing production equipment. The Group's net cash (cash and bank balances less total bank borrowings) was HK\$723,287,000 as at 31 December 2020, increasing by HK\$134,660,000, as compared to 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 appreciation of Renminbi will adversely affect the Group's profitability. The management of the Group monitors its relevant foreign exchange risks by entering into forward foreign exchange contracts, and continuously evaluates the foreign exchange risks of the Group and takes measures when necessary to reduce the risks.

HUMAN RESOURCES

Due to the pandemic, various cultural and recreational activities for employees were cut down during the year, while seven interest groups were established. Meanwhile, the Group improved the spare-time living facilities of employees, built reading rooms, and organized multiple internal training courses; in addition, a scheme of meal subsidies that benefit all levels of employees was implemented to improve staff welfare and enhance the employees' sense of belonging.

Regular safety production meetings are held every month during the year, and safety production responsibility commitment are signed by employees to fully implement the safety production responsibility system and safety production education and training. At the same time, we strengthened emergency drills for firefighting, hazardous chemicals, and special equipment, etc., investigated the hidden dangers of the production workshop, and invited a third-party agency to carry out safety assessments on the Group, in order to comprehensively enhance supervisory measures and improve employees' safety awareness and skills.

The Group attaches great importance to talents cultivating in cooperation with universities. We have established talent cooperation on the college-enterprises level with 7 colleges, including Guangzhou Mechanical and Electrical Technician College, Xinhua College of Sun Yat-Sen University, Guangdong Province Huali Technician College, Guangdong Polytechnic Normal University, and Guangdong Baiyun University, Yanshan University and Guangzhou Huali Science and Technology Vocational College, and organize the IPE order-based classes to improve the current level of human resources.

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

As at 31 December 2020, the Group had a total of 2,163 employees, representing a decrease of 66 employees or 3.0% as compared to 2,229 employees as at 31 December 2019.

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 does not recommend the payment of a final dividend (2019: HK0.5 cents per ordinary share) in respect of the year ended 31 December 2020.

Closure of Register of Members

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

From Wednesday, 16 June 2021 to Monday, 21 June 2021 (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 Tuesday, 15 June 2021 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 2020 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 2020 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, 26 March 2021