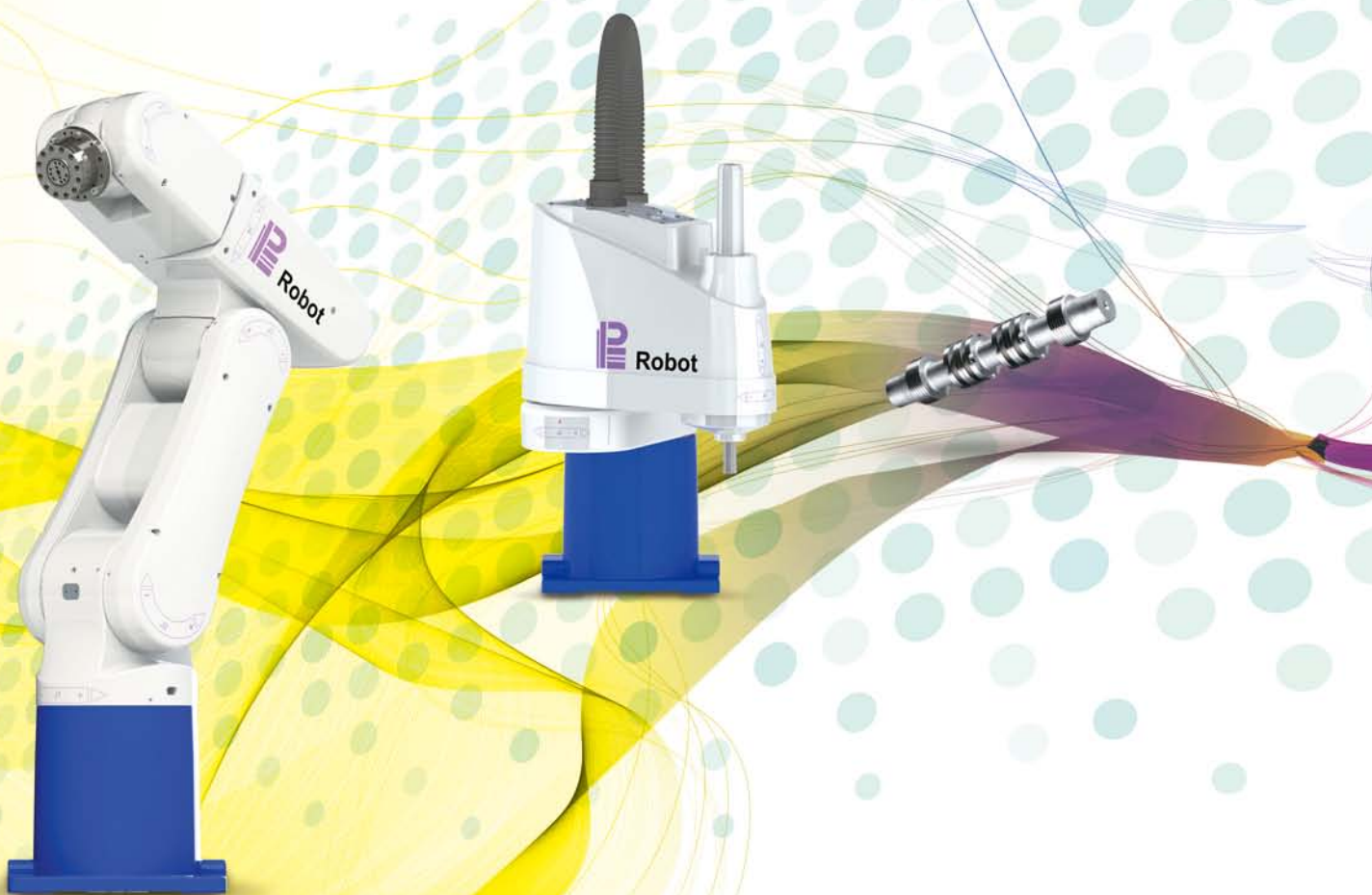


PIPE **GROUP LIMITED**

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 929)



2016
ANNUAL
REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chui Siu On (*Chairman and Managing Director*)

Mr. Ho Yu Hoi

Mr. Li Chi Hang

Mr. Lau Siu Chung

Mr. Yuen Chi Ho

Ms. Chiu Tak Chun

Mr. Zeng Guangsheng

Mr. Wu Kai Ping

Independent Non-executive Directors

Dr. Cheng Ngok

Mr. Choi Hon Ting, Derek

Mr. Wu Karl Kwok

Mr. Hung, Randy King Kuen

AUTHORISED REPRESENTATIVES

Mr. Chui Siu On

Mr. Tam Yiu Chung

COMPANY SECRETARY

Mr. Tam Yiu Chung

AUDIT COMMITTEE

Dr. Cheng Ngok (*Chairman*)

Mr. Choi Hon Ting, Derek

Mr. Wu Karl Kwok

REMUNERATION COMMITTEE

Dr. Cheng Ngok (*Chairman*)

Mr. Chui Siu On

Mr. Choi Hon Ting, Derek

Mr. Wu Karl Kwok

NOMINATION COMMITTEE

Mr. Chui Siu On (*Chairman*)

Dr. Cheng Ngok

Mr. Choi Hon Ting, Derek

Mr. Wu Karl Kwok

Mr. Hung, Randy King Kuen

LEGAL ADVISERS TO THE COMPANY

Michael Li & Co

WEBSITE

<http://www.ipegroup.com>

REGISTERED OFFICE

P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

11th Floor, Block E1, Hoi Bun Industrial Building
No. 6 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Shangwei Shahe Community, Yue Hu Cun
Zengcheng, Guangzhou
Guangdong Province, The PRC
Post code: 511335

PRINCIPAL PLACE OF BUSINESS IN THAILAND

99/1 Mu Phaholyothin Road, Sanubtueb
Wangnoi, Ayutthaya 13170, Thailand

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

Bangkok Bank Public Company Limited
DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
United Overseas Bank Limited

AUDITORS

Ernst & Young
Certified Public Accountants

STOCK CODE

929

LISTING VENUE

Main Board of The Stock Exchange of Hong Kong Limited

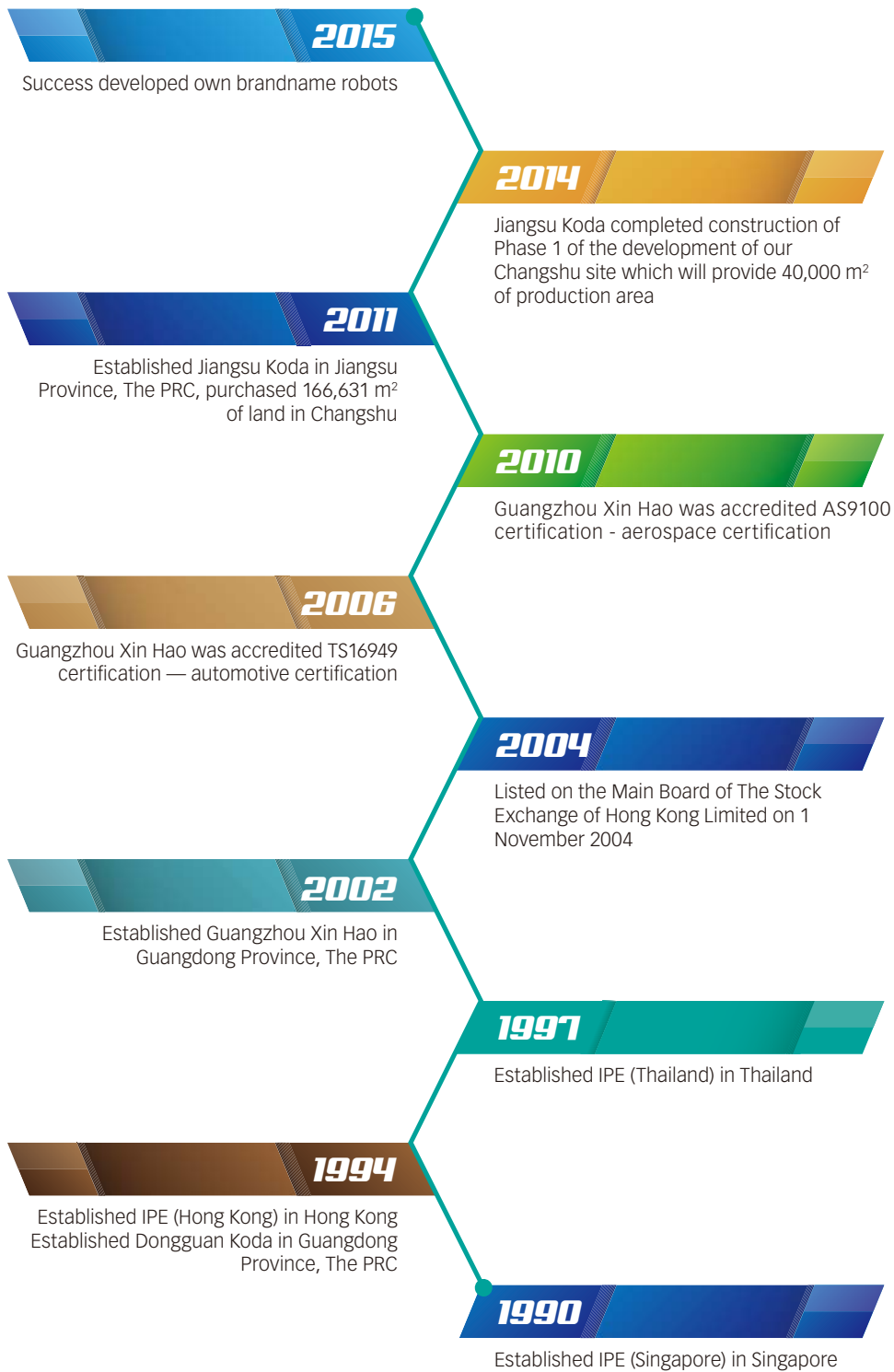
CORPORATE PROFILE

IPE Group Limited (the “Company” or “IPE Group”) was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002. The Company is an investment holding company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacture and sale of high precision metal components.

The Group started its high precision components business in 1990 in Singapore and now produces high precision metal components and assembled parts used in hard disk drives (“HDD”), hydraulic equipment, automotive parts, electronic and other devices.

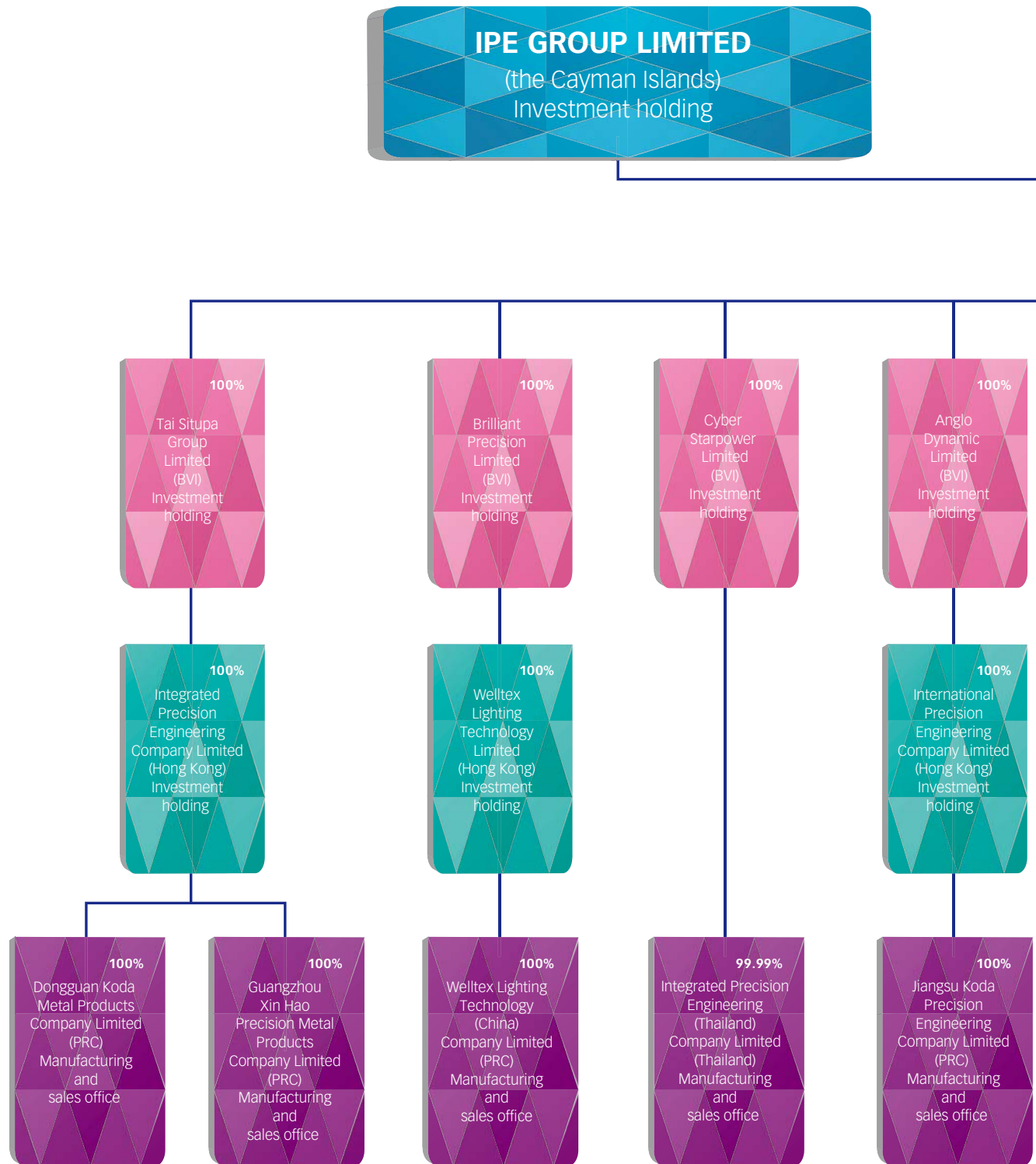
The Group’s highly valued customers are top-tier multinational corporations in the information technology, fluid power, automotive and electronic sectors where optimal precision is vital. Apart from supplying high volume precision components according to customer specifications, we are providing solutions to our global partners and working very closely with them in implementing new projects. Such projects typically take longer time to come to fruition as they involve development of many metal and plastic parts, and electronic circuits and the necessary know-how in final assembly and testing of the assembled device before shipment to the end customers can take place. The Group has developed a team of high caliber engineers which are able to provide solutions to our global partners.

CORPORATE MILESTONE

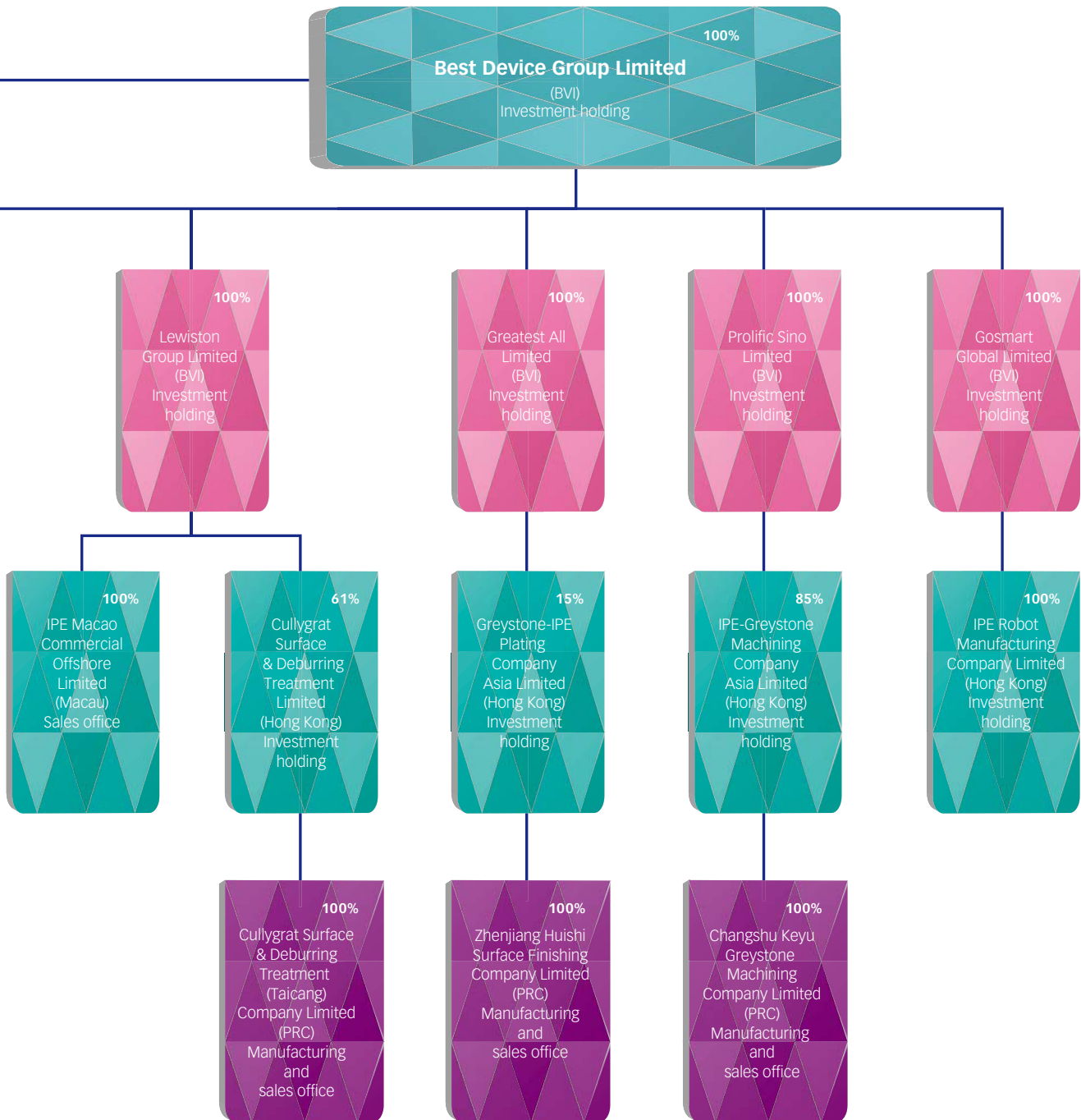


GROUP STRUCTURE

Principal subsidiaries of the Company as at 31 December 2016



GROUP STRUCTURE



FINANCIAL HIGHLIGHTS

RESULTS

	Year ended 31 December									
	2016		2015		2014		2013		2012	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
REVENUE	851,908	100%	877,194	100%	994,023	100%	878,080	100%	974,652	100%
Cost of sales	(589,322)	69%	(632,269)	72%	(715,626)	72%	(713,540)	81%	(763,525)	78%
Gross profit	262,586	31%	244,925	28%	278,397	28%	164,540	19%	211,127	22%
Other income and gains	30,913	4%	12,571	1%	22,386	2%	15,409	2%	24,080	2%
Selling and distribution expenses	(24,889)	3%	(23,013)	3%	(28,693)	3%	(26,713)	3%	(26,875)	3%
Administrative expenses	(95,496)	11%	(101,323)	12%	(107,756)	11%	(108,948)	12%	(99,972)	10%
Other expenses	(24,668)	3%	(12,047)	1%	(16,365)	2%	(9,311)	1%	(4,215)	0%
Finance costs	(13,130)	2%	(19,133)	2%	(23,924)	2%	(20,215)	2%	(16,587)	2%
PROFIT BEFORE TAX	135,316	16%	101,980	12%	124,045	12%	14,762	2%	87,558	9%
Income tax expense	(25,766)	3%	(16,181)	2%	(28,384)	3%	(12,414)	1%	(17,124)	2%
PROFIT FOR THE YEAR	109,550	13%	85,799	10%	95,661	10%	2,348	0%	70,434	7%
Attributable to:										
Owners of the Company	110,201	13%	86,093	10%	94,845	10%	1,827	0%	70,522	7%
Non-controlling interests	(651)	0%	(294)	0%	816	0%	521	0%	(88)	0%
	109,550	13%	85,799	10%	95,661	10%	2,348	0%	70,434	7%

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

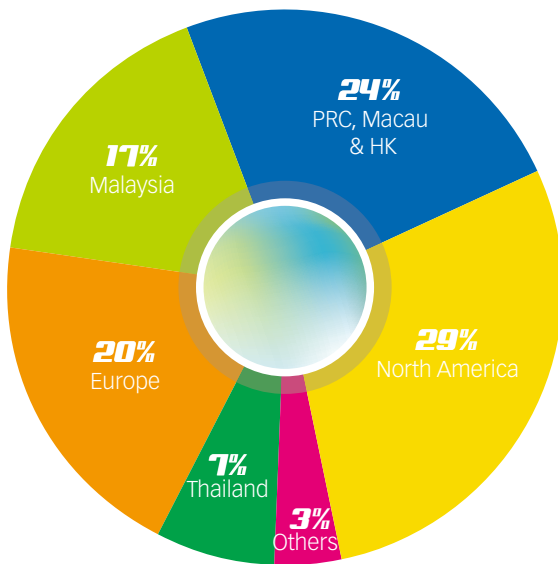
	As at 31 December				
	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
Total non-current assets	750,068	857,412	912,033	964,004	1,001,941
Total current assets	1,388,241	1,163,281	1,295,367	1,312,454	969,196
Total current liabilities	399,491	574,735	616,132	545,302	538,226
Net current assets	988,750	588,546	679,235	767,152	430,970
Total non-current liabilities	248,122	9,898	102,627	288,596	24,070
Total equity	1,490,696	1,436,060	1,488,641	1,442,560	1,408,841

RATIO ANALYSIS

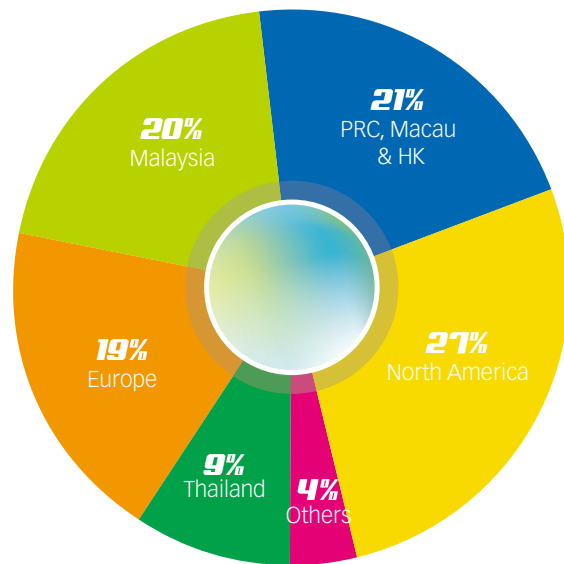
	Year ended 31 December				
	2016	2015	2014	2013	2012
KEY STATISTICS:					
Current ratio	3.48	2.02	2.10	2.41	1.80
Net cash to equity ratio	0.29	0.15	0.14	0.03	0.03
Dividend payout ratio	43.0%	40.6%	49.0%	–	29.1%
Gross profit margin	30.8%	27.9%	28.0%	18.7%	21.7%
EBITDA margin	32.3%	30.1%	30.8%	23.4%	27.7%
Net profit margin	12.9%	9.8%	9.6%	0.3%	7.2%
Average days of debtor turnover	93 days	101 days	94 days	91 days	80 days
Average days of inventory turnover	126 days	135 days	116 days	119 days	122 days
PER SHARE DATA:					
Net asset value per share (HK\$)	1.42	1.55	1.60	1.58	1.51
Dividend per share	HK4.5 cents	HK3.5 cents	HK5.0 cents	–	HK2.2 cents
Earnings per share — basic	HK10.66 cents	HK9.26 cents	HK10.22 cents	HK0.20 cent	HK7.60 cents
Earnings per share — diluted	HK10.47 cents	HK8.76 cents	HK10.15 cents	HK0.20 cent	HK7.50 cents

FINANCIAL HIGHLIGHTS

GEOGRAPHICAL COMBINATION

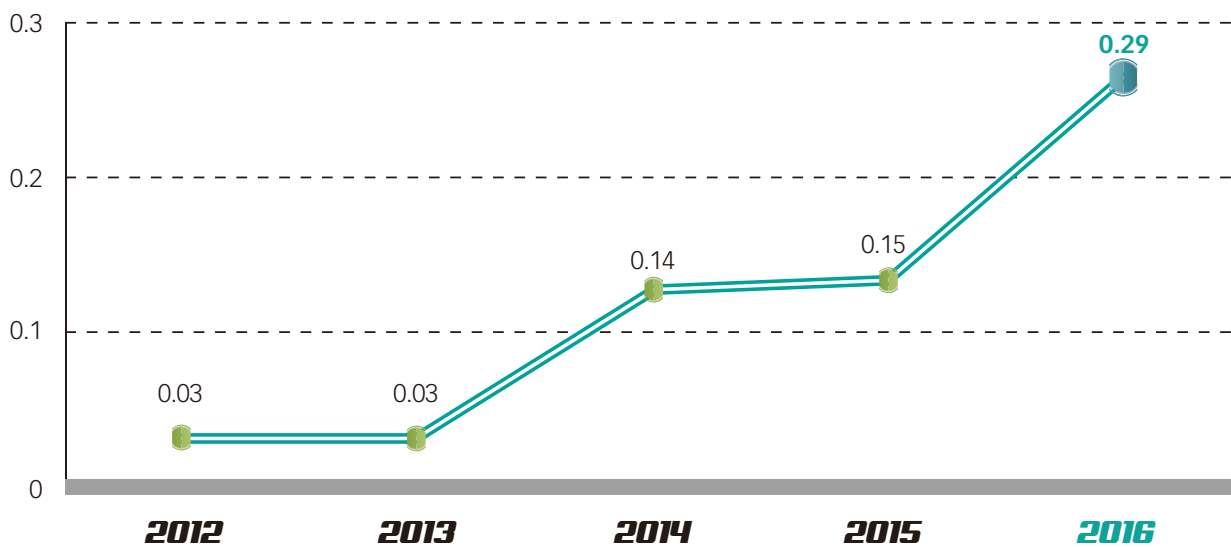


2016



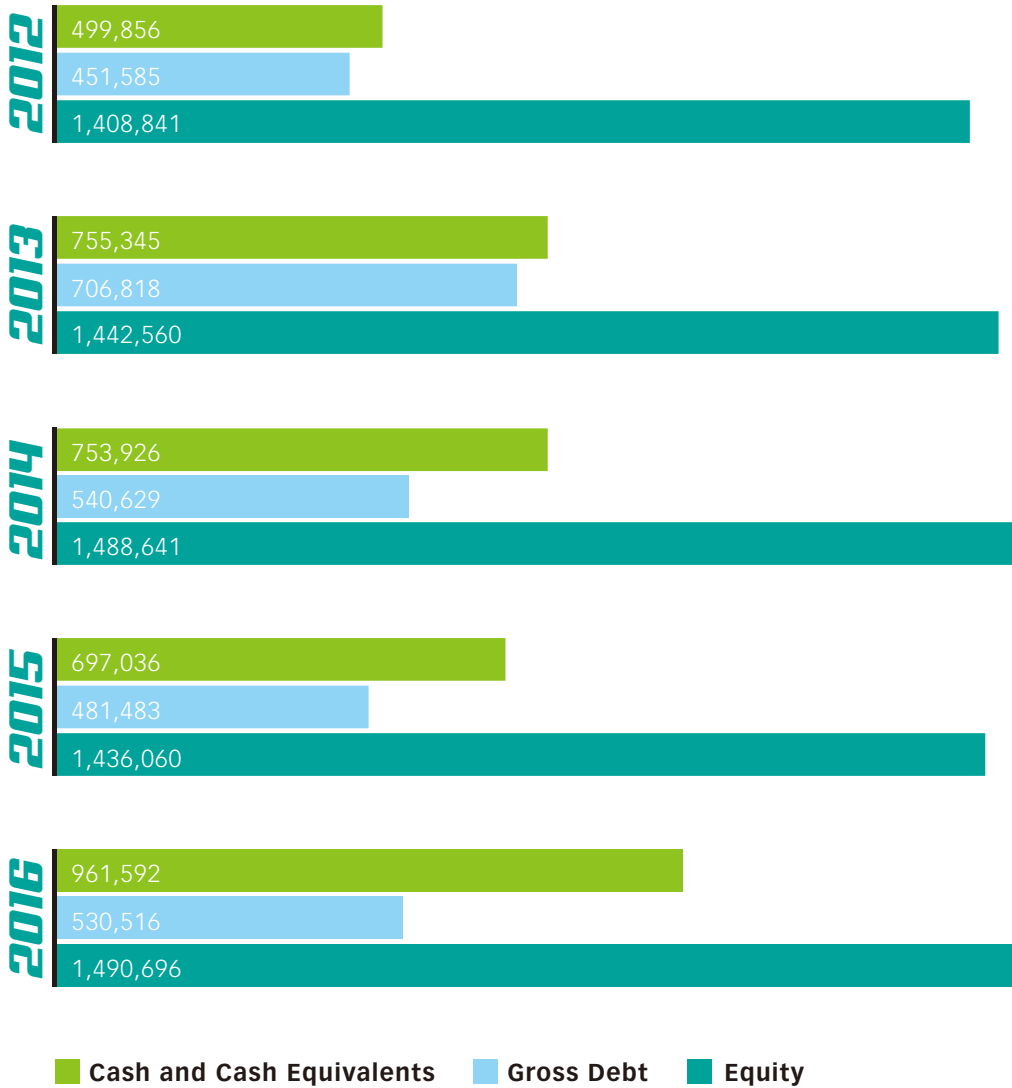
2015

NET CASH TO EQUITY RATIO



FINANCIAL HIGHLIGHTS

CASH AND CASH EQUIVALENTS, GROSS DEBT AND EQUITY (HK\$'000)



CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I present to shareholders the annual results of the IPE Group Limited ("IPE" or the "Company") and its subsidiaries (collectively referred to as the "Group" or "IPE Group") for the year ended 31 December 2016.

BUSINESS REVIEW

In light of the challenging economic environment last year, we are pleased to report net profit for the year of HK\$109.6 million, representing an increase of 27.7% when compared to net profit of HK\$85.8 million in 2015. Total sales of the Group in 2016 amounted HK\$851.9 million, a decline of 2.9% from total sales recorded in 2015.

Our Group's sales decreased by HK\$25.3 million mainly due to lower sales of HDD components, which fell by 20.0%, and lower sales of hydraulic equipment components, which fell by 5.8%, offset in part by a 14.8% increase in sales of automotive components. Sales of automotive components has grown uninterruptedly since we started to ship such components and automotive components is now our Group's largest business segment accounting for 42.7% of total sales.

The business environment for manufacturers of HDD components remains unfavorable. Worldwide PC shipments continued to fall in 2016. The average capacity of HDD continued to increase so fewer HDD are required for any particular level of storage capacity. In addition, HDD continued to lose ground to solid state drives. Given this operating environment, a decline in our sales of HDD components was unavoidable.

Because of the overall macro-environment, the business environment for manufacturers of hydraulic equipment components was also negative in 2016. Investment in hydraulic equipment is cyclical and 2016 was not the time in the cycle to expect growth.

In 2016, our sales of automotive components rose 14.8% to HK\$364.0 million. This very satisfactory increase stemmed from a combination of growth in orders for existing components that we manufacture, the manufacture of new components not hitherto part of what we manufacture and orders from new customers.

Despite the decline in total sales, our gross profit margin in 2016 rose to 30.8% from 27.9% in 2015. Several factors contributed to this improvement in our gross profit margin. As in previous years we have, where possible, declined minimally profitable orders and shifted toward higher value added products. (This is not always possible as we have to bear in mind the overall value of the business relationship and not antagonize customers.) We continued in our efforts to increase productivity and in the case of our automotive components segment there was the effect of scale economies as sales grew. Reflecting the improved gross profit margin, net profit attributable to shareholders for the year amounted to HK\$110.2 million, an increase of 28.0% from 2015.

In December 2015, our Group was the subject of an unexpected voluntary conditional cash offer on behalf of Baoan Technology Company Limited ("Baoan") to acquire all the issued shares in the share capital of the Company. Baoan acquired IPE shares in the market and at the close of the cash offer on 11 March 2016, Baoan became the single largest shareholder of the Company owning 34.36% of the issued share capital of the Company. Mr. Zeng Guangsheng and Mr. Wu Kai Ping, who were nominees of Baoan, were appointed as executive directors with effect from 18 March 2016 and the working relationship has since developed cordially.

During the year we finalised the development of our initial range of robots and began the manufacture of these robots for use in our own production.

OUTLOOK

The prospects for economic growth in 2017 seem improved, but we are very aware that risks remain, particularly with respect to political and other uncertainties in the US and Europe.

The factors that have adversely impacted the HDD business for several years will continue to persist so we are not optimistic about the outlook for this segment of our business, although we expect it will remain profitable.

We are more sanguine about the prospects for our hydraulic components business. It is not because we look for an imminent cyclical upturn in demand for hydraulic equipment. On the contrary, the industry remains in recession. One consequence is that many of the less financially strong firms in the industry are closing down. Some of our competitors in Europe have been very badly hit. We are using this opportunity to upgrade our product mix, moving away from components towards much higher value added semi-finished and finished products. It may be that 2017 will be the cycle nadir; we are very well positioned for recovery.

Given the recession in the industry, management attention has not been strongly focused on this business segment. However, management is conscious that hydraulic components have as much potential as automotive components. We are particularly excited by initiatives to invest heavily in infrastructure renewal: a US\$1 trillion investment in infrastructure is envisaged in the US. Close to home so to speak, we have China's One Belt, One Road initiative to connect and closer to link the PRC to Eurasia. Investment in infrastructure will greatly boost demand for hydraulic equipment and hence for the hydraulic equipment components we manufacture.

Prospects for our automotive components business are distinctly positive. Due to the economic problems in Europe, some of the big automotive component firms have sought to concentrate their supply chain, relying on fewer suppliers while some of the smaller firms have downsized or ceased production. Both trends represent opportunity for IPE. We have at present a number of new component projects in the pipeline which bode well for future growth in this segment of our business (an example is a high precision component used in seat belts manufacture that is critical to safety — we have already submitted samples for evaluation by the customer).

The most exciting prospect in IPE Group is that for our robot business. We developed our robots to increase automation of our production lines in response to steadily rising labour cost, and because using robots would give us greater flexibility to respond to rapid changes in demand. In periods of falling demand, the decision to lay off staff is difficult because of the difficulty in recruiting and training new staff when demand recovers. In periods of high demand, there is a limit on how much overtime one can reasonably expect of one's workers. Robots do not draw a salary and robots can work around the clock if necessary.

The robots we have developed have wide industrial application beyond our own production processes. They can perform with greater accuracy and reliability than humans and are especially suitable for work that is too dirty, too repetitive, dangerous or otherwise unsuitable for humans. The use of industrial robots is growing as rising labour cost, labour availability and productivity, safety and other considerations encourage even small and medium size enterprises to consider using robots. Hitherto, small and medium scale enterprises have not been widespread users of robots because of robots' high costs though some may have bought one or two as an experiment.

Our robots are so price competitive that some firms may be willing to buy a few as an experiment. We are not interested in selling a few robots here and there. Our intention is to sell them hundreds to enable them to convert their entire production process to robot operation. Realistically, no firm will want to make such an investment in an unproven robot from IPE as we have no reputation as a manufacturer of robots.

CHAIRMAN'S STATEMENT

Because of our positive experience using our robots in certain of our production process, we will focus this year on a comprehensive 'robotisation' of our manufacturing processes. In today's difficult operating environment, robots will give us the operating flexibility we need while enabling us to control our labour costs. Robotisation will result in greater efficiency, higher productivity and improved quality, with less rejects. This, in turn, will mean higher operating profit margins. Robotisation will also mean substantially expanded capacity with a reduced headcount. We therefore look forward to sustained rapid growth in profits in the years ahead.

IPE Group will itself be its first major customer of its robots manufacturing operation. Importantly too, our robotized production will be the best showcase of the quality and capabilities of our robots in actual production processes in a small to medium size company. We see this as the best way to market our robots to other manufacturers. Our use of robots will boost the profits of our existing business segments. In addition, our manufacturing of robots will itself be a very profitable business segment and could quickly over-take in importance our automotive components business.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our thanks to all staff for their hard work in 2016 and in years past.

Chui Siu On

Chairman

20 March 2017

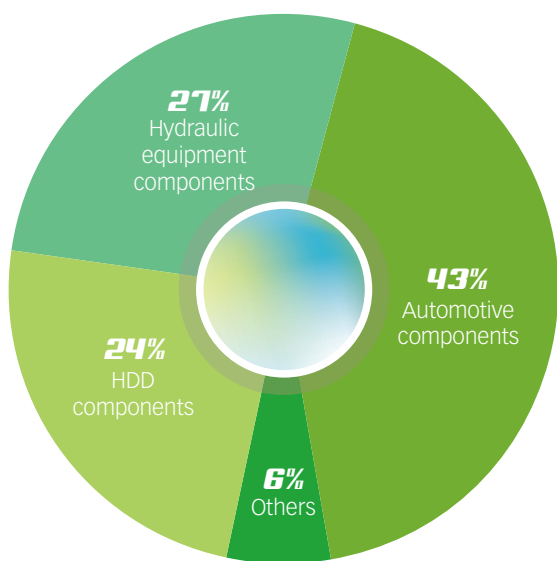
MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

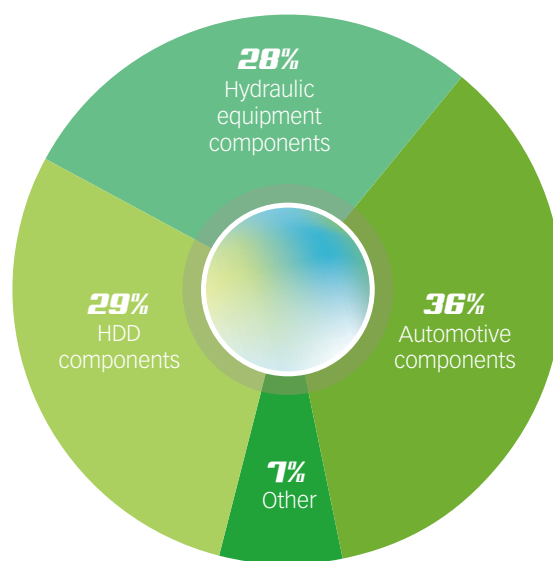
Overall, sales of our Group decreased by 2.9% for the year ended 31 December 2016 when compared with the year ended 31 December 2015. The following table gives a breakdown of our Group's sales by business segments during the year and comparative figures for 2015.

	2016		2015		Change
	HK\$'000		HK\$'000		
Automotive components	363,955	43%	317,154	36%	+14.8%
Hydraulic equipment components	230,665	27%	244,809	28%	-5.8%
HDD components	204,701	24%	256,011	29%	-20.0%
Others	52,587	6%	59,220	7%	-11.2%
Total	851,908	100%	877,194	100%	-2.9%

BUSINESS COMBINATION



2016



2015

MANAGEMENT DISCUSSION AND ANALYSIS

Although our Group's sales were slightly lower than last year's sales, our profitability continued to increase. Our net profit margin rose to 12.9% in 2016. Net profit for the year amounted to HK\$109.6 million representing an increase of 27.7% from 2015.

In 2016, other income and gains amounted to HK\$30.9 million. This represents an increase of HK\$18.3 million in comparison with 2015 mainly due to foreign exchange gains increasing by HK\$19.0 million, bank interest income falling by HK\$9.5 million and the gain on disposal of an unlisted equity investment of HK\$7.6 million.

Reflecting our focus to keep cost under control, selling and distribution expenses increased minimally in 2016 to HK\$24.9 million accounting for 2.9% of our Group's turnover. Administrative expenses decreased by 5.8% to HK\$95.5 million from HK\$101.3 million in 2015. However, this reduction was not simply due to our work to keep cost under control. Other factors were involved: there was a decrease in professional fee of HK\$1.9 million relating to Baoan's conditional cash offer in 2015, a decrease of equity-settled share option expense of HK\$2.2 million in 2016, and a fall in salaries and allowance of HK\$3.3 million in 2016 offset in part by an increase in depreciation of HK\$2.8 million in 2016.

Finance costs decreased by HK\$6.0 million to HK\$13.1 million as compared with 2015. The decrease of HK\$6.0 million was due to the reduction in interest expense and finance arrangement fee in the amount of HK\$3.7 million and HK\$2.3 million, respectively.

Profit attributable to owners of the Company increased by 28.0% or HK\$24.1 million to HK\$110.2 million for the year ended 31 December 2016 as compared with the year ended 31 December 2015.

DETAILS OF CHARGES ON THE GROUP'S ASSETS

As at 31 December 2016, our Group had total borrowings of HK\$530.5 million (31 December 2015: HK\$481.5 million) 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 2016.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

As at 31 December 2016, cash per share was HK\$0.91 (31 December 2015: HK\$0.75) and net asset value per share was HK\$1.42 (31 December 2015: HK\$1.55), based on the 1,052,254,135 ordinary shares then in issue (31 December 2015: 928,154,135).

In 2016, our Group recorded a net cash inflow from operating activities of HK\$318.6 million (2015: HK\$201.3 million). Our Group made capital expenditure of HK\$107.2 million and had a gain on disposal of an unlisted equity investment of HK\$7.6 million.

Total bank borrowings as at 31 December 2016 increased to HK\$530.5 million (31 December 2015: HK\$481.5 million). Our Group is in net cash position (cash and bank balances less total bank borrowings) as at 31 December 2016 and has maintained a net cash position for several years.

MANAGEMENT DISCUSSION AND ANALYSIS

CURRENCY EXPOSURE AND MANAGEMENT

Our Group is exposed to fluctuations in foreign exchange rates. Since most of our Group's revenue is denominated in US dollars, whereas most of our Group's expense, such as costs of machineries and production expenses, are denominated in Renminbi, Thai Baht and Hong Kong dollars, fluctuations in exchange rates can materially affect the Group; in particular, depreciation in the value of Renminbi and Thai Baht will have favorable effect on the Group's profitability.

HUMAN RESOURCES

As at 31 December 2016, our Group had 2,156 employees, a decrease of 2.8% when compared to 2,217 employees as at 31 December 2015.

Our Group has a share option scheme in place for selected participants as incentive and reward for their contribution to our Group. A mandatory provident fund scheme and local retirement benefit schemes are also in effect.

Our Group encourages employees to seek training to strengthen their work skills and for personal development. Our Group also provides workshops for staff at different levels to enhance their knowledge of work safety and to build team spirit. Staff are rewarded based on performance of the Group as well as on individual performance and contribution.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Chui Siu On, aged 57, is the Chairman, an executive and managing director, the chairman of both the executive committee and nomination committee and a member of the remuneration committee of the Company. He is also a director of certain subsidiaries of the Company. Besides, he is the director and shareholder of Tottenham Limited, a substantial shareholder of the Company. Mr. Chui is one of the founders of the Group. He is responsible for the overall strategic planning of the Group and establishes operational objectives and assignments. He has over 41 years of experience in the field of mechanical engineering and precision automation and has extensive experience in design and manufacture of automation equipment, precision mechanical components and machinery parts. He is the elder brother of Mr. Chui Siu Hung, the Deputy General Manager of the Group. Mr. Chui also holds positions in the following associations:

Association	Position
Guangdong Chamber of Foreign Investors (廣東外商公會)	Director
Guangdong Commercial Chamber of High-Technology Estate (廣東高科技產業商會)	Vice Chairman

Mr. Ho Yu Hoi, Mark, aged 53, is an executive director and a member of the executive committee of the Company and a director of certain subsidiaries of the Company. He joined the Group in 1992 and has over 34 years of experience in the field of computer aided design and manufacturing. Mr. Ho is currently responsible for overall marketing strategies and implementation of the strategic plans and goals of the Group. He also oversees the personnel and administration affairs of the Group.

Mr. Li Chi Hang, aged 46, is an executive director and a member of the executive committee of the Company and a director of certain subsidiaries of the Company. Mr. Li joined the Group in 1992 and is currently responsible for the Group's product development and new projects implementation. He has over 28 years of experience in the field of machine augmentation and manufacturing automation.

Mr. Lau Siu Chung, aged 52, is an executive director of the Company. He is also a member of the executive committee of the Company and the Sales and Marketing Director of the Group. Mr. Lau joined the Group in 1997 and is responsible for the planning and implementation of sales strategies and in charge of the sales and marketing activities of the Group. Mr. Lau has over 20 years of experience in marketing and sales of precision components and industrial equipments.

Mr. Yuen Chi Ho, aged 49, is an executive director of the Company. He is also a member of the executive committee and the Chief Financial Officer of the Company. Mr. Yuen joined the Group in 2009 and is responsible for the overall financial management of the Group. Mr. Yuen is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Yuen had worked for several listed companies in Hong Kong as an executive director or as a financial controller. He has over 26 years of experience in audit, accounting and financial management.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Executive Directors (Continued)

Ms. Chiu Tak Chun, aged 51, is an executive director of the Company. She is also a member of the executive committee of the Company and the purchasing director of the Group. Ms. Chiu joined the Group in 1996 and is responsible for overall purchasing strategies and logistics management of the Group. She is a fellow member of the International Professional Managers Association, United Kingdom, and was granted a graduate diploma in management from them. Ms. Chiu has over 23 years of experience in manufacturing and operational management.

Mr. Zeng Guangsheng, aged 50, is an executive director of the Company. He joined the Group in March 2016. Mr. Zeng obtained a doctorate degree in economics from Nankai University (南開大學) in 2004. He is currently the chief investment officer of China Baoan Group Co., Ltd. (中國寶安集團股份有限公司) (together with its subsidiaries, the "Baoan Group") (a company listed on the Shenzhen Stock Exchange, stock code: 000009), the chairman of the board of directors of China Baoan Group Assets Management Co., Ltd. (中國寶安集團資產管理有限公司) and the director of Baoan Technology Company Limited (寶安科技有限公司). Mr. Zeng had served various positions at the managerial level in various subsidiaries of the Baoan Group and was the vice chairman of the board of directors of Mayinglong Pharmaceutical Group Co., Ltd. (馬應龍藥業集團股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600993).

Mr. Wu Kai Ping, aged 48, is an executive director of the Company. He joined the Group in March 2016. Mr. Wu obtained a master's degree in economics from Nankai University (南開大學) in 1996 and a master's degree in business administration from McMaster University in 2003. He is currently the vice general manager of China Baoan Group Assets Management Co., Ltd. (中國寶安集團資產管理有限公司), a general manager of Nanjing Baoan High-tech Investment Co., Ltd. (南京寶安高新投資有限公司) and the executive partner of Nangjing Bao Jun Ventures Fund (南京寶駿創業投資基金).

Independent Non-executive Directors

Dr. Cheng Ngok, aged 71, is an independent non-executive director, the chairman of both the audit committee and remuneration committee and a member of the nomination committee of the Company. He joined the Group in 2003. Dr. Cheng graduated from the National Taiwan University with a Bachelor of Science degree in Medical Technology in 1970 and then obtained a Doctor degree of Medicine, Surgery and Obstetrics, a Diploma certification in Orthopaedic Surgery and a PhD degree (Doctor of Biomedical Science) from Catholic University of Leuven, Belgium in 1978, 1983 and 1984 respectively. After graduation, he worked as an Orthopaedic Surgeon in Europe between 1978 and 1984. Then, he returned to Hong Kong and took up the position of a lecturer in the Department of Orthopaedics and Traumatology in The Chinese University of Hong Kong until 1986. Dr. Cheng had been a member of the Hospital Governing Committee of Alice Ho Miu Ling Nethersole Hospital from April 1997 until March 2009 and had been a member of the Cluster Tender Board in New Territories East Cluster, Hospital Authority from 2003 to 2010. Presently, he is a retired orthopaedic surgeon and holds directorship in two private companies engaging in manufacture and distribution of medical devices.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr. Choi Hon Ting, Derek, aged 48, is an independent non-executive director and a member of the audit committee, remuneration committee and nomination committee of the Company. He joined the Group in 2004. Mr. Choi graduated from Purdue University in the US with a Bachelor degree in Engineering in Food Processing in 1991. Since his graduation, he has been working as project manager, deputy general manager and executive director of Balama Prima Engineering Company Limited, the businesses of which included highway construction, underground construction and environmental engineering. He was a director of C&C Technology Inc. (a company listed on the Toronto Stock Exchange). Mr. Choi was also a former chairman, vice-chairman and executive secretary of the China Hong Kong Society for Trenchless Technology. Mr. Choi is currently a chairman of The International Society for Trenchless Technology. Currently, Mr. Choi is an executive director of D&G Technology Holding Company Limited (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 1301) and an independent non-executive director of HM International Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange, stock code: 8416).

Mr. Wu Karl Kwok, aged 53, is an independent non-executive director and a member of the audit committee, remuneration committee and nomination committee of the Company. He joined the Group in 2004. Mr. Wu holds a Bachelor of Arts degree in business administration from the University of Washington and is a Certified Public Accountant (USA). He has over 29 years of international working experience in accounting, financial planning and control, business development, logistic, project management and contract administration in various industries. Mr. Wu is currently the managing director of an international pharmaceutical company. Prior to that, he was a senior consultant and vice president of an international trust company for six years. Mr. Wu's other past roles include financial controller and company secretary for UDL Holdings Limited (currently known as DTXS Silk Road Investment Holdings Company Limited), a company listed on the Stock Exchange, and the chief financial officer and company secretary of Innovis Holdings Limited (currently known as Sino Haijing Holdings Limited), a company listed on the Stock Exchange.

Mr. Hung, Randy King Kuen, aged 51, is an independent non-executive director and a member of the nomination committee of the Company. He joined the Group in May 2016. Currently, Mr. Hung is the executive director and chief financial officer of China Fiber Optic Network System Group Ltd. (a company listed on the Main Board of the Stock Exchange, stock code: 3777). Mr. Hung is also serving as an independent non-executive director of China Shineway Pharmaceutical Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 2877) and Zhongyu Gas Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 3633), as well as the vice chairman of Hong Kong Investor Relations Association and the chairman of training committee of The Hong Kong Institute of Directors. Mr. Hung is a fellow Certified Public Accountant of Hong Kong, and a licensed Certified Public Accountant of the State of California, U.S.A. He holds a MBA degree from the University of London, and a bachelor's degree of science in accounting from the University of Southern California.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Chui Siu Hung, aged 48, is the Deputy General Manager of the Group. He joined the Group in 1994 and is responsible for the supervision of production department in Guangzhou Xin Hao Precision Metal Products Company Limited and implementation of special hydraulic equipment components projects. He graduated from the Hong Kong Institute of Vocational Education with a certificate in Communication and Computer Studies and has over 24 years of experience in the manufacturing industry. He is the younger brother of Mr. Chui Siu On, the Chairman of the Group.

Mr. Jiang Fei, aged 44, is the Deputy General Manager of the Group and is responsible for the Group's heat treatment division. He joined the Group in 1995 after graduation from 華南理工大學 (South China University of Technology) with a graduate diploma in Mechanical Engineering. He has over 20 years of experience in the manufacturing industry.

Mr. Lei Ting Yong, aged 42, is the Deputy General Manager of the Group supervising the Group's research and product development department. He joined the Group in 1995 and is responsible for projects development and the development of information control devices for production efficiency.

COMPANY SECRETARY

Mr. Tam Yiu Chung, aged 46, is the Financial Controller and Company Secretary of the Company. He joined the Group in 2007. He holds a Master degree in professional accounting and is a member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the “Board”) presents this Corporate Governance Report in the Company’s annual report for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group recognizes the vital importance of good corporate governance to the Group’s success and sustainability and wishes to highlight the indispensable role of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all its operations.

The Company has applied the principles as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Throughout the year under review, the Company has complied with the code provisions set out in the CG Code, save for the code provision A.2.1. Key corporate governance principles and practices of the Company as well as details of the said deviation are summarized below.

The Company is committed to reviewing and enhancing its corporate governance practices from time to time to ensure that its corporate governance practices continue to meet the regulatory requirements and the growing expectations of shareholders and investors.

THE BOARD

Responsibilities and Delegation

The overall management and control of the Company’s business are vested in the Board, whose main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. All directors take decisions objectively in the interests of the Company.

The Board reserves for its decision all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

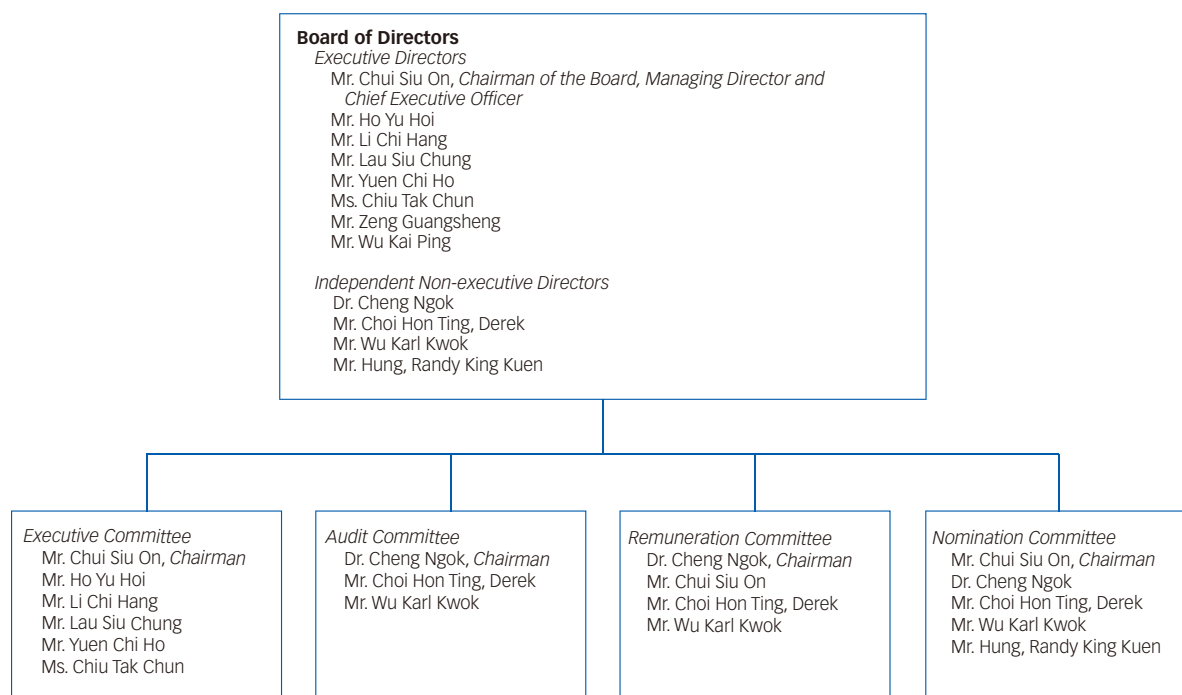
All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice in appropriate circumstances at the Company’s expense, upon reasonable request made to the Board. All directors carry out their duties in good faith and in compliance with the standards of applicable laws and regulations, and act in the interests of the Company and its shareholders at all times.

The Board has also delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the control systems.

THE BOARD (Continued)

Board Composition

The following chart illustrated the structure and membership of the Board and the Board Committees as at 31 December 2016:



None of the members of the Board is related to one another. The biographical details of the directors are disclosed under the section headed "Directors and Senior Management" in this annual report.

The composition of the Board reflects the necessary balance of skills and experience appropriate to the requirements of the business of the Group and to the exercising of independent judgement. All directors bring a wide range of valuable business and financial expertise, experiences and professionalism to the Board for its effective functioning. Independent non-executive directors are invited to serve on the Board Committees of the Company.

During the year ended 31 December 2016, the Board at all times met the requirements of the Listing Rules of having at least three independent non-executive directors (representing at least one-third of the Board) with at least one independent non-executive director possessing appropriate professional qualifications and accounting and related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors are independent.

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

During the year under review and up to the date of this report, Mr. Chui Siu On assumes the roles of both Chairman of the Board and Chief Executive Officer of the Company. As one of the founders of the Group, Mr. Chui has extensive experience in the design and manufacture of automation equipment, precision mechanical components and machinery parts. The Board believes that by holding both roles, Mr. Chui will be able to provide the Group with strong and consistent leadership and allows 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.

The Board believes that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

Appointment and Re-election of Directors

Each of the independent non-executive directors is appointed for a term of about 1 year up to the date of holding the forthcoming annual general meeting of the Company (the "2017 AGM").

In accordance with the Company's Articles of Association (the "Articles of Association"), all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the next general meeting after appointment.

In accordance with the Articles of Association, Mr. Chui Siu On, Mr. Ho Yu Hoi, Dr. Cheng Ngok, Mr. Wu Karl Kwok and Mr. Hung, Randy King Kuen shall retire and, being eligible, offer themselves for re-election at the 2017 AGM. The Board and the Nomination Committee of the Company recommended the re-appointment of these retiring directors standing for re-election at the 2017 AGM. The Company's circular, sent together with this annual report, contains detailed information of such retiring directors for re-election pursuant to the requirements of the Listing Rules.

Training and Continuing Development of Directors

Each newly appointed director receives comprehensive induction on the first occasion of his/her appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2016, the Company (i) has organized briefings for all its directors, namely, Mr. Chui Siu On, Mr. Ho Yu Hoi, Mr. Li Chi Hang, Mr. Lau Siu Chung, Mr. Yuen Chi Ho, Ms. Chiu Tak Chun, Mr. Zeng Guangsheng, Mr. Wu Kai Ping, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek, Mr. Wu Karl Kwok and Mr. Hung, Randy King Kuen, on update on the Listing Rules amendments and (ii) has provided reading materials on regulatory update to all the directors for their reference and studying. Besides, Mr. Yuen Chi Ho, Ms. Chiu Tak Chun and Mr. Hung, Randy King Kuen attended other seminars and training sessions arranged by other professional firms/institutions.

THE BOARD (Continued)

Model Code for Securities Transactions

The Company has adopted its own code of conduct governing directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all directors and all of them have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2016.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for governing the securities transactions by employees who are likely to possess inside information of the Company or its securities. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the year ended 31 December 2016, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the Company's compliance of the Own Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Attendance Records of Directors and Committee Members

The attendance records of each director at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2016 are set out in the table below:

Name of Director	Attendance/Number of Meetings				Annual General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Mr. Chui Siu On	8/8	–	1/1	2/2	1/1
Mr. Ho Yu Hoi	8/8	–	–	–	0/1
Mr. Li Chi Hang	8/8	–	–	–	0/1
Mr. Lau Siu Chung	8/8	–	–	–	0/1
Mr. Yuen Chi Ho	8/8	–	–	–	1/1
Ms. Chiu Tak Chun	7/8	–	–	–	1/1
Mr. Zeng Guangsheng (Note 1)	5/5	–	–	–	1/1
Mr. Wu Kai Ping (Note 1)	5/5	–	–	–	1/1
Dr. Cheng Ngok	8/8	2/2	1/1	2/2	1/1
Mr. Choi Hon Ting, Derek	8/8	2/2	1/1	2/2	0/1
Mr. Wu Karl Kwok	7/8	2/2	1/1	2/2	0/1
Mr. Nguyen, Van Tu Peter (Note 2)	3/4	–	–	1/2	0/1
Mr. Hung, Randy King Kuen (Note 3)	3/4	–	–	–	–

Notes:

1. Mr. Zeng Guangsheng and Mr. Wu Kai Ping were appointed as executive directors of the Company on 18 March 2016. Subsequent to their appointment, 5 Board meetings and 1 Annual General Meeting were held during the year ended 31 December 2016.
2. Mr. Nguyen, Van Tu Peter resigned as an independent non-executive director of the Company on 23 May 2016. Before his resignation, 4 Board meetings, 2 Nomination Committee Meetings and 1 Annual General Meeting were held during the year ended 31 December 2016.
3. Mr. Hung, Randy King Kuen was appointed as an independent non-executive director of the Company on 23 May 2016. Subsequent to his appointment, 4 Board meetings were held during the year ended 31 December 2016.

In addition, the Chairman of the Board also held meeting with the independent non-executive directors without the presence of executive directors during the year.

BOARD COMMITTEES

The Board has established 4 Board committees, namely, the Executive Committee, Remuneration Committee, Audit Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website "www.ipegroup.com" and on the Stock Exchange's website "www.hkexnews.hk" (except for the written terms of reference of the Executive Committee which is available to shareholders upon request). All the Board committees should report to the Board on their decisions or recommendations made.

Executive Committee

The Executive Committee currently comprises a total of 6 members, namely, Mr. Chui Siu On (Chairman), Mr. Ho Yu Hoi, Mr. Li Chi Hang, Mr. Lau Siu Chung, Mr. Yuen Chi Ho and Ms. Chiu Tak Chun. The main duties of the Executive Committee include monitoring the execution of the Group's strategic plans and operations of all business units of the Group and discussing and making decisions on matters relating to the day-to-day management and operations of the Group.

Remuneration Committee

The Remuneration Committee currently comprises a total of 4 members, being 3 independent non-executive directors, namely, Dr. Cheng Ngok (Chairman), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok; and 1 executive director, namely, Mr. Chui Siu On. Accordingly, the majority of the members are independent non-executive directors.

The main duties of the Remuneration Committee are to (i) make recommendations to the Board on the remuneration packages of directors and senior management and the remuneration policy and structure for all directors and senior management (i.e. the model described in the code provision B.1.2(c)(ii) of the CG Code was adopted) and (ii) establish transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration.

During the year ended 31 December 2016, the Remuneration Committee has performed the following major tasks:

- Review and discussion of the remuneration policy of the Group and the remuneration packages of directors and senior staff of the Group; and
- Recommendation of the remuneration packages of Mr. Zeng Guangsheng, Mr. Wu Kai Ping and Mr. Hung, Randy King Kuen, the newly appointed directors.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration	Number of individuals
Nil to HK\$1,000,000	3

Details of the remuneration of each of the directors of the Company for the year ended 31 December 2016 are set out in note 8 to the financial statements.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Audit Committee

The Audit Committee currently comprises a total of 3 members, namely, Dr. Cheng Ngok (Chairman), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok. All of the members are independent non-executive directors, with one independent non-executive director, being Mr. Wu Karl Kwok, possessing the appropriate professional qualifications and accounting and related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; (ii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; (iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) review the adequacy and effectiveness of the Company's financial reporting system, internal control system, risk management system and internal audit function and associated procedures and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2016, the Audit Committee has performed the following major tasks:

- Review and discussion of the annual financial results and report for the year ended 31 December 2015 and interim financial results and report for the six months ended 30 June 2016;
- Review of the scope of audit work, auditors' fees and terms of engagement for the year ended 31 December 2016;
- Discussion and recommendation of the re-appointment of the external auditors;
- Review of the risk management and internal control systems; and
- Review of the arrangements for employees to raise concerns about possible improprieties.

The external auditors were invited to attend the meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. Besides, there is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditors.

Nomination Committee

The Nomination Committee currently comprises a total of 5 members, being 1 executive director, namely, Mr. Chui Siu On (Chairman) and 4 independent non-executive directors, namely, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek, Mr. Wu Karl Kwok and Mr. Hung, Randy King Kuen. Accordingly, the majority of the members are independent non-executive directors.

The main duties of the Nomination Committee are to (i) review the Board composition, develop and formulate relevant procedures for the nomination and appointment of directors; (ii) make recommendations to the Board on the rotation, appointment and succession planning of directors; and (iii) assess the independence of independent non-executive directors.

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorship, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. External recruitment professionals might be engaged to carry out selection process when necessary.

During the year ended 31 December 2016, the Nomination Committee has performed the following major tasks:

- Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company with due regard for the benefits of diversity on the Board;
- Recommendation of the re-appointment of those directors standing for re-election at the 2016 annual general meeting of the Company;
- Assessment of the independence of all the independent non-executive directors of the Company; and
- Recommendation of the appointment of (i) Mr. Zeng Guangsheng and Mr. Wu Kai Ping as executive directors; and (ii) Mr. Hung, Randy King Kuen as an independent non-executive director.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements. The senior management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company, which are put to the Board for approval.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for evaluating and determining the nature and extent of risk it is willing to take in achieving the Group's strategic objectives, as well as ensuring the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board should oversee management in the design, implementation, and monitoring the risk management and internal control systems. The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness, and ensures that a review of the effectiveness of the risk management and internal control systems of the Company and its subsidiaries will be conducted at least annually.

The Board and the Audit Committee also confirmed that they have reviewed the effectiveness of the risk management and internal control systems of the Group and its subsidiaries during the reporting period, which covered all material controls, including financial, operational and compliance controls.

During the reporting period, the Board and the Audit Committee of the Company assessed the effectiveness of the risk management and internal control systems. The Company's procedures involved in the risk management and internal control mainly included:

- (1) A list of risks was created after the scope of risks was determined and risks were identified.
- (2) Subject to the generally accepted risk management framework, the impacts brought by possible financial losses due to risks on operating efficiency, continuous development, and reputation were assessed with reference to possible occurrence of various potential risks and the attention drawn from the management of the Group, based on which the priority of the risks was determined.
- (3) Our risk management measures with respect to material risks were identified, internal control over the design and implementation of risk management measures were assessed, and measures to improve the weaknesses were formulated.
- (4) By assessing internal controls and management's implementation of rectification measures with respect to material risks, the Group regularly reviewed and summarized the risk management and internal control systems to realize the efficient operation and constant improvement of risk management.
- (5) The risk management manual was formulated to address risk management and internal control, pursuant to which, the terms of reference of the management, the Board, and the Audit Committee with respect to their risk management work were clearly determined, and risk management and internal control systems were monitored on an ongoing basis.
- (6) The management submitted reports to the Audit Committee on regular reviews and assessment results with respect to risk management and internal control systems, material risk factors, and the relevant countermeasures during the reporting period.

However, such risk management and internal control systems are designed to manage rather than eliminate the risks of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements or losses.

CORPORATE GOVERNANCE REPORT

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or it is the subject of a decision unless it falls within "Safe Harbours" as defined under the Securities and Futures Ordinance;
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Stock Exchange in 2008, respectively;
- has established and implemented procedures for responding to external enquiries about the Group's affairs. Senior management of the Group are identified and authorized to act as the Company's spokespersons and respond to enquiries in allocated areas of issues;
- has implemented and disclosed its own policy on fair disclosure;
- has included in its own Code a strict prohibition on the unauthorized use of confidential or inside information; and
- has also published Continuous Disclosure Obligation Procedures which formalized the current practices for monitoring developments in our businesses for inside information and communicating such information to our shareholders, the media and analysts. Training on the implementation of the Procedures has been provided to the management of the Company and its subsidiaries.

The Company is currently planning to establish the internal audit function. The management of the Group appointed a professional consulting firm to assist us in identifying and assessing risks, and identifying risk management measures during the first half year of the reporting period, while assessing internal control over the design and implementation of internal monitoring measures with respect to material risks during the second half year of the reporting period. The Board believes the risk management and internal control systems are effective and sufficient upon reviewing their effectiveness. The Board will continue to improve and monitor the effectiveness of the risk management and internal control systems.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the Company's financial statements for the year ended 31 December 2016 is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to the Group's external auditors in respect of audit services and non-audit services for the year ended 31 December 2016 are analyzed below:

Type of services provided by the external auditors	Fees paid/payable (HK\$'000)
Audit services: Audit fees for the year ended 31 December 2016	2,834
Non-audit services: Tax services and others	1,186
TOTAL:	4,020

COMPANY SECRETARY

During the year ended 31 December 2016, Mr. Tam Yiu Chung, the Company Secretary, has taken no less than 15 hours of relevant professional training. Biographical details of Mr. Tam are set out in the section headed "Directors and Senior Management" in this annual report.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

To promote effective communication, the Company's website at "www.ipegroup.com" serves as a communication platform for shareholders and investors, where information and updates on the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may send written enquiries or requests to the Company as follows:

Address: 11/F, Block E1, Hoi Bun Industrial Building, No. 6 Wing Yip Street,
Kwun Tong, Kowloon, Hong Kong
(For the attention of the Chairman of the Board)

Fax: (852) 2688 6155

Email: ipehk@ipehk.com.hk

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (Continued)

The Company continues to enhance communications and relationships with its shareholders and investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them posted of the Company's developments. Enquiries from shareholders and investors are dealt with in an informative and timely manner.

In addition, the general meetings of the Company provide a good opportunity for communication between the Board and the shareholders. Board members and appropriate senior staff of the Group are available to answer questions at the annual general meeting and other shareholders' meetings.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings pursuant to the Articles of Association as follows:

- (i) Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.
- (ii) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected together with the required information under Rule 13.51(2) of the Listing Rules. These notices should be lodged at the Company's head office in Hong Kong or the Company's registration office (i.e. Tricor Investor Services Limited) at least 7 days prior to the date of the general meeting. If the notices are submitted after the dispatch of the notice of the general meeting appointed for such election, the period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end no later than 7 days prior to the date of such general meeting.

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement (as the case may be) to the Company's head office in Hong Kong and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

During the year under review, the Company has not made any changes to its Articles of Association. An up-to-date version of the Articles of Association is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles of Association for further details of the rights of shareholders.

All resolutions proposed at shareholder meetings (save for those related purely to a procedural or administrative matter which may be voted by a show of hands) will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ipegroup.com) respectively immediately after the relevant general meetings.

CORPORATE SOCIAL RESPONSIBILITY

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to protect the environment, minimize environmental impacts of the business operations and comply with applicable environmental legislative and regulatory requirements. It has developed an environmental policy that serves as a guidance to achieve higher environmental standards.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The success of the Group relies on the support from its stakeholders such as customers, employees, suppliers and community partners. It continue to build stronger relationships with the stakeholders and to work closely with them in achieving a common goal for sustainable development.

Customers

The Group is dedicated to ensure customers' satisfaction at all times. Hence, it is important to provide quality products and services for its customers. To demonstrate the Group's commitment, it actively engage with the clients through satisfaction surveys. The customer service team and relevant department will take immediate actions to resolve the problem as soon as possible when complaints are received.

Employees

Employees are the Group's greatest assets and it strive to provide the employees with a safe, healthy and positive working environment. With its major business operations as manufacturing, it is dedicated in protecting our employees with health and safety risks. Its safety officers and committees always ensure all safety measures are in place. Regular safety and hazards tests are carried out in factories to ensure compliance with relevant rules and regulations.

Suppliers

As a manufacturer that relies on suppliers for materials, the Group understands the importance of engaging our suppliers to achieve sustainable development. It engages with the suppliers to understand their performances.

Community

The Group pays close attention to the need of the communities where it operates. It contribute to the community through organizing and participating in different charity activities. During the year, it organized a Chinese New Year Couplet Fundraising Event in local community for citizens during the festivals.

REPORT OF THE DIRECTORS

The board of directors (the “Board”) of IPE Group Limited (the “Company”) is pleased to present this report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2016 and the Group’s financial position at that date are set out in the financial statements on pages 46 to 120.

An interim dividend of HK2.0 cents per ordinary share was paid on 15 September 2016 (2015: HK1.5 cents). The Board has recommended the payment of a final dividend of HK2.5 cents per ordinary share for the year ended 31 December 2016 to shareholders on the Register of Members on 23 May 2017 (2015: HK2.0 cents) (the “Proposed Final Dividend”). Subject to the approval of the Company’s shareholders at the forthcoming annual general meeting of the Company to be held on Monday, 15 May 2017 (the “2017 AGM”), the said final dividend will be paid in cash on Thursday, 1 June 2017. Details of dividends for the year ended 31 December 2016 are set out in note 11 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

- (i) From Wednesday, 10 May 2017 to Monday, 15 May 2017 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the right to attend and vote at the 2017 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, 9 May 2017 for registration of transfer.
- (ii) From Monday, 22 May 2017 to Tuesday, 23 May 2017 (both days inclusive), during which 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, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on Friday, 19 May 2017 for registration of transfer.

BUSINESS REVIEW

A review of the Group’s business during the year, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group’s performance using financial key performance indicators, particulars of important events affecting the Group during the year, an indication of likely future developments in the Group’s business and discussion on the relationships with its stakeholders and the Group’s environmental policies and performance, can be found in the Chairman’s Statement, Management Discussion and Analysis, Corporate Governance Report and Corporate Social Responsibility contained in this annual report. The review forms part contained in this directors’ report.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 8 to 11 of the annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 25 and 26 to the financial statements.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into by the Company are disclosed under the section headed "Share Option Scheme" in this directors' report and in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles of Association") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$810,357,000. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK\$462,243,000 at 31 December 2016, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company is in a position to pay off its debts as and when they fall due in the ordinary course of business.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$144,000 (2015: HK\$157,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 40.0% of the total sales for the year and sales to the largest customer included therein amounted to 14.5%. Purchases from the Group's five largest suppliers accounted for 32.5% of the total purchases for the year and purchases from the largest supplier included therein amounted to 8.6%.

None of the directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the number of issued shares of the Company) had any beneficial interests in the Group's five largest customers and suppliers.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Chui Siu On
Mr. Ho Yu Hoi
Mr. Li Chi Hang
Mr. Lau Siu Chung
Mr. Yuen Chi Ho
Ms. Chiu Tak Chun
Mr. Zeng Guangsheng (appointed on 18 March 2016)
Mr. Wu Kai Ping (appointed on 18 March 2016)

Independent non-executive directors:

Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok
Mr. Nguyen, Van Tu Peter (retired on 23 May 2016)
Mr. Hung, Randy King Kuen (appointed on 23 May 2016)

REPORT OF THE DIRECTORS

DIRECTORS (Continued)

According to Article 87 of the Articles of Association, Mr. Chui Siu On, Mr. Ho Yu Hoi, Dr. Cheng Ngok and Mr. Wu Karl Kwok shall retire from office by rotation at the 2017 AGM whereas according to Article 86(3) of the Articles of Association, Mr. Hung, Randy King Kuen, who was appointed by the Board as an independent non-executive director on 23 May 2016, shall hold office until the 2017 AGM. All of the above retiring directors, being eligible, will offer themselves for re-election at the 2017 AGM.

The Company has received annual confirmations of independence from Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek, Mr. Wu Karl Kwok and Mr. Hung, Randy King Kuen, and as at the date of the report, still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 18 to 21 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except for, Mr. Lau Siu Chung, Mr. Yuen Chi Ho and Ms. Chiu Tak Chun, has entered into a service agreement with the Company for a term of three years.

Each of independent non-executive directors has been appointed for a term of about one year.

No director proposed for re-election at the 2017 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries was a party during the year.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the interests and short positions of the directors, in the share capital and underlying shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(A) Long positions in the ordinary shares of the Company:

Name of director	Capacity and nature of interests	Notes	Number of ordinary shares in the Company	Percentage of the Company's issued share capital*
Mr. Chui Siu On	Through controlled corporation	1	228,554,475	21.72%
	Directly beneficially owned		22,576,250	2.15%
	Through spouse	2	125,000	0.01%
			251,255,725	23.88%
Mr. Ho Yu Hoi	Directly beneficially owned		38,838,740	3.69%
Mr. Li Chi Hang	Directly beneficially owned		25,088,535	2.38%
Mr. Lau Siu Chung	Directly beneficially owned		7,785,000	0.74%
Mr. Yuen Chi Ho	Directly beneficially owned		11,520,000	1.09%
Ms. Chiu Tak Chun	Directly beneficially owned		4,073,077	0.39%
Dr. Cheng Ngok	Directly beneficially owned		528,846	0.05%

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2016.

Notes:

- These shares were owned by Tottenhill Limited ("Tottenhill"), the entire issued capital of which was owned by Mr. Chui Siu On. By virtue of his 100% shareholding in Tottenhill, Mr. Chui Siu On was deemed to be interested in the 228,554,475 shares of the Company owned by Tottenhill pursuant to Part XV of the SFO.
- These shares held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On, were also disclosed as Ms. Leung's interests in the section headed "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares" below. Mr. Chui Siu On was deemed to be interested in these 125,000 shares of the Company held by his wife pursuant to Part XV of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(B) Long positions in the underlying shares of the Company — physically settled unlisted equity derivatives:

Name of director	Capacity and nature of interests	Number of underlying shares in respect of the share options granted	Percentage of underlying shares over the Company's issued capital*
Mr. Chui Siu On	Directly beneficially owned	14,000,000	1.33%

* The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2016.

Note: Details of the above share options granted by the Company are set out in the section headed "Share option scheme" below and note 26 to the financial statements.

In addition to the above, as at 31 December 2016, certain directors of the Company held shares in certain subsidiaries of the Company in a non-beneficial capacity, solely for the purpose of complying with the previous requirements of a minimum of two shareholders.

Save as disclosed above, as at 31 December 2016, none of the directors or chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details are disclosed in note 26 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

Name or category of participant	Number of share options					At 31 December 2016	Date of grant of share options ⁽²⁾	Exercise period of share options	Exercise price of share options ⁽³⁾ HK\$ per share
	At 1 January 2016	Granted during the year	Exercised during the year ⁽¹⁾	Expired/lapsed during the year	Forfeited/cancelled during the year				
Director									
Mr. Chui Siu On ⁽⁴⁾	14,000,000	-	-	-	-	14,000,000	19-06-11	01-09-13 to 31-08-18	1.8200
	7,000,000	-	(7,000,000)	-	-	-	15-01-13	01-04-14 to 31-12-17	0.7100
	8,000,000	-	(8,000,000)	-	-	-	14-04-14	14-04-14 to 31-12-19	0.4600
	29,000,000	-	(15,000,000)	-	-	14,000,000			
Mr. Lau Siu Chung	2,500,000	-	(2,500,000)	-	-	-	12-06-14	01-06-15 to 31-12-19	0.5600
Mr. Yuen Chi Ho	3,000,000	-	(3,000,000)	-	-	-	12-06-14	01-06-15 to 31-12-19	0.5600
Ms. Chiu Tak Chun	2,500,000	-	(2,500,000)	-	-	-	12-06-14	01-06-15 to 31-12-19	0.5600
	37,000,000	-	(23,000,000)	-	-	14,000,000			

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options					At 31 December 2016	Date of grant of share options ⁽²⁾	Exercise period of share options	Exercise price of share options ⁽³⁾ HK\$ per share
	At 1 January 2016	Granted during the year	Exercised during the year ⁽¹⁾	Expired/lapsed during the year	Forfeited/cancelled during the year				
Members of senior management and other employees of the Group									
In aggregate	20,000,000	-	(20,000,000)	-	-	-	23-04-12	01-09-14 to 31-08-16	0.6400
	83,000,000	-	(62,000,000)	-	-	21,000,000	15-01-13	01-04-14 to 31-12-17	0.7100
	7,000,000	-	(5,500,000)	-	-	1,500,000	14-04-14	14-04-14 to 31-12-19	0.4600
	16,400,000	-	(13,600,000)	-	-	2,800,000	12-06-14	01-06-15 to 31-12-19	0.5600
	126,400,000	-	(101,100,000)	-	-	25,300,000			
Suppliers of services									
In aggregate	5,000,000	-	-	-	-	5,000,000	14-04-14	14-04-14 to 31-12-19	0.4600
	168,400,000	-	(124,100,000)	-	-	44,300,000			

Notes to the table of share options outstanding during the year:

- (1) The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK\$1.68 per share.
- (2) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (3) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (4) The grant of share options to Mr. Chui Siu On in June 2011, which exceed the individual limit, was approved by the independent shareholders at the Company's extraordinary general meeting pursuant to the Listing Rules.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the following parties (not being directors or chief executive of the Company) with interests of more than 5% in the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

(A) Long positions in the ordinary shares of the Company:

Name of substantial shareholder	Capacity and nature of interests	Notes	Number of ordinary shares in the Company	Percentage of the Company's issued share capital*
Tottenham	Directly beneficially owned	(a)	228,554,475	21.72%
Ms. Leung Wing Yi	Directly beneficially owned Through spouse	(b)	125,000 251,130,725	0.01% 23.87%
			251,255,725	23.88%
Baoan Technology Company Limited	Directly beneficially owned		368,405,000	35.01%
China Baoan Group Co., Ltd	Through controlled corporation	(c)	368,405,000	35.01%

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2016.

Notes:

- (a) The interests of Tottenham were also disclosed as the interests of Mr. Chui Siu On in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above.
- (b) These shares were disclosed as the interests of Mr. Chui Siu On, the husband of Ms. Leung Wing Yi, in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above. Ms. Leung Wing Yi was deemed to be interested in these shares owned by her husband pursuant to Part XV of the SFO.
- (c) These shares were held by Baoan Technology Company Limited. Baoan Technology Company Limited is a wholly owned entity of China Baoan Group Co., Ltd. Accordingly, China Baoan Group Co., Ltd was deemed to be interested in the 368,405,000 shares of the Company owned by Baoan Technology Company Limited pursuant to Part XV of the SFO.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(B) Long positions in the underlying shares of the Company — physically settled unlisted equity derivatives:

Name of substantial shareholder	Capacity and nature of interests	Number of underlying shares in respect of the share options granted	Percentage of underlying shares over the Company's issued share capital*
Ms. Leung Wing Yi	Through spouse	14,000,000	1.33%

* The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2016.

Note: These underlying shares were disclosed as the interests of Mr. Chui Siu On, the husband of Ms. Leung Wing Yi, in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above. Ms. Leung Wing Yi was deemed to be interested in these underlying shares held by her husband pursuant to Part XV of the SFO.

Details of the above share options granted by the Company are set out in the section headed "Share option scheme" above and note 26 to the financial statements.

Save as disclosed above, as at 31 December 2016, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this report.

CORPORATE GOVERNANCE

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" in this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the 2017 AGM.

GENERAL DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

As detailed in the Company's announcement dated 16 May 2016, pursuant to the term loan facility agreement (the "Facility Agreement"), a term loan facility of HK\$300,000,000 (the "Facility Loan") is made available to the Group for the general corporate purposes including, but not limited to financing working capital and refinancing or full repayment of existing indebtedness due under the term and revolving facility made available to the Group in 2013. The Facility Loan is repayable in 10 quarterly instalments commencing nine months from the date of the Facility Agreement.

As common with other syndicated loan facilities, the Facility Agreement imposes a specific performance obligation on Mr. Chui Siu On ("Mr. Chui") who is the Chairman of the Board, an executive director and a substantial shareholder of the Company. It will be an event of default under the Facility Agreement if: (a) Mr. Chui ceases to be the chairman or chief executive officer; (b) Mr. Chui ceases to be one of the substantial shareholders of the Company with at least 15% voting power/shareholding; or (c) Mr. Chui is not actively involved in, or maintain control in the management and business of the Company, in which event all or any part of the commitments under the Facility Loan may be cancelled and all amounts outstanding under the Facility Loan may immediately become due and payable.

ON BEHALF OF THE BOARD

Chui Siu On

Chairman and Managing Director

Hong Kong
20 March 2017

INDEPENDENT AUDITOR'S REPORT



To the shareholders of IPE Group Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of IPE Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 51 to 120 which comprise the consolidated statements of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKASs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matters

How our audit addressed the key audit matter

Provision for impairment of trade receivables

At 31 December 2016, the Group had trade receivables of HK\$219,421,000, net of provision for impairment of HK\$6,005,000, which accounted for 10% of the total assets.

The determination as to whether a trade receivable is impaired involves significant management's judgment. Management would consider the factors such as the age of the balance, customers creditworthiness, and other related information to determine whether any objective evidence of impairment exists individually for trade receivables that are individually significant, and individually or collectively for trade receivables that are not individually significant.

Related disclosures in the financial statements are included in notes 2.4, 3 and 18.

Our audit procedures included among others:

- (i) Evaluating the effectiveness of the controls over the Group's receivables collection processes;
- (ii) Assessing basis and process of management's estimation of impairment provision against trade receivables;
- (iii) Considering historical repayment records to identify whether any significant default on settlement of any key trade receivables ever took place;
- (iv) Obtaining direct external confirmations for a sample of trade receivable balances; and
- (v) Examining post year end cash receipts for a sample of year-end trade receivable balances.

Provision for impairment of inventories

At 31 December 2016, the Group had inventories of HK\$184,460,000. In 2016, an incremental provision for impairment of HK\$14,030,000 was recorded which mainly related to certain obsolete and slow-moving inventories. We focused on this area because the balance of inventories is material to the Group's total assets and the provision for impairment of inventories involves a high level of management's judgement and estimate.

Related disclosures in the financial statements are included in notes 2.4, 3 and 17.

Our audit procedures included:

- (i) Evaluating, amongst others, the analyses and assessments made by management with respect to slow-moving inventories, and market values and expected selling prices of the related inventories and the Group's future plan of usage or sale;
- (ii) Assessing the reliability of the underlying data used by management in calculating the inventory provisions such as the inventory ageing reports, by re-performing the ageing calculation generated by the system;
- (iii) Testing the accuracy of management's calculation by assessing the calculation criteria and recalculating the provision for inventories; and
- (iv) Confirming the long-age inventories to be in good condition by physical inspection on a sample basis.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matters

How our audit addressed the key audit matter

Income taxes on intragroup transactions

The Group was actively involved in intragroup businesses which are located in various jurisdictions in Mainland China, Hong Kong and Macau, all with differing tax regimes and is therefore exposed to challenges from multiple tax authorities. We focused on this area because of the complexities of transfer pricing and other tax legislation in different tax jurisdictions of which the Group operated.

Related disclosures in the financial statements are included in note 3.

Our audit procedures included:

- (i) Understanding from management the pricing policies governing the transactions among intragroup companies. We assessed whether the Group's pricing policies are within reasonable range when benchmarking with the comparable companies and evaluated the major subsidiary's profitability level by comparing with comparable industrial ratios;
- (ii) Comparing the profitability of the Group's major PRC subsidiary with comparable companies selected by our transfer pricing specialists. We performed review on the degree of similarities of the comparable companies, which included geographical locations, industries, products and business performance; and
- (iii) Obtaining and examining the Group's major subsidiary's transfer pricing documentation. We identified if there were any comments or queries raised by the tax authorities in relation to the Group's intragroup transactions.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Law Kwok Kee.

Ernst & Young

Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

20 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
REVENUE	5	851,908	877,194
Cost of sales		(589,322)	(632,269)
Gross profit		262,586	244,925
Other income and gains	5	30,913	12,571
Selling and distribution expenses		(24,889)	(23,013)
Administrative expenses		(95,496)	(101,323)
Other expenses		(24,668)	(12,047)
Finance costs	7	(13,130)	(19,133)
PROFIT BEFORE TAX	6	135,316	101,980
Income tax expense	10	(25,766)	(16,181)
PROFIT FOR THE YEAR		109,550	85,799
Attributable to:			
Owners of the Company		110,201	86,093
Non-controlling interests		(651)	(294)
		109,550	85,799
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		HK10.66 cents	HK9.26 cents
Diluted		HK10.47 cents	HK8.76 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
PROFIT FOR THE YEAR	109,550	85,799
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of foreign operations	(92,055)	(101,463)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(92,055)	(101,463)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	17,495	(15,664)
Attributable to:		
Owners of the Company	18,299	(15,013)
Non-controlling interests	(804)	(651)
	17,495	(15,664)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	662,095	732,956
Prepaid land lease payments	14	79,069	86,046
Loan to an unlisted equity investment		–	59
Available-for-sale investments	16	–	290
Deposits for purchase of non-current assets		5,714	36,246
Deferred tax assets	24	3,190	1,815
Total non-current assets		750,068	857,412
CURRENT ASSETS			
Inventories	17	184,460	223,444
Trade receivables	18	219,421	216,721
Prepayments, deposits and other receivables	19	22,768	26,080
Cash and cash equivalents	20	961,592	697,036
Total current assets		1,388,241	1,163,281
CURRENT LIABILITIES			
Trade and bills payables	21	55,641	39,756
Other payables and accruals	22	39,067	46,473
Tax payable		12,142	7,023
Interest-bearing bank and other borrowings	23	292,641	481,483
Total current liabilities		399,491	574,735
NET CURRENT ASSETS		988,750	588,546
TOTAL ASSETS LESS CURRENT LIABILITIES		1,738,818	1,445,958
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	237,875	–
Deferred tax liabilities	24	9,302	9,154
Other payables and accruals	22	945	744
Total non-current liabilities		248,122	9,898
Net assets		1,490,696	1,436,060

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	25	105,225	92,815
Reserves	27	1,383,429	1,339,541
		1,488,654	1,432,356
Non-controlling interests		2,042	3,704
Total equity		1,490,696	1,436,060

CHUI SIU ON
Director

LI CHI HANG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Notes	Attributable to owners of the Company											
		Issued capital HK\$'000 (note 25)	Share premium account HK\$'000 (note 25)	Contributed surplus HK\$'000 (note 27)	Statutory			Share option reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000	
					Statutory surplus reserve	public welfare fund	Capital redemption reserve						
					HK\$'000 (note 27)	HK\$'000 (note 27)	HK\$'000 (note 27)						
At 1 January 2016		92,815	395,214*	(1,116)*	35,397*	287*	7,905*	34,756*	137,621*	729,477*	1,432,356	3,704	1,436,060
Profit for the year		-	-	-	-	-	-	-	-	110,201	110,201	(651)	109,550
Other comprehensive loss for the year:													
Exchange differences related to foreign operations		-	-	-	-	-	-	-	(91,902)	-	(91,902)	(153)	(92,055)
Total comprehensive income for the year		-	-	-	-	-	-	-	(91,902)	110,201	18,299	(804)	17,495
Final 2015 dividend declared		-	-	-	-	-	-	-	-	(21,045)	(21,045)	-	(21,045)
Issue of shares upon exercise of share options	26	12,410	93,983	-	-	-	-	(26,304)	-	-	80,089	-	80,089
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	(858)	(858)
Transfer from retained profits		-	-	-	7,285	-	-	-	-	(7,285)	-	-	-
Interim 2016 dividend	11	-	-	-	-	-	-	-	-	(21,045)	(21,045)	-	(21,045)
At 31 December 2016		105,225	489,197*	(1,116)*	42,682*	287*	7,905*	8,452*	45,719*	790,303*	1,488,654	2,042	1,490,696

* These reserve accounts comprise the consolidated reserves of HK\$1,383,429,000 (2015: HK\$1,339,541,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the Company												
	Notes	Statutory									Non-controlling interests	Total equity	
		Share	Statutory	public	Capital	Share	Exchange	Retained	Total				
		Issued premium	surplus	welfare	redemption	option	fluctuation						
capital account	surplus	reserve	fund	reserve	reserve	profits	interests						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(note 25)	(note 25)	(note 27)	(note 27)	(note 27)								
At 1 January 2015		93,245	398,404	(1,116)	30,384	287	7,275	33,007	238,727	685,234	1,485,447	3,194	1,488,641
Profit for the year		-	-	-	-	-	-	-	-	86,093	86,093	(294)	85,799
Other comprehensive loss for the year:													
Exchange differences related to foreign operations		-	-	-	-	-	-	-	(101,106)	-	(101,106)	(357)	(101,463)
Total comprehensive loss for the year		-	-	-	-	-	-	-	(101,106)	86,093	(15,013)	(651)	(15,664)
Capital contribution from non-controlling interests		-	-	-	-	-	-	-	-	-	-	1,161	1,161
Final 2014 dividend declared		-	-	-	-	-	-	-	-	(22,299)	(22,299)	-	(22,299)
Issue of shares upon exercise of share options	26	200	1,428	-	-	-	-	(428)	-	-	1,200	-	1,200
Shares repurchased	26	(630)	(4,618)	-	-	-	630	-	-	(630)	(5,248)	-	(5,248)
Equity-settled share option arrangements		-	-	-	-	-	-	2,177	-	-	2,177	-	2,177
Transfer from retained profits		-	-	-	5,013	-	-	-	-	(5,013)	-	-	-
Interim 2015 dividend	11	-	-	-	-	-	-	-	-	(13,908)	(13,908)	-	(13,908)
At 31 December 2015		92,815	395,214	(1,116)	35,397	287	7,905	34,756	137,621	729,477	1,432,356	3,704	1,436,060

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		135,316	101,980
Adjustments for:			
Depreciation	6,13	124,891	140,609
Amortisation of prepaid land lease payments	6,14	2,120	2,242
Provision against inventory obsolescence	6	14,030	4,895
Impairment of an unlisted equity investment	6, 16	140	–
Dividend income from an unlisted equity investment	5, 6	(1,197)	–
Gain on disposal of an unlisted equity investment	5, 6	(7,632)	–
Loss on disposal of items of property, plant and equipment	6	1,386	1,841
Equity-settled share option expense		–	2,177
Finance costs	7	13,130	19,133
Bank interest income	5, 6	(1,824)	(11,366)
Impairment of trade receivables	6, 18	6,005	–
Impairment of other receivables	6, 19	3,011	–
		289,376	261,511
Decrease in inventories		24,954	16,810
(Increase)/decrease in trade receivables		(12,733)	45,713
Decrease in prepayments, deposits and other receivables		35,248	6,167
Increase/(decrease) in trade and bills payables		17,383	(40,722)
Increase/(decrease) in other payables and accruals		(4,991)	(60,390)
Cash generated from operations		349,237	229,089
Interest received		1,824	9,535
Interest paid		(10,417)	(14,099)
Interest element of finance lease rental payments		–	(22)
Income taxes paid		(22,017)	(23,163)
Net cash flows from operating activities		318,627	201,340
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(107,201)	(116,324)
Dividend income from an unlisted equity investment	5, 6	1,197	–
Proceeds from disposal of items of property, plant and equipment		7,972	3,882
Decrease in non-pledged time deposits with original maturity of over three months and within one year when acquired		10,122	89,072
Decrease in a deposit of a financial investment as included in prepayments, deposits and other receivables		–	1,831
Receipt of repayment of a loan to an unlisted equity investment		59	2,679
Disposal of unlisted equity investments		7,782	–
Net cash flows used in investing activities		(80,069)	(18,860)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Net cash flows used in investing activities		(80,069)	(18,860)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares	26	–	(5,248)
Share options exercised		80,089	1,200
New bank loans and other borrowings		655,287	550,350
Repayment of bank loans and other borrowings		(608,946)	(611,048)
Capital element of finance lease rental payments		–	(3,460)
Dividends paid		(42,090)	(36,207)
Dividends paid to non-controlling shareholders		(858)	–
Capital contribution from non-controlling interests		–	1,161
Net cash flows from/(used in) financing activities		83,482	(103,252)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		686,914	654,732
Effect of foreign exchange rate changes, net		(47,362)	(47,046)
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		961,592	686,914
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	873,919	686,914
Non-pledged time deposits with original maturity of less than three months when acquired	20	87,673	–
Non-pledged time deposits with original maturity of over three months and within one year when acquired	20	–	10,122
Cash and cash equivalents as stated in the consolidated statement of financial position	20	961,592	697,036
Non-pledged time deposits with original maturity of over three months and within one year when acquired	20	–	(10,122)
Cash and cash equivalents as stated in the consolidated statement of cash flows		961,592	686,914

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

1. CORPORATE AND GROUP 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 11th Floor, Block E1, Hoi Bun Industrial Building, No. 6 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong.

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

In the opinion of the directors, the holding company and the ultimate holding company of the Group before the open offer of new shares of the Company in the year 2009 was Tottenham Limited, which was incorporated in the British Virgin Islands. Subsequent to the open offer, the Group ceased to have holding companies.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Best Device Group Limited	British Virgin Islands/ Hong Kong	US\$5,528	100%	–	Investment holding
Cyber Starpower Limited	British Virgin Islands/ Hong Kong	US\$1,000	–	100%	Investment holding
Anglo Dynamic Limited	British Virgin Islands/ Hong Kong	US\$2,000	–	100%	Investment holding
Tai Situpa Group Limited	British Virgin Islands/ Hong Kong	US\$2,000	–	100%	Investment holding
Lewiston Group Limited	British Virgin Islands/ Hong Kong	US\$1,000	–	100%	Investment holding
Prolific Sino Limited	British Virgin Islands/ Hong Kong	US\$10,000	–	100%	Investment holding
Integrated Precision Engineering (Thailand) Company Limited	Thailand	THB 150,000,000	–	99.99%	Trading and manufacture of precision metal components
Integrated Precision Engineering Company Limited	Hong Kong	HK\$3,000,000	–	100%	Trading of precision metal components and investment holding
IPE Macao Commercial Offshore Limited	Macao	Macao Pataca 100,000	–	100%	Trading of precision metal components

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dongguan Koda Metal Products Company Limited ("Dongguan Koda")*	PRC/ Mainland China	HK\$213,000,000	–	100%	Manufacture of precision metal components
Guangzhou Xin Hao Precision Metal Products Company Limited ("Xin Hao")**	PRC/ Mainland China	HK\$742,000,000	–	100%	Manufacture of precision metal components
Cullygrat Surface Treatment (Taicang) Company Limited ("Taicang")***	PRC/ Mainland China	HK\$5,000,000	–	61%	Surface and deburring treatment services
International Precision Engineering Company Limited	Hong Kong	HK\$1,000	–	100%	Investment holding
Jiangsu Koda Precision Engineering Company Limited ("Jiangsu Koda")****	PRC/ Mainland China	US\$40,000,000	–	100%	Manufacture of precision metal components
Changshu Keyu Greystone Machining Company Limited ("Changshu Keyu")*****	PRC/ Mainland China	US\$1,300,000	–	85%	Manufacture of precision metal components
Changshu Kuria Intelligent Equipment Company Limited ("Changshu Kuria")*****	PRC/ Mainland China	HK\$20,000,000	–	100%	Trading and manufacture of intelligent equipment

* Dongguan Koda is a wholly-foreign-owned enterprise under PRC law with registered capital of HK\$213,000,000, which has been fully contributed.

** Xin Hao is a wholly-foreign-owned enterprise under PRC law with registered capital of HK\$742,000,000, which has been fully contributed.

*** Taicang is a wholly-foreign-owned enterprise under PRC law with registered capital of HK\$5,000,000, which has been fully contributed.

**** Jiangsu Koda is a wholly-foreign-owned enterprise under PRC law with registered capital of US\$40,000,000, which has been fully contributed.

***** Changshu Keyu is a wholly-foreign-owned enterprise under PRC law with registered capital of US\$1,300,000, which has been fully contributed.

***** Changshu Kuria is a wholly-foreign-owned enterprise under PRC law with registered capital of HK\$20,000,000, which has been fully contributed.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all 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. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11 HKFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012–2014 Cycle</i>	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions²</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts²</i>
HKFRS 9	<i>Financial Instruments²</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 15	<i>Revenue from Contracts with Customers²</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers²</i>
HKFRS 16	<i>Leases³</i>
Amendments to HKAS 7	<i>Disclosure Initiative¹</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i>

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of the above changes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Leasehold land under finance leases	Over the lease terms
Buildings	Over the shorter of the lease terms and 50 years
Leasehold improvements	Over the shorter of the lease terms and 5 to 10 years
Plant and machinery	10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(1) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

(2) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

(3) *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

(1) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

(2) *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

(3) *Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and an interest rate swap, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is calculated by using a binomial model, further details of which are given in note 26 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries, limited to a maximum of HK\$1,500 per month per employee for the period from January 2016 to December 2016, and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, final dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in HK\$, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than HK\$. As at the end of the reporting period, the assets and liabilities of these entities are translated into HK\$ at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HK\$ at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into HK\$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into HK\$ at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

In addition, the Group involved in intragroup businesses including various jurisdictions in Mainland China, Hong Kong and Macau, etc. Management exercises judgement on determining transfer pricing policies in different tax jurisdictions.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values inequity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2016, impairment losses of HK\$140,000 have been recognised for available-for-sale assets (2015: Nil). The carrying amount of available-for-sale assets was HK\$140,000 (2015: HK\$290,000).

Impairment of trade and other receivables

The Group's provision policy for doubtful debts is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the Group's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required. As at the end of reporting period, an accumulated provision of impairment of trade receivables of HK\$6,005,000 (2015: Nil) and other receivables HK\$3,011,000 (2015: Nil) has been recognised.

Provision for obsolete inventories

The Group reviews the ageing analysis of its inventories at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The Group estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. As at the end of the reporting period, an accumulated provision for obsolescence of HK\$47,499,071 (2015: HK\$33,469,369) has been recognised for inventories.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets relating to recognised tax losses at 31 December 2016 and 2015. The amount of unrecognised tax losses at 31 December 2016 was HK\$81,645,000 (2015: HK\$49,942,000). Further details are contained in note 24 to the financial statements.

Share-based payments

The Group measures the costs of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value for share-based payments requires determining the most appropriate valuation model for the grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the options, volatility and dividend yield and making assumptions about them. The assumptions and model used for the estimation of the fair value for share-based payments are disclosed in note 26 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the geographical locations of the customers and has six reportable operating segments as follows:

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income and finance costs are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2016	Thailand HK\$'000	Malaysia HK\$'000	Mainland China, Macau and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	Total HK\$'000
Segment revenue:							
Sales to external customers	57,923	145,638	201,805	246,488	169,158	30,896	851,908
Intersegment sales	1,303	–	–	–	–	–	1,303
Other revenue	336	–	28,753	–	–	–	29,089
	59,562	145,638	230,558	246,488	169,158	30,896	882,300
<i>Reconciliation:</i>							
Elimination of intersegment sales							(1,303)
Revenue							880,997
Segment results	12,589	24,463	33,895	41,911	28,569	5,211	146,638
<i>Reconciliation:</i>							
Elimination of intersegment results							(16)
Bank interest income							1,824
Finance costs							(13,130)
Profit before tax							135,316
Segment assets	126,850	25,883	1,914,647	51,817	36,751	6,206	2,162,154
<i>Reconciliation:</i>							
Elimination of intersegment receivables							(23,959)
Corporate and other unallocated assets							114
Total assets							2,138,309
Segment liabilities	33,283	–	620,017	4,156	4,486	9,630	671,572
<i>Reconciliation:</i>							
Elimination of intersegment payables							(23,959)
Total liabilities							647,613
Other segment information:							
Impairment losses recognised in the statement of profit or loss	339	–	22,847	–	–	–	23,186
Depreciation and amortisation	8,315	–	118,696	–	–	–	127,011
Capital expenditure*	1,116	–	105,615	–	–	–	106,731
(Gain)/loss on disposal of items of property, plant and equipment	(258)	–	1,644	–	–	–	1,386

* Capital expenditure consists of deposits of property and additions to property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2015	Thailand HK\$'000	Malaysia HK\$'000	Mainland China, Macau and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	Total HK\$'000
Segment revenue:							
Sales to external customers	77,506	177,018	187,219	236,617	167,394	31,440	877,194
Intersegment sales	13,960	–	54	–	–	–	14,014
Other revenue	24	–	1,181	–	–	–	1,205
	91,490	177,018	188,454	236,617	167,394	31,440	892,413
<i>Reconciliation:</i>							
Elimination of intersegment sales							(14,014)
Revenue							878,399
Segment results							
	12,386	22,044	23,241	29,468	20,780	3,908	111,827
<i>Reconciliation:</i>							
Elimination of intersegment results							(2,080)
Bank interest income							11,366
Finance costs							(19,133)
Profit before tax							101,980
Segment assets							
	97,312	30,465	1,813,394	55,485	36,802	5,448	2,038,906
<i>Reconciliation:</i>							
Elimination of intersegment receivables							(18,372)
Corporate and other unallocated assets							159
Total assets							2,020,693
Segment liabilities							
	21,548	–	565,917	3,616	1,339	10,585	603,005
<i>Reconciliation:</i>							
Elimination of intersegment payables							(18,372)
Total liabilities							584,633
Other segment information:							
Impairment losses (reversed)/recognised in the statement of profit or loss	(722)	–	5,617	–	–	–	4,895
Depreciation and amortisation	13,997	–	128,854	–	–	–	142,851
Capital expenditure*	1,658	–	174,345	–	–	–	176,003
Change in fair value of derivative financial instruments — Forward currency contracts	–	–	–	1,265	–	–	1,265
(Gain)/loss on disposal of items of property, plant and equipment	(422)	–	2,263	–	–	–	1,841

* Capital expenditure consists of deposits of property and additions to property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

4. OPERATING SEGMENT INFORMATION (Continued)

Business segment information

(a) Revenue by product

	2016 HK\$'000	2015 HK\$'000
HDD components	204,701	256,011
Hydraulic equipment components	230,665	244,809
Automotive components	363,955	317,154
Others	52,587	59,220
	851,908	877,194

(b) Non-current assets

	2016 HK\$'000	2015 HK\$'000
Thailand	38,332	47,526
Mainland China, Macau and Hong Kong	708,546	808,071
	746,878	855,597

The non-current assets information above is based on the locations of the assets and excludes deferred tax assets.

Information about a major customer

Revenue of approximately HK\$124 million (2015: HK\$97 million) was derived from sales by the HDD components segment to a single customer.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	2016 HK\$'000	2015 HK\$'000
Revenue		
Sale of goods and materials	843,806	870,849
Rendering of services	8,102	6,345
	851,908	877,194
Other income and gains		
Bank interest income	1,824	11,366
Dividend income from an unlisted equity investment	1,197	–
Gain on disposal of an unlisted equity investment	7,632	–
Exchange gains, net	19,005	–
Others	1,255	1,205
	30,913	12,571

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

6. PROFIT BEFORE TAX

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

	Notes	2016 HK\$'000	2015 HK\$'000
Cost of inventories sold*		575,292	627,374
Depreciation	13	124,891	140,609
Amortisation of land lease payments	14	2,120	2,242
Research and development costs:			
Current year expenditure**		12,868	9,695
Minimum lease payments under operating leases		1,346	1,285
Auditor's remuneration		2,120	2,060
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		142,080	158,939
Equity-settled share option expense***		–	1,473
Pension scheme contributions****		18,555	16,443
		160,635	176,855
Foreign exchange differences, net		(19,005)	443
Fair value losses, net:			
Derivative financial instruments — transactions not qualified as hedges:			
Forward currency contracts		–	1,265
Bank interest income	5	(1,824)	(11,366)
Dividend income from an unlisted equity investment	5	(1,197)	–
Gain on disposal of an unlisted equity investment	5	(7,632)	–
Loss on disposal of items of property, plant and equipment		1,386	1,841
Impairment of an unlisted equity investment	16	140	–
Impairment of trade receivables	18	6,005	–
Impairment of other receivables	19	3,011	–
Provision against inventory obsolescence	17	14,030	4,895

Notes:

- * The cost of inventories sold includes an amount of approximately HK\$241,044,000 (2015: HK\$273,856,000) relating to the employee benefit expense, depreciation and operating lease charges, the amounts of which were also included in the respective total amounts disclosed above for each of these types of expenses.
- ** The research and development costs are included in "Cost of sales", "Administrative expenses" and "Other expenses" on the face of the consolidated statement of profit or loss.
- *** The equity-settled share option expense for the year is included in "Administrative expenses" on the face of the consolidated statement of profit or loss.
- **** At 31 December 2016, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2015: Nil).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 HK\$'000	2015 HK\$'000
Interest on bank loans and overdrafts	10,417	14,099
Interest on finance leases	–	22
Financial arrangement fees	2,713	5,012
	13,130	19,133

8. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2016 HK\$'000	2015 HK\$'000
Fees	2,564	2,374
Other emoluments:		
Salaries, allowances and benefits in kind	5,819	5,188
Discretionary bonuses	728	588
Equity-settled share option expense	–	704
Pension scheme contributions	106	96
	6,653	6,576
	9,217	8,950

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 26 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current year and the prior year are included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 HK\$'000	2015 HK\$'000
Dr. Cheng Ngok	100	100
Mr. Choi Hon Ting, Derek	100	100
Mr. Wu Karl Kwok	100	100
Mr. Nguyen, Van Tu Peter	50	100
Mr. Hung, Randy King Kuen	61	–
	411	400

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

(b) Executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2016						
Executive directors:						
Mr. Chui Siu On	390	1,820	–	–	18	2,228
Mr. Ho Yu Hoi	375	941	–	–	2	1,318
Mr. Li Chi Hang	240	434	–	–	22	696
Mr. Lau Siu Chung	360	559	195	–	18	1,132
Mr. Yuen Chi Ho	360	774	338	–	18	1,490
Ms. Chiu Tak Chun	240	624	195	–	18	1,077
Mr. Zeng Guangsheng	98	412	–	–	5	515
Mr. Wu Kai Ping	90	255	–	–	5	350
	2,153	5,819	728	–	106	8,806

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2015						
Executive directors:						
Mr. Chui Siu On	390	1,820	-	-	18	2,228
Mr. Ho Yu Hoi	384	941	-	-	2	1,327
Mr. Li Chi Hang	240	448	-	-	22	710
Mr. Lau Siu Chung	360	559	180	220	18	1,337
Mr. Yuen Chi Ho	360	796	228	264	18	1,666
Ms. Chiu Tak Chun	240	624	180	220	18	1,282
	1,974	5,188	588	704	96	8,550

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as a compensation for loss of office (2015: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year were five (2015: five) directors, details of whose remuneration are set out in note 8 above.

10. INCOME TAX

	2016 HK\$'000	2015 HK\$'000
Current	27,136	17,758
Deferred (note 24)	(1,370)	(1,577)
Total tax charge for the year	25,766	16,181

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

10. INCOME TAX (Continued)

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong.

China

The Group's subsidiaries registered in China were subject to corporate income tax at a rate of 25% (2015: 25%).

Thailand

Integrated Precision Engineering (Thailand) Company Limited ("IPE Thailand"), a subsidiary incorporated in Thailand, is subject to income tax in Thailand at a rate of 20% (2015: 20%). IPE Thailand has four production factories, namely Factory I, Factory II (Phase 1), Factory II (Phase 2) and Factory III. Factory II (Phase 1) enjoys exemptions from income tax granted by the Board of Investment, a government authority in Thailand, for income generated for the respective periods of eight years from 1 April 2011 to 31 March 2019 under Certificate Number 1666(1)/2553.

Macau

Under Decree-Law no.58/99/M, companies in Macau incorporated under that Decree-Law (referred to as the "58/99/M companies") are exempted from Macau complementary tax (Macau income tax) as long as they do not sell their products to any Macau resident company. IPE Macao Commercial Offshore Limited, a subsidiary of the Group in Macau, is qualified as a 58/99/M company.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries/ jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2016 HK\$'000	2015 HK\$'000
Profit before tax	135,316	101,980
Tax at the applicable tax rates	22,124	18,783
Effect of tax concessions for a certain subsidiary	(15,220)	(13,251)
Income not subject to tax	(229)	(616)
Expenses not deductible for tax	9,427	4,388
Adjustments in respect of current tax of previous periods	1,284	125
Tax losses utilised from previous periods	–	(12)
Tax losses not recognised	8,380	6,764
Tax charge at the Group's effective rate of 19.0% (2015: 15.9%)	25,766	16,181

The Hong Kong Inland Revenue Department 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 and taxability of trading profits of two subsidiaries for Hong Kong profits tax purpose for the past years. The Group is currently providing information and documents to support its tax position. The directors of the Company consider that it is premature to draw a conclusion on the outcome of the review.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

11. DIVIDENDS

	2016 HK\$'000	2015 HK\$'000
Interim dividend — HK2.0 cents (2015: HK1.5 cents) per ordinary share	21,045	13,908
Proposed final dividend — HK2.5 cents (2015: HK2.0 cents) per ordinary share	26,306	20,915
	47,351	34,823

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2016 HK\$'000	2015 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	110,201	86,093
	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,033,445,802	929,372,885
Effect of dilution — weighted average number of ordinary shares: Share options	18,665,927	53,706,370
	1,052,111,729	983,079,255

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:							
At 1 January 2016	540,732	12,406	1,375,493	69,693	19,582	72,519	2,090,425
Additions	1,719	-	935	867	1,107	96,389	101,017
Transfer in/(out)	107,357	2,076	20,835	5,094	164	(135,526)	-
Disposals	(431)	-	(12,382)	(2,320)	(532)	(6,571)	(22,236)
Exchange realignment	(32,239)	(704)	(67,495)	(3,815)	(799)	(2,065)	(107,117)
At 31 December 2016	617,138	13,778	1,317,386	69,519	19,522	24,746	2,062,089
Accumulated depreciation:							
At 1 January 2016	(188,652)	(4,155)	(1,096,334)	(52,767)	(15,561)	-	(1,357,469)
Depreciation provided during the year (note 6)	(33,377)	(1,863)	(83,003)	(5,323)	(1,325)	-	(124,891)
Disposals — accumulated depreciation	152	-	9,974	2,224	528	-	12,878
Exchange realignment	10,455	218	55,242	2,832	741	-	69,488
At 31 December 2016	(211,422)	(5,800)	(1,114,121)	(53,034)	(15,617)	-	(1,399,994)
At 31 December 2016:							
Cost	617,138	13,778	1,317,386	69,519	19,522	24,746	2,062,089
Accumulated depreciation	(211,422)	(5,800)	(1,114,121)	(53,034)	(15,617)	-	(1,399,994)
Net carrying amount	405,716	7,978	203,265	16,485	3,905	24,746	662,095
At 31 December 2015:							
Cost	540,732	12,406	1,375,493	69,693	19,582	72,519	2,090,425
Accumulated depreciation	(188,652)	(4,155)	(1,096,334)	(52,767)	(15,561)	-	(1,357,469)
Net carrying amount	352,080	8,251	279,159	16,926	4,021	72,519	732,956

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:							
At 1 January 2015	432,585	3,320	1,472,875	63,448	19,452	154,658	2,146,338
Additions	6,709	64	515	2,710	2,469	127,290	139,757
Transfer in/(out)	132,760	9,512	48,095	10,386	444	(201,197)	-
Disposals	-	-	(60,530)	(2,880)	(1,868)	(3,172)	(68,450)
Exchange realignment	(31,322)	(490)	(85,462)	(3,971)	(915)	(5,060)	(127,220)
At 31 December 2015	540,732	12,406	1,375,493	69,693	19,582	72,519	2,090,425
Accumulated depreciation:							
At 1 January 2015	(173,122)	(3,274)	(1,115,654)	(54,285)	(16,290)	-	(1,362,625)
Depreciation provided during the year (note 6)	(26,850)	(999)	(106,583)	(4,439)	(1,738)	-	(140,609)
Disposals — accumulated depreciation	-	-	58,226	2,845	1,656	-	62,727
Exchange realignment	11,320	118	67,677	3,112	811	-	83,038
At 31 December 2015	(188,652)	(4,155)	(1,096,334)	(52,767)	(15,561)	-	(1,357,469)
At 31 December 2015:							
Cost	540,732	12,406	1,375,493	69,693	19,582	72,519	2,090,425
Accumulated depreciation	(188,652)	(4,155)	(1,096,334)	(52,767)	(15,561)	-	(1,357,469)
Net carrying amount	352,080	8,251	279,159	16,926	4,021	72,519	732,956
At 31 December 2014:							
Cost	432,585	3,320	1,472,875	63,448	19,452	154,658	2,146,338
Accumulated depreciation	(173,122)	(3,274)	(1,115,654)	(54,285)	(16,290)	-	(1,362,625)
Net carrying amount	259,463	46	357,221	9,163	3,162	154,658	783,713

The Group's leasehold land included in property, plant and equipment with a net carrying amount of HK\$683,000 (2015: HK\$707,000) is situated in Hong Kong and is held under a medium term lease.

The freehold land amounting to THB19,201,000 (equivalent to HK\$4,160,000) included in land and buildings is situated in Thailand (2015: THB19,201,000 (equivalent to HK\$4,130,000)).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

14. PREPAID LAND LEASE PAYMENTS

	2016 HK\$'000	2015 HK\$'000
Carrying amount at 1 January	88,288	95,526
Recognised during the year (note 6)	(2,120)	(2,242)
Exchange realignment	(4,979)	(4,996)
Carrying amount at 31 December	81,189	88,288
Current portion included in prepayments, deposits and other receivables	(2,120)	(2,242)
Non-current portion	79,069	86,046

15. GOODWILL

	HK\$'000
At 31 December 2015:	
Cost	1,950
Accumulated impairment	(1,950)
Net carrying amount	–
At 31 December 2016:	
Cost	1,950
Accumulated impairment	(1,950)
Net carrying amount	–

16. AVAILABLE-FOR-SALE INVESTMENTS

	2016 HK\$'000	2015 HK\$'000
Unlisted equity investments, at cost	140	290
Less: Impairment of an unlisted equity investment (note 6)	(140)	–
	–	290

At 31 December 2016, unlisted equity investments with a carrying amount before impairment of HK\$140,000 (2015: HK\$290,000) were stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

17. INVENTORIES

	2016 HK\$'000	2015 HK\$'000
Raw materials	64,680	77,263
Consumables	32,454	38,813
Work in progress	47,295	39,032
Finished goods	87,530	101,805
	231,959	256,913
Less: Provision against inventory obsolescence	(47,499)	(33,469)
	184,460	223,444

18. TRADE RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Trade receivables	225,426	216,721
Less: Impairment (note 6)	(6,005)	–
	219,421	216,721

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranges from 30 to 120 days, but longer credit terms will be granted to certain major customers with the approval of the directors. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

18. TRADE RECEIVABLES (Continued)

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

	2016 HK\$'000	2015 HK\$'000
Within 1 month	74,768	71,463
1 to 2 months	71,808	67,264
2 to 3 months	40,040	40,861
3 to 4 months	27,772	23,383
4 to 12 months	5,593	12,713
Over 1 year	5,445	1,037
	225,426	216,721

The movements in provision for impairment of trade receivables are as follows:

	2016 HK\$'000	2015 HK\$'000
At beginning of year	–	–
Impairment losses recognised (note 6)	6,005	–
	6,005	–

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$6,005,000 (2015: Nil) with a carrying amount before provision of HK\$6,005,000 (2015: Nil). The individually impaired trade receivables relate to customers that are in default of payments.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016 HK\$'000	2015 HK\$'000
Neither past due nor impaired	180,942	169,091
Less than 90 days past due	37,300	38,617
90 to 180 days past due	547	7,861
Over 180 days past due	632	1,152
	219,421	216,721

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Prepayments	6,760	6,502
Deposits and other receivables	19,019	19,578
Less: Impairment (note 6)	(3,011)	–
	22,768	26,080

The movement in provision for impairment of other receivables are as follows:

	2016 HK\$'000	2015 HK\$'000
At beginning of year	–	–
Impairment losses recognised (note 6)	3,011	–
	3,011	–

The individually impaired other receivable relate to a debtor that was in default of payment.

20. CASH AND CASH EQUIVALENTS

	2016 HK\$'000	2015 HK\$'000
Cash and bank balances	873,919	686,914
Time deposits	87,673	10,122
Cash and cash equivalents	961,592	697,036

At the end of the reporting period, the cash and cash balances of the Group denominated in Renminbi ("RMB") amounted to HK\$206,093,000 (2015: HK\$348,185,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

21. TRADE AND BILLS PAYABLES

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

	2016 HK\$'000	2015 HK\$'000
Within 1 month	18,172	17,261
1 to 2 months	19,164	14,674
2 to 3 months	12,767	5,933
Over 3 months	5,538	1,888
	55,641	39,756

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

22. OTHER PAYABLES AND ACCRUALS

	2016 HK\$'000	2015 HK\$'000
Other payables	17,199	21,478
Accruals	22,813	25,739
	40,012	47,217
Portion classified as non-current:		
Other payables	(945)	(744)
Current portion	39,067	46,473

Other payables are non-interest-bearing and have an average term of one month.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Effective contractual interest rate (%)	Maturity	HK\$'000	Effective contractual interest rate (%)	Maturity	HK\$'000
Current						
<i>Unsecured</i>						
Bank revolving loans	2.72-2.95	On demand	140,000	2.23-2.87	2016	290,000
US\$10,000,000 revolving loan	2.40	On demand	77,545	–	–	–
Short term bank loans	2.50	2017	58,450	2.87	2016	92,677
Other bank loans	2.34-2.77	2017	16,646	1.82-2.15	2016	35,519
Long term bank loans repayable on demand	–	–	–	2.38-3.74	On demand	63,287
			292,641			481,483
Non-current						
<i>Unsecured</i>						
Long term bank loans	2.5	2019	237,875	–	–	–
			530,516			481,483

	31 December 2016 HK\$'000	31 December 2015 HK\$'000
Analysed into:		
Bank revolving loans, short term and long term bank loans repayable:		
Within one year or on demand	275,995	445,964
In the second year	57,875	–
In the third to fifth years, inclusive	180,000	–
	513,870	445,964
Other bank loans repayable:		
Within one year	16,646	35,519
	530,516	481,483

Notes:

- (a) At 31 December 2016 and 2015, all the interest-bearing bank and other borrowings were unsecured.
- (b) Except for the US\$10,000,000 unsecured revolving loan which is denominated in United States dollars, all borrowings are in Hong Kong dollars.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	2016 Withholding tax for distributable profits of the PRC subsidiaries HK\$'000	Total HK\$'000
At 1 January 2016	517	8,637	9,154
Deferred tax charged to the statement of profit or loss during the year (note 10)	149	–	149
Exchange realignment	(1)	–	(1)
At 31 December 2016	665	8,637	9,302

Deferred tax assets

	Provision for impairment of assets HK\$'000	2016 Unpaid payroll which is not deductible before calculating taxable profit of a PRC subsidiary HK\$'000	Total HK\$'000
At 1 January 2016	119	1,696	1,815
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	3,215	(1,696)	1,519
Exchange realignment	(144)	–	(144)
At 31 December 2016	3,190	–	3,190

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

24. DEFERRED TAX (Continued)

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	2015 Withholding tax for distributable profits of the PRC subsidiaries HK\$'000	Total HK\$'000
At 1 January 2015	422	8,637	9,059
Deferred tax charged to the statement of profit or loss during the year (note 10)	108	–	108
Exchange realignment	(13)	–	(13)
At 31 December 2015	517	8,637	9,154

Deferred tax assets

	Write-back of inventory provision HK\$'000	2015 Unpaid payroll which is not deductible before calculating taxable profit of a PRC subsidiary HK\$'000	Total HK\$'000
At 1 January 2015	141	–	141
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	(11)	1,696	1,685
Exchange realignment	(11)	–	(11)
At 31 December 2015	119	1,696	1,815

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

24. DEFERRED TAX (Continued)

Deferred tax assets have not been recognised in respect of the following items:

	2016 HK\$000	2015 HK\$000
Tax losses	81,645	49,942
Deductible temporary differences	152,100	138,575
	233,745	188,517

The Group has tax losses arising in Mainland China of HK\$43,272,000 (2015: HK\$16,006,000) that will expire in one to five years for offsetting against future taxable profits.

The Group also has tax losses arising in countries and areas outside Mainland China of HK\$38,373,000 (2015: HK\$33,936,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investor. The Group is therefore liable for withholding taxes on dividends to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2016, the Group has not recognised deferred tax liabilities of HK\$15,598,000 (2015: HK\$9,770,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounting to HK\$155,980,000 (31 December 2015: HK\$97,697,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

25. SHARE CAPITAL

Shares

	2016 HK\$'000	2015 HK\$'000
Authorised: 1,500,000,000 (2015: 1,500,000,000) ordinary shares of HK\$0.1 each	150,000	150,000
Issued and fully paid: 1,052,254,135 (2015: 928,154,135) ordinary shares of HK\$0.1 each	105,225	92,815

A summary of movements in the company's issued share capital is as follows:

	Notes	Number of shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2015		932,454,135	93,245	398,404	491,649
Share options exercised	(a)	2,000,000	200	1,428	1,628
Shares repurchased	(b)	(6,300,000)	(630)	(4,618)	(5,248)
At 31 December 2015 and 1 January 2016		928,154,135	92,815	395,214	488,029
Share options exercised	(c)	124,100,000	12,410	93,983	106,393
Shares repurchased	(d)	–	–	–	–
At 31 December 2016		1,052,254,135	105,225	489,197	594,422

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

25. SHARE CAPITAL (Continued)

Shares (continued)

A summary of movements in the Company's issued share capital is as follows:

- (a) In 2015, the subscription rights attaching to 1,000,000 share options were exercised at the subscription price of HK\$0.64 per share and the subscription rights attaching to 1,000,000 share options were exercised at the subscription price of HK\$0.56 per share (note 26), resulting in the issue of 2,000,000 shares of HK\$0.1 each for a total cash consideration, before expenses, of approximately HK\$1.2 million. An amount of approximately HK\$428,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.
- (b) The Company repurchased its own shares on the Stock Exchange during the year ended 31 December 2015. The shares were cancelled upon repurchase and accordingly the issued capital of the Company was reduced by the nominal value of these shares. The premium on the repurchase was charged against share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.
- (c) In 2016, the subscription rights attaching to 20,000,000 share options were exercised at the subscription price of HK\$0.64 per share, the subscription rights attaching to 69,000,000 share options were exercised at the subscription price of HK\$0.71 per share, the subscription rights attaching to 13,500,000 share options were exercised at the subscription price of HK\$0.46 per share, and the subscription rights attaching to 21,600,000 share options were exercised at the subscription price of HK\$0.56 per share (note 26), resulting in the issue of 124,100,000 shares of HK\$0.1 each for a total cash consideration, before expenses, of approximately HK\$80 million. An amount of approximately HK\$26,304,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.
- (d) There was no share repurchase during the year.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 26 to the financial statements.

26. SHARE OPTION SCHEME

The Company's Share Option Scheme 2004 (the "2004 Scheme") was adopted pursuant to a resolution in writing of the sole shareholder dated 12 October 2004 which became effective on 1 November 2004, the date on which the shares of the Company were listed on the Stock Exchange. In 2011, the Company has terminated the 2004 Scheme and adopted a New Share Option Scheme (the "2011 Scheme") pursuant to a resolution passed in the annual general meeting dated 17 May 2011 which became effective on the same date. The 2011 Scheme will remain in force for ten years commencing from the effective date, after which period no further options will be granted but the provisions of the 2011 Scheme shall remain in full force in all other respects.

At the date of approval of these financial statements, no further options were available for issue under the 2004 Scheme due to its termination on 17 May 2011.

2011 Scheme

The purpose of the 2011 Scheme is to provide incentives and rewards to eligible participants for their contribution to the Group, and/or to enable the Group to recruit and retain high-calibre employees and attract the human resources that are valuable to the Group and any entity in which the Group holds any equity interest (the "Invested Entity"). Under the 2011 Scheme, the directors of the Company are authorised, to invite directors (including executive, non-executive and independent non-executive directors) of the Group or any Invested Entity, employees (whether full-time or part-time) of the Group or any Invested Entity, suppliers of goods or services to any member of the Group or any Invested Entity, any customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity, at their absolute discretion to take up options to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2011 Scheme of the Company shall not, in aggregate, exceed 10% of the total number of shares in issue as at any time.

As at the date of approval of these financial statements, the total number of shares of the Company available for issue under the 2011 Scheme was 105,075,413 (2015: 92,912,913) shares, which represented approximately 9.99% (2015: approximately 8.88%) of the Company's shares in issue as at that date.

The Company may seek approval of the shareholders in a general meeting for refreshing the 10% limit under these schemes save that the total number of shares which may be issued upon exercise of all options to be granted under these schemes and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the refreshed limit. Options previously granted under these schemes and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with these schemes and any other schemes) will not be counted for the purpose of calculating the limit.

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Year ended 31 December 2016

26. SHARE OPTION SCHEME (Continued)

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under these schemes and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

Under these schemes, the total number of shares issued and to be issued upon exercise of the options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options under these schemes granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options under these schemes granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price in respect of any particular option under these schemes shall be such price as determined by the board of directors at its absolute discretion at the time of the making of the offer but in any case the exercise price shall be at least the highest of (i) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the offer date; (ii) the average of the official closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company.

The offer of a grant of share options under these schemes must be accepted within 28 days from the date of offer, upon payment of a consideration of HK\$1 by the grantee. Under the 2011 Scheme, share options may be exercised at any time during a period determined and notified by the board of directors of the Company at its absolute discretion, save that such period shall not be more than 10 years from the offer date subject to the provisions for early termination thereof. There is no minimum period for which an option under these schemes must be held before the exercise of the option except otherwise imposed by the board of directors.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

26. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the 2011 Scheme during the year:

	2016		2015	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	0.74	168,400	0.74	170,400
Granted during the year	N/A	–	N/A	–
Forfeited during the year	N/A	–	N/A	–
Exercised during the year	0.65	(124,100)	0.60	(2,000)
At 31 December	1.01	44,300	0.74	168,400

The weighted average share price at the date of exercise for share options exercised during the year was HK\$1.68 per share (2015: HK\$1.28).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period under the 2011 Scheme are as follows:

2015 Number of options '000	Exercise price* HK\$ per share	Exercise period
14,000	1.82	01-09-13 to 31-08-18
20,000	0.64	01-09-14 to 31-08-16
90,000	0.71	01-04-14 to 31-12-17
20,000	0.46	14-04-14 to 31-12-19
24,400	0.56	01-06-15 to 31-12-19
168,400		
2016 Number of options '000	Exercise price* HK\$ per share	Exercise period
14,000	1.82	01-09-13 to 31-08-18
21,000	0.71	01-04-14 to 31-12-17
6,500	0.46	14-04-14 to 31-12-19
2,800	0.56	01-06-15 to 31-12-19
44,300		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

26. SHARE OPTION SCHEME (Continued)

The fair values of the share options granted on 14 April 2014 and 12 June 2014 were HK\$3,240,000 and HK\$5,070,000, respectively. There was no share option expense recognised (2015: HK\$2,177,000) during the year ended 31 December 2016.

The fair values of equity-settled share options granted on 14 April 2014 and 12 June 2014 were estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Options granted on 14 April 2014	Options granted on 12 June 2014
Dividend yield (%)	3%	3%
Expected volatility (%)	54%	52%
Historical volatility (%)	54%	52%
Risk-free interest rate (%)	1.45%	1.47%
Expected life of options (year)	3.72	5.56
Weighted average share price (HK\$ per share)	0.46	0.56

The expected life of the options is based on the historical data over the prior periods and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

124,100,000 share options exercised during the year resulted in the issue of 124,100,000 ordinary shares of the Company and new share capital of HK\$12,410,000 and share premium of HK\$93,983,000 (before issue expenses), as further detailed in note 25 to the financial statements.

At the end of the reporting period, the outstanding options of the Company are as follows:

2011 Scheme

The Company had 44,300,000 share options outstanding as at the end of the reporting period under this scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 44,300,000 additional ordinary shares of the Company and additional share capital of HK\$4,430,000, a reversal of share option reserve of HK\$8,452,000 and share premium of HK\$48,945,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 44,300,000 share options outstanding under the 2011 Scheme, which represented approximately 4.21% of the Company's shares in issue as at that date.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 55 and 56 of the financial statements.

The Group's contributed surplus represented the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, and the nominal value of the Company's shares issued in exchange therefor.

In accordance with the law of the PRC on wholly-foreign-owned investment enterprises, each of the Company's subsidiaries which are registered in the mainland China is required to appropriate an amount of not less than 10% of its profits after tax to the statutory surplus reserve, until the accumulated total of the reserve reaches 50% of its registered capital and any further appropriation is optional thereafter. The reserve can only be used, upon approval of the relevant authority, to offset accumulated losses or increase capital.

The transfer of net profit to the statutory public welfare fund is made at the discretion of the directors at 5% of the net profit of the Company's subsidiaries which are registered in the mainland China. The statutory public welfare fund can be used for employees' welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the years ended 31 December 2016 and 2015.

28. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2016 HK\$'000	2015 HK\$'000
Guarantees given to an electricity company	542	538

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its plants under operating lease arrangements, with leases negotiated for terms of one year. The terms of the leases generally also required the tenants to pay security deposits.

At 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	149	–

(b) As lessee

The Group leases certain of its plants and office equipment under operating lease arrangements. Leases for plants and office equipment are negotiated for terms ranging from one to three years. None of these leases include contingent rentals.

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	505	1,279
In the second to fifth years, inclusive	45	288
	550	1,567

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29(b) above, the Group had the following capital commitments at the end of the reporting period:

	2016 HK\$'000	2015 HK\$'000
Contracted, but not provided for:		
Plant and machinery	1,186	–
Buildings	2,240	21,759
	3,426	21,759

At the end of the reporting period, the Group did not have any significant commitments.

31. RELATED PARTY TRANSACTIONS

Compensation of key management personnel (including directors of the Company as disclosed in note 8) of the Group:

	2016 HK\$'000	2015 HK\$'000
Short term employee benefits	14,168	13,162
Discretionary bonuses	728	588
Equity-settled share option expense	–	873
Post-employment benefits	271	254
Total compensation paid to key management personnel	15,167	14,877

Further details of directors' emoluments are included in note 8 to the financial statements.

Certain of the related party transactions in respect of the compensation of key management personnel of the Group also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2016

Financial assets

	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Available-for-sale investments (note 16)	–	–	–
Trade receivables (note 18)	219,421	–	219,421
Financial assets included in prepayments, deposits and other receivables (note 19)	16,015	–	16,015
Cash and cash equivalents (note 20)	961,592	–	961,592
	1,197,028	–	1,197,028

2016

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Trade and bills payables (note 21)	55,641
Financial liabilities included in other payables and accruals	16,724
Interest-bearing bank and other borrowings (note 23)	530,516
	602,881

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

32. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2015

Financial assets

	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Available-for-sale investments (note 16)	–	290	290
Trade receivables (note 18)	216,721	–	216,721
Financial assets included in prepayments, deposits and other receivables (note 19)	19,578	–	19,578
Cash and cash equivalents (note 20)	697,036	–	697,036
	933,335	290	933,625

2015

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Trade and bills payables (note 21)	39,756
Financial liabilities included in other payables and accruals	36,299
Interest-bearing bank and other borrowings (note 23)	481,483
	557,538

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Year ended 31 December 2016

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2016 was assessed to be insignificant.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and other interest-bearing loans, finance leases and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The Group will enter into derivative transactions, including principally interest rate swaps and forward currency contracts when it is needed. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by certain subsidiaries in currencies other than the subsidiaries' functional currencies. Approximately 65% (2015: 65%) of the Group's sales were denominated in currencies other than the functional currencies of the subsidiaries making the sale, whilst approximately 19% (2015: 26%) of costs were denominated in currencies other than the subsidiaries' functional currencies.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax HK\$'000
2016		
If HK\$ weakens against Euro	5%	1,408
If HK\$ weakens against Japanese Yen	5%	(18)
If HK\$ weakens against Singapore Dollar	5%	249
If HK\$ strengthens against Euro	(5%)	(1,408)
If HK\$ strengthens against Japanese Yen	(5%)	18
If HK\$ strengthens against Singapore Dollar	(5%)	(249)
2015		
If HK\$ weakens against Euro	5%	1,020
If HK\$ weakens against Japanese Yen	5%	(381)
If HK\$ strengthens against Euro	(5%)	(1,020)
If HK\$ strengthens against Japanese Yen	(5%)	381

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its assets and liabilities and cash flows. The matching of assets and liabilities is utilised to hedge interest rate risk.

In addition, the Group is exposed to interest rate risk through the impact of rate changes on interest-bearing bank borrowings. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 23 to the financial statements.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group will enter into interest rate swaps when it is needed, in which the Group agrees to exchange, at specified intervals, the difference between the fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowing). There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000
2016		
HK\$	25	(1,336)
US\$	25	(17)
HK\$	(25)	1,336
US\$	(25)	17
2015		
HK\$	25	(231)
HK\$	(25)	231

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currencies of the relevant operating units, the Group does not offer credit terms without the specific approval of management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group consistently maintains a prudent financial policy and ensures that it maintains sufficient cash to meet its liquidity requirements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2016					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Interest-bearing bank and other borrowings	217,828	32,013	46,606	242,422	–	538,869
Trade and bills payables (note 21)	25,920	29,721	–	–	–	55,641
Financial liabilities included in other payables and accruals	5,879	10,845	–	–	–	16,724
	249,627	72,579	46,606	242,422	–	611,234

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	2015					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Interest-bearing bank and other borrowings	287,258	195,672	–	–	–	482,930
Trade and bills payables (note 21)	13,294	26,462	–	–	–	39,756
Financial liabilities included in other payables and accruals	8,504	27,795	–	–	–	36,299
	309,056	249,929	–	–	–	558,985

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a net cash to equity ratio, which is net cash divided by the capital. Net cash includes cash and cash equivalents less interest-bearing bank and other borrowings. Capital represents the total equity attributable to owners of the parent. The net cash to equity ratios as at the end of the reporting periods were as follows:

	2016 HK\$'000	2015 HK\$'000
Cash and cash equivalents (note 20)	961,592	697,036
Less: Interest-bearing bank and other borrowings (note 23)	(530,516)	(481,483)
Net cash	431,076	215,553
Equity attributable to owners of the Company	1,488,654	1,432,356
Net cash to equity ratio	29%	15%

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 HK\$'000	2015 HK\$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	43	43
CURRENT ASSETS		
Prepayments, deposits and other receivables	261	269
Amounts due from subsidiaries	923,764	856,970
Cash and cash equivalents	8,340	2,857
Total current assets	932,365	860,096
CURRENT LIABILITIES		
Other payables and accruals	469	6,131
NET CURRENT ASSETS	931,896	853,965
Net assets	931,939	854,008
EQUITY		
Issued capital	105,225	92,815
Reserves	826,714	761,193
Total equity	931,939	854,008

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Year ended 31 December 2016

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2015	381,408	7,275	(9,958)	33,007	348,427	760,159
Final 2014 dividend declared	-	-	-	-	(22,299)	(22,299)
Total comprehensive income for the year	-	-	-	-	38,682	38,682
Issue of shares upon exercise of share options	1,428	-	-	(428)	-	1,000
Shares repurchased	(4,618)	630	-	-	(630)	(4,618)
Equity-settled share option arrangements	-	-	-	2,177	-	2,177
Interim 2015 dividend	-	-	-	-	(13,908)	(13,908)
At 31 December 2015	378,218	7,905	(9,958)	34,756	350,272	761,193
Final 2015 dividend declared	-	-	-	-	(21,045)	(21,045)
Total comprehensive income for the year	-	-	-	-	39,932	39,932
Issue of shares upon exercise of share options	93,983	-	-	(26,304)	-	67,679
Interim 2016 dividend	-	-	-	-	(21,045)	(21,045)
At 31 December 2016	472,201	7,905	(9,958)	8,452	348,114	826,714

The Company's contributed surplus represented the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Company reorganisation prior to the listing of the Company's shares, and the nominal value of the Company's shares issued in exchange therefor.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2017.



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