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## **IPE GROUP LIMITED**

**國際精密集團有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 929)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **FINANCIAL HIGHLIGHTS**

1. Revenue for the year decreased by 2.9% to HK\$851,908,000 (2015: HK\$877,194,000).
2. Gross profit margin for the year increased to 30.8% (2015: 27.9%).
3. Profit for the year increased by 27.7% to HK\$109,550,000 (2015: HK\$85,799,000).
4. Basic earnings per share for the year was HK10.66 cents (2015: HK9.26 cents).
5. Net asset value per share as at 31 December 2016 was HK\$1.42 (2015: HK\$1.55).
6. The Group was in a net cash position (i.e. cash and bank balances less total bank borrowings) as at 31 December 2016 in the amount of HK\$431 million or equivalent to HK40.97 cents per share (2015: HK\$216 million or HK23.22 cents per share).
7. Proposed final dividend of HK2.5 cents for the year (2015: HK2.0 cents).

\* For identification purposes only

The board of directors (the “Board”) of IPE Group Limited (the “Company” or “IPE”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group” or “IPE Group”) for the year ended 31 December 2016, together with the comparative results for the previous year:

### Consolidated Statement of Profit or Loss

	<i>Notes</i>	Year ended 31 December	
		2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
REVENUE	3&4	<b>851,908</b>	877,194
Cost of sales		<u>(589,322)</u>	<u>(632,269)</u>
Gross profit		<b>262,586</b>	244,925
Other income and gains	4	<b>30,913</b>	12,571
Selling and distribution expenses		<b>(24,889)</b>	(23,013)
Administrative expenses		<b>(95,496)</b>	(101,323)
Other expenses		<b>(24,668)</b>	(12,047)
Finance costs	6	<u><b>(13,130)</b></u>	<u>(19,133)</u>
PROFIT BEFORE TAX	5	<b>135,316</b>	101,980
Income tax expense	7	<u><b>(25,766)</b></u>	<u>(16,181)</u>
PROFIT FOR THE YEAR		<u><b>109,550</b></u>	<u>85,799</u>
Attributable to:			
Owners of the Company		<b>110,201</b>	86,093
Non-controlling interests		<u><b>(651)</b></u>	<u>(294)</u>
		<u><b>109,550</b></u>	<u>85,799</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic		<u><b>HK10.66 cents</b></u>	<u>HK9.26 cents</u>
Diluted		<u><b>HK10.47 cents</b></u>	<u>HK8.76 cents</u>

## Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>109,550</u>	<u>85,799</u>
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of foreign operations	<u>(92,055)</u>	<u>(101,463)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	<u>(92,055)</u>	<u>(101,463)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>17,495</u>	<u>(15,664)</u>
Attributable to:		
Owners of the Company	18,299	(15,013)
Non-controlling interests	<u>(804)</u>	<u>(651)</u>
	<u>17,495</u>	<u>(15,664)</u>

## Consolidated Statement of Financial Position

		As at 31 December	
		2016	2015
	Notes	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	<b>662,095</b>	732,956
Prepaid land lease payments		<b>79,069</b>	86,046
Loan to an unlisted equity investment		–	59
Available-for-sale investments		–	290
Deposits for purchase of non-current assets		<b>5,714</b>	36,246
Deferred tax assets		<b>3,190</b>	1,815
		<hr/>	<hr/>
Total non-current assets		<b>750,068</b>	857,412
<b>CURRENT ASSETS</b>			
Inventories	11	<b>184,460</b>	223,444
Trade receivables	12	<b>219,421</b>	216,721
Prepayments, deposits and other receivables		<b>22,768</b>	26,080
Cash and cash equivalents		<b>961,592</b>	697,036
		<hr/>	<hr/>
Total current assets		<b>1,388,241</b>	1,163,281
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	13	<b>55,641</b>	39,756
Other payables and accruals		<b>39,067</b>	46,473
Tax payable		<b>12,142</b>	7,023
Interest-bearing bank and other borrowings		<b>292,641</b>	481,483
		<hr/>	<hr/>
Total current liabilities		<b>399,491</b>	574,735
		<hr/>	<hr/>
NET CURRENT ASSETS		<b>988,750</b>	588,546
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>1,738,818</b>	1,445,958
		<hr/>	<hr/>

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

	<b>As at 31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	<b>237,875</b>	–
Deferred tax liabilities	<b>9,302</b>	9,154
Other payables and accruals	<b>945</b>	744
	<hr/>	<hr/>
Total non-current liabilities	<b>248,122</b>	9,898
	<hr/>	<hr/>
Net assets	<b>1,490,696</b>	1,436,060
	<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>		
Equity attributable to owners of the Company		
Issued capital	<b>105,225</b>	92,815
Reserves	<b>1,383,429</b>	1,339,541
	<hr/>	<hr/>
	<b>1,488,654</b>	1,432,356
	<hr/>	<hr/>
Non-controlling interests	<b>2,042</b>	3,704
	<hr/>	<hr/>
Total equity	<b>1,490,696</b>	1,436,060
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 10 July 2002 under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 1 November 2004.

The principal place of business is located at 11<sup>th</sup> 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 hard disk drives (“HDD”), hydraulic equipment, automotive parts and components for other applications.

### 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, 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 (“HK\$”) 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.

## 2.1 BASIS OF PREPARATION (Continued)

### Basis of consolidation (Continued)

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 in the accounting policy for subsidiaries below. 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.

## 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 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>Annual Improvements 2012–2014 Cycle</i>	<i>Equity Method in Separate Financial Statements Amendments to a number of HKFRSs</i>

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

### 3. 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 resources 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.



### 3. 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
<b>Segment revenue:</b>							
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
	<u>59,562</u>	<u>145,638</u>	<u>230,558</u>	<u>246,488</u>	<u>169,158</u>	<u>30,896</u>	<u>882,300</u>
<i>Reconciliation:</i>							
Elimination of intersegment sales							<u>(1,303)</u>
Revenue							<u>880,997</u>
<b>Segment results</b>	<b>12,589</b>	<b>24,463</b>	<b>33,895</b>	<b>41,911</b>	<b>28,569</b>	<b>5,211</b>	<b>146,638</b>
<i>Reconciliation:</i>							
Elimination of intersegment results							(16)
Bank interest income							1,824
Finance costs							<u>(13,130)</u>
Profit before tax							<u>135,316</u>
<b>Segment assets</b>	<b>126,850</b>	<b>25,883</b>	<b>1,914,647</b>	<b>51,817</b>	<b>36,751</b>	<b>6,206</b>	<b>2,162,154</b>
<i>Reconciliation:</i>							
Elimination of intersegment receivables							(23,959)
Corporate and other unallocated assets							114
Total assets							<u>2,138,309</u>
<b>Segment liabilities</b>	<b>33,283</b>	<b>-</b>	<b>620,017</b>	<b>4,156</b>	<b>4,486</b>	<b>9,630</b>	<b>671,572</b>
<i>Reconciliation:</i>							
Elimination of intersegment payables							<u>(23,959)</u>
Total liabilities							<u>647,613</u>
<b>Other segment information:</b>							
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	<u>(258)</u>	<u>-</u>	<u>1,644</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,386</u>

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

### 3. 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
<b>Segment revenue:</b>							
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
	<u>91,490</u>	<u>177,018</u>	<u>188,454</u>	<u>236,617</u>	<u>167,394</u>	<u>31,440</u>	<u>892,413</u>
<i>Reconciliation:</i>							
Elimination of intersegment sales							<u>(14,014)</u>
Revenue							<u>878,399</u>
<b>Segment results</b>	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							<u>(19,133)</u>
Profit before tax							<u>101,980</u>
<b>Segment assets</b>	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							<u>159</u>
Total assets							<u>2,020,693</u>
<b>Segment liabilities</b>	21,548	–	565,917	3,616	1,339	10,585	603,005
<i>Reconciliation:</i>							
Elimination of intersegment payables							<u>(18,372)</u>
Total liabilities							<u>584,633</u>
<b>Other segment information:</b>							
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	<u>(422)</u>	<u>–</u>	<u>2,263</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,841</u>

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

### 3. OPERATING SEGMENT INFORMATION (Continued)

#### Business segment information

(a) Revenue by product

	Year ended 31 December	
	2016	2015
	HK\$'000	HK\$'000
Automotive components	363,955	317,154
Hydraulic equipment components	230,665	244,809
HDD components	204,701	256,011
Others	52,587	59,220
	<u>851,908</u>	<u>877,194</u>

(b) Non-current assets

	As at 31 December	
	2016	2015
	HK\$'000	HK\$'000
Thailand	38,332	47,526
Mainland China, Macau and Hong Kong	708,546	808,071
	<u>746,878</u>	<u>855,597</u>

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.

#### 4. 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:

	Year ended 31 December	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Revenue</b>		
Sale of goods and materials	<b>843,806</b>	870,849
Rendering of services	<b>8,102</b>	6,345
	<b>851,908</b>	877,194
<b>Other income and gains</b>		
Bank interest income	<b>1,824</b>	11,366
Dividend income from an unlisted equity investment	<b>1,197</b>	–
Gain on disposal of an unlisted equity investment	<b>7,632</b>	–
Exchange gains, net	<b>19,005</b>	–
Others	<b>1,255</b>	1,205
	<b>30,913</b>	12,571

## 5. PROFIT BEFORE TAX

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

	Year ended 31 December	
	2016 HK\$'000	2015 HK\$'000
Cost of inventories sold	575,292	627,374
Depreciation	124,891	140,609
Amortisation of land lease payments	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
Auditors' remuneration	2,120	2,060
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	142,080	158,939
Equity-settled share option expense	–	1,473
Pension scheme contributions	18,555	16,443
	<u>160,635</u>	<u>176,855</u>
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	(1,824)	(11,366)
Dividend income from an unlisted equity investment	(1,197)	–
Gain on disposal of an unlisted equity investment	(7,632)	–
Loss on disposal of items of property, plant and equipment	1,386	1,841
Provision against inventory obsolescence	14,030	4,895
Impairment of an unlisted equity investment	140	–
Impairment of trade receivables	6,005	–
Impairment of other receivables	3,011	–
	<u>3,011</u>	<u>–</u>

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on bank loans and overdrafts	10,417	14,099
Interest on finance leases	–	22
Financial arrangement fees	2,713	5,012
	<u>13,130</u>	<u>19,133</u>

## 7. INCOME TAX

	Year ended 31 December	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current	27,136	17,758
Deferred	(1,370)	(1,577)
	<u>25,766</u>	<u>16,181</u>

## 8. DIVIDENDS

	Year ended 31 December	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
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
	<u>47,351</u>	<u>34,823</u>

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

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

The calculation of basic earnings per share amounts 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 amounts 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:

	<b>Year ended 31 December</b>	
	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b><u>Earnings</u></b>		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	<u>110,201</u>	<u>86,093</u>
	<b>Number of shares</b>	
	<b>2016</b>	2015
<b><u>Shares</u></b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<b>1,033,445,802</b>	929,372,885
Effect of dilution — weighted average number of ordinary shares:		
Share options	<u>18,665,927</u>	<u>53,706,370</u>
	<u><b>1,052,111,729</b></u>	<u>983,079,255</u>

## 10. 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	<u>617,138</u>	<u>13,778</u>	<u>1,317,386</u>	<u>69,519</u>	<u>19,522</u>	<u>24,746</u>	<u>2,062,089</u>
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 5)	(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	<u>(211,422)</u>	<u>(5,800)</u>	<u>(1,114,121)</u>	<u>(53,034)</u>	<u>(15,617)</u>	<u>–</u>	<u>(1,399,994)</u>
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	<u>405,716</u>	<u>7,978</u>	<u>203,265</u>	<u>16,485</u>	<u>3,905</u>	<u>24,746</u>	<u>662,095</u>
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	<u>352,080</u>	<u>8,251</u>	<u>279,159</u>	<u>16,926</u>	<u>4,021</u>	<u>72,519</u>	<u>732,956</u>

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 Thai Baht19,201,000 (equivalent to HK\$4,160,000) included in land and buildings is situated in Thailand (2015: Thai Baht19,201,000 (equivalent to HK\$4,130,000)).



## 11. INVENTORIES

	As at 31 December	
	2016	2015
	HK\$'000	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
	<u>231,959</u>	<u>256,913</u>
<i>Less: Provision against inventory obsolescence</i>	<u>(47,499)</u>	<u>(33,469)</u>
	<u><u>184,460</u></u>	<u><u>223,444</u></u>

## 12. TRADE RECEIVABLES

	As at 31 December	
	2016	2015
	HK\$'000	HK\$'000
Trade receivables	225,426	216,721
<i>Less: Impairment</i>	<u>(6,005)</u>	<u>–</u>
	<u><u>219,421</u></u>	<u><u>216,721</u></u>

The Group's trading terms with its customers are mainly on credit, except for new customers where payments in advance are normally required. The credit period generally ranges from 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.

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

	As at 31 December	
	2016	2015
	HK\$'000	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
	<u>225,426</u>	<u>216,721</u>

## 12. TRADE RECEIVABLES (Continued)

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At beginning of year	–	–
Impairment losses recognised ( <i>note 5</i> )	<u>6,005</u>	<u>–</u>
	<u><b>6,005</b></u>	<u>–</u>

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 or collectively considered to be impaired is as follows:

	<b>As at 31 December</b>	
	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Neither past due nor impaired	<b>180,942</b>	169,091
Less than 90 days past due	<b>37,300</b>	38,617
90 to 180 days past due	<b>547</b>	7,861
Over 180 days past due	<b>632</b>	1,152
	<u><b>219,421</b></u>	<u>216,721</u>

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.

## 13. 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:

	<b>As at 31 December</b>	
	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 1 month	<b>18,172</b>	17,261
1 to 2 months	<b>19,164</b>	14,674
2 to 3 months	<b>12,767</b>	5,933
Over 3 months	<b>5,538</b>	1,888
	<u><b>55,641</b></u>	<u>39,756</u>

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

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.

## 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	<b>363,955</b>	<b>43%</b>	317,154	36%	+14.8%
Hydraulic equipment components	<b>230,665</b>	<b>27%</b>	244,809	28%	-5.8%
HDD components	<b>204,701</b>	<b>24%</b>	256,011	29%	-20.0%
Others	<b>52,587</b>	<b>6%</b>	59,220	7%	-11.2%
Total	<b>851,908</b>	<b>100%</b>	877,194	100%	-2.9%

Although our Group’s sales were slightly lower than last year 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 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.

## **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.

## **SUPPLEMENTARY INFORMATION**

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

During the year ended 31 December 2016, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's shares on the Stock Exchange (2015: a total of 6,300,000 shares were cancelled upon repurchase).

### **Final Dividend**

The Board recommends a proposed final dividend of HK2.5 cents per share for the year ended 31 December 2016 (the "Proposed Final Dividend") (2015: HK2.0 cents), subject to the approval of the shareholders at the Company's annual general meeting to be held on Monday, 15 May 2017 (the "2017 AGM"). The Proposed Final Dividend will be paid in cash on 1 June 2017 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 23 May 2017.

### **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.

## Corporate Governance

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange during the year under review, save for the following deviation:

### *Code Provision A.2.1*

The code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Currently, Mr. Chui Siu On assumes the roles of both chairman 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.

## Audit Committee

The Audit Committee of the Company, comprising three independent non-executive directors, namely, Dr. Cheng Ngok (Chairman of the Audit Committee), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, has reviewed with senior management of the Group and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting processes including the review of the Company's consolidated financial statements for the year ended 31 December 2016.

## Board of Directors

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

### *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  
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

By order of the Board  
**IPE Group Limited**  
**Chui Siu On**  
*Chairman*

Hong Kong, 20 March 2017