IPE GROUP LIMITED

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

ANNUAL REPORT 2017

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zeng Guangsheng *(Chairman)*
Mr. Chui Siu On *(Chief Executive Officer)*
Mr. Lau Siu Chung
Ms. Chiu Tak Chun
Mr. Ng Hoi Ping (Previous Name: Wu Kai Ping)

Non-executive Director

Ms. Zeng Jing

Independent Non-executive Directors

Dr. Cheng Ngok
Mr. Yang Rusheng
Mr. Cheung, Chun Yue Anthony

AUTHORISED REPRESENTATIVES

Mr. Chui Siu On
Mr. Tam Yiu Chung

COMPANY SECRETARY

Mr. Tam Yiu Chung

AUDIT COMMITTEE

Dr. Cheng Ngok *(Chairman)*
Mr. Yang Rusheng
Mr. Cheung, Chun Yue Anthony

REMUNERATION COMMITTEE

Dr. Cheng Ngok *(Chairman)*
Mr. Zeng Guangsheng
Mr. Chui Siu On
Mr. Yang Rusheng
Mr. Cheung, Chun Yue Anthony

NOMINATION COMMITTEE

Mr. Zeng Guangsheng *(Chairman)*
Mr. Chui Siu On
Dr. Cheng Ngok
Mr. Yang Rusheng
Mr. Cheung, Chun Yue Anthony

LEGAL ADVISERS TO THE COMPANY

Michael Li & Co

WEBSITE

http://www.ipegroup.com

CORPORATE INFORMATION

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
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 automotive parts, hydraulic equipment, hard disk drives ("HDD"), 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

2017
Success setup a Graduate school-Enterprise Education Partnership Base with Graduate School at Shenzhen, Tsinghua University

2015
Success developed own brandname robots

2014
Jiangsu Koda completed construction of Phase 1 of the development of our Changshu site which provided 40,000 m^2 of production area

2011
Established Jiangsu Koda in Jiangsu Province, The PRC, purchased 166,631 m^2 of land in Changshu

2010
Guangzhou Xin Hao was accredited AS9100 certification - aerospace certification

2006
Guangzhou Xin Hao was accredited TS16949 certification — automotive certification

2004
Listed on the Main Board of The Stock Exchange of Hong Kong Limited on 1 November 2004

2002
Established Guangzhou Xin Hao in Guangdong Province, The PRC

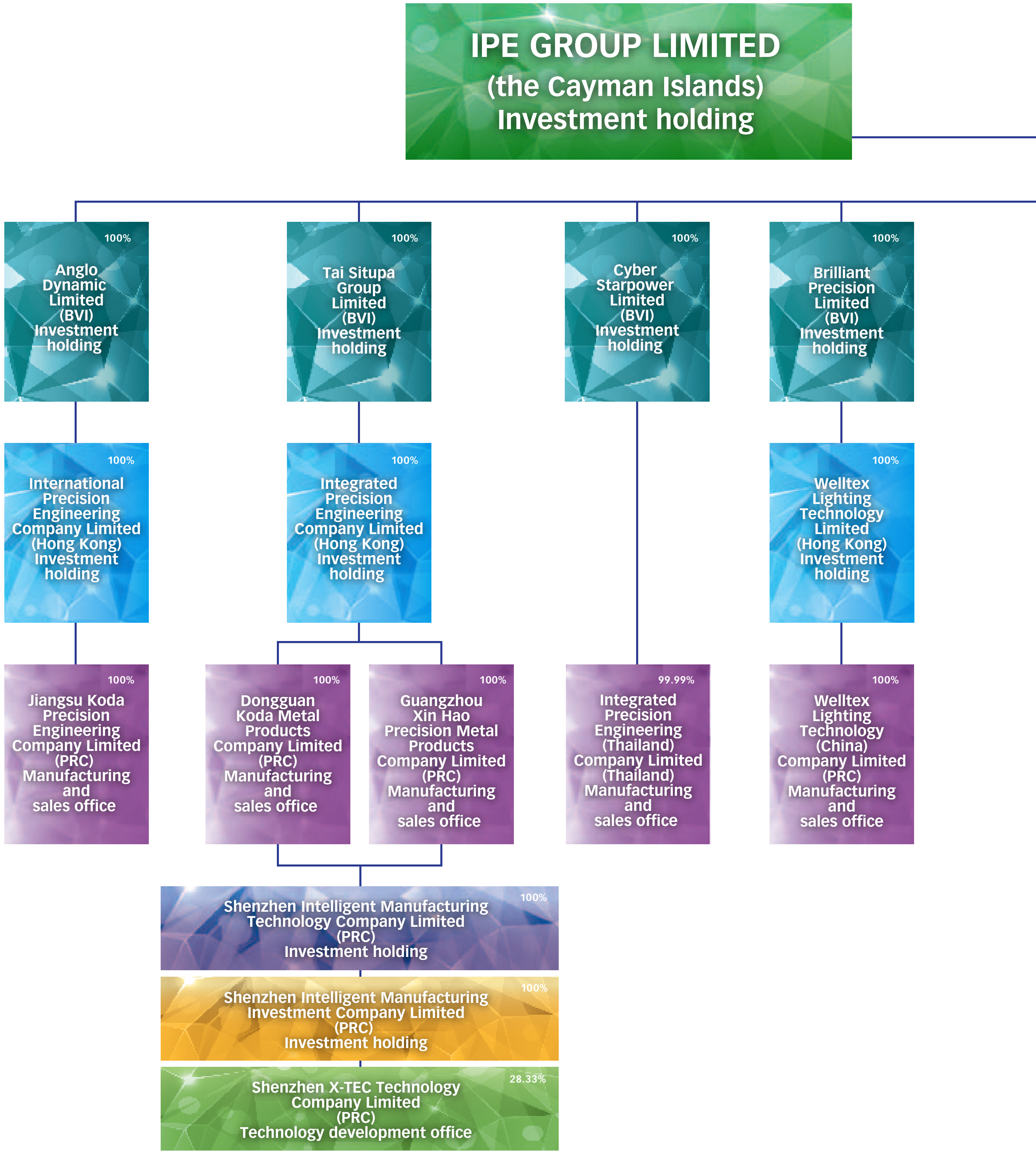
1997
Established IPE (Thailand) in Thailand

1994
Established IPE (Hong Kong) in Hong Kong
Established Dongguan Koda in Guangdong Province, The PRC

1990
Established IPE (Singapore) in Singapore

CORPORATE STRUCTURE

Principal subsidiaries and associate of the Company as at 31 December 2017



CORPORATE STRUCTURE

FINANCIAL HIGHLIGHTS

RESULTS

	Year ended 31 December									
	2017		2016		2015		2014		2013	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
REVENUE	**941,438**	**100%**	851,908	100%	877,194	100%	994,023	100%	878,080	100%
Cost of sales	**(618,010)**	**66%**	(589,322)	69%	(632,269)	72%	(715,626)	72%	(713,540)	81%
Gross profit	**323,428**	**34%**	262,586	31%	244,925	28%	278,397	28%	164,540	19%
Other income and gains	**7,017**	**1%**	30,913	4%	12,571	1%	22,386	2%	15,409	2%
Selling and distribution expenses	**(23,778)**	**3%**	(24,889)	3%	(23,013)	3%	(28,693)	3%	(26,713)	3%
Administrative expenses	**(119,258)**	**13%**	(95,496)	11%	(101,323)	12%	(107,756)	11%	(108,948)	12%
Other expenses	**(41,381)**	**4%**	(24,668)	3%	(12,047)	1%	(16,365)	2%	(9,311)	1%
Finance costs	**(15,972)**	**2%**	(13,130)	2%	(19,133)	2%	(23,924)	2%	(20,215)	2%
Share of loss of an associate	**(17)**	**0%**	–	0%	–	0%	–	0%	–	0%
PROFIT BEFORE TAX	**130,039**	**14%**	135,316	16%	101,980	12%	124,045	12%	14,762	2%
Income tax expense	**(15,327)**	**2%**	(25,766)	3%	(16,181)	2%	(28,384)	3%	(12,414)	1%
PROFIT FOR THE YEAR	**114,712**	**12%**	109,550	13%	85,799	10%	95,661	10%	2,348	0%
Attributable to:										
Owners of the Company	**114,808**	**12%**	110,201	13%	86,093	10%	94,845	10%	1,827	0%
Non-controlling interests	**(96)**	**0%**	(651)	0%	(294)	0%	816	0%	521	0%
	114,712	**12%**	109,550	13%	85,799	10%	95,661	10%	2,348	0%

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

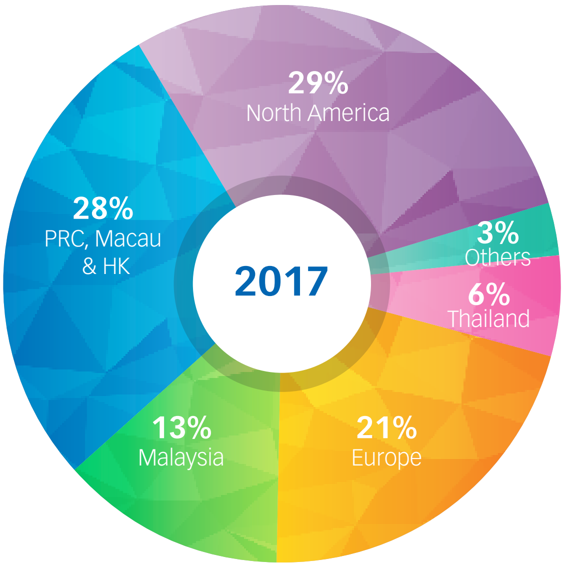
	As at 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Total non-current assets	**883,043**	750,068	857,412	912,033	964,004
Total current assets	**1,447,979**	1,388,241	1,163,281	1,295,367	1,312,454
Total current liabilities	**438,977**	399,491	574,735	616,132	545,302
Net current assets	**1,009,002**	988,750	588,546	679,235	767,152
Total non-current liabilities	**190,770**	248,122	9,898	102,627	288,596
Total equity	**1,701,275**	1,490,696	1,436,060	1,488,641	1,442,560

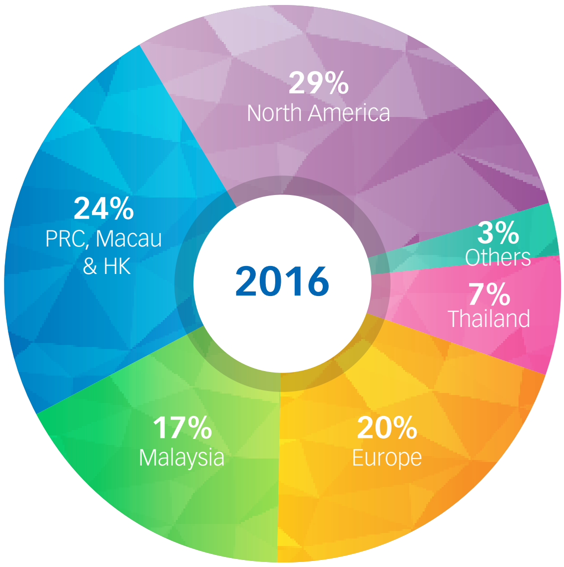
RATIO ANALYSIS

	Year ended 31 December				
	2017	2016	2015	2014	2013
KEY STATISTICS:					
Current ratio	**3.30**	3.48	2.02	2.10	2.41
Net cash to equity ratio	**0.24**	0.29	0.15	0.14	0.03
Dividend payout ratio	**34.9%**	43.0%	40.6%	49.0%	–
Gross profit margin	**34.4%**	30.8%	27.9%	28.0%	18.7%
EBITDA margin	**27.7%**	32.3%	30.1%	30.8%	23.4%
Net profit margin	**12.2%**	12.9%	9.8%	9.6%	0.3%
Average days of debtor turnover	**94 days**	93 days	101 days	94 days	91 days
Average days of inventory turnover	**122 days**	126 days	135 days	116 days	119 days
PER SHARE DATA:					
Net asset value per share (HK$)	**1.62**	1.42	1.55	1.60	1.58
Dividend per share	**HK3.8 cents**	HK4.5 cents	HK3.5 cents	HK5.0 cents	–
Earnings per share — basic	**HK10.91 cents**	HK10.66 cents	HK9.26 cents	HK10.22 cents	HK0.20 cent
Earnings per share — diluted	**HK10.83 cents**	HK10.47 cents	HK8.76 cents	HK10.15 cents	HK0.20 cent

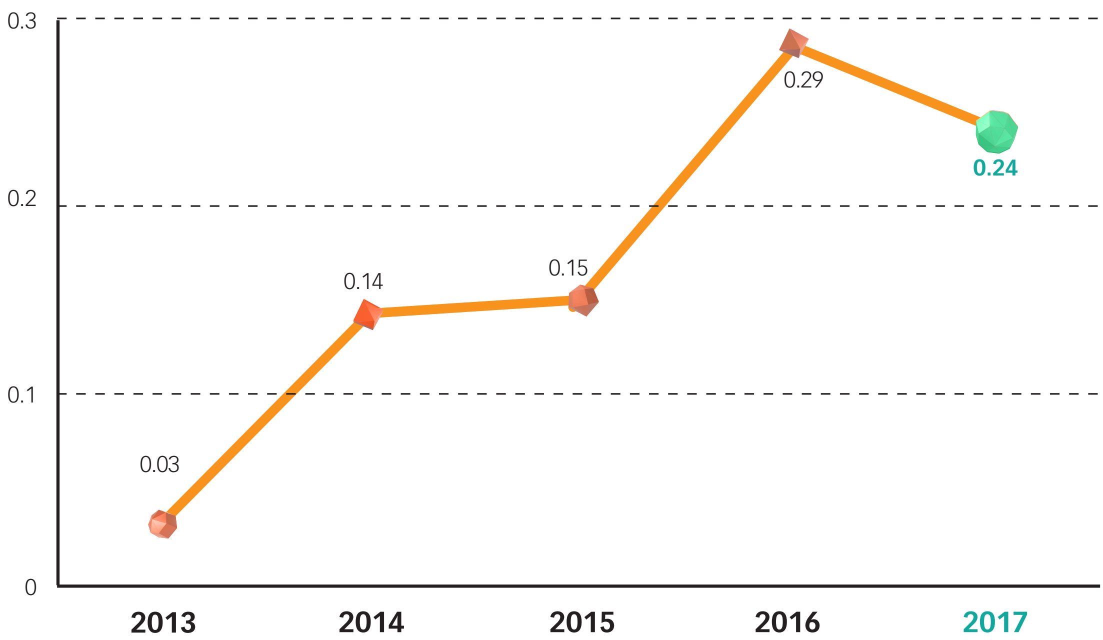
FINANCIAL HIGHLIGHTS

GEOGRAPHICAL COMBINATION



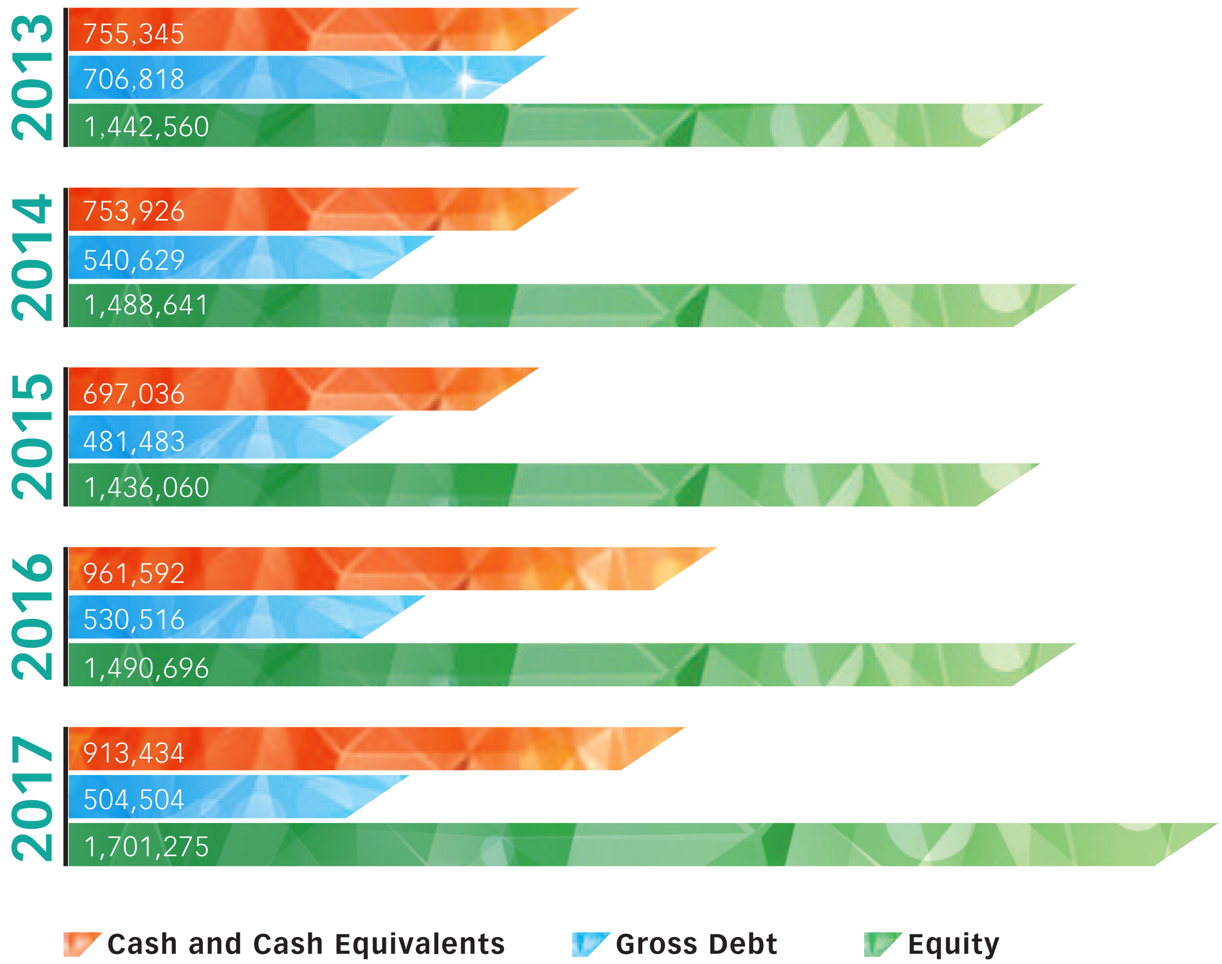


NET CASH TO EQUITY RATIO



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 IPE Group Limited ("IPE" or the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017.

BUSINESS REVIEW

Despite the continuous downturn of HDD industry, the Group has achieved considerable growth in 2017 with a double-digit increase in sales for automotive components and hydraulic equipment components. In 2017, total sales amounted to HK$941.4 million, representing an increase of 10.5% as compared to HK$851.9 million recorded in 2016.

In 2017, driven by the buoyant automotive component business, the Group's sales of automotive components amounted to HK$438.0 million, representing an increase of 20.3% as compared to HK$364.0 million recorded in 2016. Benefited from the persistent growth in automotive industry, sales of automotive components, the Group's largest business segment, accounted for 46.5% of total sales, showing an increase as compared to 42.7% in 2016.

Hydraulic equipment components and production resources have been rationalized to cope with the robust growth in automotive components business with an aim to strike a balance among different business segments. As a result, the sales of hydraulic equipment components increased by 10.7% from HK$230.7 million in 2016 to HK$255.3 million in 2017.

Given the shipment of HDD personal computers remained depressed, the Group's sales of HDD components amounted to HK$179.0 million in 2017, representing a decline of 12.5% from HK$204.7 million in 2016. Accordingly, the sales of HDD components to total sales already decreased to below 20%.

Apart from the economies of scales brought by the general increase in sales, the gross profit margin of the Group rose to 34.4% in 2017 from 30.8% in 2016 by integrating its existing resources, enhancing its production capacity, reducing its management cost and soliciting suitable customers.

Amidst the continual appreciation of Renminbi in 2017, the profit of the Group has been affected. The Group recorded an exchange loss of HK$20.1 million in 2017. Therefore, the net profit attributable to shareholders for the year amounted to HK$114.8 million, representing a rise of HK$4.6 million or 4.2% as compared to 2016.

OUTLOOK

The Group's automotive components business has been enjoying robust growth for years and even recorded a double-digit increase in recent two years. In light of that, the Group expanded its scale of machinery equipment to accommodate the demand brought by production orders in 2017. Meanwhile, the production base for HDD components of the Group also deployed its existing resources so as to increase its production capacity to accept more orders from customers for automotive components.

As for the development of automotive components business, the Group remained proactive in developing new customers with an aim to maintain its competitiveness by not relying on orders from individual major customers and to create more profit and secure suitable mass production orders. We have achieved satisfactory performance in recent years after our prolonged work of customer development. With more opportunities to cooperate with new customers, it is expected that the volume of orders would increase steadily in the coming year. The Group will continue to strengthen the existing customers' confidence in the Group and balance the development of its customers so as to maintain a satisfactory growth for its existing products. In addition, backed by the customers' recognition for our historical performance, the Group remains optimistic towards its automotive components business in the future.

As for the hydraulic equipment components business, the Group, on one hand, focused on elevating the general profitability and maximizing its production efficiency, while, on the other hand, satisfied our customers who have different production needs. In consideration of various factors underway, the Group determined the priority and relocated its available resources in a reasonable manner. Accordingly, fueled by the newly developed customers in 2017, it is expected that there is still room for the business to grow in the future.

Affected by the HDD market competitions brought by solid state drive and other factors arose during the past few years, HDD market remains sluggish. However, given that technological breakthrough is yet to come, HDD still has a price gap with substitutes and thus there is not much room for demand growth. It is expected that the demand will vary minimally from the current level. As the Group considers the prospect of HDD components business non promising, it has already made adjustments on its business front to minimize the effect from the downturn of HDD components business. The Group will remain cautious in the deployment of HDD components business by maintaining a reasonable profitability and offering our long-term customers with high quality and reliable products.

To strive for strategic development, the Group invested in a Shenzhen technology company, Shenzhen X-TEC Technology Co, Ltd. (深圳市學泰科技有限公司) ("X-TEC"), in 2017, which is a high-tech enterprise devoting itself to the design, research and development and production of automation and informatization technologies. Leveraging on its understanding of both production processes and software systems, X-TEC could satisfy their customers' needs by offering them with automatic production equipment. It also offers integrated solutions in relation to smart production to reduce customers' production cost and the losses from operation mistakes made by workers, and in turn further maximize the production capacity and benefit the company in the end. Although X-TEC may not be able to contribute considerable profit in the short run, it is believed that the development and expansion of such promising smart production industry, together with the synergies created from X-TEC's major business and the Group's self-developed robots, would bring fruitful results to the Group.

CHAIRMAN'S STATEMENT

In addition to the difficulties faced by the enterprises in the PRC in recruiting employees and the escalating labour cost, the Group faces various challenges as its customers place stringent requirements on product quality. Nevertheless, the Group is committed to tide over the challenges. In 2017, the Group put a few self-developed robots into its production lines so as to alleviate its difficulties in recruitment and training, increase its production efficiency, enhance its profitability as well as expand its production capacity. The Group, at the same time, also optimize its product quality with an aim to develop long-term supply and cooperative relationship with its customers. The Group is not only committed to consolidating its foundation built over the years, but also developing its product technologies that will be vital in future industry chain.

APPRECIATION

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

Zeng Guangsheng
Chairman

19 March 2018

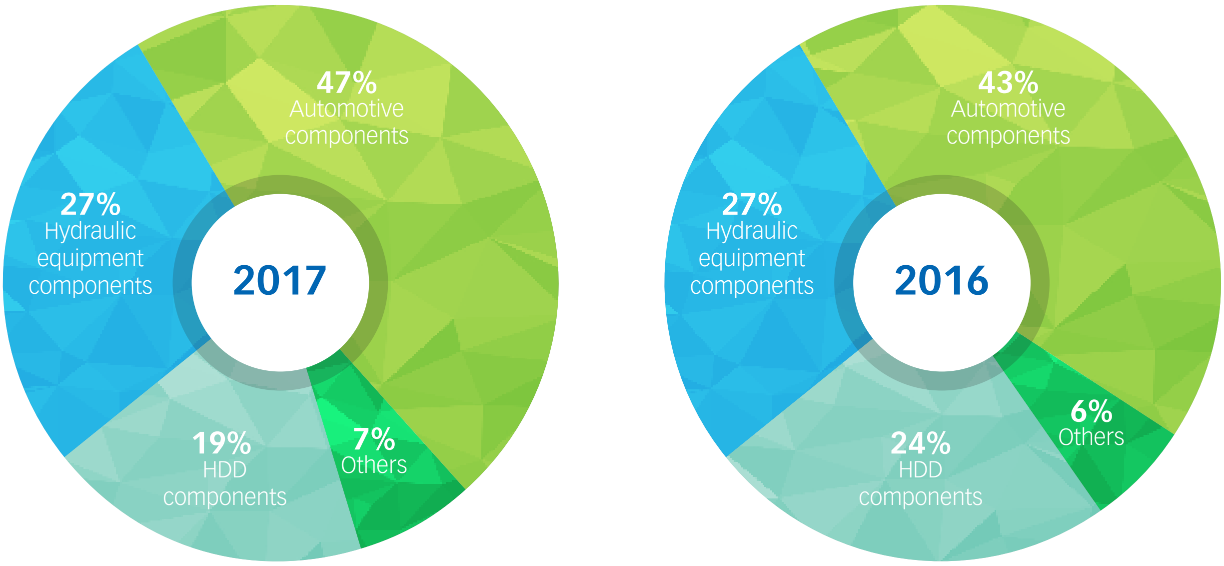
FINANCIAL REVIEW

Although the sales of the HDD components business significantly dropped in the second half of the year, the Group's overall sales amounted to HK$941.4 million for the year ended 31 December 2017, representing an increase of HK$89.5 million or 10.5% as compared with 2016.

The Group's sales by business segments, together with sales in 2016 are shown below for comparison.

	2017		2016		
	HK$'000	%	HK$'000	%	Change
Automotive components	438,009	46.5	363,955	42.7	+20.3%
Hydraulic equipment components	255,326	27.1	230,665	27.1	+10.7%
HDD components	179,018	19.0	204,701	24.0	−12.5%
Others	69,085	7.4	52,587	6.2	+31.4%
Total	941,438	100.0	851,908	100.0	+10.5%

BUSINESS COMBINATION



MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2017, other income of the Group amounted to HK$7.0 million. Although the bank interest income in 2017 increased by HK$2.6 million as compared with 2016, the Group recorded a decrease of 77.3% or HK$23.9 million in other income as compared with 2016 due to two non-recurring income obtained in 2016, including the gain on disposal of an unlisted equity investment of HK$7.6 million and foreign exchange gains of HK$19.0 million.

Secondly, selling and distribution expenses amounted to a total of HK$23.8 million, accounting for 2.5% of the Group's sales. Such expenses accounted for 2.9% of sales in 2016, reflecting the Group's effectiveness of keeping its expenses under control.

During the year, administrative expenses increased by 24.9% from HK$95.5 million in 2016 to HK$119.3 million. The increase was mainly due to an increase in share option expenses of HK$13.7 million and an increase in directors' remuneration of HK$3.9 million.

Other expenses amounted to HK$41.4 million for the year ended 31 December 2017. The increase was mainly due to the investment in X-TEC during the year with a provision for impairment of investment in an associate of HK$7.3 million in accordance with the accounting standard. Moreover, mainly due to the effect of Renminbi appreciation during 2017, the Group recorded an exchange loss of HK$20.1 million. Therefore, other expenses increased by HK$16.7 million or 67.8% as compared with 2016.

For the year ended 31 December 2017, the Group's overall finance costs amounted to HK$16.0 million, mainly due to the interest rate hike on bank loans, resulting in an increase in loan interest. Therefore, the overall finance costs increased by HK$2.8 million or 21.6% as compared with 2016.

For the year ended 31 December 2017, profit attributable to owners of the Company amounted to HK$114.8 million, representing an increase of 4.2% as compared with HK$110.2 million in 2016.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2017, the Group had total borrowings of HK$504.5 million (31 December 2016: HK$530.5 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 2017.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

The Group generally finances its operations with internally generated cash flow as well as banking facilities provided by its bankers. As at 31 December 2017, cash per share was HK$0.87 (31 December 2016: HK$0.91) and net asset value per share was HK$1.62 (31 December 2016: HK$1.42), based on the 1,052,254,135 ordinary shares in issue (31 December 2016: 1,052,254,135 ordinary shares). During the period under review, the Group recorded a net cash inflow from operating activities of HK$170.4 million (2016: HK$318.6 million). With the purchase of property, plant and equipment of HK$187.2 million, the Group recorded a net cash outflow in investing activities of HK$190.2 million (2016: net cash outflow of HK$80.1 million).

The total bank borrowings as at 31 December 2017 increased to HK$504.5 million (31 December 2016: HK$530.5 million). The Group is in a net cash position (cash and bank balances less total bank borrowings) of HK$408.9 million as at 31 December 2017 (31 December 2016: HK$431.1 million).

CURRENCY EXPOSURE AND MANAGEMENT

The Group is exposed to fluctuations in foreign exchange rates. Since most of the Group's revenue is denominated in US dollars, whereas most of the Group's expenses, such as costs of major raw materials, machineries and production expenses, are denominated in Japanese Yen, Renminbi, Thai Baht and Hong Kong dollars, fluctuations in exchange rates can materially affect the Group; in particular, the fluctuation of Renminbi will adversely affect the Group's profitability.

HUMAN RESOURCES

As at 31 December 2017, the Group had 2,329 employees, a slight increase of 173 employees or 8.0% when compared to 2,156 employees as at 31 December 2016.

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

The Group encourages employees to seek training to strengthen their work skills and for personal development. The 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. Zeng Guangsheng, aged 51, is the Chairman, an executive director, the chairman of both of the executive committee and nomination committee and a member of the remuneration committee of the Company. He joined the Group in 2016. Mr. Zeng obtained a doctorate degree in economics from Nankai University (南開大學) in 2004. He is currently an executive director and 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 and the controlling shareholder of the Company), 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. Chui Siu On, aged 58, is the Chief Executive Officer, an executive director, and a member of each of the executive committee, remuneration committee and nomination committee of the Company. He is also a director of certain subsidiaries of the Company. Besides, he is the director and shareholder of Tottenhill 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 42 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. Lau Siu Chung, aged 53, 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 21 years of experience in marketing and sales of precision components and industrial equipments.

Ms. Chiu Tak Chun, aged 52, 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 24 years of experience in manufacturing and operational management.

Mr. Ng Hoi Ping (Previous Name: Wu Kai Ping), aged 49, is an executive director and a member of the executive committee of the Company. He joined the Group in 2016 and is responsible for the overall accounting of the Group. Mr. Ng 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 general manager of Baoan Technology Company Limited (寶安科技有限公司), 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).

DIRECTORS (Continued)

Non-executive Director

Ms. Zeng Jing, aged 43, has been appointed as a non-executive director of the Company on 2 June 2017. Ms. Zeng currently is the financial controller of China Baoan Group Assets Management Co., Ltd. (中國寶安集團資產管理有限公司). Ms. Zeng has served senior position in a subsidiary of China Baoan Group Co., Ltd. (中國寶安集團股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000009 and the controlling shareholder of the Company) and 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). She has over 20 years of experience in accounting and financial management.

Independent Non-executive Directors

Dr. Cheng Ngok, aged 72, 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.

Mr. Yang Rusheng, aged 49, has been appointed as an independent non-executive director and a member of each of the audit committee, remuneration committee and nomination committee of the Company on 2 June 2017. Mr. Yang holds a master's degree in economics from Jinan University (暨南大學). He has over 23 years of experience in finance, audit and tax. Mr. Yang is a Certified Public Accountants and Certified Tax Agents in the People's Republic of China and is currently a partner of Rui Hua Certified Public Accountants (瑞華會計師事務所). Mr. Yang is an independent director of Ping An Bank Co. Ltd. (平安銀行股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000001) since February 2017 and Shenzhen Qianhai Webank (深圳前海微眾銀行股份有限公司) since December 2014. From November 2016, he is a president of Institute of Shenzhen Certified Public Accountants (深圳註冊會計師協會). Prior to that, he was a partner of Wanlong Asia CPA Co., Ltd. (萬隆亞洲會計師事務所) and Crowe Horwath China Certified Public Accountants Co., Ltd. (國富浩華會計師事務所). Mr. Yang had previously been a committee member of Shenzhen Certified Public Accountants Ethic Committee (深圳市註冊會計師協會道德委員會) and Shenzhen Finance Bureau Certified Public Accountants and Responsibility Judge Committee (深圳市財政局註冊會計師責任鑒定委員會), an executive director of the Guangdong Provincial Institute of Certified Public Accountants (廣東省註冊會計師協會) and the China Certified Tax Agents Association (深圳市註冊税務師協會), and a director of Shenzhen Certified Tax Agents Association (中國註冊税務師協會). During the period from October 2010 to January 2017 and from December 2016 to July 2017, Mr. Yang was an independent non-executive director of China Tangshang Holdings Limited (formerly known as Culture Landmark Investment Limited) (a company listed on the Main Board of the Stock Exchange, stock code: 674) and an independent non-executive director of Kantone Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1059).

DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr. Cheung, Chun Yue Anthony, aged 35, has been appointed as an independent non-executive director and a member of each of the audit committee, remuneration committee and nomination committee of the Company on 2 June 2017. Mr. Cheung is currently the managing director of Blackfriars Asset Management ("Blackfriars"). Prior to Blackfriars, Mr. Cheung served as executive director at BNP Paribas Hong Kong Branch, as senior portfolio manager at Pictet Asset Management in London and investment manager at Gartmore Investment Management in London. Mr. Cheung holds a bachelor's degree in economics from London School of Economics and Political Science, University of London. He is serving at the Hong Kong Institute of Directors (HKIoD) as training committee member and at the Chartered Institute for Securities and Investment (CISI) as the senior representative, Asia Pacific.

SENIOR MANAGEMENT

Mr. Ho Yu Hoi, Mark, aged 54, is the Chief Executive Officer of Integrated Precision Engineering (Thailand) Company Limited ("IPET"), a subsidiary of the Company incorporated in Thailand. He joined the Group in 1992 and was an executive director of the Company from 1 November 2004 to 1 June 2017. Mr. Ho has over 35 years of experience in the field of computer aided design and manufacturing and is currently responsible for overall marketing strategies of the Group and the daily operation of IPET.

Mr. Li Chi Hang, aged 47, is the General Manager of the hydraulic equipment division of the Company. Mr. Li joined the Group in 1992 and was an executive director of the Company from 1 November 2004 to 1 June 2017. He has over 29 years of experience in the field of machine augmentation and manufacturing automation and is currently responsible for the Group's product development and new projects implementation.

Mr. Yuen Chi Ho, aged 50, has been appointed as Chief Operating Officer of the Company on 2 June 2017. Mr. Yuen joined the Group in 2009 and was an executive director and chief financial officer of the Company from 1 October 2009 to 1 June 2017. 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 27 years of experience in audit, accounting and financial management.

SENIOR MANAGEMENT (Continued)

Mr. Chui Siu Hung, aged 49, 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 25 years of experience in the manufacturing industry. He is the younger brother of Mr. Chui Siu On, an executive director and Chief Executive Officer of the Company.

Mr. Jiang Fei, aged 45, 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 21 years of experience in the manufacturing industry.

Mr. Lei Ting Yong, aged 43, 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 47, 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 2017.

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 2017:

Board of Directors

Executive Directors
- Mr. Zeng Guangsheng, *Chairman of the Board*
- Mr. Chui Siu On, *Chief Executive Officer*
- Mr. Lau Siu Chung
- Ms. Chiu Tak Chun
- Mr. Ng Hoi Ping

Non-executive Director
- Ms. Zeng Jing

Independent Non-executive Directors
- Dr. Cheng Ngok
- Mr. Yang Rusheng
- Mr. Cheung, Chun Yue Anthony

Executive Committee
- Mr. Zeng Guangsheng, *Chairman*
- Mr. Chui Siu On
- Mr. Lau Siu Chung
- Ms. Chiu Tak Chun
- Mr. Ng Hoi Ping

Audit Committee
- Dr. Cheng Ngok, *Chairman*
- Mr. Yang Rusheng
- Mr. Cheung, Chun Yue Anthony

Remuneration Committee
- Dr. Cheng Ngok, *Chairman*
- Mr. Zeng Guangsheng
- Mr. Chui Siu On
- Mr. Yang Rusheng
- Mr. Cheung, Chun Yue Anthony

Nomination Committee
- Mr. Zeng Guangsheng, *Chairman*
- Mr. Chui Siu On
- Dr. Cheng Ngok
- Mr. Yang Rusheng
- Mr. Cheung, Chun Yue Anthony

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.

Due to the resignation of Mr. Hung, Randy King Kuen as an independent non-executive director of the Company on 9 May 2017, the Company was once unable to meet the requirement under the Rule 3.10A of the Listing Rules, which prescribes that a listed issuer must appoint independent non-executive directors representing at least one-third of the board, during the year ended 31 December 2017. The Company had subsequently fully complied with the aforesaid Listing Rule requirement upon the changes of directors on 2 June 2017. Details of the above-mentioned changes are set out in the Company's announcements dated 9 May 2017 and 2 June 2017.

THE BOARD (Continued)

Board Composition (Continued)

During the year ended 31 December 2017, the Board at all times met the requirement of the Listing Rules of having 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.

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 period from 1 January 2017 to 1 June 2017, Mr. Chui Siu On had assumed 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 considered that such arrangement provided the Group with strong and consistent leadership and allowed for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group.

To achieve clear division of responsibilities between the management of Board and the day-to-day management of businesses, Mr. Zeng Guangsheng has been appointed as the Chairman of the Company on 2 June 2017. Since then, the Company has complied with the code provision A.2.1, with Mr. Zeng provides leadership and is responsible for the effective functioning and leadership of the Board, whereas Mr. Chui focuses on the Company's business development and daily management and operations generally.

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 "2018 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. Zeng Guangsheng, Mr. Lau Siu Chung and Mr. Ng Hoi Ping shall retire and, being eligible, offer themselves for re-election at the 2018 AGM. The Board and the Nomination Committee of the Company recommended the re-appointment of these retiring directors standing for re-election at the 2018 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.

THE BOARD (Continued)

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 2017, the Company (i) has organized briefings for all its directors, namely, Mr. Zeng Guangsheng, Mr. Chui Siu On, Mr. Lau Siu Chung, Ms. Chiu Tak Chun, Mr. Ng Hoi Ping, Ms. Zeng Jing, Dr. Cheng Ngok, Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony, 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, Ms. Chiu Tak Chun, Ms. Zeng Jing, Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony attended other seminars and training sessions arranged by other professional firms/institutions.

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 2017.

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 2017, 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.

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 meetings of the Company held during the year ended 31 December 2017 are set out in the table below:

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting	Extraordinary General Meeting
Mr. Zeng Guangsheng (Note 1)	9/9	–	–	–	1/1	0/1
Mr. Chui Siu On	9/9	–	1/1	1/1	1/1	0/1
Mr. Ho Yu Hoi (Note 2)	3/4	–	–	–	0/1	–
Mr. Li Chi Hang (Note 2)	3/4	–	–	–	0/1	–
Mr. Lau Siu Chung	9/9	–	–	–	0/1	0/1
Mr. Yuen Chi Ho (Note 2)	4/4	–	–	–	1/1	–
Ms. Chiu Tak Chun	9/9	–	–	–	0/1	0/1
Mr. Ng Hoi Ping	9/9	–	–	–	1/1	1/1
Ms. Zeng Jing (Note 3)	3/4	–	–	–	–	0/1
Dr. Cheng Ngok	9/9	2/2	1/1	1/1	0/1	0/1
Mr. Choi Hon Ting, Derek (Note 4)	4/4	0/1	0/1	0/1	1/1	–
Mr. Wu Karl Kwok (Note 4)	4/4	1/1	1/1	1/1	1/1	–
Mr. Yang Rusheng (Note 5)	4/4	1/1	–	–	–	0/1
Mr. Cheung, Chun Yue Anthony (Note 5)	4/4	1/1	–	–	–	0/1
Mr. Hung, Randy King Kuen (Note 6)	1/3	–	–	1/1	–	–

Notes:

1. Mr. Zeng Guangsheng was appointed as the chairman of the Nomination Committee and a member of the Remuneration Committee on 2 June 2017. Subsequent to his appointment, no Nomination Committee meeting and Remuneration Committee meeting was held during the year ended 31 December 2017.

2. Mr. Ho Yu Hoi, Mr. Li Chi Hang and Mr. Yuen Chi Ho resigned as executive directors of the Company on 2 June 2017. Before their resignation, 4 Board meetings and 1 Annual General Meeting were held during the year ended 31 December 2017.

3. Ms. Zeng Jing was appointed as a non-executive director of the Company on 2 June 2017. Subsequent to her appointment, 4 Board meetings and 1 Extraordinary General Meeting were held during the year ended 31 December 2017.

4. Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok resigned as independent non-executive directors of the Company on 2 June 2017. Before their resignation, 4 Board meetings, 1 Audit Committee meeting, 1 Remuneration Committee meeting, 1 Nomination Committee meeting and 1 Annual General Meeting were held during the year ended 31 December 2017.

5. Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony were appointed as independent non-executive directors of the Company on 2 June 2017. Subsequent to their appointment, 4 Board meetings, 1 Audit Committee meeting and 1 Extraordinary General Meeting were held and no Nomination Committee meeting and Remuneration Committee meeting was held during the year ended 31 December 2017.

6. Mr. Hung, Randy King Kuen resigned as an independent non-executive director of the Company on 9 May 2017. Before his resignation, 3 Board meetings and 1 Nomination Committee Meeting were held during the year ended 31 December 2017.

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 5 members, namely, Mr. Zeng Guangsheng (Chairman), Mr. Chui Siu On, Mr. Lau Siu Chung, Ms. Chiu Tak Chun and Mr. Ng Hoi Ping. 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 5 members, being 3 independent non-executive directors, namely, Dr. Cheng Ngok (Chairman), Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony; and 2 executive directors, namely, Mr. Zeng Guangsheng and 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 2017, 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 Ms. Zeng Jing, Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony, 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 2017 is set out below:

Remuneration	Number of individuals
Nil to HK$1,000,000	4
HK$1,000,001 to HK$2,000,000	1
HK$2,000,001 to HK$3,000,000	1

Details of the remuneration of each of the directors of the Company for the year ended 31 December 2017 are set out in note 8 to the financial statements.

BOARD COMMITTEES (Continued)

Audit Committee

The Audit Committee currently comprises a total of 3 members, namely, Dr. Cheng Ngok (Chairman), Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony. All of the members are independent non-executive directors, with at least one independent non-executive director 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, risk management and internal control systems 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 2017, 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 2016 and interim financial results and report for the six months ended 30 June 2017;

— Review of the scope of audit work, auditors' fees and terms of engagement for the year ended 31 December 2017;

— 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 appointment of external auditors.

BOARD COMMITTEES (Continued)

Nomination Committee

The Nomination Committee currently comprises a total of 5 members, being 2 executive directors, namely, Mr. Zeng Guangsheng (Chairman) and Mr. Chui Siu On; and 3 independent non-executive directors, namely, Dr. Cheng Ngok, Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony. 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.

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 2017, 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 2017 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) Ms. Zeng Jing as a non-executive director; and (ii) Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony as independent non-executive directors.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

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.

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.

RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

(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.

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

- is aware of its obligation 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.

RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

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.

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 2017 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 2017 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 2017	2,400
Non-audit services:	
Tax services and others	901
TOTAL:	3,301

COMPANY SECRETARY

During the year ended 31 December 2017, 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

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

This is the second year that IPE reports on its sustainability progress. This report is prepared in accordance with two reference standards. First, the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (hereafter ESG). Second, the elements of GRI's Sustainability Reporting (G3) Guidelines (hereafter GRI) with application level C.

Scope and Reporting Period

The reporting period is from 1 January 2017 to 31 December 2017 unless otherwise specified. A major management change this year is that China BaoAn Group Co. Ltd. became the major shareholder in March 2017, however, this does not influence the business structure for the Group. Compared with last reporting year, there are no major operational changes in the scope and aspect boundaries, as no major changes in employment, net sales/income, and operational location. This report continues to cover three major business sites, including, manufacturing and sales offices in Guangzhou Xin Hao (the largest site, hereafter GZXH), Dongguan Koda (hereafter DGKD), and Thailand (hereafter IPET).

Content of the Report

This sustainability report covers IPE's performance in Environmental and Social aspects. Governance and economic performance have been covered in the Group's Annual Report. Four focal areas under Environmental and Social are reported — **Resource, Emissions & Waste, Workers, Value Chain and Society**. Their corresponding topics and indicators have been identified through a systematic process of stakeholder engagement and materiality assessment. Due to its dual reporting nature (both ESG and GRI), we reported relevant aspects and topics together with a final ESG Index and GRI Index provided in the Appendix.

2. SUSTAINABILITY COMMITMENT MADE BY THE CORPORATE

As a responsible corporate citizen, the Group, while actively developing business, is also committed to promoting the development of the local economy, the protection of the environment, and the well-being of its employees. The Group stringently complies with local laws and regulations concerning environmental protection and pollution control. The Group also actively promotes energy saving and waste reduction projects. IPE also takes a positive attitude to pay attention to broad social impacts, and supports charities and non-for-profit organizations.

The Group actively strives for management excellence and have achieved IATF16949:2016, AS9100:2016, ISO9001:2015, ISO14001:2004 for GZXH, ISO14001:2004 and ISO:9001 for IPET, and ISO9001:2008 for DGKD, DGKD has also been certified with by ISO14001 in 2017.

2017 was marked as a milestone year for the Group that its robot technologies and manufacturing automation has started to bear fruit. We consider such technology advancement as a key element to achieve long-term business resilience, and it has following advantages on environmental, financial, and social sustainability:

- Increase operational efficiency, reduce resource consumption intensity in the long term, increase manufacturing reliability and robustness, reduce product recalls and increase customer satisfaction;

- Secure our financial success and diversify the business operation, our era requires rapid technology advancement, regardless of the industry we situated within;

- Further reduce on-site injury rates as potential hazardous work tasks in operational processes are performed by robots instead and operators involve in low-risk activities such as machine-human interface compared to traditional manufacturing workshops.

3. STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

Multiple communication channels are established with internal and external stakeholders, including: reviewing employees' performance, holding shareholder meetings, sending company letters, disclosing on company websites, and regular e-mail and business meetings with suppliers. Similarly, multiple mechanisms are established for stakeholders to provide advice to the highest governance body (Annual report 2016 "shareholders' right" in P33). For employees in particular, there is an anonymous opinion collection box set up in GZXH to allow frontline staff to directly report their concerned topics to Board of Directors (BOD). For any meaningful concerns raised by stakeholders, the BOD will brainstorm, discuss, and negotiate with relevant parties.

The materiality assessment was carried out to identify the aspects that stakeholders consider most important for implementing sustainability. A quantitative survey was completed by different stakeholders including board members, senior and middle-level managers, as well as frontline staff. According to the materiality assessment, following social and environmental aspects were deemed important, and were grouped into four focal areas (Figure 1).

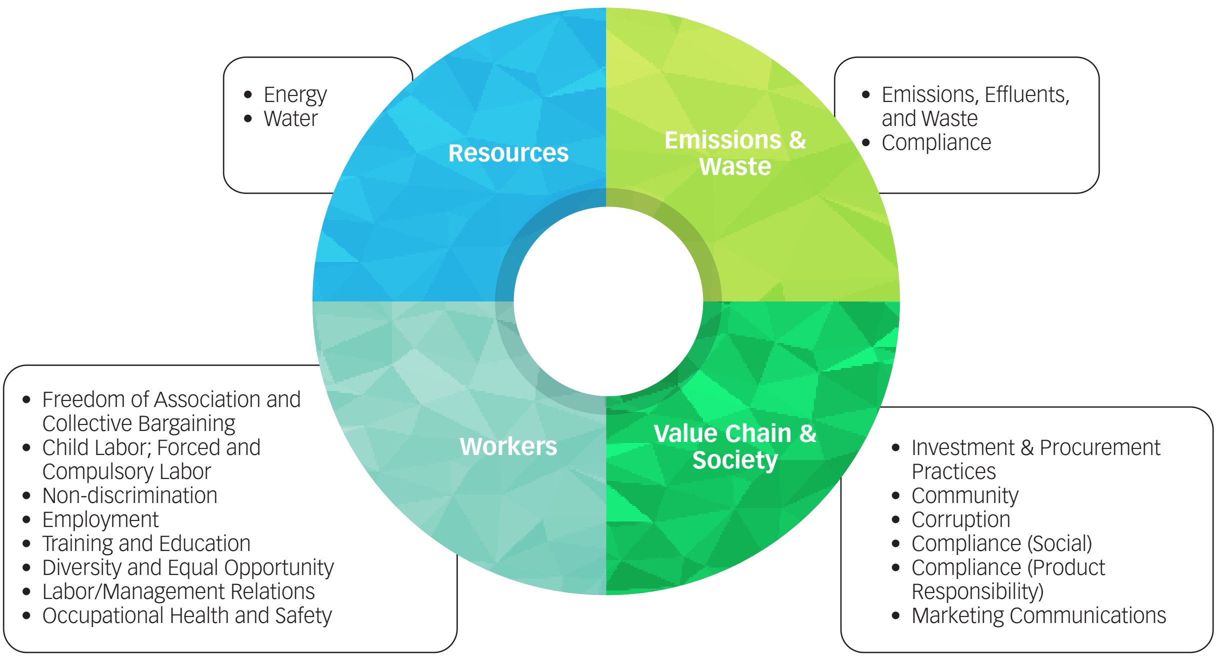


Figure 1 Material topics, including GRI indicators identified through materiality assessment and ESG key requirement topics.

4. THE IMPLEMENTATION OF SUSTAINABILITY

4.1 Value Chain and Society

Product Compliance, Responsibility, and Marketing Communications

The Group strives for the excellence of product quality, many of the auto-parts that we produce achieve a 2 micrometer precision. For quality control and quality assurance, raw materials and final products are all carefully inspected.

The milestone project in 2017 was the installation of a new production line with industrial robots that the Group designed and manufactured. Two technologies used in the newly developed industrial robot — the robot hand and the robot arm — have been issued for the patent. With the new robot production line implemented in GZXH, the quality inspection processes are fully automated.

As an enterprise emphasizing on technology advancement, we highly appreciates its intellectual property rights, and in 2017, 10 new technologies have applied for a patent in China, four of them have been approved while the remaining six are patent pending under assessment with the State Intellectual Property Office of the P.R.C. as of February 12th 2018. At the same time, to protect clients' intellectual property rights, we signed confidentiality agreement with them when appropriate.

The Group adopts "Customer Complaint Handling Process" to guide staff to handle any complaints received from the clients. The basic process is to implement first short-term temporary measures, followed by detailed analysis on key cases and long-term corrective measures. If needed, the preventive measurement will be implemented to avoid any future similar mistakes. All the complaints are kept in record for evaluation with management team and quality department.

4. THE IMPLEMENTATION OF SUSTAINABILITY (Continued)

4.1 Value Chain and Society (Continued)

Product Compliance, Responsibility, and Marketing Communications (Continued)

Due to the nature of our products, the Group did not adopt specific programs related to marketing communications, including advertising, promotion, and sponsors. The Group does not produce and/or sell end-consumer products and are not banned in any market.

The Group realized the importance of *Integrated Management*, and expanded the traditional "5S" quality management (seiri, seiton, seiso, seiketsu, and shitsuke) to innovatively proposed a "3Q6S" system:

Quality worker Quality company Quality products	**3Q**
SEIRI — Sorting SEITON — Set in order SEISO — Shine SEIKETSU — Standardize SHITSUKE — Show polite SAHO — System	**6S**

Supply Chain Management

As a B2B business, the Group plays a key role to tie with upstream and downstream partners. Due to the high-quality requirement of our downstream clients (e.g., high-end auto manufacturers), some of our key raw materials suppliers are selected by our clients to meet their stringent requirements on products quality, environmental protection, and human rights conditions.

All suppliers are assessed by initial supplier evaluation, screening, and annual review. All new suppliers are controlled with "the Guidance for Approval of New Suppliers". Key criteria for the evaluation include compliance assessment, quality system, engineering and manufacturing capacity, customer service, and price. Risk assessment has also been conducted for all major suppliers including topics such as: risk control on raw material and material management system, production control system, and environmental management system.

Major suppliers of the Group are located in OECD countries including Japan, South Korea, and various countries in Europe. It is assumed that no child labor, forced labor, sweated labor would have been involved, providing suppliers already meet their local and national labor laws. For this reason, the Group has not yet specified human rights clauses in investment agreements, or undergone detailed screening on human rights for suppliers. We will consider including relevant clauses exclusively in the future.

4. THE IMPLEMENTATION OF SUSTAINABILITY (Continued)

4.1 Value Chain and Society (Continued)

Social Compliance and Anti-corruption

Since the Group has multiple operation sites in China and Thailand, we pay special attention to comply with any local and national laws to ensure the Group gets all necessary social license to operate. The Group continues to implement a monitoring system to ensure zero tolerance of any kinds of unlawful activities such as corruption, bribery, extortion, fraud, money laundering etc.

There is zero tolerance for external as well as internal corruption. The HR policies explicitly mentioned that "for any operation and management activities, all employees are not allowed to directly or indirectly claim or accept the gifts or any other forms of interests of another business".

The Group specified an "announcement" to all purchasing staff to prohibit unauthorized activities with business soliciting or accepting any interest, including money, gifts, loans, expenses, compensations, service, and other special treatment. In parallel, the Group issued a similar announcement to all suppliers. If any supplier is found to be involved in any corruption-related activities, the Group will immediately discontinue any contract with the supplier.

The Group did not involve in any legal cases regarding corrupt practices in 2017. The Group also did not receive any monetary fines or non-monetary sanctions for noncompliance with laws and regulations.

Community Investment

As an important stakeholder to us, the Group continues to invest in and establish close collaborations with local community and research partners. We encourage our employees to participate in volunteering activities, as well as local recreational and sports activities. In China, the Group donates research funds to universities, in addition to establishing long-term collaborations with them.

4.2 Resources

Energy Consumption and Saving

For GZXH, other than purchased electricity, diesel and LPG have been used for manufacturing processes, and LPG has also been used in canteen. For DGKD, all energy is supplied by purchased electricity, including process energy, canteen, and domestic energy. IPET only uses purchased electricity for on-site operation. All the three sites also consumed diesel and/or gasoline for vehicle operations.

As the major and largest manufacturing site, GZXH has been identified by the city authority as one of the key industry to promote energy efficiency technologies. The site has completed a systematic energy audit and upgraded production facilities and implemented several major energy efficiency projects in 2017, such as the optimization of transformer layout; the re-arrangement of air-conditioning and air compressor lines, the adjustment of stand-by mode for selected energy-intensive lathe.

Energy saving projects are also implemented in DGKD and IPET. For example, DGKD utilizes new heat exchanger technologies to recover waste heat from the production lines for providing domestic hot water for dormitories. IPET uses inverter type air conditioning system to reduce power loss and save energy.

4. THE IMPLEMENTATION OF SUSTAINABILITY (Continued)

4.2 Resources (Continued)

Energy Consumption and Saving (Continued)

Other than process energy consumption, the Group aimed to reduce heating ventilation air conditioning, lighting, and other domestic electricity consumption from the dormitories. For example, the Group promoted pro-environmental behaviors among the staff. For example, in GZXH, the Group enforced electricity saving management, with following practices:

- Making full use of natural ventilation and implementing air conditioning temperature control mode, setting the indoor air conditioning temperature in the summer no less than 26 degrees Celsius;

- Making full use of natural light during the daytime, minimizing the number of lights in public buildings (including toilets) at night. Office building installed with energy saving lighting; and

- Employees are encouraged to switch off electronic devices when in idle mode and all office switches have stick labels to remind people to turn off lights when leaving, the last person to leave the office to turn off the lights.

Water Consumption and Recycling

All water used on-site is sourced from municipal tap-water. On-site purification is needed for the production lines. No problems in sourcing water were encountered. The Group has paid special attention to conserve water and implemented various practices to reduce water consumption and promote water recycling. All our sites (GZXH, DGKD, and IPET) recycled its treated wastewater and those processed are stored at on-site pond, with further use for irrigation and other grey water purposes.

4.3 Emissions & Waste

The Group stringently complies with local laws and regulations, wherever the production site is. Major types of air emissions the Group generates include direct indoor-air emissions such as oil mist during production as well as direct and indirect greenhouse gas (GHG) emissions.

Solid waste that the Group generates include: non-hazardous solid waste from production lines and office operation such as waste packaging materials, waste appliances from personal protection, office papers, organic waste from canteen; as well as hazardous waste from production such as machine oil and lubricant oil tanks, detergent and chemical cleansers bottles.

Air Emissions

The major air emission from the production line is the oil mist particulates and they are ducted away from the workshop, the concentration level both indoor and at the outlet are monitored to ensure not exceeding the permissible level. The Group installed a new set of centrifugal dedusting blower fan in 2017 for its GZXH site for better pollution control.

4. THE IMPLEMENTATION OF SUSTAINABILITY (Continued)

4.3 Emissions & Waste (Continued)

Air Emissions (Continued)

Other than aforementioned air emissions, the greenhouse gas (GHG) emissions are calculated for following categories:

1. Direct (scope 1) GHG emissions from the combustion of fuels for production lines and mobile transportation;

2. Indirect (scope 2) GHG from purchased electricity; and

3. Indirect (scope 3) GHG emission from electricity consumed for processing fresh water and wastewater and waste disposal, and the emission of airplane's fuel generated by business air travel.

Solid waste

The Group implements comprehensive waste treatment procedures to ensure proper on-site storage and downstream treatment to comply with local laws and regulations. The Group collaborates with waste handlers to maximize efficient use of recyclable and reusable waste. Recyclers will come over to collect incoming packaging materials such as wood pallet for reuse. For oil tanks, due to a large amount of consumption, the suppliers will collect the empty tank to refill new oils.

For hazardous waste not collected by suppliers (e.g., detergent and chemical cleansers bottles), only certified waste handlers can collect them for municipal treatment, all of whom are recorded with the *Hazardous Waste Transfer Documents*. In addition, the Group strictly follows ISO 14001 standard for proper on-site storage of hazardous chemicals and waste.

Office papers are the major category of non-hazardous waste, collected by certified handlers for municipal landfill in GZXH and DGKD, while self-reused and recycled for others' in IPET. The production scrap is sold to recyclers. Due to their small amount, it is not reported quantitatively. Organic waste from canteen are either used on-site for fertilization in green space, or collected by local farms for animal feed.

Wastewater

The Group invested greatly to establish the state-of-the-art wastewater treatment. The city authority checks the quality of discharged wastewater regularly. Various wastewater indicators are measured including Biochemical Oxygen Demand, Chemical Oxygen Demand, Total Suspended Solids (TSS), pH, oil & grease etc. For all three sites, the monitoring report in 2017 showed that all the Group's operational sites have met the corresponding local and/or national environmental standards. The sludge from the wastewater process is collected by certified handlers for municipal central treatment.

4. THE IMPLEMENTATION OF SUSTAINABILITY (Continued)

4.4 Workers

Employment and Labour Practices

The Group strictly follows local and national laws in formulating its recruitment policy, compensation and dismissal policy, promotion policy, holiday/paid/sick/compassionate leave policies, working attendance policy, and remuneration policy.

Up-to-date, no child labor, forced and compulsory labor was reported and/or identified within any sites of the Group. There are no major risks associated with incidents of child labor, forced or compulsory labor within the Group's operation sites.

While not specifically mentioned in the HR manual, the Group does encourage staff to join labor union and other association and collective bargaining.

Any major operational and business changes are communicated with workers through various written and oral channels. The workers will be informed at least three weeks prior to implementation of any significant operational changes that could have a direct impact on them.

The Group has policies to limit the maximum working hours for its employees to ensure both the health of the frontline staff as well as the quality of the products. Generally, individual workers are not encouraged to work over 10 hours per day. In particular,

- In GZXH, the frontlines staff working in a regular class 8 hours every day, except for the special case of overtime 2.5 hours, the office clerk is 9 hours every day;

- In DGKD, same as GZXH, other than that for the special case of overtime 3 hours; and

- IPET follows the Protection Labour Law that overtime working hours and working hours on holiday, shall, in aggregation, not exceed 36 hours per week. Nevertheless, IPET has fixed overtime of less than 3 hours per day from Monday through Saturday.

Employees welfare include providing on-site canteen food with decent quality and low price, the employees have flexibility either to eat in the canteen or not. For the sites with dormitories, each room is equipped with individual bathroom and hot water for all seasons. The Group provides multi-media devices, billiards, table tennis, basketball, badminton courts and other entertainment for employees. HR department regularly organizes cultural activities for team-building and enriching employees' daily life. Every month, the Group organizes a birthday party to celebrate the birthdays of those employees whose birthdays fall in that month, with individual birthday gifts provided to them.

The Group provides a competitive salary for its employees. The staff salary consists of basic income, overtime, attendance bonus, allowance, a night seniority award. The Group also highlights the job competence, sense of achievement, personal growth and other internal rewards. To reduce the turnover rate, the Group adopts various schemes, such as providing "red packet" for the returned workers after the traditional Chinese New Year's holiday in both GZXH and DGKD.

4. THE IMPLEMENTATION OF SUSTAINABILITY (Continued)

4.4 Workers (Continued)

Development and Training

The Group invested largely on the capacity building for the human resources. Training was conducted during work hours and covered a wide range of topics, including internal training such as work skills improvement, workplace safety, anti-bribery, as well as external training such as ISO management systems training, taxes and financial skills workshop, policy and regulations updates etc. The Group also occasionally invites external consultants to conduct on-site training.

All newly recruited employees are required to go through several hierarchies of mandatory training, including familiarise them with the history and culture of the Group, technical training per their job category, the 3Q6S management system of the Group (refer to section 4.1), OHS training to strengthen their safety knowledge and practices, as well as relevant ISO standards training.

Occupational Health & Safety

Safety is highly valued within the Group. All new staff must go through systematic OSH training. For daily operation, Personal Protection Equipment is provided to all frontline staff. Noise lever, indoor air pollutants levels are monitored according to local and national laws to ensure that they do not exceed permissible levels.

Due to the nature of the operation and the climate zone of all our sites, following OHS topics with high risk are identified and the corresponding protective measurement is provided:

- High temperature: protective measures including natural ventilation, mechanical ventilation, personal protection;

- Noise: protective measures including noise elimination, absorption, isolation, wall sound insulation, personal protection (i.e. earplug); and

- Dust: protective measures including increasing ventilation, personal protection (i.e. dustproof masks), frequent and regular monitoring.

Relevant personnel have also received training on first aid methods and treatment of accidental injuries, such as hemostasis method, burn treatment method, chemical injury first aid electric shock first aid.

As a result of effective OHS management, HR department did not receive any complaints on occupational diseases in 2017. There is no major accident and fatalities encountered in all operation sites in 2017. For minor accident and lost days, they were recorded in work days. The Group will further consider providing counseling, prevention, and risk-control programs if needs arise.

Non-discrimination, Diversity, and Equal Opportunity

For the two Chinese sites, the Group did not specify any non-discrimination policies within relevant HR manual. Nevertheless, no complaints of discrimination were reported in 2017. The overall cultural and political background in all three sites are relatively liberal. And HR manual requires that during the recruitment process, the Group did not discriminate any candidates based on their age, race, sex, religion, political opinion, and social origin.

5. SUSTAINABILITY INDICATORS AND PERFORMANCE

5.1 Value Chain and Society

Product Compliance, Responsibility, Marketing Communications

Table 1 Product and social compliance, and product recalls

GRI PR Compliance (Product Responsibility)	GZXH	DGKD	IPET
Legal cases regarding corrupt practices.	0	0	0
Monetary value of significant fines and total number of non-monetary sanctions	0	0	0
Product recalls			
Total number of products' recalls	1,508,584 pcs	4,228 pcs	2,779,724 pcs
Percentage of products' recalls	0.86%	0.003%	2.85%
Total monetary value lost due to products' recalls	RMB4,113,611.97	USD467.00	USD303,181.03

Table 2 List of the 10 new technologies approved by State Intellectual Property Office of the P.R.C. in 2017

Application number	Patent name:
201721121098.1	Robot mechanical arm
201721121031.8	A detection device
201721121147.1	A part automatic positioning equipment
201721121061.9	A micro robot arm with a protective device.
201721121090.5	A push-plate type automatic feeding equipment
201721121097.7	A rotary silo device
201721121065.7	A testing device for precision parts
201721121087.3	An automatic testing device for precision parts
201721121144.8	A spindle device for application in the milling machine
201721121032.2	A cleaning device for application in the precision machine

Supply Chain Management

Table 3 Number of major suppliers by region/country

ESG B5 Supply Chain Management	Number of Suppliers			
Country/region	GZXH	DGKD	IPET	Total
Mainland China	119	19	0	138
Hong Kong, Macau, and Taiwan	7	0	2	9
Thailand	0	0	112	112
Japan	3	1	0	4
Europe	14	0	0	14
Others	6	0	4	10
Total	149	20	118	287

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.1 Value Chain and Society (Continued)

Supply Chain Management (Continued)

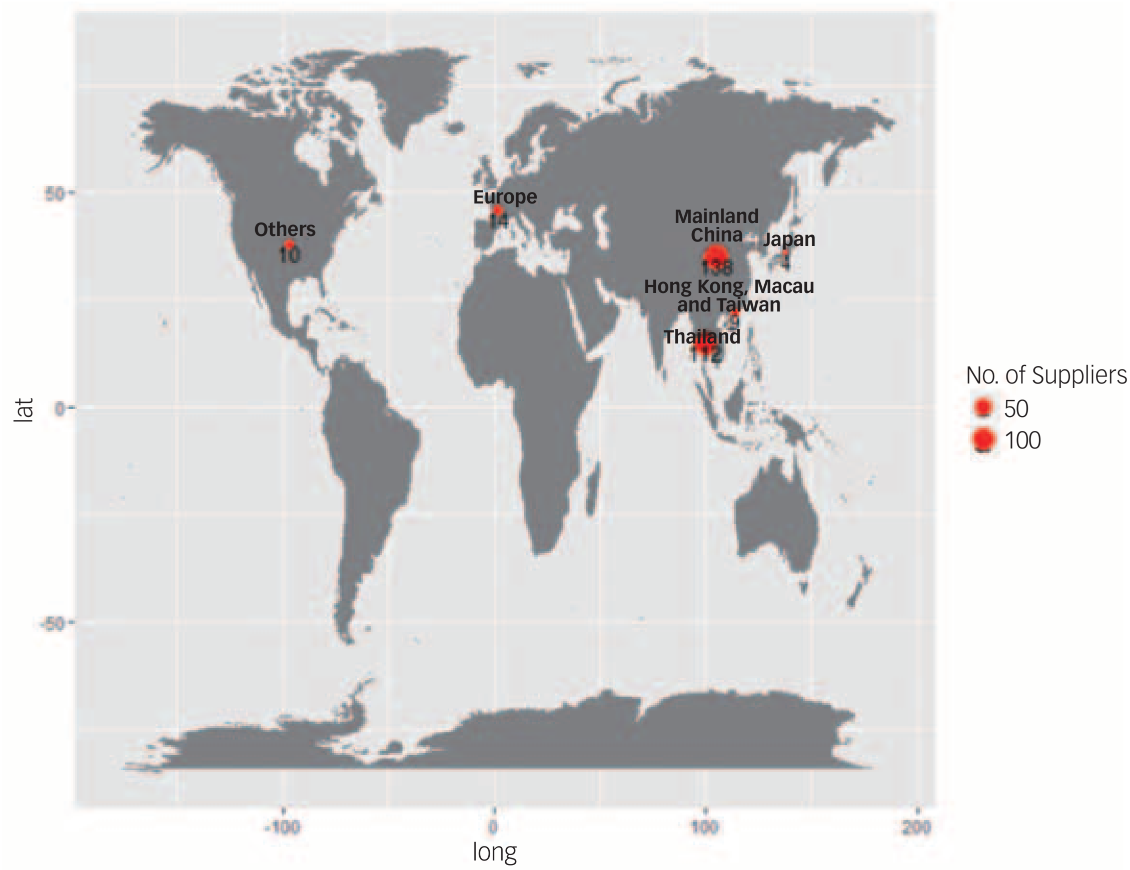


Figure 2 Spatial distribution of major suppliers of the Group

Community Investment

Table 4 Community investment, collaborators and activities

Activities in 2017	Beneficiary/Collaborators	Financial donation/ internship hours
Establishing "IPE Professional practice scholarship"	Graduate School in Shenzhen, Tsinghua University	RMB500,000 in total, each year RMB100,000 for five years.
Providing industry internship within the Group for students	Tsinghua University	Total of 160 hours of internship
2017 "Poverty alleviation day in Guangdong"	Dongguan Charity Federation	RMB5,000

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.2 Resources

Energy consumption and saving

Table 5 Direct energy consumption and intensity

Site	Energy source	2017 consumption	unit	Intensity	Unit[1]
GZXH	Diesel — production	165,009	liter	0.99	liter/m^2
	LPG — canteen	8,160,000	liter	49.00	liter/m^2
	LPG — production	31,059	liter	0.19	liter/m^2
	Electricity	45,962,881	kwh	276.00	kWh/m^2
	Gasoline/petrol	129,493	liter	0.78	liter/m^2
DGKD	Electricity	8,913,260	kwh	441.45	kWh/m^2
	Gasoline/petrol	27,126	liter	1.34	liter/m^2
IPET	Electricity	4,603,920	kwh	66.26	kWh/m^2
	Diesel (mobile)	8,250	liter	0.12	liter/m^2

Note 1: the intensity calculation throughout the report for various indicators are based on floor areas

Table 6 Indirect energy consumption

Site	Energy source	Indirect consumption (in kWh)
GZXH	Diesel — production	1,649,820.23
	LPG — canteen	59,394,540.66
	LPG — production	226,070.33
	Gasoline/petrol (mobile)	1,147,521.97
DGKD	Gasoline/petrol (mobile)	240,381.19
IPET	Diesel (mobile)	83,159.31

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.2 Resources (Continued)

Energy consumption and saving (Continued)

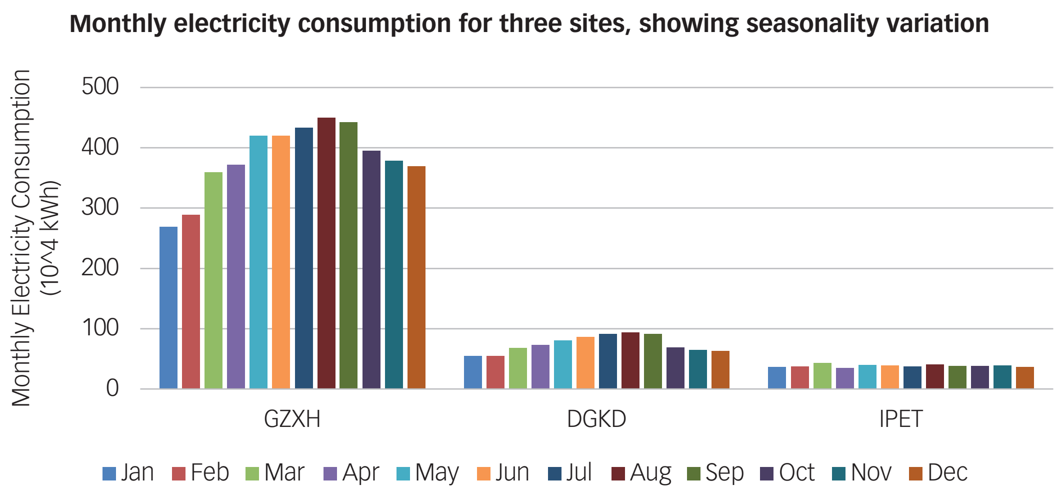


Figure 3 Monthly electricity consumption for three sites, showing seasonality variation

Water consumption and recycling

Table 7 Water consumption and intensity

Site	2017 total consumption (m^3)	Intensity (m^3/m^2)
GZXH	186,296	1.12
DGKD	122,354	6.06
IPET	17,045	0.25

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.2 Resources (Continued)

Water consumption and recycling (Continued)

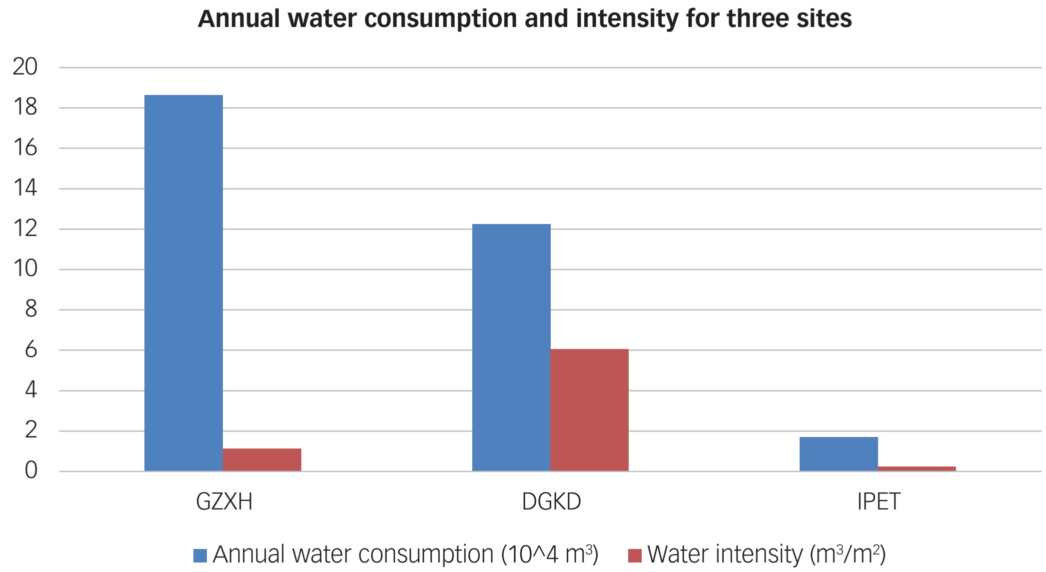


Figure 4 Annual water consumption and intensity for three sites

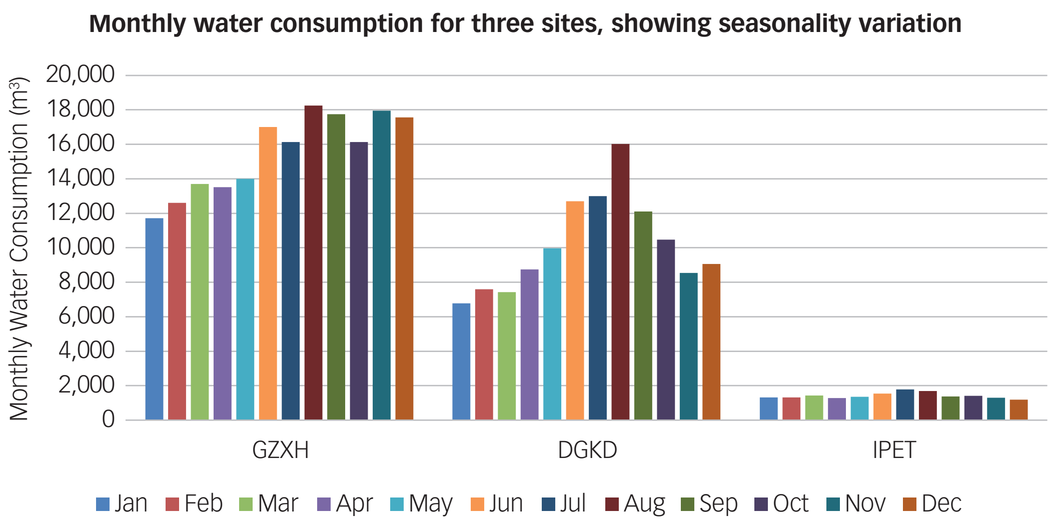


Figure 5 Monthly water consumption for three sites, showing seasonality variation

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.2 Resources (Continued)

Other Resource Consumption

Table 8 Consumption of packaging materials and intensity

		2017 consumption (in kg)			Intensity (kg/m²)		
		GZXH	DGKD	IPET	GZXH	DGKD	IPET
Packaging material used in 2017	Corrugated paperboard	96,141	9,377	17,145	0.58	0.46	0.25
	Plastic film & bags	157,076	18,100	4,411	0.94	0.90	0.06
	Adhesive Tape	2,952	n/a	n/a	0.02	n/a	n/a
Total packaging materials		256,169	27,477	21,556	1.54	1.36	0.31

5.3 Emissions & Waste

Air Emissions

Table 9 Greenhouse Gas (GHG) emissions

Site	Activity	$CO_{2eq.}$ (tonnes)	% of total GHG
Scope 1 direct GHG emission			
GZXH	Diesel-(stationary)[1]	441.38	0.84%
	LPG-(canteen-stationary)[1]	12,322.04	23.43%
	LPG-(production-stationary)[1]	46.90	0.09%
	Gasoline/petrol-(mobile)[2]	350.65	0.67%
DGKD	Gasoline/petrol-(mobile)[2]	73.45	0.14%
IPET	Diesel (mobile)[2]	22.08	0.04%
Scope 1 total GHG for the Group		**13,256.5**	**25.20%**
Scope 2 indirect GHG emission from purchased electricity			
GZXH	Purchased electricity[3, 4]	28,972.70	55.08%
DGKD	Purchased electricity[3, 4]	5,618.47	10.68%
IPET	Purchased electricity[3, 4]	4,479.61	8.53%
Scope 2 total GHG for the Group		**39,070.78**	**74.29%**

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.3 Emissions & Waste (Continued)

Air Emissions (Continued)

Site	Activity	$CO_{2eq.}$ (tonnes)	% of total GHG
Scope 3 indirect GHG emission from waste disposal[5]			
GZXH	waste paper landfilling	45.75	0.09%
DGKD	waste paper landfilling	15.29	0.03%
IPET	N/A, self-reuse, and recycle for others, no landfill		
Scope 3 indirect GHG emission from electricity consumption for processing fresh water and wastewater[5]			
GZXH	electricity for processing fresh/wastewater	97.24	0.18%
DGKD	electricity for processing fresh/wastewater	51.40	0.10%
IPET	electricity for processing fresh/wastewater	7.95	0.01%
Scope 3 indirect GHG emission from business air travel			
GZXH & DGKD	business air travel	45.35	0.09%
IPET	business air travel	7.85	0.01%
Scope 3 total GHG for the Group		**270.83**	**0.51%**
Total (scope 1+2+3) GHG for the Group		**52,598.11**	**100.00%**

Note 1: Emission for the combustion of natural gas for stationary source were calculated with emission factors from Greenhouse Gas Protocol Calculation Tool — GHG Emissions from Stationary Combustion (Chinese).

Note 2: Emission for the combustion of for mobile transportation were calculated with emission factors from Greenhouse Gas Protocol Calculation Tool — GHG Emissions from Transport or Mobile Sources.

Note 3: For GZXH and DGKD, combined margin emission factor of 0.63 $tCO_{2eq.}$/MWh was used for purchased electricity in Guangdong, China.

Note 4: For IPET, the site could not confirm with local utility for its energy source, thus, it is assumed that coal as fuel source, with a emission factor of 0.973 tCO_2/MWh, obtained from Promjiraprawat (2012) Assessment of Thailand's Energy Policies and CO_2 Emissions: Analyses of Energy Efficiency Measures and Renewable Power Generation. *Energies, 5*(8), 3074-3093; doi:10.3390/en5083074.

Note 5: Emission factors were made reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.3 Emissions & Waste (Continued)

Air Emissions (Continued)

Table 10 Annual SOx emission from mobile fuel combustion

Site	SO_x (kg)
GZXH	1.90
DGKD	0.40
IPET	0.13

Note: Due to lack of mileage data for this reporting cycle, NO_x and PM emissions were not calculated.

Table 11 Annual SO_x and NO_x emission from LPG combustion at GZXH site

LPG consumption at GZXH	SO_x (kg)	NO_x (kg)
LPG-(canteen)	4.28	859.56
LPG-(production)	0.02	3.27

Note: Emission factors for both SO_x and NO_x were made reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited.

Solid waste

Table 12 Hazardous and non-hazardous waste generation, intensity and treatment methods

	Waste type	Waste	Amount and unit	Intensity	Treatment method
GZXH	Hazardous	Empty Oil Tanks And Bottles	Not recorded in 2017	n/a	Supplier collect for reuse
	Non-Hazardous	Office Paper	9,530.9 kg	0.057 kg/m^2	Landfill
DGKD	Hazardous	Empty Oil Tanks And Bottles	633 pieces	0.031 pcs/m^2	Supplier collect for reuse
	Non-Hazardous	Office Paper	3,185.7 kg	0.158 kg/m^2	Landfill
IPET	Hazardous	Empty Oil Tanks And Bottles	336.0 kg	0.005 kg/m^2	Self-reuse
	Hazardous	Empty Oil Tanks And Bottles	4,719.0 kg	0.068 kg/m^2	Sell to certified handler
	Non-Hazardous	Office Paper	84.0 kg	0.001 kg/m^2	Self-reuse and downstream recycle

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.3 Emissions & Waste (Continued)

Wastewater

Table 13 Wastewater treatment: total amount, treatment method and indicators.

		GZXH	DGKD	IPET
Total wastewater treated (m^3)		117,724	11,760	5,800
Treatment method		Oil separation sedimentation by contact oxidation treatment system	Oil separation sedimentation by contact oxidation treatment system	Chemical Wastewater Treatment & Activated Sludge System
Concentration after treatment, or sampling results	Biochemical Oxygen Demand	18.8 mg/l	20 mg/l	Std. 20 mg/l, all samples pass
	Chemical Oxygen Demand	87.1 mg/l	90 mg/l	Std. 120 mg/l, all samples pass
	Total Suspended Solids	40 mg/l	60 mg/l	Std. 50 mg/l, all samples pass
	Total Kjeldahl Nitrogen	n/a	n/a	Std. 100 mg/l, all samples pass
	Ammonia nitrogen	4.15 mg/l	10 mg/l	n/a
	Oil & Grease	2.06 mg/l	5 mg/l	5.0 mg/l, all samples pass
	pH	6.78–6.94	6–9	Std. 5.5–9.0, all samples pass

5.4 Workers

Employment and Labour Practices

Table 14 Employment by type, category, contract, age, gender, and region.

	GZXH	DGKD	IPET	Total
Total number of employees (as of 2017/12/31)	1,605 people	360 people	156 people	2,121
Employment types				
Full-time	1,605 people	360 people	156 people	2,121
Part-time	0 people	0 people	0 people	0
Employee category				
Senior management	6 people	1 people	5 people	12
Middle management	47 people	9 people	10 people	66
Frontline and other Staff	1,552 people	350 people	141 people	2,043
Employment Contract				
Indefinite or permanent contract	253 people	74 people	156 people	483
Fixed term contract	1,352 people	286 people	0 people	1,638
Temporary contract	0 people	0 people	0 people	0

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.4 Workers (Continued)

Employment and Labour Practices (Continued)

Table 14 Employment by type, category, contract, age, gender, and region. (Continued)

	GZXH	DGKD	IPET	Total
For those with Indefinite/ permanent contract				
Senior management	5 people	1 people	5 people	11
Middle management	33 people	9 people	10 people	52
Frontline and other Staff	215 people	64 people	141 people	420
Age				
below 30	580 people	77 people	26 people	683
>= 30, and <50	893 people	236 people	128 people	1,257
>= 50	132 people	47 people	2 people	181
Gender				
Male	779 people	183 people	35 people	997
Female	826 people	177 people	121 people	1,124
Region				
Mainland China	1,602 people	360 people	0 people	1,962
Hong Kong, Macau, and Taiwan	3 people	0 people	0 people	3
Thailand	0 people	0 people	156 people	156

Table 15 Employment diversity for governance bodies and all employees

	GZXH	DGKD	IPET	total
Diversity for governance bodies				
Governance bodies by age				
below 30	0 people	0 people	0 people	0
>= 30, and <50	6 people	1 people	0 people	7
>= 50	0 people	0 people	2 people	2
Governance bodies by gender				
Male	3 people	1 people	2 people	6
Female	3 people	0 people	0 people	3
Governance bodies by minority group[1]				
CN ethnic Han	0 people	0 people	n/a	n/a
CN ethnic non-Han	0 people	0 people	n/a	n/a
Diversity for all employees				
CN ethnic Han	1,482 people	319 people	n/a	n/a
CN ethnic non-Han	123 people	41 people	n/a	n/a

Note 1: for IPET, the site has not defined or had historic data on minority.

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.4 Workers (Continued)

Employment and Labour Practices (Continued)

Table 16 Labor & Management relations

	GZXH	DGKD	IPET
Number of total employees covered by collective bargaining agreements	700 people	292 people	156 people
Percentage of total employees covered by collective bargaining agreements	0.4	0.8	1
Minimum number of weeks notice provided to employees prior to significant operational changes	3 weeks	3 weeks	4 weeks

Table 17 Total turnover and turnover rate by employment type, category, age, gender and region

	GZXH	DGKD	IPET	total
Total number of employees leaving employment in 2017	721 people	286 people	10 people	1,017 people
Turnover rate (all employees)	45%	79%	6%	48%
Employees leaving employment by employment types				
Full-time	721 people	286 people	10 people	1,017 people
Employees leaving employment by employee category				
Senior management	0 people	0 people	0 people	0 people
Middle management	1 people	0 people	0 people	1 people
Turnover rate (middle mngmt)	2%	0%	0%	2%
Frontline and other Staff	720 people	286 people	10 people	1,016 people
Turnover rate (frontline)	46%	82%	7%	50%
Employees leaving employment by age				
below 30	486 people	114 people	4 people	604 people
Turnover rate (below 30)	84%	148%	15%	88%
>= 30, and <50	217 people	168 people	6 people	391 people
Turnover rate (30 ~ 50)	24%	71%	5%	31%
>= 50	18 people	4 people	0 people	22 people
Turnover rate (>= 50)	14%	9%	0%	12%
Employees leaving employment by gender				
Male	455 people	166 people	5 people	628 people
Turnover rate (male)	58%	92%	14%	63%
Female	266 people	120 people	5 people	391 people
Turnover rate (female)	32%	68%	4%	35%
Employees leaving employment by region				
Mainland China	721 people	286 people	n/a	989 people
Thailand	n/a	n/a	10 people	10 people

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.4 Workers (Continued)

Development and Training

Table 18 Number of employees receiving training and average training hours received

GRI LA Training and Education	GZXH	No. of trained employee DGKD	IPET	Total
Total no. of trained employee	1,098 people	284 people	82 people	1,464 people
Total training hours for all employees	5,874 hours	1,552 hours	1,206 hours	8,632 hours
Average training hours per employee	3.66	4.31	7.73	4.07
Employee Category				
Senior Management	3 people	0 people	1 people	4 people
Average training hours per employee	6.67	0	1.6	4.00
Middle Management	2 people	8 people	3 people	13 people
Average training hours per employee	0.43	14.22	17.8	4.94
Frontline and other Staff	1,093 people	276 people	78 people	1,447 people
Average training hours per employee	3.78	4.07	7.25	4.07
Gender				
Male	614 people	165 people	62 people	841 people
Average training hours per employee	3.99	4.44	8.4	4.23
Female	484 people	119 people	20 people	623 people
Average training hours per employee	3.34	4.18	7.54	3.93

Table 19 Total percentage of trained employee (%) by employee category and gender

	GZXH	DGKD	IPET	Total
Total percentage of trained employee	68.4%	78.9%	52.6%	69.0%
Employee Category				
Senior Management	50.0%	0.0%	20.0%	33.3%
Middle Management	4.3%	88.9%	30.0%	19.7%
Frontline and Other Staff	70.4%	78.9%	55.3%	70.8%
Gender				
Male	78.8%	90.2%	177.1%	84.4%
Female	58.6%	67.2%	16.5%	55.4%

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.4 Workers (Continued)

Occupational Health & Safety

Table 20 Work-related fatalities, lost days, injuries, occupational disease and absentee rate

GRI LA Employment	GZXH	DGKD	IPET	Total
Total working hours (hrs) by all workforce	4,073,436	1,164,213	608,166	5,845,815
No. of work-related fatality	0	0	0	0
Total lost days	93 days	16 days	0	109 days
Lost day rate (LDR)	4.57	2.75	0	3.73
Number of injury	13 claims	2 claims	0	15 claims
Injury rate (IR)	0.64	0.34	0	0.51
Number of occupational disease	0	0	0	0
Occupational diseases rate (ODR)	0	0	0	0
Absentee rate (AR)	0.0013%	0.014%	0	0.01%

Non-discrimination, Diversity, and Equal Opportunity

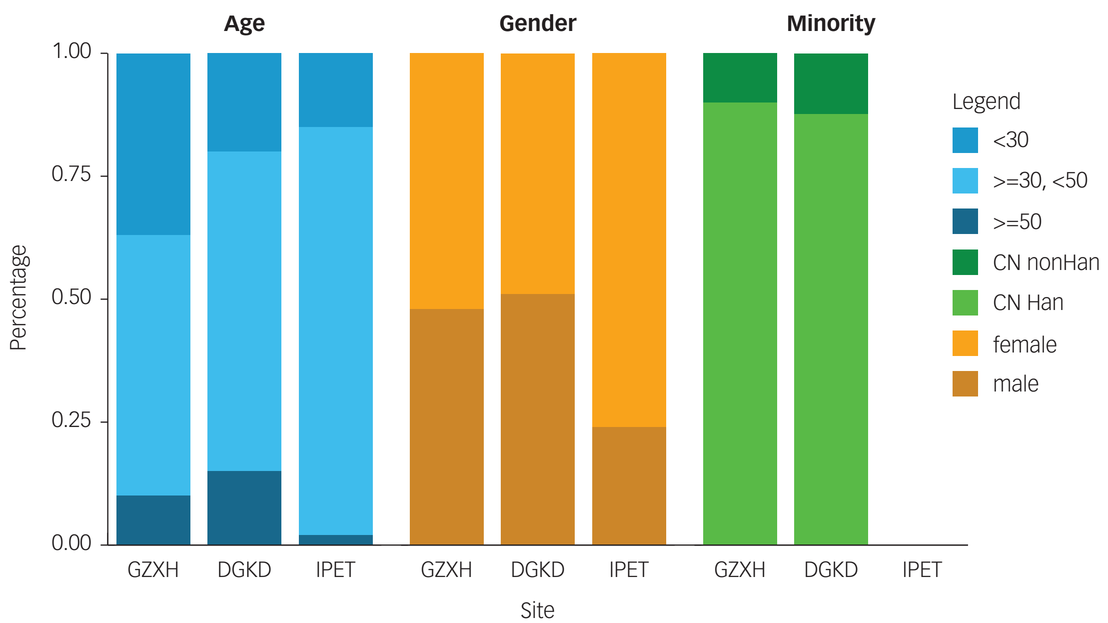


Figure 6 Percentage of employees by age, gender, and minority groups, showing employment diversity by operational sites. Note that IPET did not have record on minority data in 2017.

5. SUSTAINABILITY INDICATORS AND PERFORMANCE (Continued)

5.4 Workers (Continued)

Non-discrimination, Diversity, and Equal Opportunity (Continued)

Table 21 Incidents of discrimination reported

GRI HR Aspect: Non-discrimination	GZXH	DGKD	IPET
Total number of incidents of discrimination reported by employees in 2017	0	0	0

Table 22 Ratio of basic salary of women to men

Ratio of basic salary of women to men	GZXH	DGKD	IPET
Employee category	0	0	0
Senior management	1.07	N/A (one male)	0.96
Middle management	0.86	0.79	1.42
Frontline and other Staff	1.00	0.96	2.60

Note: The ratio is calculated as: basic salary of women employees divided by basic salary of men employees. "1" indicates same salary for women and men, <1 indicates women's basic salary less than that of men, and >1 indicates women's basic salary higher than that of men.

APPENDIX

Appendix 1: ESG index

HKEx Reporting Guide			Page, Table/ Figure
A. Environmental			
Aspect A1: Emissions			
"Comply or explain" Provisions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste:		Page 40–41
	KPI A1.1	The types of emissions and respective emissions data.	Table 9, 10 & 11
	KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity.	Table 9
	KPI A1.3	Total hazardous waste produced and, where appropriate, intensity.	Table 12
	KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Table 12
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	Page 40–41
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Page 41
Aspect A2: Use of Resources			
"Comply or explain" Provisions	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.		Page 40
	KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Table 5, 6
	KPI A2.2	Water consumption in total and intensity.	Table 7
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Page 40
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Page 40
	KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Table 8

APPENDIX (Continued)

Appendix 1: ESG index (Continued)

HKEx Reporting Guide			Page, Table/ Figure
Aspect A3: The Environment and Natural Resources			
"Comply or explain" Provisions	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		Page 39–41
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Page 39–41
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
"Comply or explain" Provisions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Page 42–43
Recommended Disclosures	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Table 14
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Table 17

APPENDIX (Continued)

Appendix 1: ESG index (Continued)

HKEx Reporting Guide			Page, Table/ Figure
Aspect B2: Health and Safety			
"Comply or explain" Provisions	General Disclosure Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		Page 43
Recommended Disclosures	KPI B2.1	Number and rate of work-related fatalities.	Table 20
	KPI B2.2	Lost days due to work injury.	Table 20
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Page 43
Aspect B3: Development and Training			
"Comply or explain" Provisions	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Page 43
Recommended Disclosures	KPI B3.1	The percentage of employees trained by gender and employee category.	Table 18
	KPI B3.2	The average training hours completed per employee by gender and employee category	Table 18
Aspect B4: Labour Standards			
"Comply or explain" Provisions	General Disclosure Information on: a) the policies b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		Page 42
Recommended Disclosures	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Page 42
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Not Applicable

APPENDIX (Continued)

Appendix 1: ESG index (Continued)

HKEx Reporting Guide			Page, Table/ Figure
Operating Practices			
Aspect B5: Supply Chain Management			
"Comply or explain" Provisions	General Disclosure Policies on managing environmental and social risks of the supply chain.		Page 38
Recommended Disclosures	KPI B5.1	Number of suppliers by geographical region.	Table 3, Figure 3
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Page 38
Aspect B6: Product Responsibility			
"Comply or explain" Provisions	General Disclosure Information on: (a) the policies (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Page 39
Recommended Disclosures	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not Applicable
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Table 1
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Table 2
	KPI B6.4	Description of quality assurance process and recall procedures.	Page 37–38
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Page 37

APPENDIX (Continued)

Appendix 1: ESG index (Continued)

HKEx Reporting Guide			Page, Table/ Figure
Aspect B7: Anticorruption			
"Comply or explain" Provisions	General Disclosure Information on: (a) the policies (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Page 39
Recommended Disclosures	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Not Applicable
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Page 39
Community			
Aspect B8: Community Investment			
"Comply or explain" Provisions	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Page 39
Recommended Disclosures	KPI B8.1	Focus areas of contribution.	Page 35 & 39
	KPI B8.2	Resources contributed to the focus area.	Table 4

APPENDIX (Continued)

Appendix 2: GRI index

GRI G3 Standard			Page, Table/ Figure
GRI Environmental			
EN Aspect: Emissions, Effluents, and Waste	EN16	Total direct and indirect GHG.	Table 9
	EN20	NO, SO, and other significant air emissions.	Table 10, 11
	EN21	Total water discharge by quality and destination.	Table 13
	EN22	Total weight of waste by type and disposal method.	Table 12
	EN23	Total number and volume of significant spills.	Not Applicable
EN Aspect: Compliance	EN28	Monetary value of significant fines and total number of non-monetary sanctions.	Not Applicable
EN Aspect: Energy	EN3	Direct energy consumption by primary energy source.	Table 5
	EN4	Indirect energy consumption by primary source.	Table 6
EN Aspect: Water	EN8	Total water withdrawal by source.	Table 7
GRI Social			
HR: Investment and procurement practices	HR1	Percentage and total number of significant investment agreements that include human rights clauses.	Not Applicable
	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Not Applicable
HR: Non-discrimination	HR4	Total number of incidents of discrimination and actions taken.	Table 21
HR: Freedom of association and collective bargaining	HR5	Operations identified in which the right to exercise freedom of association or collective bargaining may be at significant risk, and actions taken to support these rights.	Not Applicable
HR: Child labor	HR6	Operations identified as having significant risk for incidents of child labor, and measures taken.	Not Applicable
HR: Forced and compulsory labor	HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken.	Not Applicable
LA: Employment	LA1	Total workforce by employment type, employment contract, and region.	Table 14
	LA2	Total number and rate of employee turnover by age group, gender, and region.	Table 17
LA: Labor/ Management relations	LA4	Percentage of employees covered by collective bargaining agreements.	Table 16
	LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Table 16

APPENDIX (Continued)

Appendix 2: GRI index (Continued)

GRI G3 Standard			Page, Table/ Figure
LA: Occupational health and safety	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.	Table 20
	LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Not Applicable
LA: Training and Education	LA10	Average hours of training per year per employee by employee category.	Table 18
LA: Diversity and Equal Opportunity	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership.	Table 15
	LA14	Ratio of basic salary of men to women by employee category.	Table 22
PR: Marketing Communication	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsors.	Page 38–39
PR: Compliance (Product Responsibility)	PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Not Applicable
SO: Compliance (Social)	SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.	Not Applicable

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 2017.

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 2017 and the Group's financial position at that date are set out in the financial statements on pages 76 to 156.

An interim dividend of HK2.2 cents per ordinary share was paid on 8 September 2017 (2016: HK2.0 cents). The Board has recommended the payment of a final dividend of HK1.6 cents per ordinary share for the year ended 31 December 2017 to shareholders on the Register of Members on 23 May 2018 (2016: HK2.5 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, 14 May 2018 (the "2018 AGM"), the said final dividend will be paid in cash on Thursday, 31 May 2018. Details of dividends for the year ended 31 December 2017 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, 9 May 2018 to Monday, 14 May 2018 (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 2018 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, 8 May 2018 for registration of transfer.

(ii) From Monday, 21 May 2018 to Wednesday, 23 May 2018 (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, 18 May 2018 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 Environmental, Social and Governance Report contained in this annual report.

BUSINESS REVIEW (Continued)

Pertinent to ESG performance, the Group strictly complied with applicable regulations, laws, and standards related to environmental and social aspects. Technology advancement, especially the newly deployed industrial robot and operation automatization, continues to assist the Group to achieve long-term business resilience. Specifically, it is expected to increase operational efficiency, which further reduces resource consumption, and prevents on-site injuries. Engagement with stakeholders has resulted in raised concerns on various material issues, including environmental aspects such as Resources, Emissions & Waste; as well as social aspects such as Workers, Value Chain & Society. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing ESG management.

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 26 and 27 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 27 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 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$833,205,000. The Company's share premium account and contributed surplus, amounting to HK$462,243,000 at 31 December 2017, 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$140,000 (2016: HK$144,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 35.0% of the total sales for the year and sales to the largest customer included therein amounted to 11.1%. Purchases from the Group's five largest suppliers accounted for 24.3% of the total purchases for the year and purchases from the largest supplier included therein amounted to 6.6%.

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. Zeng Guangsheng
Mr. Chui Siu On
Mr. Lau Siu Chung
Ms. Chiu Tak Chun
Mr. Ng Hoi Ping
Mr. Ho Yu Hoi (resigned on 2 June 2017)
Mr. Li Chi Hang (resigned on 2 June 2017)
Mr. Yuen Chi Ho (resigned on 2 June 2017)

Non-executive director:

Ms. Zeng Jing (appointed on 2 June 2017)

Independent non-executive directors:

Dr. Cheng Ngok
Mr. Yang Rusheng (appointed on 2 June 2017)
Mr. Cheung, Chun Yue Anthony (appointed on 2 June 2017)
Mr. Choi Hon Ting, Derek (resigned on 2 June 2017)
Mr. Wu Karl Kwok (resigned on 2 June 2017)
Mr. Hung, Randy King Kuen (resigned on 9 May 2017)

DIRECTORS (Continued)

According to Article 87 of the Articles of Association, Mr. Zeng Guangsheng, Mr. Lau Siu Chung and Mr. Ng Hoi Ping shall retire from office by rotation at the 2018 AGM. All of the above retiring directors, being eligible, will offer themselves for re-election at the 2018 AGM.

The Company has received annual confirmations of independence from Dr. Cheng Ngok, Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony, 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 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 2018 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 2017, 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	167,966,975	15.96%
	Directly beneficially owned		14,576,250	1.39%
	Through spouse	2	125,000	0.01%
			182,668,225	17.36%
Mr. Lau Siu Chung	Directly beneficially owned		7,785,000	0.74%
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 2017.

Notes:

1. 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 167,966,975 shares of the Company owned by Tottenhill pursuant to Part XV of the SFO.

2. 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.

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 share capital*
Mr. Zeng Guangsheng	Directly beneficially owned	22,000,000	2.09%
Mr. Chui Siu On	Directly beneficially owned	2,000,000	0.19%
Mr. Lau Siu Chung	Directly beneficially owned	2,000,000	0.19%
Ms. Chiu Tak Chun	Directly beneficially owned	2,000,000	0.19%
Mr. Ng Hoi Ping	Directly beneficially owned	10,000,000	0.95%
Ms. Zeng Jing	Directly beneficially owned	8,000,000	0.76%

* The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2017.

Details of the above share options granted by the Company are set out in the section headed "Share option scheme" below and note 27 to the financial statements.

(C) Long positions in the ordinary shares of associated corporation — China Baoan Group Co., Ltd, the Company's holding company

Name of director	Capacity and nature of interests	Number of ordinary shares in China Baoan Group Co., Ltd	Percentage of China Baoan Group Co., Ltd's issued share Capital
Mr. Zeng Guangsheng	Directly beneficially owned	560,755	0.03%
Ms. Zeng Jing	Directly beneficially owned	8,518,819	0.40%

In addition to the above, as at 31 December 2017, 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 2017, 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 27 to the financial statements.

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

	Number of share options								
Name or category of participant	At 1 January 2017	Granted during the year[1]	Exercised during the year	Expired/ lapsed during the year	Forfeited/ cancelled during the year	At 31 December 2017	Date of grant of share options[2]	Exercise period of share options	Exercise price of share options[3] HK$ per share
Directors									
Mr. Zeng Guangsheng[4]	–	22,000,000	–	–	–	22,000,000	06-06-17	01-09-18 to 31-08-22	2.02
Mr. Chui Siu On[5]	14,000,000	–	–	–	(14,000,000)	–	19-06-11	01-09-13 to 31-08-18	1.82
	–	2,000,000	–	–	–	2,000,000	06-06-17	01-09-18 to 31-08-22	2.02
	14,000,000	2,000,000	–	–	(14,000,000)	2,000,000			
Mr. Lau Siu Chung	–	2,000,000	–	–	–	2,000,000	06-06-17	01-09-18 to 31-08-22	2.02
Ms. Chiu Tak Chun	–	2,000,000	–	–	–	2,000,000	06-06-17	01-09-18 to 31-08-22	2.02
Mr. Ng Hoi Ping	–	10,000,000	–	–	–	10,000,000	06-06-17	01-09-18 to 31-08-22	2.02
Ms. Zeng Jing	–	8,000,000	–	–	–	8,000,000	06-06-17	01-09-18 to 31-08-22	2.02
	14,000,000	46,000,000	–	–	(14,000,000)	46,000,000			
Members of senior management and other employees of the Group									
In aggregate	21,000,000	–	–	–	(21,000,000)	–	15-01-13	01-04-14 to 31-12-17	0.71
	1,500,000	–	–	–	(1,500,000)	–	14-04-14	14-04-14 to 31-12-19	0.46
	2,800,000	–	–	–	(2,800,000)	–	12-06-14	01-06-15 to 31-12-19	0.56
	–	4,000,000	–	–	–	4,000,000	06-06-17	01-09-18 to 31-08-22	2.02
	25,300,000	4,000,000	–	–	(25,300,000)	4,000,000			
Suppliers of services									
In aggregate	5,000,000	–	–	–	(5,000,000)	–	14-04-14	14-04-14 to 31-12-19	0.46
	44,300,000	50,000,000	–	–	(44,300,000)	50,000,000			

SHARE OPTION SCHEME (Continued)

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

(1) The closing price of the Company's shares immediately before the date of grant of share options was HK$2.02 per share. The fair value of the share options granted on 6 June 2017 was determined at the date of grant using the binominal option pricing model and was approximately HK$30 million.

(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. Zeng Guangsheng in June 2017, which exceeded the individual limit, was approved by the independent shareholders at the Company's extraordinary general meeting held on 14 August 2017 pursuant to the Listing Rules.

(5) The grant of share options to Mr. Chui Siu On in June 2011, which exceeded the individual limit, was approved by the independent shareholders at the Company's extraordinary general meeting held on 4 July 2011 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 2017, 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*
Tottenhill	Directly beneficially owned	(a)	167,966,975	15.96%
Ms. Leung Wing Yi	Directly beneficially owned		125,000	0.01%
	Through spouse	(b)	182,543,225	17.35%
			182,668,225	17.36%
Baoan Technology Company Limited	Directly beneficially owned		547,506,250	52.03%
China Baoan Group Co., Ltd	Through controlled corporation	(c)	547,506,250	52.03%

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2017.

Notes:

(a) The interests of Tottenhill 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 also 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 547,506,250 shares of the Company owned by Baoan Technology Company Limited pursuant to Part XV of the SFO.

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	2,000,000	0.19%

* The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2017.

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 27 to the financial statements.

Save as disclosed above, as at 31 December 2017, 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 were engaged to audit the consolidated financial statements of the Company for the year under review, whose term of office will be expired at the conclusion of the 2018 AGM.

A resolution will be submitted to the 2018 AGM to seek Shareholders' approval on the appointment of KPMG as the new auditors of the Company and its subsidiaries with effect from the conclusion of the 2018 AGM and until the conclusion of the next annual general meeting and to audit the consolidated financial statements of the Company and its subsidiaries for the year ending 31 December 2018.

Apart from this, there was no change in auditors of the Company in any of the preceding three years.

UPDATE ON DIRECTOR'S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Mr. Wu Kai Ping has changed his name to Ng Hoi Ping with effect from 19 March 2018.

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 Chief Executive Officer, 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

Zeng Guangsheng
Chairman

Hong Kong
19 March 2018

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 81 to 156 which comprise the consolidated statements of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes 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 2017, 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 ("HKSAs") 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 2017, the Group had trade receivables of HK$273,091,000, net of provision for impairment of HK$6,461,000, which accounted for 11% of the total assets. The determination as to whether a trade receivable is impaired involves significant management's judgment. Management would consider 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, or collectively for trade receivables that are not individually significant. Related disclosures in the financial statements are included in notes 2.4, 3 and 19.	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 2017, the Group had inventories of HK$227,809,000. In 2017, an incremental provision for impairment of HK$5,864,000 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 18.	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.

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 including Thailand, Mainland China, Hong Kong and Macau, all with differing tax regimes and therefore was 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 notes 3 and 10.	Our audit procedures included: i) Understanding from management the pricing policies governing the transactions among intragroup companies; ii) Comparing the profitability of the Group's major PRC subsidiary with comparable companies selected by our transfer pricing specialists and assessing whether the Group's pricing policies are within reasonable range. 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. Identifying 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 the 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.

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

19 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	5	**941,438**	851,908
Cost of sales		**(618,010)**	(589,322)
Gross profit		**323,428**	262,586
Other income and gains	5	**7,017**	30,913
Selling and distribution expenses		**(23,778)**	(24,889)
Administrative expenses		**(119,258)**	(95,496)
Other expenses		**(41,381)**	(24,668)
Finance costs	7	**(15,972)**	(13,130)
Share of loss of an associate		**(17)**	–
PROFIT BEFORE TAX	6	**130,039**	135,316
Income tax expense	10	**(15,327)**	(25,766)
PROFIT FOR THE YEAR		**114,712**	109,550
Attributable to:			
Owners of the Company		**114,808**	110,201
Non-controlling interests		**(96)**	(651)
		114,712	109,550
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**HK10.91 cents**	HK10.66 cents
Diluted		**HK10.83 cents**	HK10.47 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
PROFIT FOR THE YEAR	**114,712**	109,550
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**132,344**	(92,055)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**132,344**	(92,055)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**247,056**	17,495
Attributable to:		
Owners of the Company	**246,963**	18,299
Non-controlling interests	**93**	(804)
	247,056	17,495

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**775,257**	662,095
Prepaid land lease payments	14	**83,101**	79,069
Investment in an associate	16	**2,844**	–
Available-for-sale investment	17	**–**	–
Deposits for purchase of non-current assets		**16,414**	5,714
Deferred tax assets	25	**5,427**	3,190
Total non-current assets		**883,043**	750,068
CURRENT ASSETS			
Inventories	18	**227,809**	184,460
Trade receivables	19	**266,630**	219,421
Prepayments, deposits and other receivables	20	**40,106**	22,768
Cash and cash equivalents	21	**913,434**	961,592
Total current assets		**1,447,979**	1,388,241
CURRENT LIABILITIES			
Trade and bills payables	22	**60,672**	55,641
Other payables and accruals	23	**46,944**	39,067
Tax payable		**6,232**	12,142
Interest-bearing bank and other borrowings	24	**325,129**	292,641
Total current liabilities		**438,977**	399,491
NET CURRENT ASSETS		**1,009,002**	988,750
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,892,045**	1,738,818
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	24	**179,375**	237,875
Deferred tax liabilities	25	**10,101**	9,302
Other payables	23	**1,294**	945
Total non-current liabilities		**190,770**	248,122
Net assets		**1,701,275**	1,490,696

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	26	**105,225**	105,225
Reserves	28	**1,594,656**	1,383,429
		1,699,881	1,488,654
Non-controlling interests		**1,394**	2,042
Total equity		**1,701,275**	1,490,696

Zeng Guangsheng
Director

Ng Hoi Ping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Notes	Attributable to owners of the Company											
		Issued capital HK$'000 (note 26)	Share premium account HK$'000 (note 26)	Contributed surplus HK$'000 (note 28)	Statutory surplus reserve HK$'000 (note 28)	Statutory public welfare fund HK$'000 (note 28)	Capital redemption reserve HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017		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
Profit for the year		–	–	–	–	–	–	–	–	114,808	114,808	(96)	114,712
Other comprehensive income for the year:													
Exchange differences related to foreign operations		–	–	–	–	–	–	–	132,155	–	132,155	189	132,344
Total comprehensive income for the year		–	–	–	–	–	–	–	132,155	114,808	246,963	93	247,056
Final 2016 dividend declared		–	–	–	–	–	–	–	–	(26,306)	(26,306)	–	(26,306)
Cancellation of options		–	–	–	–	–	–	(8,452)	–	8,452	–	–	–
Equity-settled share option arrangements	27	–	–	–	–	–	–	13,720	–	–	13,720	–	13,720
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(741)	(741)
Transfer from retained profits		–	–	–	3,036	–	–	–	–	(3,036)	–	–	–
Interim 2017 dividend	11	–	–	–	–	–	–	–	–	(23,150)	(23,150)	–	(23,150)
At 31 December 2017		105,225	489,197*	(1,116)*	45,718*	287*	7,905*	13,720*	177,874 *	861,071*	1,699,881	1,394	1,701,275

* These reserve accounts comprise the consolidated reserves of HK$1,594,656,000 (2016: HK$1,383,429,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		Attributable to owners of the Company											
	Notes	Issued capital HK$'000 (note 26)	Share premium account HK$'000 (note 26)	Contributed surplus HK$'000 (note 28)	Statutory surplus reserve HK$'000 (note 28)	Statutory public welfare fund HK$'000 (note 28)	Capital redemption reserve HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
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	27	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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**130,039**	135,316
Adjustments for:			
Depreciation	6, 13	**112,792**	124,891
Amortisation of prepaid land lease payments	6, 14	**2,100**	2,120
Provision against inventory obsolescence	6	**5,864**	14,030
Impairment of an investment in associate	6, 16	**7,330**	–
Impairment of an unlisted equity investment	6, 17	**–**	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	**570**	1,386
Equity-settled share option expense		**13,720**	–
Finance costs	7	**15,972**	13,130
Bank interest income	5, 6	**(4,383)**	(1,824)
Impairment of trade receivables	6, 19	**7**	6,005
Impairment of other receivables	6, 20	**–**	3,011
Share of loss of an associate	16	**17**	–
		284,028	289,376
(Increase)/decrease in inventories		**(35,102)**	24,954
Increase in trade receivables		**(37,888)**	(12,733)
(Increase)/decrease in prepayments, deposits and other receivables		**(15,156)**	35,248
Increase in trade and bills payables		**2,113**	17,383
Increase/(decrease) in other payables and accruals		**4,528**	(4,991)
Cash generated from operations		**202,523**	349,237
Interest received		**4,383**	1,824
Interest paid		**(14,088)**	(10,417)
Income taxes paid		**(22,397)**	(22,017)
Net cash flows from operating activities		**170,421**	318,627
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(187,232)**	(107,201)
Dividend income from an unlisted equity investment	5, 6	**–**	1,197
Proceeds from disposal of items of property, plant and equipment		**6,792**	7,972
Purchase of a shareholding in an associate		**(9,779)**	–
Decrease in non-pledged time deposits with original maturity of over three months and within one year when acquired		**–**	10,122
Receipt of repayment of a loan to an unlisted equity investment		**–**	59
Disposal of unlisted equity investments		**–**	7,782
Net cash flows used in investing activities		**(190,219)**	(80,069)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Net cash flows used in investing activities		**(190,219)**	(80,069)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share options exercised		**–**	80,089
New bank loans and other borrowings		**296,978**	655,287
Repayment of bank loans and other borrowings		**(325,572)**	(608,946)
Dividends paid		**(49,456)**	(42,090)
Dividends paid to non-controlling shareholders		**(741)**	(858)
Net cash flows (used in)/from financing activities		**(78,791)**	83,482
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(98,589)**	322,040
Cash and cash equivalents at beginning of year		**961,592**	686,914
Effect of foreign exchange rate changes, net		**50,431**	(47,362)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**913,434**	961,592
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**803,437**	873,919
Non-pledged time deposits with original maturity of less than three months when acquired	21	**109,997**	87,673
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	21	**913,434**	961,592

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, hydraulic equipment, hard disk drives ("HDD") and components for other applications.

In the opinion of the directors, the holding company of the Company is Baoan Technology Company Limited and the ultimate holding company of the Group is China Baoan Group Company Limited , which is registered in People's Republic of China.

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	THB150,000,000	–	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	Macau	Macao Pataca 100,000	–	100%	Trading of precision metal components

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 2017. 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 intragroup 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 29 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014–2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-Term Interests in Associates and Joint Ventures*[2]
Annual Improvements 2015–2017 Cycle	*Amendments to a number of HKFRSs*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Other than as further explained below, the directors do not anticipate that the application of the new and revised HKFRSs above will have a material effect on the Group's consolidated financial statements and the disclosure.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 9

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets and financial liabilities. It expects to continue measuring at amortised cost all financial assets and financial liabilities currently held at amortised cost. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and other receivables. Upon the initial adoption of the standard, no material impact is expected on the provision for impairment of its trade and other receivables.

HKFRS 15

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 15 (Continued)

The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15. Based on the assessment performed, the adoption of HKFRS 15 has no significant impact on the Group.

HKFRS 16

HKFRS 16, issued in May 2016, replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 31(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$4,025,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

The assessment which management has performed of the estimated impacts of these standards is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to the above, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and comprehensive income of associates are included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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.

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

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.

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 purposes 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.

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.

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. Include other criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

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.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement (Continued)

(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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by HKAS 39 is recognised in the statement of profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purposes of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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 27 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.

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 2017 to December 2017, 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.

A subsidiary of the Group operates in Thailand is required to participate in a pension scheme under the Thai Labor Protection Act and Retirement Pension Plan for all employees of the company. The company is required to provide legal severance pay benefits for its employees upon termination of employment according to their last drawn monthly salary and years of service to retirement. This benefit is payable on retirement at a fixed retirement age (55) and involuntary leaving service. The liabilities are set out in the consolidated statement of financial position and the costs are charged to the consolidated statement of profit or loss.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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.

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 investment in associates

The Group assesses whether there are any indicators of impairment for investment in associates at the end of each reporting period. Investment in associates are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an investment or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar investment or observable market prices less incremental costs for disposing of the investment. When value in use calculations are undertaken, management must estimate the expected future cash flows from the investment or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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 2017, no significant impairment loss has been recognised for available-for-sale asset (2016: HK$140,000). The carrying amount of available-for-sale assets was HK$140,000 (2016: HK$140,000).

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$6,461,000 (2016: HK$6,005,000) and other receivables HK$3,247,000 (2016: HK$3,011,000) 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$53,363,000 (2016: HK$47,499,000) has been recognised for inventories.

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 were recognised for tax losses at 31 December 2017 and 2016. The amount of unrecognised tax losses at 31 December 2017 was HK$168,326,000 (2016: HK$81,645,000). Further details are contained in note 25 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 27 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 assets are attributable to the geographical unit based on the location of the assets 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.

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2017	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	58,161	120,328	259,332	275,548	194,785	33,284	941,438
Intersegment sales	7,999	–	–	–	–	–	7,999
Other revenue	84	–	2,550	–	–	–	2,634
	66,244	120,328	261,882	275,548	194,785	33,284	952,071
Reconciliation:							
Elimination of intersegment sales							(7,999)
Revenue							944,072
Segment results	12,184	17,608	37,933	40,872	29,173	4,889	142,659
Reconciliation:							
Elimination of intersegment results							(1,031)
Bank interest income							4,383
Finance costs							(15,972)
Profit before tax							130,039
Segment assets	147,433	18,052	2,063,635	57,649	43,901	18,101	2,348,771
Reconciliation:							
Elimination of intersegment receivables							(17,884)
Corporate and other unallocated assets							135
Total assets							2,331,022
Segment liabilities	5,629	–	622,543	1,259	4,318	13,882	647,631
Reconciliation:							
Elimination of intersegment payables							(17,884)
Total liabilities							629,747
Other segment information:							
Share of loss of an associate	–	–	17	–	–	–	17
Impairment losses recognised in the statement of profit or loss	247	–	12,954	–	–	–	13,201
Depreciation and amortisation	7,106	–	107,786	–	–	–	114,892
Capital expenditure*	3,012	–	185,797	–	–	–	188,809
(Gain)/loss on disposal of items of property, plant and equipment	(59)	–	629	–	–	–	570
Investment in an associate	–	–	2,844	–	–	–	2,844

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

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
Reconciliation:							
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
Reconciliation:							
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
Reconciliation:							
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
Reconciliation:							
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 .

4. OPERATING SEGMENT INFORMATION (Continued)

Business segment information

(a) Revenue by product

	2017 HK$'000	2016 HK$'000
HDD components	179,018	204,701
Hydraulic equipment components	255,326	230,665
Automotive components	438,009	363,955
Others	69,085	52,587
	941,438	851,908

(b) Non-current assets

	2017 HK$'000	2016 HK$'000
Thailand	36,980	38,332
Mainland China, Macau and Hong Kong	840,636	708,546
	877,616	746,878

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$104 million (2016: HK$124 million) was derived from sales by the HDD components segment to a single customer.

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:

	2017 HK$'000	2016 HK$'000
Revenue		
Sale of goods	929,586	843,806
Rendering of services	11,852	8,102
	941,438	851,908
Other income		
Bank interest income	4,383	1,824
Dividend income from an unlisted equity investment	–	1,197
	4,383	3,021
Gains		
Gain on disposal of an unlisted equity investment	–	7,632
Exchange gains, net	–	19,005
Others	2,634	1,255
	2,634	27,892
	7,017	30,913

6. PROFIT BEFORE TAX

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of inventories sold*		**612,146**	575,292
Depreciation	13	**112,792**	124,891
Amortisation of land lease payments	14	**2,100**	2,120
Research and development costs:			
Current year expenditure**		**12,515**	12,868
Minimum lease payments under operating leases		**1,472**	1,346
Auditor's remuneration		**2,400**	2,120
Employee benefit expense			
(excluding directors' remuneration (note 8)):			
Wages and salaries		**157,743**	142,080
Equity-settled share option expense***		**1,147**	–
Pension scheme contributions****		**20,712**	18,555
		179,602	160,635
Foreign exchange differences, net		**20,075**	(19,005)
Bank interest income	5	**(4,383)**	(1,824)
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		**570**	1,386
Impairment of an investment in an associate*****	16	**7,330**	–
Impairment of an unlisted equity investment		**–**	140
Provision against inventory obsolescence	18	**5,864**	14,030
Impairment of trade receivables	19	**7**	6,005
Impairment of other receivables	20	**–**	3,011

Notes:

* The cost of inventories sold includes an amount of approximately HK$239,101,000 (2016: HK$241,044,000) 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 "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 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2016: Nil).

***** The impairment of goodwill arising from investment in an associate are included in "Other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 HK$'000	2016 HK$'000
Interest on bank loans and overdrafts	**14,088**	10,417
Financial arrangement fees	**1,884**	2,713
	15,972	13,130

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	
	2017 HK$'000	2016 HK$'000
Fees	**2,420**	2,564
Other emoluments:		
Salaries, allowances and benefits in kind	**8,491**	5,819
Discretionary bonuses	**1,093**	728
Equity-settled share option expense	**12,573**	–
Pension scheme contributions	**108**	106
	22,265	6,653
	24,685	9,217

During the 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 27 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.

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2017 HK$'000	2016 HK$'000
Dr. Cheng Ngok	129	100
Mr. Yang Rusheng	88	–
Mr. Cheung Chun Yue, Anthony	88	–
Mr. Choi Hon Ting, Derek	100	100
Mr. Wu Karl Kwok	100	100
Mr. Nguyen, Van Tu Peter	–	50
Mr. Hung King Kuen, Randy	50	61
	555	411

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

(b) Executive directors and a non-executive director

	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
2017						
Executive directors:						
Mr. Zeng Guangsheng	308	1,977	–	5,693	18	7,996
Mr. Chui Siu On	308	2,448	–	573	18	3,347
Mr. Lau Siu Chung	296	947	386	573	18	2,220
Ms. Chiu Tak Chun	246	764	552	573	18	2,153
Mr. Ng Hoi Ping	296	1,230	–	2,868	18	4,412
Mr. Ho Yu Hoi	161	392	–	–	1	554
Mr. Li Chi Hang	100	183	–	–	9	292
Mr. Yuen Chi Ho	150	550	155	–	8	863
	1,865	8,491	1,093	10,280	108	21,837
Non-executive director:						
Ms. Zeng Jing	146	–	–	2,293	–	2,439
	2,011	8,491	1,093	12,573	108	24,276

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director (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
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. Ng Hoi Ping	90	255	–	–	5	350
	2,153	5,819	728	–	106	8,806

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: 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 (2016: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2016: five) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining one (2016: Nil) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2017 HK$'000
Fees as a director*	150
Salaries, allowances and benefits in kind	1,449
Discretionary bonuses	155
Equity-settled share option expenses	1,147
Pension scheme contributions	18
	2,919

* A certain director resigned as a director of the Company and was appointed as senior management of the Company on 2 June 2017, whose remuneration during the year included the remuneration as a director which is set out in note 8 above.

The number of non-director and non-chief executive highest paid employee whose remuneration fell within the following band is as follows:

	Number of employee
HK$2,000,001 to HK$3,000,000	1

During the year, share options were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 27 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 amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

	2017 HK$'000	2016 HK$'000
Current	**16,487**	27,136
Deferred (note 25)	**(1,160)**	(1,370)
Total tax charge for the year	**15,327**	25,766

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 operated.

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong.

China

The Group's subsidiaries registered in Mainland China were subject to corporate income tax at a rate of 25% (2016: 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% (2016: 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.

10. INCOME TAX (Continued)

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:

	2017 HK$'000	2016 HK$'000
Profit before tax	**130,039**	135,316
Tax at the applicable tax rates	**22,769**	22,124
Effect of tax concessions for a subsidiary	**(28,371)**	(15,220)
Income not subject to tax	**(269)**	(229)
Expenses not deductible for tax	**2,871**	9,427
Adjustments in respect of current tax of previous periods	**2,991**	1,284
Tax losses utilised from previous periods	**(1,495)**	–
Tax losses not recognised	**16,831**	8,380
Tax charge at the Group's effective rate of 11.8% (2016: 19.0%)	**15,327**	25,766

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 those subsidiaries for Hong Kong profits tax purposes 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.

11. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Interim dividend — HK2.2 cents (2016: HK2.0 cents) per ordinary share	23,150	21,045
Proposed final dividend — HK1.6 cents (2016: HK2.5 cents) per ordinary share	16,836	26,306
	39,986	47,351

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:

	2017 HK$'000	2016 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	114,808	110,201

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,052,254,135	1,033,445,802
Effect of dilution — weighted average number of ordinary shares:		
Share options	7,955,331	18,665,927
	1,060,209,466	1,052,111,729

13. PROPERTY, PLANT AND EQUIPMENT

	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 2017	617,138	13,778	1,317,386	69,519	19,522	24,746	2,062,089
Additions	3,810	1,456	122,470	3,963	3,819	42,591	178,109
Transfer in/(out)	7,428	134	8,980	2,676	794	(20,012)	–
Disposals	–	–	(5,162)	(1,592)	(2,265)	(6,330)	(15,349)
Exchange realignment	50,271	998	113,194	5,694	1,179	2,572	173,908
At 31 December 2017	678,647	16,366	1,556,868	80,260	23,049	43,567	2,398,757
Accumulated depreciation:							
At 1 January 2017	(211,422)	(5,800)	(1,114,121)	(53,034)	(15,617)	–	(1,399,994)
Depreciation provided during the year (note 6)	(35,536)	(2,349)	(67,424)	(5,907)	(1,576)	–	(112,792)
Disposals — accumulated depreciation	–	–	4,491	1,560	1,936	–	7,987
Exchange realignment	(18,701)	(400)	(94,194)	(4,379)	(1,027)	–	(118,701)
At 31 December 2017	(265,659)	(8,549)	(1,271,248)	(61,760)	(16,284)	–	(1,623,500)
At 31 December 2017:							
Cost	678,647	16,366	1,556,868	80,260	23,049	43,567	2,398,757
Accumulated depreciation	(265,659)	(8,549)	(1,271,248)	(61,760)	(16,284)	–	(1,623,500)
Net carrying amount	412,988	7,817	285,620	18,500	6,765	43,567	775,257
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

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 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

The Group's leasehold land included in property, plant and equipment with a net carrying amount of HK$634,000 (2016: HK$683,000) is situated in Hong Kong and is held under a medium term lease.

The freehold land amounting to THB19,201,000 (equivalent to HK$4,613,000) included in land and buildings is situated in Thailand (2016: THB19,201,000 (equivalent to HK$4,160,000)).

14. PREPAID LAND LEASE PAYMENTS

	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	**81,189**	88,288
Recognised during the year (note 6)	**(2,100)**	(2,120)
Exchange realignment	**6,193**	(4,979)
Carrying amount at 31 December	**85,282**	81,189
Current portion included in prepayments, deposits and other receivables	**(2,181)**	(2,120)
Non-current portion	**83,101**	79,069

15. GOODWILL

	HK$'000
At 31 December 2016:	
Cost	1,950
Accumulated impairment	(1,950)
Net carrying amount	–
At 31 December 2017:	
Cost	**1,950**
Accumulated impairment	**(1,950)**
Net carrying amount	**–**

16. INVESTMENT IN AN ASSOCIATE

	2017 HK$'000	2016 HK$'000
Share of net assets	2,844	–
Goodwill on acquisition	7,330	–
	10,174	–
Provision for impairment	(7,330)	–
	2,844	–

The Group's shareholdings in the associate all comprise equity shares held by a wholly-owned subsidiary of the Company.

Impairment of HK$7,330,000 (2016: Nil) (note 6) have been made as the carrying amount of investment in an associate located in Mainland China exceeded its recoverable amount. The recoverable amount of the investment in an associate was HK$2,844,000 which was estimated based on fair value less cost of disposal due to the future performance of the associate is uncertain. Level of the fair value hierarchy within the measurement was level 3 as the associate has no observable market price. The fair value was estimated based on the cost approach.

The following table illustrates the financial information of the Group's associate that is not material:

	2017 HK$'000	2016 HK$'000
Share of the associate's loss for the year	(17)	–
Share of the associate's total comprehensive loss	(17)	–
Aggregate carrying amount of the Group's investment in the associate	2,844	–

17. AVAILABLE-FOR-SALE INVESTMENT

	2017 HK$'000	2016 HK$'000
Unlisted equity investment, at cost	140	140
Less: Impairment of an unlisted equity investment	(140)	(140)
	–	–

At 31 December 2017, unlisted equity investment with a carrying amount before impairment of HK$140,000 (2016: HK$140,000) was stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

18. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	82,287	64,680
Consumables	45,383	32,454
Work in progress	65,805	47,295
Finished goods	87,697	87,530
	281,172	231,959
Less: Provision against inventory obsolescence	(53,363)	(47,499)
	227,809	184,460

19. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	273,091	225,426
Less: Impairment	(6,461)	(6,005)
	266,630	219,421

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.

19. 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:

	2017 HK$'000	2016 HK$'000
Within 1 month	**100,814**	74,768
1 to 2 months	**74,986**	71,808
2 to 3 months	**43,938**	40,040
3 to 4 months	**32,455**	27,772
4 to 12 months	**14,437**	5,593
Over 1 year	**6,461**	5,445
	273,091	225,426

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

	2017 HK$'000	2016 HK$'000
At beginning of year	**6,005**	–
Impairment losses recognised (note 6)	**430**	6,005
Impairment losses reversed (note 6)	**(423)**	–
Exchange realignment	**449**	–
	6,461	6,005

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$6,461,000 (2016: HK$6,005,000) with a carrying amount before the provision of HK$6,461,000 (2016: HK$6,005,000). 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:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	**213,703**	180,942
Less than 90 days past due	**45,880**	37,300
90 to 180 days past due	**6,854**	547
Over 180 days past due	**193**	632
	266,630	219,421

19. TRADE RECEIVABLES (Continued)

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.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments	**13,179**	6,760
Deposits and other receivables	**30,174**	19,019
Less: Impairment	**(3,247)**	(3,011)
	40,106	22,768

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

	2017 HK$'000	2016 HK$'000
At beginning of year	**3,011**	–
Impairment losses recognised (note 6)	**–**	3,011
Exchange realignment	**236**	–
	3,247	3,011

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

21. CASH AND CASH EQUIVALENTS

	2017 HK$'000	2016 HK$'000
Cash and bank balances	**803,437**	873,919
Time deposits	**109,997**	87,673
Cash and cash equivalents	**913,434**	961,592

21. CASH AND CASH EQUIVALENTS (Continued)

At the end of the reporting period, the cash and cash balances of the Group denominated in Renminbi ("RMB") amounted to HK$270,340,000 (2016: HK$206,093,000). 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.

22. 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:

	2017 HK$'000	2016 HK$'000
Within 1 month	25,814	18,172
1 to 2 months	24,414	19,164
2 to 3 months	9,619	12,767
Over 3 months	825	5,538
	60,672	55,641

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

23. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Other payables	23,808	17,199
Accruals	24,430	22,813
	48,238	40,012
Portion classified as non-current:		
Other payables	(1,294)	(945)
Current portion	46,944	39,067

Other payables are non-interest-bearing and have an average term of 1 month.

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective contractual interest rate (%)	**Maturity**	**HK$'000**	Effective contractual interest rate (%)	Maturity	HK$'000
Current						
Unsecured						
Bank revolving loans	**3.00–3.69**	**On demand**	**140,000**	2.72–2.95	On demand	140,000
Revolving loan in US$	**3.60**	**On demand**	**117,233**	2.40	On demand	77,545
Short term bank loans	**2.85**	**2018**	**58,450**	2.50	2017	58,450
Other bank loans	**2.53–3.08**	**2018**	**9,446**	2.34–2.77	2017	16,646
			325,129			292,641
Non-current						
Unsecured						
Long term bank loans	**2.85**	**2019**	**179,375**	2.5	2019	237,875
			504,504			530,516

	31 December 2017 HK$'000	31 December 2016 HK$'000
Analysed into:		
Bank revolving loans, short term and long term bank loans repayable:		
Within one year or on demand	**315,683**	275,995
In the second year	**179,375**	57,875
In the third to fifth years, inclusive	**–**	180,000
	495,058	513,870
Other bank loans repayable:		
Within one year	**9,446**	16,646
	504,504	530,516

Notes:

(a) At 31 December 2017 and 2016, all the interest-bearing bank and other borrowings were unsecured.

(b) Except for the US$15,000,000 (2016: US$10,000,000) unsecured revolving loan which is denominated in United States dollars, all borrowings are in Hong Kong dollars.

25. DEFERRED TAX

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

Deferred tax assets

	Provision for impairment of assets HK$'000	Unpaid payroll which is not deductible before calculating taxable profit of a PRC subsidiary HK$'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 and 1 January 2017	3,190	–	3,190
Deferred tax credited to the statement of profit or loss during the year (note 10)	1,901	–	1,901
Exchange realignment	336	–	336
At 31 December 2017	5,427	–	5,427

25. DEFERRED TAX (Continued)

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK$'000	Withholding tax for distributable profits of the PRC subsidiaries HK$'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 and 1 January 2017	**665**	**8,637**	**9,302**
Deferred tax charged to the statement of profit or loss during the year (note 10)	**741**	**–**	**741**
Exchange realignment	**58**	**–**	**58**
At 31 December 2017	**1,464**	**8,637**	**10,101**

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

	2017 HK$'000	2016 HK$'000
Tax losses	**168,326**	81,645
Deductible temporary differences	**92,958**	152,100
	261,284	233,745

The Group has tax losses arising in Mainland China of HK$73,451,000 (2016: HK$43,272,000) 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$94,875,000 (2016: HK$38,373,000) 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.

25. DEFERRED TAX (Continued)

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 2017, the Group has not recognised deferred tax liabilities of HK$18,525,000 (2016: HK$15,598,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounting to HK$185,246,000 (31 December 2016: HK$155,980,000), 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.

26. SHARE CAPITAL

Shares

	2017 HK$'000	2016 HK$'000
Authorised:		
1,500,000,000 (2016: 1,500,000,000) ordinary shares of HK$0.1 each	**150,000**	150,000
Issued and fully paid:		
1,052,254,135 (2016: 1,052,254,135) ordinary shares of HK$0.1 each	**105,225**	105,225

26. SHARE CAPITAL (Continued)

Shares (Continued)

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 2016		928,154,135	92,815	395,214	488,029
Share options exercised	(a)	124,100,000	12,410	93,983	106,393
At 31 December 2016 and 1 January 2017		1,052,254,135	105,225	489,197	594,422
Share options exercised	(b)	–	–	–	–
At 31 December 2017		1,052,254,135	105,225	489,197	594,422

Notes:

(a) 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 27), 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.

(b) There was no share option exercised 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 27 to the financial statements.

27. 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 55,075,413 (2016: 105,075,413) shares, which represented approximately 5.23% (2016: approximately 9.99%) 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 or exercised, or lapsed in accordance with these schemes and any other schemes) will not be counted for the purpose of calculating the limit.

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.

27. SHARE OPTION SCHEME (Continued)

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.

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

	2017		2016	
	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	**1.01**	**44,300**	0.74	168,400
Granted during the year	**2.02**	**50,000**	N/A	–
Forfeited during the year	**N/A**	**–**	N/A	–
Cancelled during the year	**1.01**	**(44,300)**	N/A	–
Exercised during the year	**N/A**	**–**	0.65	(124,100)
At 31 December	**2.02**	**50,000**	1.01	44,300

27. SHARE OPTION SCHEME (Continued)

The closing price of the Company's shares immediately before the date of grant of share options was HK$2.02 per share. The fair value of the options granted on 6 June 2017 was determined at the later of the date of grant and date of independent shareholders' approval using the binominal option pricing model.

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:

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		

2017 Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
50,000	**2.02**	**01-09-18 to 31-08-22**

* 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.

The fair values of the share options determined on 6 June 2017 and 14 August 2017 were HK$17,200,000 (HK$0.62 each) and HK$12,200,000 (HK$0.55 each), of which the Group recognised a share option expense of HK$13,720,000 (2016: Nil) during the year ended 31 December 2017.

The fair values of equity-settled share options determined on 6 June 2017 and 14 August 2017 were estimated as at the later of the date of grant and date of independent shareholders' approval, 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:

	Determined on 6 June 2017	**Determined on 14 August 2017**
Dividend yield (%)	3%	3%
Expected volatility (%)	44%	42%
Historical volatility (%)	44%	42%
Risk-free interest rate (%)	0.95%	1.21%
Expected life of options (year)	5.20	5.00
Weighted average share price (HK$ per share)	2.02	2.02

27. SHARE OPTION SCHEME (Continued)

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.

There was no share option exercised during the year, as further detailed in note 26 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 50,000,000 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 50,000,000 additional ordinary shares of the Company and additional share capital of HK$5,000,000, a reversal of share option reserve of HK$29,400,000 and share premium of HK$125,400,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 50,000,000 share options outstanding under the 2011 Scheme, which represented approximately 4.75% of the Company's shares in issue as at that date.

28. 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 85 and 86 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 2017 and 2016.

29. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank and other loans HK$'000
At 1 January 2017	530,516
Changes from financing cash flows	(28,594)
Amortisation of bank loan arrangement fee	1,884
Exchange realignment	698
At 31 December 2017	504,504

30. CONTINGENT LIABILITIES

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

	2017 HK$'000	2016 HK$'000
Guarantees given to an electricity company	601	542

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leased 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 2017, the Group had no future minimum lease receivables under non-cancellable operating leases with its tenants (2016: HK$149,000).

31. OPERATING LEASE ARRANGEMENTS (Continued)

(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 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**1,435**	505
In the second to fifth years, inclusive	**2,590**	45
	4,025	550

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Contracted, but not provided for:		
Plant and machinery	**12,577**	1,186
Buildings	**67,121**	2,240
	79,698	3,426

33. RELATED PARTY TRANSACTIONS

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

	2017 HK$'000	2016 HK$'000
Short-term employee benefits	**19,899**	14,168
Discretionary bonuses	**1,093**	728
Equity-settled share option expense	**13,720**	–
Post-employment benefits	**193**	271
Total compensation paid to key management personnel	**34,905**	15,167

33. RELATED PARTY TRANSACTIONS (Continued)

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.

34. 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:

2017
Financial assets

	Available-for-sale financial assets HK$'000	Loans and Receivables HK$'000	Total HK$'000
Trade receivables (note 19)	–	266,630	266,630
Financial assets included in prepayments, deposits and other receivables	–	26,927	26,927
Cash and cash equivalents (note 21)	–	913,434	913,434
Available-for-sale investments (note 17)	–	–	–
	–	1,206,991	1,206,991

2017
Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables (note 22)	60,672
Financial liabilities included in other payables and accruals	21,862
Interest-bearing bank and other borrowings (note 24)	504,504
	587,038

34. 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)

2016
Financial assets

	Available-for-sale financial assets HK$'000	Loans and Receivables HK$'000	Total HK$'000
Trade receivables (note 19)	–	219,421	219,421
Financial assets included in prepayments, deposits and other receivables	–	16,015	16,015
Cash and cash equivalents (note 21)	–	961,592	961,592
Available-for-sale investments (note 17)	–	–	–
	–	1,197,028	1,197,028

2016
Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables (note 22)	55,641
Financial liabilities included in other payables and accruals	16,724
Interest-bearing bank and other borrowings (note 24)	530,516
	602,881

35. 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 approximate to their carrying amounts largely due to the short term maturities of these instruments.

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 2017 was assessed to be insignificant.

36. 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.

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. The Group assesses the respective exposures of each of its subsidiaries.

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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax HK$'000
2017		
If HK$ weakens against the Euro	**5%**	**2,311**
If HK$ strengthens against the Euro	**(5%)**	**(2,311)**
2016		
If HK$ weakens against the Euro	5%	1,408
If HK$ strengthens against the Euro	(5%)	(1,408)

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 24 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 rates, 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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000
2017		
HK$	**25**	**(708)**
US$	**25**	**(15)**
HK$	**(25)**	**708**
US$	**(25)**	**15**
2016		
HK$	25	(1,336)
US$	25	(17)
HK$	(25)	1,336
US$	(25)	17

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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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:

	2017					
	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$'000	Total HK$'000
Interest-bearing bank and other borrowings	**257,727**	**25,868**	**49,424**	**181,993**	**–**	**515,012**
Trade and bills payables (note 22)	**24,451**	**36,221**	**–**	**–**	**–**	**60,672**
Financial liabilities included in other payables and accruals	**4,475**	**17,386**	**–**	**–**	**–**	**21,861**
	286,653	**79,475**	**49,424**	**181,993**	**–**	**597,545**

	2016					
	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$'000	Total HK$'000
Interest-bearing bank and other borrowings	217,828	32,013	46,606	242,422	–	538,869
Trade and bills payables (note 22)	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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 2017 and 31 December 2016.

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:

	2017 **HK$'000**	2016 HK$'000
Cash and cash equivalents (note 21)	**913,434**	961,592
Less: Interest-bearing bank and other borrowings (note 24)	**(504,504)**	(530,516)
Net cash	**408,930**	431,076
Equity attributable to owners of the Company	**1,699,881**	1,488,654
Net cash to equity ratio	**24%**	29%

37. 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:

	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	43	43
CURRENT ASSETS		
Prepayments, deposits and other receivables	262	261
Amounts due from subsidiaries	892,956	923,764
Cash and cash equivalents	67,649	8,340
Total current assets	960,867	932,365
CURRENT LIABILITIES		
Other payables and accruals	855	469
NET CURRENT ASSETS	960,012	931,896
Net assets	960,055	931,939
EQUITY		
Issued capital	105,225	105,225
Reserves	854,830	826,714
Total equity	960,055	931,939

37. 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 2016	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
Final 2016 dividend declared	–	–	–	–	(26,306)	(26,306)
Total comprehensive income for the year	–	–	–	–	63,852	63,852
Cancellation of options	–	–	–	(8,452)	8,452	–
Issue of shares upon exercise of share options	–	–	–	13,720	–	13,720
Interim 2017 dividend	–	–	–	–	(23,150)	(23,150)
At 31 December 2017	472,201	7,905	(9,958)	13,720	370,962	854,830

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.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2018.

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