IPE Group Limited

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

2018
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zeng Guangsheng
(Chairman and Chief Executive Officer)
Mr. Ng Hoi Ping

Non-executive Director

Ms. Zeng Jing

Independent Non-executive Directors

Mr. Yang Rusheng
Mr. Cheung, Chun Yue Anthony
Mr. Mei Weiyi

AUTHORISED REPRESENTATIVES

Mr. Zeng Guangsheng
Mr. Tam Yiu Chung

COMPANY SECRETARY

Mr. Tam Yiu Chung

AUDIT COMMITTEE

Mr. Yang Rusheng *(Chairman)*
Mr. Cheung, Chun Yue Anthony
Mr. Mei Weiyi

REMUNERATION COMMITTEE

Mr. Cheung, Chun Yue Anthony *(Chairman)*
Mr. Zeng Guangsheng
Mr. Yang Rusheng
Mr. Mei Weiyi

NOMINATION COMMITTEE

Mr. Zeng Guangsheng *(Chairman)*
Mr. Yang Rusheng
Mr. Cheung, Chun Yue Anthony
Mr. Mei Weiyi

LEGAL ADVISERS TO THE COMPANY

King & Wood Mallesons

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

Unit 5–6, 23/F, Enterprise Square Three
39 Wang Chiu Road, Kowloon Bay
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

The Hongkong and Shanghai Banking Corporation Limited
United Overseas Bank Limited

AUDITORS

KPMG
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

2018

Signed a strategic framework cooperation agreement with Huanan Industrial Technology Research Institute of Zhejiang University

Guangzhou Xinhao was accredited with High and New-Technology Enterprise

Changshu Keyu Greystone and Dongguan Koda were accredited IATF 16949 certification — automotive certification

2017

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

Guangzhou Xinhao was accredited IATF16949 certification — automotive certification

2015

Success developed own brandname robots

2014

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

2011

Established Jiangsu Koda in Jiangsu Province, The PRC, purchased 166,631m^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

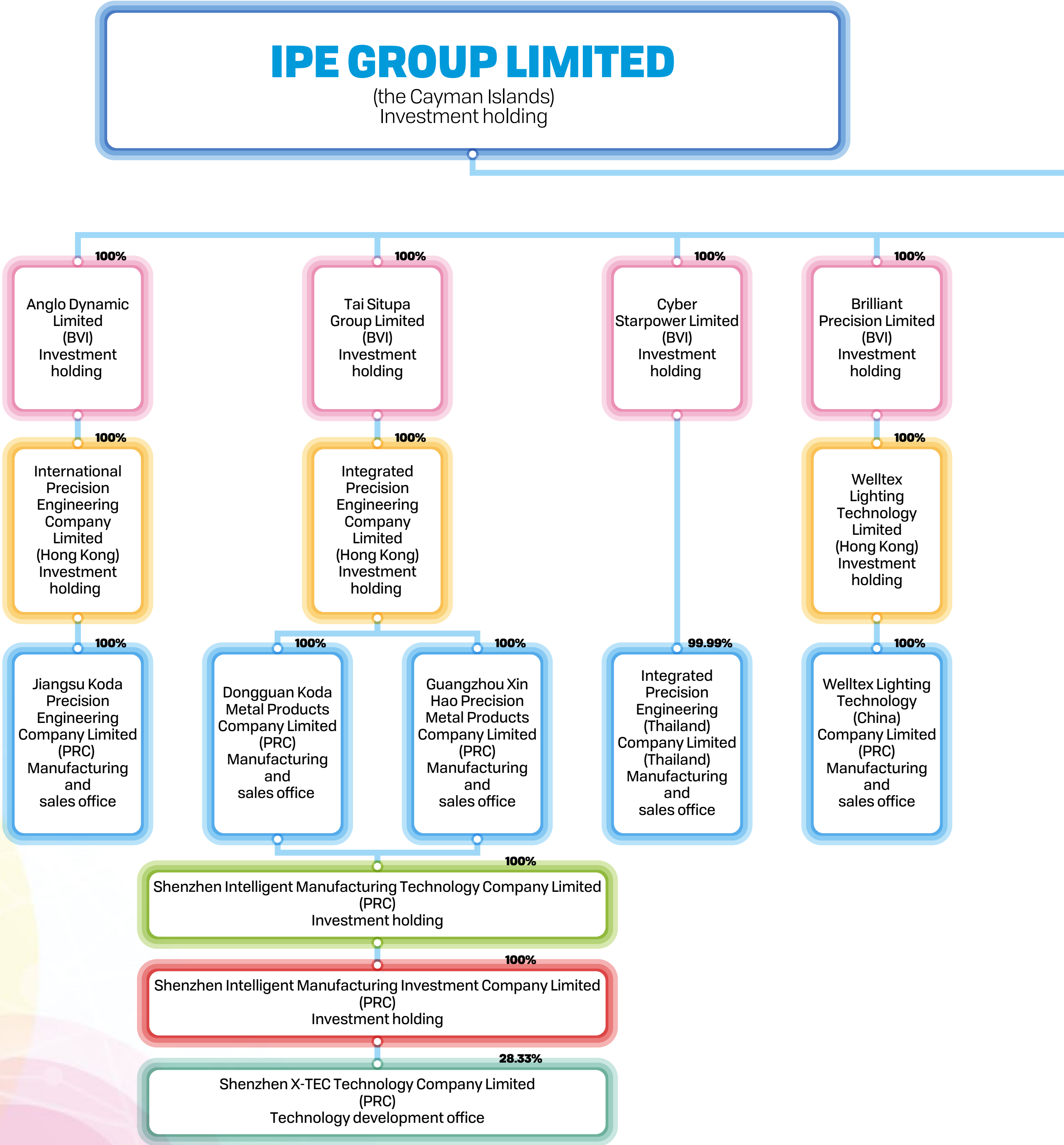
Established IPE (Hong Kong) in Hong Kong
Established Dongguan Koda in Guangdong Province, The PRC

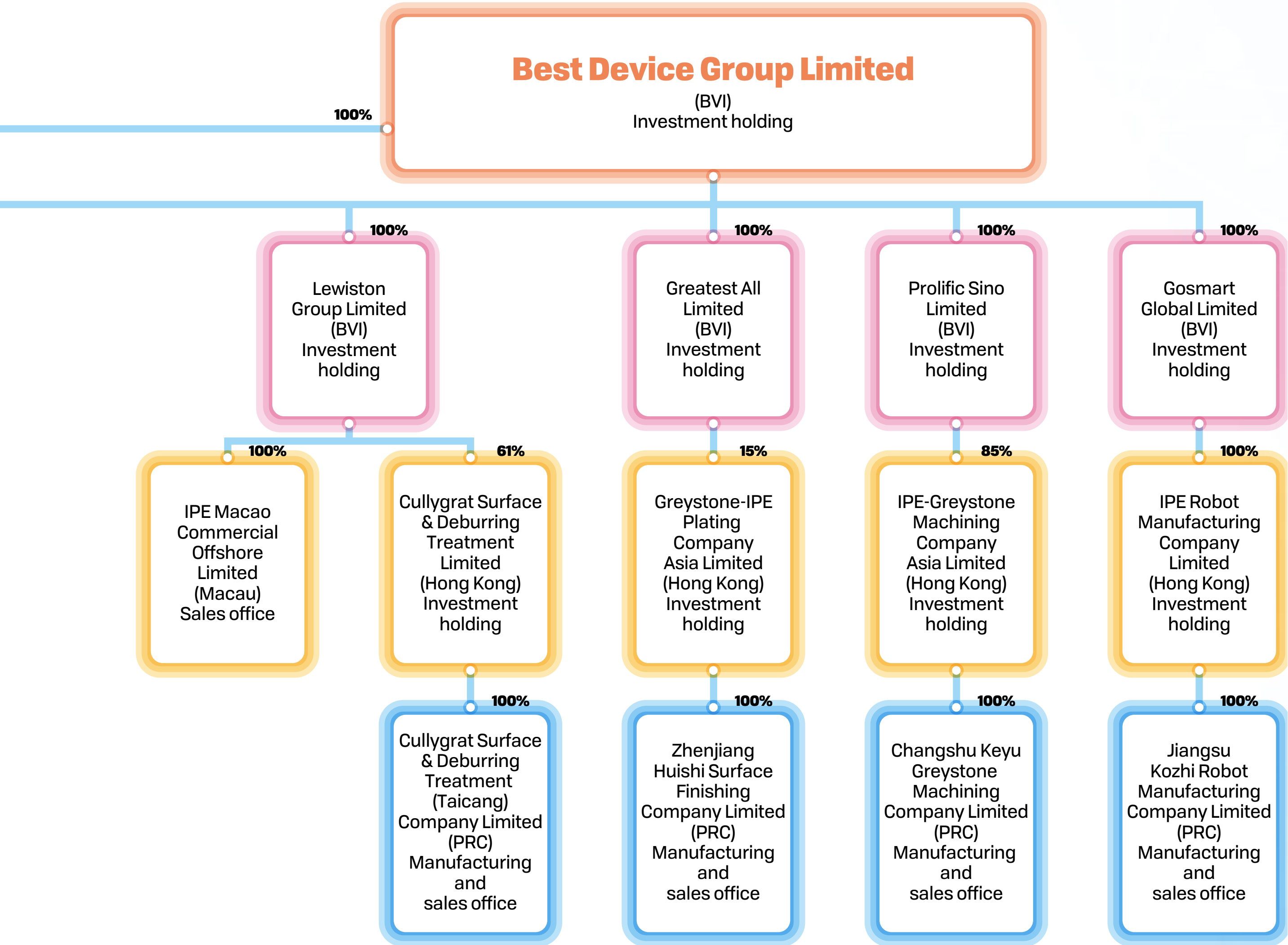
1990

Established IPE (Singapore) in Singapore

CORPORATE STRUCTURE

Principal subsidiaries and associate of the Company as at 31 December 2018




Best Device Group Limited
(BVI)
Investment holding
100%
100%
Lewiston Group Limited
(BVI)
Investment holding
100%
Greatest All Limited
(BVI)
Investment holding
100%
Prolific Sino Limited
(BVI)
Investment holding
100%
Gosmart Global Limited
(BVI)
Investment holding
100%
IPE Macao Commercial Offshore Limited
(Macau)
Sales office
61%
Cullygrat Surface & Deburring Treatment Limited
(Hong Kong)
Investment holding
15%
Greystone-IPE Plating Company Asia Limited
(Hong Kong)
Investment holding
85%
IPE-Greystone Machining Company Asia Limited
(Hong Kong)
Investment holding
100%
IPE Robot Manufacturing Company Limited
(Hong Kong)
Investment holding
100%
Cullygrat Surface & Deburring Treatment (Taicang) Company Limited
(PRC)
Manufacturing and sales office
100%
Zhenjiang Huishi Surface Finishing Company Limited
(PRC)
Manufacturing and sales office
100%
Changshu Keyu Greystone Machining Company Limited
(PRC)
Manufacturing and sales office
100%
Jiangsu Kozhi Robot Manufacturing Company Limited
(PRC)
Manufacturing and sales office

FINANCIAL HIGHLIGHTS

RESULTS

	Year ended 31 December									
	2018		2017		2016		2015		2014	
	HK$'000	**%**	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
REVENUE	**943,476**	**100%**	941,438	100%	851,908	100%	877,194	100%	994,023	100%
Cost of sales	**(652,687)**	**69%**	(618,010)	66%	(589,322)	69%	(632,269)	72%	(715,626)	72%
Gross profit	**290,789**	**31%**	323,428	34%	262,586	31%	244,925	28%	278,397	28%
Other income	**8,557**	**1%**	7,017	1%	30,913	4%	12,571	1%	22,386	2%
Distribution costs	**(26,535)**	**3%**	(23,778)	3%	(24,889)	3%	(23,013)	3%	(28,693)	3%
Administrative expenses and other expenses	**(152,887)**	**16%**	(160,639)	17%	(120,164)	14%	(113,370)	13%	(124,121)	13%
Finance costs	**(18,471)**	**2%**	(15,972)	2%	(13,130)	2%	(19,133)	2%	(23,924)	2%
Share of loss of an associate	**(1,271)**	**0%**	(17)	0%	–	0%	–	0%	–	0%
PROFIT BEFORE TAX	**100,182**	**11%**	130,039	14%	135,316	16%	101,980	12%	124,045	12%
Income tax	**(15,720)**	**2%**	(15,327)	2%	(25,766)	3%	(16,181)	2%	(28,384)	3%
PROFIT FOR THE YEAR	**84,462**	**9%**	114,712	12%	109,550	13%	85,799	10%	95,661	10%
Attributable to:										
Equity Shareholders of the Company	**85,328**	**9%**	114,808	12%	110,201	13%	86,093	10%	94,845	10%
Non-controlling interests	**(866)**	**0%**	(96)	0%	(651)	0%	(294)	0%	816	0%
	84,462	**9%**	114,712	12%	109,550	13%	85,799	10%	95,661	10%

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

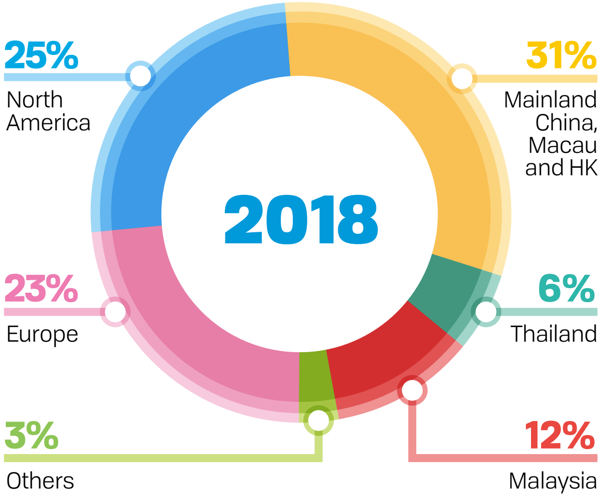
	As at 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Total non-current assets	**828,700**	883,043	750,068	857,412	912,033
Total current assets	**1,426,636**	1,447,979	1,388,241	1,163,281	1,295,367
Total current liabilities	**550,870**	438,977	399,491	574,735	616,132
Net current assets	**875,766**	1,009,002	988,750	588,546	679,235
Total non-current liabilities	**11,601**	190,770	248,122	9,898	102,627
Total equity	**1,692,865**	1,701,275	1,490,696	1,436,060	1,488,641

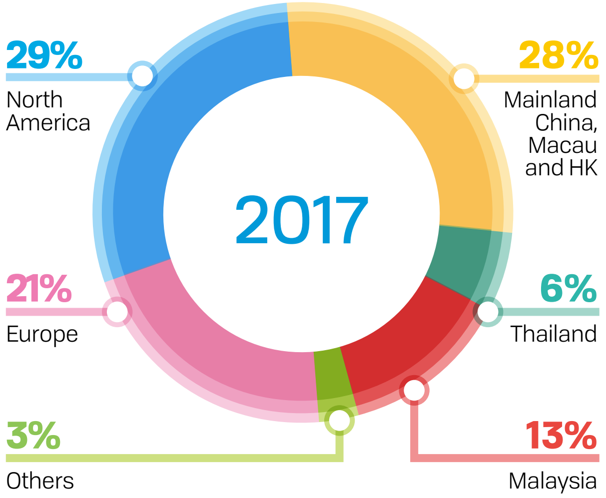
RATIO ANALYSIS

	Year ended 31 December				
	2018	2017	2016	2015	2014
KEY STATISTICS:					
Current ratio	**2.59**	3.30	3.48	2.02	2.10
Net cash to equity ratio	**0.24**	0.24	0.29	0.15	0.14
Dividend payout ratio	**11.2%**	34.9%	43.0%	40.6%	49.0%
Gross profit margin	**30.8%**	34.4%	30.8%	27.9%	28.0%
EBITDA margin	**27.5%**	27.7%	32.3%	30.1%	30.8%
Net profit margin	**9.0%**	12.2%	12.9%	9.8%	9.6%
Average days of debtor turnover	**103 days**	94 days	93 days	101 days	94 days
Average days of inventory turnover	**143 days**	122 days	126 days	135 days	116 days
PER SHARE DATA:					
Net asset value per share (HK$)	**1.61**	1.62	1.42	1.55	1.60
Dividend per share	**HK0.9 cent**	HK3.8 cents	HK4.5 cents	HK3.5 cents	HK5.0 cents
Earnings per share — basic	**HK8.11 cents**	HK10.91 cents	HK10.66 cents	HK9.26 cents	HK10.22 cents
Earnings per share — diluted	**HK8.11 cents**	HK10.83 cents	HK10.47 cents	HK8.76 cents	HK10.15 cents

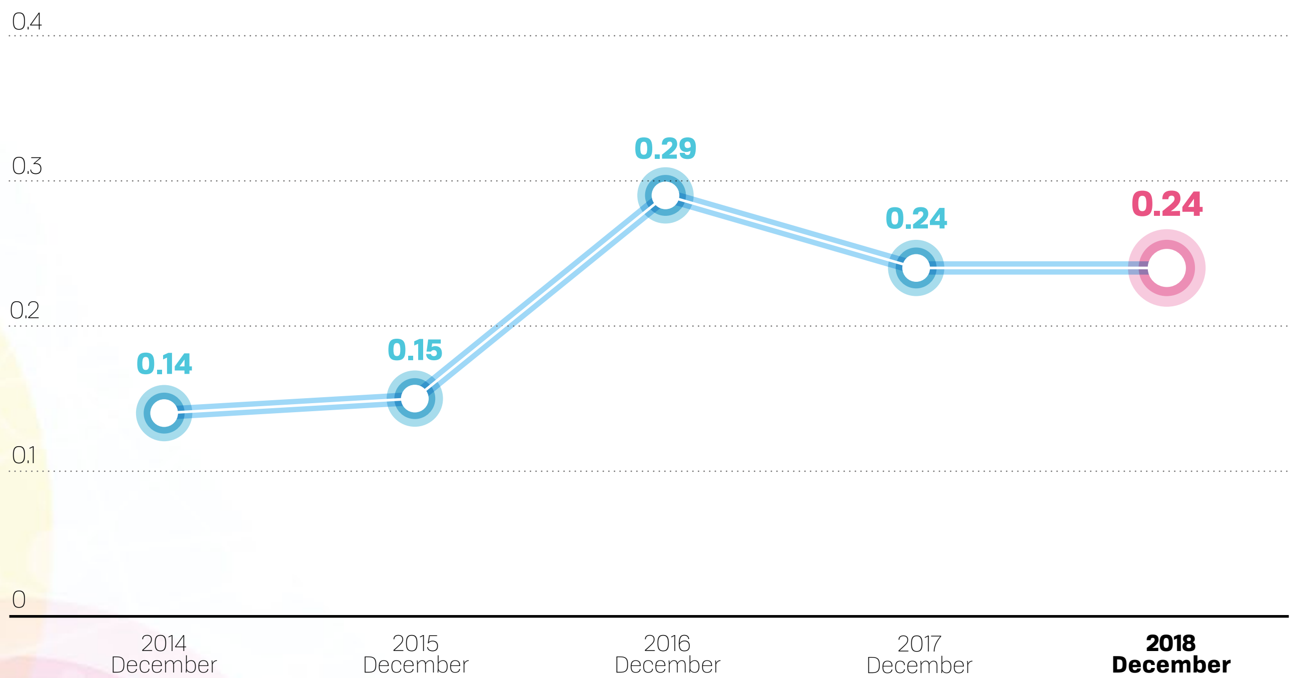
FINANCIAL HIGHLIGHTS

GEOGRAPHICAL COMBINATION





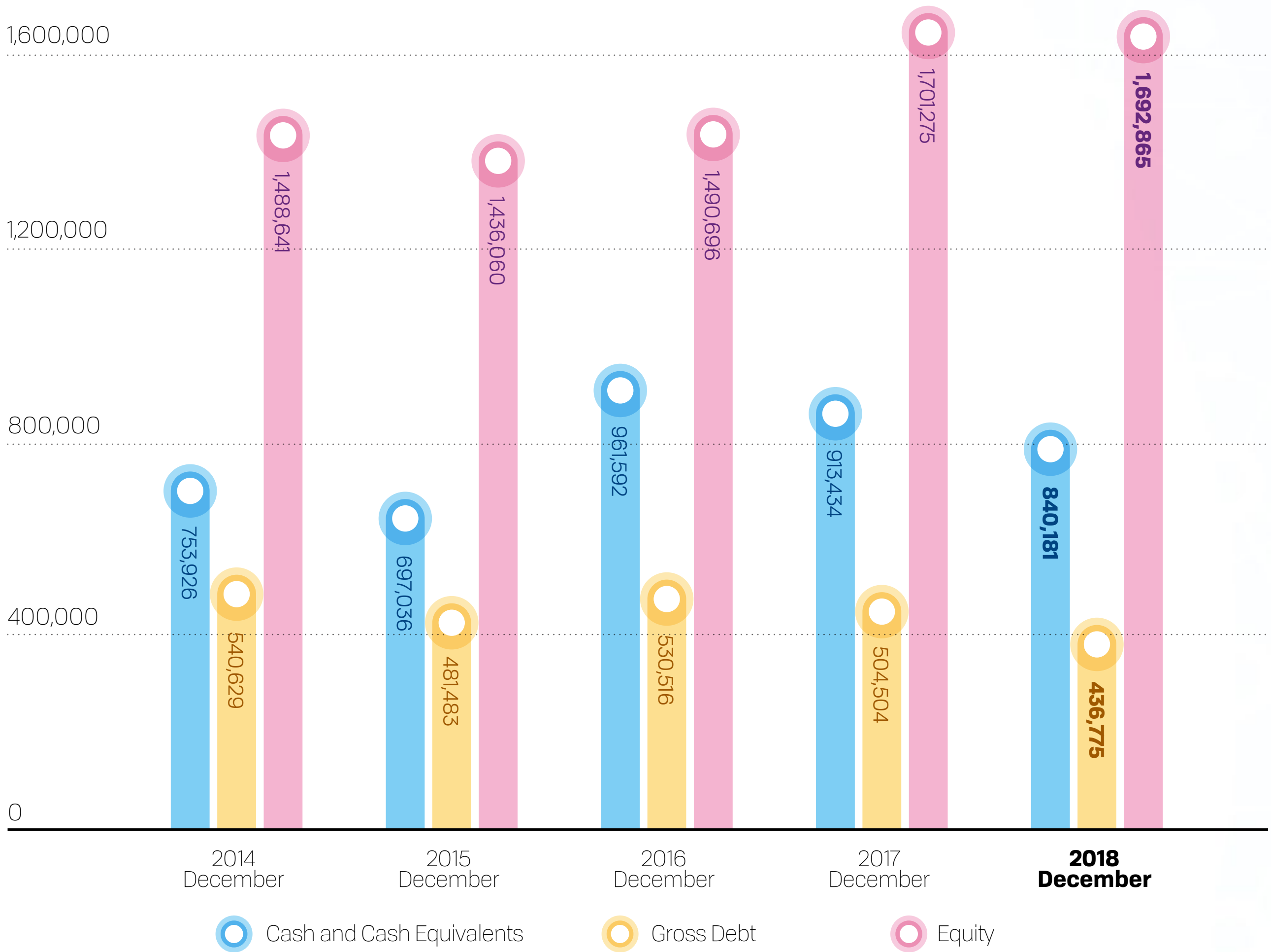
NET CASH TO EQUITY RATIO



FINANCIAL HIGHLIGHTS

CASH AND CASH EQUIVALENTS, GROSS DEBT AND EQUITY

(HK$'000)



CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I present to shareholders the annual results of IPE Group Limited ("IPE" or the "Company") and its subsidiaries (collectively referred to as the "Group" or "IPE Group") for the year ended 31 December 2018.

BUSINESS REVIEW

The Group prides itself on producing high-quality products for our customers as a cutting edge metal working solutions provider. The Group has won recognition and awards from internationally renowned customers and has become an indispensable partner in their supply chain.

Since the outbreak of the US-China trade conflicts in the third quarter of 2018, the conflicts between the two major economies have left a pessimistic outlook on global economy. In addition, as the Group's production bases were mainly located in China, our customers had to pay the temporary tariffs imposed on exports of our products to the US as a result of the US-China trade conflicts. Amid such operating environment, the Group achieved sales of HK$943,476,000 in 2018, representing a slight increase of 0.2% as compared to that of HK$941,438,000 in 2017.

In 2018, the automotive components business achieved a growth of 6.2% as compared to 2017 due to the implementation of customer diversification strategy and shifting its sales focus to China to mitigate the impacts from the US-China trade conflicts. The sales to North America accounted for 29.3% of the Company's total sales in 2017 and 24.9% in 2018. Meanwhile, the sales to China accounted for 27.5% of the Company's total sales in 2017 and 31.1% in 2018, representing a growth of 3.6%. Due to the effective implementation of such strategies, there has been no significant decline in sales. The Group's sales of automotive components amounted to HK$465,070,000 in 2018, representing an increase of HK$27,061,000 as compared to that of HK$438,009,000 last year. Furthermore, in 2018, the Group was successfully admitted to the recognised supplier lists of well-known domestic automotive manufacturers and expanded into automotive manufacturer market in China.

Due to the downturn in the overall automotive market in the second half of the year, the Group immediately strengthened its efforts in securing sales orders for hydraulic equipment components and deployed existing production lines to satisfy such demand to mitigate decline in sales. As a result, the sales of hydraulic equipment components for the whole year achieved an increase of 3.2%, so as to ease the pressure on decreasing sales of HDD components. Therefore, the sales of hydraulic equipment components of HK$263,476,000 in 2018 was recorded, representing an increase of HK$8,150,000 as compared to that of HK$255,326,000 in 2017.

In 2018, the Group's sales of HDD components business amounted to HK$165,964,000, representing a decrease of approximately 7.3% as compared to that of HK$179,018,000 in 2017. At the same time, the Group has gradually deployed its existing production lines for HDD components business to automotive components business so as to avoid wasting production capacity.

The Group face the uncertainties in the global economy caused by the US-China trade conflicts and increase in labour costs, the Group recorded a gross profit margin of 30.8% in 2018, representing a decrease of 3.6% as compared to 34.4% last year.

Due to the interest rate hike on borrowings and the payment to senior staff resigned for their past contribution, the net profit attributable to equity shareholders for the year amounted to HK$85,328,000, representing a decrease of HK$29,480,000 or 25.7% as compared to that of HK$114,808,000 in 2017.

CHAIRMAN'S STATEMENT

OUTLOOK

The Group's automotive components business accounted for nearly half of its annual sales. In order to develop this business in a steady and healthy manner, the Group took the initiative to fight for more customer orders, obtain a larger share of market and secure larger orders. The Group also focused on developing new customers, especially automotive manufacturers in China. In addition, in response to the gradual development of new energy automotive in the global automotive industry, the Group will focus on the trend of new energy automotive components business and tap into such customers with a view to expand its automotive components business.

In the past few years, the Group put certain self-developed robots into its production lines such as the inspection process and gained considerable progress. The Group will therefore strengthen automation and enhance its existing production efficiency. In particular, the Group has set automated production lines as primary goal for products which have large sales order and required more workers so that the automated production line would reduce the pressure on shortage of workers, enhance our product quality and reduce our production costs. The Group will also continue to enhance its self-developed robots and improve its quality.

The Group devoted more resources in research and development in 2018 and the annual research and development costs amounted to HK$22,942,000, representing an increase of HK$10,427,000 or 83.3% as compared to that of HK$12,515,000 last year. In addition to investing resources internally, the Group also signed a strategic framework cooperation agreement with Huanan Industrial Technology Research Institute of Zhejiang University during the year to integrate the resources, personnel and technologies of both parties, establish strategic cooperation and achieve development collectively. By setting up a collaborative platform for technology transfer, the Group will make good use of the scientific research achievements of the tertiary institution. In 2018, Guangzhou Xin Hao Precision Metal Products Company Limited, a wholly-owned subsidiary of the Group, has been accredited with High and New-Technology Enterprise (國家高新技術企業), recognizing the achievements of the Group in previous technological research and development. In the coming year, the Group will intensify collaboration with well-known institutions in respect of research and development of robots, reducers and valves to achieve breakthroughs. The Group will apply such research and development works to its automation transformation and put more resources to improve its production efficiency.

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.

Mr. Zeng Guangsheng
Chairman

25 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The automotive components business maintained its growth for years, making up the decline in the HDD components business. The Group's overall sales amounted to HK$943,476,000 for the year ended 31 December 2018, representing an increase of HK$2,038,000 or 0.2% as compared to that of HK$941,438,000 last year.

The Group's sales by business segments, together with sales in 2017 are shown below for comparison.

	2018		2017		Change
	HK$'000	**%**	HK$'000	%	%
Automotive components	**465,070**	**49.3**	438,009	46.5	+6.2
Hydraulic equipment components	**263,476**	**27.9**	255,326	27.1	+3.2
HDD components	**165,964**	**17.6**	179,018	19.0	−7.3
Others	**48,966**	**5.2**	69,085	7.4	−29.1
	943,476	**100.0**	941,438	100.0	+0.2

For the year ended 31 December 2018, other income of the Group amounted to HK$8,557,000. In 2018, the Group recorded an increase in bank interest income of HK$2,218,000 as compared to last year.

In addition, distribution costs amounted to HK$26,535,000 in 2018, accounting for 2.8% of the Group's sales, representing an increase of HK$2,757,000, which was mainly due to the tariffs imposed on certain components sales to customers in the US.

For the year ended 31 December 2018, administrative expenses and other expenses amounted to HK$152,887,000, representing a decrease of 4.8% or HK$7,752,000 as compared to last year. The decrease was mainly due to the Group recorded a foreign exchange gain of HK$9,592,000 as compared to exchange loss of HK$20,074,000 in 2017. Besides, the absence of expense in this year, namely a provision for impairment loss on investment in an associate of HK$7,330,000, would further decrease the administrative expenses and other expenses. The impact of decrease in abovementioned expenses have been partially offset by increase in salaries and allowances of HK$10,405,000, and an increase in resources devoted in research and development of HK$10,427,000 in 2018.

The finance costs for the year amounted to HK$18,471,000, mainly due to the increase in interest rate of bank loans, resulting in an increase in interest expenses. The finance costs increased by HK$2,499,000 as compared to that of HK$15,972,000 in 2017.

For the year ended 31 December 2018, profit attributable to equity shareholders of the Group amounted to HK$85,328,000, representing a decrease of 25.7% as compared to HK$114,808,000 last year.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2018, the Group had total borrowings of HK$436,775,000 (31 December 2017: HK$504,504,000) secured by corporate guarantee given by the Company. The Group had no charge on any of its assets for its banking facilities as at 31 December 2018.

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 2018, cash per share was HK$0.80 (31 December 2017: HK$0.87) and net asset value per share was HK$1.61 (31 December 2017: HK$1.62), based on the 1,052,254,135 ordinary shares in issue (31 December 2017: 1,052,254,135 ordinary shares). During the period under review, the Group recorded a net cash inflow from operating activities of HK$180,434,000 (2017: HK$180,126,000). The Group recorded a net cash outflow in investing activities of HK$98,544,000 (2017: net cash outflow of HK$185,836,000).

The total bank borrowings as at 31 December 2018 amounted to HK$436,775,000 (31 December 2017: HK$504,504,000). The Group is in a net cash position (cash and bank balances less total bank borrowings) of HK$403,406,000 as at 31 December 2018 (31 December 2017: HK$408,930,000).

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 2018, the Group had 2,369 employees, a slight increase of 40 employees or 1.7% when compared to 2,329 employees as at 31 December 2017.

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 52, is the Chairman of the Board, the Chief Executive Officer, 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. Ng Hoi Ping, (former name: Wu Kai Ping), aged 50, 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 financial management 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), the 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).

Non-executive Director

Ms. Zeng Jing, aged 44, is a non-executive director of the Company. She joined the Group in 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 21 years of experience in accounting and financial management.

DIRECTORS (Continued)

Independent Non-executive Directors

Mr. Yang Rusheng, aged 51, is an independent non-executive director and a member of both the remuneration committee and nomination committee of the Company and has been appointed as the chairman of the audit committee of the Company since October 2018. He joined the Group in June 2017. Mr. Yang holds a master's degree in economics from Jinan University (暨南大學). He has over 24 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. Mr. Yang has been an executive director of Guangdong Institute of Certified Public Accountants (廣東省註冊會計師協會) since June 2015. 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 China Certified Tax Agents Association (深圳市註冊稅務師協會), and a director of Shenzhen Certified Tax Agents Association (中國註冊稅務師協會). 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). Mr. Yang has been appointed as an independent director of Guo Fu Life Insurance Co., Ltd. (國富人壽保險股份有限公司) in 2018 and an executive director of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in July 2018.

Mr. Cheung, Chun Yue Anthony, aged 36, is an independent non-executive director and a member of both the audit committee and nomination committee of the Company and has been appointed as the chairman of the remuneration committee of the Company since October 2018. He joined the Group in June 2017. Mr. Cheung is currently the managing director of Blackfriars Asset Management ("Blackfriars"). Prior to Blackfriars, Mr. Cheung served as an executive director at BNP Paribas Hong Kong Branch, as the 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.

Mr. Mei Weiyi, aged 45, is an independent non-executive Director, and a member of each of the audit committee, nomination committee and remuneration committee of the Company. He joined the Group in October 2018. Mr. Mei graduated from the University of Alberta, Canada, majoring in business administration (MBA) in mathematical finance. He previously served as the general manager of the Equity Investment Department of China Re Asset Management Company Ltd., the investment director of the asset management headquarters of China Investment Securities Co. Ltd., the senior investment manager of the asset management department of Haitong Securities, and a funds management officer and derivatives trader at the Canadian Wheat Board, etc. He is currently a non-executive director of Huadian Fuxin Energy Corporation Limited (a company listed on the Main Board of the Stock Exchange, stock code: 816), the deputy general manager and an executive director of China Re Asset Management (Hong Kong) Company Ltd.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Ho Yu Hoi, Mark, aged 55, is the Vice President of the Group. 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 36 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 Integrated Precision Engineering (Thailand) Company Limited.

Mr. Lau Siu Chung, aged 54, is the Vice President of the Group. Mr. Lau joined the Group in 1997 and was an executive director of the Company from June 2009 to November 2018. He 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 22 years of experience in marketing and sales of precision components and industrial equipments.

Mr. Jiang Fei, aged 46, 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 22 years of experience in the manufacturing industry.

Mr. Lei Ting Yong, aged 44, 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 48, is the Chief Financial Officer 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 2018.

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 2018:

Board of Directors

Executive Directors

Mr. Zeng Guangsheng, *Chairman of the Board and Chief Executive Officer*
Mr. Ng Hoi Ping

Non-executive Director

Ms. Zeng Jing

Independent Non-executive Directors

Mr. Yang Rusheng
Mr. Cheung, Chun Yue Anthony
Mr. Mei Weiyi

Executive Committee

Mr. Zeng Guangsheng, *Chairman*
Mr. Ng Hoi Ping

Audit Committee

Mr. Yang Rusheng, *Chairman*
Mr. Cheung, Chun Yue Anthony
Mr. Mei Weiyi

Remuneration Committee

Mr. Cheung, Chun Yue Anthony, *Chairman*
Mr. Zeng Guangsheng
Mr. Yang Rusheng
Mr. Mei Weiyi

Nomination Committee

Mr. Zeng Guangsheng, *Chairman*
Mr. Yang Rusheng
Mr. Cheung, Chun Yue Anthony
Mr. Mei Weiyi

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

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

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules of having at least three independent non-executive directors (representing at least one-third of the Board) with at least one independent non-executive director possessing appropriate professional qualifications and accounting and related financial management expertise.

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

THE BOARD (Continued)

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. After the resignation of Mr. Chui Siu On as the Chief Executive Officer of the Company with effect from 29 October 2018, Mr. Zeng Guangsheng has assumed the roles of both Chairman of the Board and Chief Executive Officer of the Company. The Board believes that by assuming both roles, Mr. Zeng will be able to provide the Group with strong and consistent leadership, allowing for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. The structure is therefore beneficial to the Group.

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 "2019 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. Mei Weiyi, who has been appointed as an independent non-executive director of the Company with effect from 29 October 2018, will hold office only until the 2019 AGM and, be eligible, offer himself for re-election at the said meeting.

In addition, pursuant to the Articles of Association, Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony shall retire by rotation and, being eligible, offer themselves for re-election at the 2019 AGM. The Board and the Nomination Committee of the Company recommended the re-appointment of these retiring directors standing for re-election at the 2019 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 2018, the Company (i) has organized briefings for all its directors, namely, Mr. Zeng Guangsheng, Mr. Ng Hoi Ping, Ms. Zeng Jing, Mr. Yang Rusheng, Mr. Cheung, Chun Yue Anthony and Mr. Mei Weiyi on update on the Listing Rules amendments and (ii) has provided reading materials on regulatory update to all the directors for their reference and studying. Besides, Mr. Ng Hoi Ping, Mr. Cheung, Chun Yue Anthony and Mr. Mei Weiyi 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 2018.

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 2018, 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 2018 are set out in the table below:

	Attendance/Number of Meetings				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Mr. Zeng Guangsheng	4/4	–	1/1	1/1	1/1
Mr. Chui Siu On (Note 1)	2/3	–	1/1	1/1	0/1
Mr. Lau Siu Chung (Note 2)	3/3	–	–	–	1/1
Ms. Chiu Tak Chun (Note 2)	3/3	–	–	–	1/1
Mr. Ng Hoi Ping	4/4	–	–	–	1/1
Ms. Zeng Jing	4/4	–	–	–	1/1
Dr. Cheng Ngok (Note 3)	3/3	2/2	1/1	1/1	0/1
Mr. Yang Rusheng	4/4	2/2	1/1	1/1	1/1
Mr. Cheung, Chun Yue Anthony	4/4	2/2	1/1	1/1	1/1
Mr. Mei Weiyi (Note 4)	1/1	–	–	–	–

Notes:

1. Mr. Chui Siu On resigned as an executive director of the Company on 29 October 2018. Before his resignation, 3 Board meetings, 1 Remuneration Committee meeting, 1 Nomination Committee meeting and 1 Annual General Meeting were held during the year ended 31 December 2018.

2. Mr. Lau Siu Chung and Ms. Chiu Tak Chun resigned as executive directors of the Company on 12 November 2018. Before their resignation, 3 Board meetings and 1 Annual General Meeting were held during the year ended 31 December 2018.

3. Dr. Cheng Ngok resigned as an independent non-executive director of the Company on 29 October 2018. Before his resignation, 3 Board meetings, 2 Audit Committee meetings, 1 Remuneration Committee meeting, 1 Nomination Committee meeting and 1 Annual General Meeting were held during the year ended 31 December 2018.

4. Mr. Mei Weiyi was appointed as an independent non-executive director of the Company on 29 October 2018. Subsequent to his appointment, 1 Board meeting was held during the year ended 31 December 2018.

In addition, the Chairman of the Board also held meeting with the independent non-executive directors without the presence of other 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 2 members, namely, Mr. Zeng Guangsheng (Chairman) 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 4 members, being 3 independent non-executive directors, namely, Mr. Cheung, Chun Yue Anthony (Chairman), Mr. Yang Rusheng and Mr. Mei Weiyi; and 1 executive director, namely, Mr. Zeng Guangsheng. 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 2018, 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 package of Mr. Mei Weiyi, the newly appointed director.

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 2018 is set out below:

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

Details of the remuneration of each of the directors of the Company for the year ended 31 December 2018 are set out in note 7 to the financial statements.

BOARD COMMITTEES (Continued)

Audit Committee

The Audit Committee currently comprises a total of 3 members, namely, Mr. Yang Rusheng (Chairman), Mr. Cheung, Chun Yue Anthony and Mr. Mei Weiyi. 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, internal control system, risk management system and internal audit function and associated procedures and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2018, 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 2017 and interim financial results and report for the six months ended 30 June 2018;

— Review of the scope of audit work, auditors' fees and terms of engagement for the year ended 31 December 2018;

— Discussion and recommendation of the re-appointment of the external auditors;

— Review of the risk management and internal control systems; and

— Review of the arrangements for employees to raise concerns about possible improprieties.

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

BOARD COMMITTEES (Continued)

Nomination Committee

The Nomination Committee currently comprises a total of 4 members, being 1 executive director, namely, Mr. Zeng Guangsheng (Chairman); and 3 independent non-executive directors, namely, Mr. Yang Rusheng, Mr. Cheung, Chun Yue Anthony and Mr. Mei Weiyi. 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.

The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in maintaining the Company's competitive advantage. A new Board Diversity Policy was adopted by the Company during the year under review, pursuant to which the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered. The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

During the year under review, in response to the amendment to the CG Code effective on 1 January 2019, the Company has also adopted the Director Nomination Policy. Such policy sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following: character and integrity; qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy; diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service; requirements of independent non-executive directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

During the year ended 31 December 2018, 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 2018 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 Mr. Mei Weiyi as an independent non-executive director.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

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. 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.

RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

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 during the reporting period, which covered all material controls, including financial, operational and compliance controls. The Company's procedures involved in the risk management and internal control mainly included:

(1) Risk identification: A list of risks was created after the scope of risks was determined and risks were identified.

(2) Risk assessment: Based on the impacts and the possible occurrence of various potential risks with reference to the risk rating methods determined by the management of the Group, the priority of the risks was determined.

(3) Risk control: The efficiency of internal controls over the risks identified were assessed, in order to keep the risks within the risk tolerance of each aspect.

(4) Risk reporting: The reports of assessment results with respect to risk management and internal control were submitted to the management and the Board on a regular basis.

The Group established the internal audit function, and appointed relevant personnel to be responsible for identifying and assessing the risks and internal controls with respect to daily operation of the group and its subsidiaries, reporting the assessment results and subsequent action to the Board. Besides, the management of the Group appointed a professional consulting firm to assist the Group in reviewing the efficiency of risk management and internal controls over material business processes of the reporting period, while the scopes of review activities were determined and authorized by the Board and the Audit Committee. The measures to improve the weaknesses identified during the independent review have been formulating by the companies.

The Board believes the risk management and internal control systems are effective and sufficient upon reviewing their effectiveness. The Board will continue to improve and monitor the effectiveness of the risk management and internal control systems.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the Company's financial statements for the year ended 31 December 2018 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 2018 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 2018	1,800
Non-audit services:	
Tax services and others	699
TOTAL:	2,499

COMPANY SECRETARY

During the year ended 31 December 2018, 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.

CORPORATE GOVERNANCE 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:	Unit 5-6, 23/F, Enterprise Square Three 39 Wang Chiu Road, Kowloon Bay, 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.

POLICIES RELATING TO SHAREHOLDERS

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed.

The Company has adopted a Dividend Policy on payment of dividends. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

CORPORATE GOVERNANCE REPORT

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

SCOPE AND REPORTING PERIOD

This is the third Environmental, Social, and Governance ("ESG") report by the IPE Group Limited ("the Group"), highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 of the Listing Rules and Guidance set out by The Stock Exchange of Hong Kong Limited. The Group also referred to the elements of GRI's Sustainability Reporting (G3) Guidelines (hereafter "the GRI") with application level C.

This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the following business operations from 1 January 2018 to 31 December 2018, unless otherwise stated:

(i) manufacturing site and sales office at Guangzhou Xin Hao Precision Metal Products Company Limited (hereafter "GZXH"), Guangzhou, the People's Republic of China ("PRC");

(ii) manufacturing site and sales office at Dongguan Koda Metal Products Company Limited (hereafter "DGKD"), Dongguan, the PRC;

(iii) manufacturing site and sales office at Integrated Precision Engineering (Thailand) Company Limited (hereafter "IPET"), Bangkok, Thailand.

There were no major operational changes in the scope compared with the last Reporting Period. No major changes in numbers of employees, net sales/income, and operational location have occurred. The above three sites were included in the scope of this ESG report as it collectively contributed to over 90% of the Group's total revenue during the Reporting Period.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group engages with the key stakeholders such as board members, managers, supervisors, frontline workers, customers, and suppliers through daily interactions and works closely with them to understand their needs, concerns, motivations, and objectives, accommodating them where reasonable and justifiable. Key stakeholders continue to be involved in regular engagement sessions to discuss and to review areas of attention via various communication channels such as reviewing employees' performance, holding shareholder meetings, sending company letters, disclosing on company websites, and conducting regular e-mail and business meetings with suppliers and customers.

Through the stakeholder surveys carried out during this Reporting Period, key material issues raised by the stakeholders mainly focused on social aspects, environmental aspects, on the other hand, were considered less material for the Group. Followings topics have been deemed as the most important by stakeholders:

- Anti-corruption
- Occupational health and safety
- Customer Privacy
- Labour Standards
- Environmental protection measures

STAKEHOLDER ENGAGEMENT AND MATERIALITY (Continued)

In addition, many stakeholders responded to the survey and highlighted that ensuring environmental protection, reinforcing community relationship and interacting with surrounding areas around factory considered are all important aspects for the long-term success of the Group. Customers surveyed were satisfied with the Group's commitment to environmental and social sustainability as they responded "The Group conserves energy, reduces emissions and pollutants, and commits to the progressive development of employees. The stable organizational structure is also the cornerstone of the Group's development and the guarantee of customer trust."

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our ESG approach and performance. Please give your suggestions or share your views with us by mailing to Unit 5-6, 23/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong.

THE GROUP'S SUSTAINABILITY MISSION AND VISION

The Group strives to achieve the optimum balance to achieve maximum profit, responsibility and satisfaction for stakeholders.

The Group actively strives for management excellence and have continuously being certified and renewed various systems such as IATF16949:2016, AS9100:2016, ISO9001:2015, ISO14001:2004 for selected operational sites. In addition, DGKD has also been accredited with IATF16949 as well as ISO 14001 certification, and GZXH has been accredited with High and New-Technology Enterprise during the Reporting Period.

Other than continuously investing in technology advancement, the Group sees 2018 as a milestone year to achieve the Authorized Economic Operator (AEO) 認可經濟營運商 certificate. The Group commits to the principals of AEO as to:

- Facilitate legitimate trade;
- Reinforce Safety and Security;
- Harmonize and standardize the application of customs controls; and
- Provide an electronic environment

This new step further helps the Group to achieve processes improvement and standardize internal procedures to increase efficiency, reliability and robustness.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL

The Group stringently complies with national and local laws and regulations concerning environmental protection and pollution control. The two Chinese sites strictly follow applicable laws, regulations, and various specifications including Environmental Protection Law of the PRC; Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste; Atmospheric Pollution Prevention and Control Law of the PRC; Law of the PRC on Prevention and Control of Water Pollution; Emission Limits of Air Pollutants (DB44/27-2001); Discharge Limits of Water Pollutants (DB44/26-2001); Guangdong Solid Waste Pollution Prevention Regulation etc. IPET follows local laws and regulations such as Soil and Groundwater Contamination Control in Factory Area B.E. 2559 (2016). The Group also closely follows any updates on relevant regulations and standards, such as the new announcement of the Ministry of Industry Plant Drainage Standard in Thailand.

The Group implemented various energy and resource saving schemes for its daily operation during this Reporting Period. Air-conditioning temperature is set at no less than 26 degrees Celsius to allow energy saving. All lighting is turned-off for un-occupied space. Specifically, DGKD has improved the oil mist purification system to improve the indoor environment of workshops, achieving both a healthier work environment for employees and reduced pollution emission to the atmosphere.

No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste had been identified during the Reporting Period.

A1. Emissions

A1.1 Air Emissions

The major source of air pollutants for the Group's operational sites was particulates (i.e. metallic dust) from production processes. All air pollutants in GZXH and DGKD were monitored and within the permissible level set by Emission Limit of Air Pollutants (DB44/27-2001) in Guangdong Province. Other than air pollutants from production lines, the cooking fume from canteen was also monitored and within the permissible level set by GB 18483-2001 Emission standard of cooking fume. Other than direct air emissions, greenhouse gas (GHG) and non-GHG emissions were also generated from the consumption of stationary fuels and gasoline for group-owned vehicles.

Gaseous Fuel Consumption and Vehicle Operations

Gaseous fuel such as town gas and liquefied petroleum gas (LPG) were used in GZXH. LPG was used for canteen and town gas was consumed as a fuel source for production machinery. Nitrogen oxides (NOx) and sulphur oxides (SOx) were generated from gaseous fuel consumption, as shown in below table. LPG consumption for canteen operation and its associated emissions are not reported as the operation was outsourced to external service provider.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.1 Air Emissions (Continued)

Passenger cars operated on gasoline was used for daily business operations. Diesel and LPG were also consumed for other types of vehicles. Their combustion generated several air emissions which include NOx, SOx, and respiratory suspended particles (PM).

Table 1: Annual emission of various air pollutants from 1) gaseous, and 2) mobile fuel combustion

(1) Gaseous fuel emissions	Air emissions (non-GHG) from gaseous fuel consumption NOx (kg)		SOx (kg)
Town gas	1.75		0.01
(2) Mobile fuel emissions	**Air emissions (non-GHG) from vehicle operations NOx (kg)**	**SOx (kg)**	**PM (kg)**
Gasoline, diesel, and LPG	635.32	2.19	21.92

Note: Emission factors for calculations on environmental parameters throughout the report 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.

A1.2 Greenhouse Gas (GHG) Emissions

There were 39,875 tonnes of carbon dioxide equivalent (tCO_2e) GHG (mainly carbon dioxide, methane and nitrous oxide) emitted from the Group's operation during the Reporting Period. The overall intensity for GHG emissions represented by the total area was 18.74 (tCO_2e) per employee.

The GHG emissions reported included the following activities and scopes. The scope 1 direct GHG emissions were generated on-site due to combustion of fuels, whereas scope 2 and scope 3 indirect GHG emissions were generated due to the Group's activity while owned or controlled by another entity.

- Direct (scope 1) GHG emissions from the consumption of stationary and mobile sources, including town gas, diesel (for production machinery in GZXH as well as for mobile combustion), gasoline, and LPG (for mobile combustion in IPET);
- Energy indirect (scope 2) GHG emissions from purchased electricity and town gas;
- Other indirect (scope 3) GHG emissions from municipal freshwater and sewage processing, business air travel, and waste paper landfilling.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.2 Greenhouse Gas (GHG) Emissions (Continued)

Table 2: Annual GHG emissions

Scope of GHG emissions	Emission sources		GHG Emission (in tCO_2e)	Sub-total (in tCO_2e)	Total GHG emission (in percentage)
Scope 1 Direct emission [1]	Combustion of fuels in stationary sources	Diesel	462.51	894.66	2%
		Town gas	23.24		
	Combustion of fuels in mobiles sources	Diesel	75.84		
		Gasoline	317.94		
		LPG	15.13		
Scope 2 Energy indirect emission	Purchased electricity [2]		38,587.03	38,592.42	97%
	Purchased town gas [3]		5.39		
Scope 3 Other indirect emission	Electricity used for processing fresh water by government departments/third parties		218.73	387.78	1%
	Electricity used for processing sewage by government departments/third parties		108.61		
	Business air travel by employees [4]		14.25		
	Paper waste disposed at landfills		46.19		
Total			**39,875**		**100%**

Note 1: Emission factors were made reference to Appendix 27 to the Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

Note 2: Emission factor (EF) of 0.63 and 0.568 kg CO_2e/kWh was used for purchased electricity in Guangdong province, China; and Bangkok, Thailand, respectively.

Note 3: Emission factor (EF) of 0.592 kg CO_2e/unit was used for scope 2 GHG of purchased town gas.

Note 4: Emissions were calculated using the online tool provided by International Civil Aviation Organization.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.3 Hazardous Waste

The Group generated a total of 100.37 tonnes of hazardous waste during the Reporting Period. The major hazardous waste generated from the Group's operational sites were oil and chemical contaminated materials (e.g., oil tanks, detergent and chemical cleansers bottles). On-site wastewater treatment facility also generated sludge. All hazardous waste has been managed per Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste, as well as following ISO 14001 standard for safe on-site storage of hazardous waste.

Table 3: Annual hazardous waste generation, treatment methods, and intensity

Types of hazardous waste	Hazardous waste amount and treatment method		
	GZXH	DGKD	IPET
Waste oil	2,700 kg, incinerated (treated by government certificated 3rd party handler)	223 kg, incinerated (treated by government certificated 3rd party handler)	780 kg, recycled as mixed fuel
Lighting waste (e.g., fluorescent lamps)	n/a	14 kg, landfilled (treated by government certificated 3rd party handler)	9 kg, landfilled (treated by government certificated 3rd party handler)
Oil and chemical contaminated materials (e.g., waste oil tanks and bottles)	38,692 kg, collected by suppliers and recycled	10,148 kg, collected by suppliers and recycled	8,041 kg, landfilled (treated by government certificated 3rd party handler)
Sludge	34,850 kg, landfilled (treated by government certificated 3rd party handler)	1,240 kg, landfilled (treated by government certificated 3rd party handler)	3,670 kg, landfilled (treated by government certificated 3rd party handler)
Total hazardous waste	76,242 kg	11,625 kg	12,500 kg
Intensity	47.41 kg/employee	32.29 kg/employee	77.64 kg/employee

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.4 Non-hazardous Waste

Other than waste office paper, the Group generated a total of 164.83 tonnes of non-hazardous waste during the Reporting Period. Two major categories of non-hazardous waste — the industrial waste and domestic waste — were generated from the Group's operational sites. Sources of industrial waste were from production lines and were mainly metal scraps. They were collected by designated handlers for downstream recycling. Other non-hazardous waste mainly included non-office waste papers, food waste, and waste packaging materials. Food waste from canteen were encouraged to be collected for animal feed by local farmers. For waste office paper, GZXH and DGKD will consider implementing waste auditing so that different paper waste streams can be traced.

Table 4: Annual non-hazardous waste generation, treatment methods, and intensity

Types of non-hazardous waste	Non-hazardous waste amount and treatment method GZXH	DGKD	IPET
Waste office paper	7,733 kg purchased, assuming all landfilled*	1,821 kg purchased, assuming all landfilled*	690 kg purchased, 207 kg recycled, and 69 kg landfilled
Non-office paper waste (e.g., wrapped paper)	20,175 kg, recycled by downstream industry	n/a	50 kg, stored on-site for resell
Metal, Glass, and Plastic waste	38,875 kg, recycled by downstream industry	4,500 kg, recycled by downstream industry	n/a
Waste packaging materials (e.g., wooden pallets)	58,566 kg, recycled by downstream industry	14,760 kg, recycled by downstream industry	n/a
Other general waste	n/a	n/a	24,000 kg, landfilled
Total non-hazardous waste except waste office paper	117,616 kg	23,160 kg	24,050 kg
Intensity	73.14 kg/employee	64.33 kg/employee	149.38 kg/employee

* Under the assumption that all paper, whether is stored or purchased within the organization boundary, will eventually be disposed at landfills unless collected and recycled EMSD/EPD Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong, 2008 and 2010 Editions

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.5 Measures to Mitigate Emissions

The direct emissions generated onsite were mitigated via various controlling schemes such as substituting vehicle fuels with LPG for IPET. Effective vehicle management has been implemented to reduce fuel consumption and associated air emissions. It is required to have the transportations schedules planned in advance before dispatching vehicles. Carpooling is highly encouraged when schedules allow. Fuel-efficient and low-emissions vehicles are prioritized during purchase when replacement is needed. The Group also highly encourages employees to use public transport whenever possible.

A1.6 Wastes Reduction and Initiatives

The Group manages its solid waste via waste management procedure, which regulates the waste sorting procedures, waste internal transfer and storage procedures, and waste disposal procedures. The Group has provided recycling bins with clear instruction on separating recyclable and non-recyclable waste. Waste papers are collected by certified handlers for downstream recycling. To reduce production cost and the amount of waste generation, cutting oil from production lines has been reused. After the cutting oil reached maximum reusable times, it was stored within designated areas for further collection by certified handlers.

Each waste-generating department has set up designated waste collection areas, with clear labelling to avoid any mix of different waste categories, then they shall mark and transport the classified waste to designated storage yards. Each department is also responsible for routine inspection and cleaning their internal waste collection areas. Qualified personnel in charge of the yard shall sort all waste handed over by various departments to ensure accurate external delivery. All waste collection areas are well protected against abnormal storm sewage to avoid any leakage. Fire equipment are placed within 20 meters near the hazardous waste. During final disposal stage, Material Safety Data Sheet (MSDS) would be provided to hazardous waste disposal handlers, whom are all qualified and authorized by local Environmental Protection Agency, and recorded with the Hazardous Waste Transfer Documents.

The Group has issued management policy of paper saving in the hope of reducing paper consumption and paper waste, in detail:

- The administration department records the quantity of paper purchased every month, and rationally controlling the usage of paper by each department;
- The administration department keeps a record of the amount of paper used by each department every month. When a sudden increase in paper consumption is found, the administration department will follow up with the responsible department and make corresponding control measures if necessary;
- All employees are encouraged to apply paperless office, e.g., to use computer systems and transmit documents via e-mail;

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.6 Wastes Reduction and Initiatives (Continued)

- Double-sided printing is encouraged. If applicable, documents are printed in shrinkable size to reduce the amount of paper used. Internal classification of waste paper is carried out to maximize its reusing rate;

- When using the photocopier, correct operation processes should be followed to ensure it is not malfunctioned. Regular maintenance is carried out by professional teams.

A2. Use of Resources

A2.1 Energy Consumption

Total electricity consumption by the Group was 61,666,651 Kilowatt-hour (kWh).

Table 5: Annual direct energy consumption and intensity

Direct energy source (electricity)	Consumption (kWh)	Intensity (Muh/employee)
GZXH	48,175,251	29.96
DGKD	8,964,120	24.90
IPET	4,527,280	28.12
The Group total	61,666,651	28.97

Consumption of gasoline, diesel, town gas, and LPG were also presented in kWh unit.

Table 6: Annual indirect energy consumption

Energy source	Direct consumption	Indirect consumption (in kWh)
Gasoline (for vehicles in three sites)	117,946 liters	1,045,626.52
Diesel (for vehicles in GZXH and IPET, and machinery in GZXH)	204,274 liters	2,042,729.51
Town gas (for machinery in GZXH)	14,602 kg	121,360.01
LPG (for vehicles in IPET)	8,976 liters	65,334.00
The Group total		3,275,050.04

Note: Conversion factors were made reference to IEA Energy Statistics Manual and 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.2 Water Consumption

The total water consumption for the Group was 543,437 m^3. Water used in all operational sites was sourced from municipal tap-water. No issues on sourcing water were reported during the Reporting Period. Water has been consumed for manufacturing and domestic purposes. Both GZXH and DGKD had a relative high intensity possibly due to extra water used for cleaning final products to meet more stringent quality requirements. When feasible, the Group will plan to upgrade production equipment to accommodate the trade-off between extra water consumption and products' quality.

Table 7: Annual water consumption and intensity

Site	Water consumption (m^3)	Intensity (m^3/employee)
GZXH	433,173	269.39
DGKD	94,196	261.66
IPET	16,068	99.80
The Group total	543,437	255.25

The major source of wastewater for the Group's operational sites was from production wastewater including ultrasonic cleaning, grinders cleaning, and work environment cleaning. GZXH has upgraded its wastewater treatment facility with increased treatment capacity during the Reporting Period. All wastewater in China has been monitored and its pollutants were within the permissible level set by Emission Limit of Water Pollutants (DB44/26-2001) in Guangdong Province. Wastewater in IPET was treated by biological and chemical processes and monitoring results showed all wastewater indicators were within the permissible level set by the Standard Methods for the Examination of Water and Wastewater, 22nd Edition.

A2.3 Energy Use Efficiency Initiatives

To further reduce energy consumption, each operational site has implemented specific practices during the Reporting Period.

GZXH has implemented the following practices:

- used LED for production line and office setting;
- optimizing transformer and distribution line;
- optimizing the arrangement of AC and pressure piping;
- re-designing and/or purchasing new lathe for energy saving;
- installing new energy and water meters for more accurate monitoring.

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.3 Energy Use Efficiency Initiatives (Continued)

DGKD has implemented the following practices:

- used LED for production line and office setting;
- establishing an energy management centre to monitor electricity usage;
- giving priority to energy efficiency machinery during new purchases;
- supplying waste heat from air compressors to staff for hot water.

IPET has implemented the following practices:

- used LED for production line and office setting;
- Energy Conservation schemes were set for the production line, with monthly monitoring carried out.

The Group also adopts management policy of electricity saving focusing on various aspects to save electricity:

1. Save electricity for air conditioning:
    - Improve the air conditioning temperature control mode;
    - Strictly implement the air conditioning temperature control standards;
    - Make full use of natural ventilation;
    - Set temperature at no less than 26 degrees Celsius;
    - Turn off the air-conditioning half an hour before leaving work;
    - Close doors and windows when AC is operating;
    - Clean the air conditioner regularly and improve energy efficiency.

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.3 Energy Use Efficiency Initiatives (Continued)

2. Save electricity for the lighting system:

    - Make full use of natural lighting during day time;
    - Minimize unnecessary lighting in public areas in the building (e.g., toilets);
    - Adopt energy saving lighting throughout office buildings.

3. Save electricity for office equipment:

    - Office equipment such as computers, printers, photocopiers and fax machines should be turned off to reduce standby power consumption when not in use mode for a long time (e.g., overnight);
    - All newly purchased office equipment shall meet applicable energy efficiency labels required by local and national specifications.

4. Save electricity for manufacturing processes:

    - Designated engineer is responsible for checking each equipment is functional before production. All equipment are disconnected to the power supply when not in-use for a long period;
    - Power sockets used in the workshop should be maintained regularly, the switch box should be equipped with leakage protection, with regular checking performed by qualified electricians;
    - Transformer and Distribution cabinet shall be kept clean and clear, regular checking on equipment and wiring are performed to eliminate any hidden dangers and power outage.

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.4 Water Use Efficiency Initiatives

The Group continuously conserves water and promotes water recycling. At GZXH, all wastewater has been treated on-site and used for other purposes such as cooling water, landscaping etc. At DGKD, 65% of wastewater was reused for production after on-site treatment, with the remaining connected to the municipal wastewater pipelines. At IPET, water conservation practices were implemented for the production line as well as general usage.

The Group adopts management policy of water saving to control and regulate water consumption.

1. Save water for production consumption:

    - Water resources need to be used rationally and recycling of water should be maximized;

    - Drinking water in the production workshop is prohibited to be used for other purposes such as cleaning;

    - All water-consumption equipment in the workshop are checked on a daily basis and maintenance unit will be called in upon finding any leakage.

2. Save water for domestic consumption:

    - Each department has the obligations to make rational use of water and save water resources;

    - All staff accommodating on-site must strictly abide by the Dormitory Management Regulations to save water;

    - Custodians shall save water resources during daily cleaning, recycle water when appropriate;

    - Maintenance of pipelines, valves, joints and fixtures are carried out regularly to ensure any leakage and damage are repaired and/or replaced in time.

3. Management and control:

    - The Ministry of Administration shall regularly inspect the use of water, educate those who make unrational use, and if necessary, discipline them according to policy;

    - Put up water-saving sticks and raise employees' awareness of water-saving through training and posters.

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.5 Packaging Material

Major packaging materials consumed by the Group included those from both renewable resources (such as wood-based, paper and pulp products) and non-renewable resources (such as plastic products). The Group has not designated formal policies on specifying recycled content for packaging materials. Practically, cardboard has been reused within the Group, while other paper-based packaging materials were difficult to be reused due to company logos printed.

Table 8: Annual consumption of packaging materials

Types of common packaging materials used	Total amount (in kg) GZXH	DGKD	IPET
Corrugated paperboard	105,800	10,712	2,922
Plastic film & bags	40,600	22,670	4,673
Total packaging materials	146,400	33,382	7,595

A3. The Environment and Natural Resources

A3.1 Significant Impacts of Activities on the Environment

The Group's operation does not cause significant adverse impacts on the environment. The Group also continues to implement various environmental management policies to minimize negative impacts on the environment.

The major environmental impacts caused by the Group was the consumption of purchased electricity. The management policy of electricity saving was adopted to control and regulate electricity consumption. Similarly, the management policy of water saving was adopted to control the water consumption. While the environmental impacts associated with the waste paper disposal is much less than other landfilling processes or other activities such as energy consumption, the Group, nevertheless, issued management policy of paper saving in the hope of promoting pro-environmental behaviours among staff. The Group will continue to implement various measures to reduce the impact on the environment and natural resources arising from business operations.

B. SOCIAL

1. Employment and labour practices

The Group stringently complies with national and local laws and regulations concerning employment and labour practices, including but not limited to the followings:

- Labour Law of the PRC
- Labour Contract Law of the PRC
- Law on the Protection of Minors
- Law on the Protection of Disabled Persons
- Law on Labour Unions of the PRC
- The Labour Protection Act B.E. 2541 of Thailand

No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare had been identified during the Reporting Period.

B1. Employment

The Staff Management Manual oversees the recruitment policy, compensation and dismissal policy, promotion policy, holiday/paid/sick/compassionate leave policies, working attendance policy, and remuneration policy. There were no major changes in policies regarding employees' welfare. The Group continues to provide a competitive salary for employees and utilizes other incentives and rewards to motivate employees.

The Group has formally established a labour union, all qualified staff are encouraged to join the union for collective bargaining. Compare with the last Reporting Period, GZXH has an over 50% increase for those employees who are covered by collective bargaining agreements. Major operational and business changes are communicated with workers through various written and oral channels. The workers will be informed at least two weeks prior to the implementation of any significant operational changes that could have a direct impact on them.

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

Table 9: Labour & management relations

	GZXH	DGKD	IPET
Number of total employees covered by collective bargaining agreements	1,400 people	300 people	161 people
Percentage of total employees covered by collective bargaining agreements	93%	83%	100%
Minimum number of weeks notice provided to employees prior to significant operational changes	3 weeks	4 weeks	2 weeks

A major upgrade during the Reporting Period was that the Group has strengthened the safety management, responding to the call to fight against organized crime by the central government of the PRC. In particular, the Group has educated all employees to raise their safety awareness, and they are encouraged to report to his/her supervisor upon finding any suspicious persons, or any terrorist activities.

The Group has updated dismissal policy to reinforce internal security management. The following resignation procedures have been standardized: job tasks and office items are handed-over and confirmed by the recipient's signature; personal belongings are packed and placed in the security room, received by the security guard on-duty with signed confirmation; factory uniform and license, and the dormitory key are handed over to the housekeeper, who will issue a release form after confirmation; which will be further used to claim personal belongings in the security room; all former employees are not allowed to re-enter the workplace and/or to use enterprise information systems; the IT department will lock the usage of work mailbox and related passwords to ensure no leakage of information.

Equal opportunity is provided to all employees in respect of promotion, appraisal, training, development and other aspects. Employees are not discriminated against or deprived of opportunities based on gender, nationality, ethnic background, religion, political affiliation, age, marital status, and physical disability. Similar to the last Reporting Period, the Group achieved a balanced ratio of basic salary of women to men for different employee categories.

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

Table 10: Incidents of discrimination reported

	GZXH	DGKD	IPET
Total number of incidents of discrimination reported by employees in 2018	0	0	0

Table 11: Ratio of basic salary of women to men

	GZXH	DGKD	IPET
Employee category			
Senior management	0.99	n/a, only one male employees	1.09
Middle management	0.86	0.81	1.00
Frontline and other Staff	0.90	1.00	0.91

As at 31 December 2018, GZXH, DGKD and IPET had 1,608, 360 and 161 employees, respectively, with a total of 2,129 employees. All of them are full-time employees.

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

Table 12: Employment by type, category, contract, age, gender, and region (unit: no. of employees, as of 2018/12/31)

	GZXH	DGKD	IPET	Total
Total number of employees	1,608	360	161	2,129
Employment types				
Full-time	1,608	360	161	2,129
Part-time	0	0	0	0
Employee category				
Senior management	7	1	1	9
Middle management	48	8	4	60
Frontline and other Staff	1,553	351	156	2,060
Age				
below 30	486	87	30	603
>= 30, and <50	906	220	128	1,254
>= 50	216	53	3	272
Gender				
Male	820	184	37	1,041
Female	788	176	124	1,088
Region				
Mainland China	1,604	360	0	1,964
Thailand	0	0	160	160
Others (e.g., Hong Kong, Macau, and Taiwan)	4	0	1	5
Employment Contract				
Indefinite or permanent contract	287	73	160	520
Fixed term contract	1,321	287	1	1,609
Temporary contract	0	0	0	0

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

For those with Indefinite/ permanent contract	GZXH	DGKD	IPET	Total
Senior management	7	1	1	9
Middle management	32	8	4	44
Frontline and other Staff	249	64	155	468
Age (for those with indefinite/ permanent contract)				
below 30	12	1	30	43
≥ 30, and <50	178	50	127	355
≥ 50	97	22	3	122
Gender (for those with indefinite/permanent contract)				
Male	174	43	37	254
Female	113	30	123	266
Region (for those with indefinite/permanent contract)				
Mainland China	284	73	0	357
Thailand	0	0	160	160
Others (e.g., Hong Kong, Macau, and Taiwan)	3	0	0	3

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

Table 13: Employment diversity for governance bodies and all employees (unit: no. of employees)

	GZXH	DGKD	IPET	Total
Diversity (for governance bodies)				
Governance bodies by age				
below 30	0	0	0	0
≥30, and <50	7	1	0	8
≥ 50	0	0	1	1
Governance bodies by gender				
Male	6	1	1	8
Female	1	0	0	1
Governance bodies by minority groups				
Chinese_ethnic Han	7	1	n/a	8
Chinese_ethnic non-Han	0	0	n/a	0
Diversity (for all employees)				
Chinese_ethnic Han	1,491	318	n/a	1,809
Chinese_ethnic non-Han	117	42	n/a	159

The overall staff turnover rate was 57% during the Reporting Period. Similar to the last Reporting Period, most employees who left the Group were frontline staff, which is a common phenomenon in the manufacturing industry, especially for China. IPET, on the other hand, had a much lower turnover rate than both GZXH and DGKD.

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

Table 14: Total turnover rate by employment category, age, gender, and region

Turnover rate by employee category	
Senior management	11%
Middle management	5%
Frontline and other Staff	59%
Turnover rate by age	
below 30	115%
≥ 30, and <50	39%
≥ 50	9%
Turnover rate by gender	
Male	74%
Female	40%
Turnover rate by region	
Mainland China	61%
Thailand	5%
Others (e.g., Hong Kong, Macau, and Taiwan)	20%

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

Table 15: Break-down of turnover and turnover rate by employment type, category, age, gender and region

	GZXH	DGKD	IPET	Total
Total number of employees leaving employment in 2018 (unit: no. of employees)	991	213	8	1,212
Turn-over rate	62%	59%	5%	57%
Employees leaving employment by employment types (unit: no. of employees)				
Full-time	781	213	8	1,002
Part-time	210	0	0	210
Employees leaving employment by employee category (unit: no. of employees)				
Senior management	1	0	0	1
Middle management	3	0	0	3
Frontline and other Staff	987	213	8	1,208
Employees leaving employment by age (unit: no. of employees)				
below 30	583	107	2	692
>= 30, and <50	387	102	6	495
>= 50	21	4	0	25
Employees leaving employment by gender (unit: no. of employees)				
Male	654	118	3	775
Female	337	95	5	437
Employees leaving employment by region (unit: no. of employees)				
Mainland China	990	213	0	1,203
Thailand	0	0	8	8
Others (e.g., Hong Kong, Macau, and Taiwan)	1	0	0	1

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B2. Employee Health and Safety

The Group highly values the importance of providing a safe and accident-free working environment for employees. For production lines, personal protection equipment is provided to all frontline staff. Noise levels, indoor air pollutants levels are monitored according to local and national laws to ensure that they do not exceed permissible levels.

The Group established Emergency Evacuation Management Procedure 應急疏散管理規定 to formulate contingency plans, emergency evacuation, and fire drilling organization. The administration department will organize fire drills every year to ensure all employees are familiar with evacuation schemes during emergency situations.

The Group has strengthened fire control equipment management, according to the Fire Control Equipment Management Procedure 消防器材管理規定. All department shall ensure their fire control facilities are functional and no one shall move them arbitrarily. Nothing shall be placed around any fire control equipment to block its potential use. The purchase and maintenance of fire control equipment are also strictly monitored. The equipment shall be inspected monthly by the Security Department. The results of inspection shall be recorded. Any equipment found to be ineffective or expired shall be replaced in time. Fire extinguishers that are invalid or expired are placed in designated areas for further treatment. For equipment expiring its service life or not functioning well, suppliers will be contacted for pressure testing, filling, testing, maintenance or replacement.

During this Reporting Period, DGKD has updated its occupational health and safety system. In particular, risk factors in the workplace have been identified, and detailed health examination has been carried out for employees. DGKD has applied the Safety Production Standardization certificate during the Reporting Period and is expected to be granted with the certificate in the upcoming year.

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B2. Employee Health and Safety (Continued)

The Group strictly follows relevant laws and regulations such as Law of the PRC on the Prevention and Control of Occupational Diseases, and Law on Safety Production of the PRC, the Occupational Safety, Health and Environment Act B.E. 2554 (A.D. 2011) of Thailand, and the Fire Prevention and Extinguishing in Factory B.E. 2552 (2009). No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to occupational health and safety had been identified during the Reporting Period.

Table 16: Work-related fatalities, lost days, injuries, occupational disease and absentee rate

Occupational safety and health data	GZXH	DGKD	IPET	Group-level
Total working hours (hrs) by all workforce	4,081,104	1,724,427	1,420,800	7,226,331
No. of work-related fatality	0	0	0	0
Total lost days	266	19	0	285
Lost day rate (LDR)	13.04	2.20	0	7.89
Number of work injuries	32	3	0	35
Injury rate (IR)	1.57	0.35	0	0.97
Number of occupational diseases	0	0	0	0
Occupational diseases rate (ODR)	0	0	0	0
Absentee rate (AR)	0.06%	0.01%	<0.01%	

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B3. Development and Training

The Group provided comprehensive career development and training to employees. Training was conducted per training plans constructed in advance. External training was arranged for employees with special duties. At year-end, the Human Resource Department will launch the training survey to each department to set the training plan for the next year.

The Group did not involve in formal cooperation with educational institutions during this Reporting Period. Nevertheless, GZXH encouraged employees to continue their studies, and fully supported them to apply for applicable government funding. Internally, the Group subsidizes training via labour union and online training have been provided to employees, such as providing Online Chinese Accounting courses 中華會計網校. IPET has also sent employees to join training courses set by educational institution such as "Design a link between FMEA, SPC, error proofing & control plan".

During the Reporting Period, a total of 7,362.5 training hours were completed for a total of 1,350 employees. The average training hours per employee was 3.46 hours, a slight decrease from the last Reporting Period. DGKD has achieved an exceptionally high average training hours for middle management during the Reporting Period, at 45hours per employee. This was due to large investment in capacity building in the middle management team, for example, to prepare for the application of Safety Production Standardization certificate and IATF certificate.

Table 17: Number of employees receiving training and average training hours received

Training data	GZXH	DGKD	IPET	Group-total
Total number of trained employees	1,022	239	89	1,350
Total training hours for all employees	5,038.5	1,790	534	7,362.5
Average training hours per employee	3.13	4.97	3.32	3.46
By Employee Category				
Senior Management	3 people	0 people	2 people	5 people
Average training hours per employee	2.36	0.00	12.00	3.17
Middle Management	13 people	9 people	3 people	25 people
Average training hours per employee	1.41	45.00	4.50	7.43
Frontline and other Staff	1,006 people	230 people	84 people	1,320 people
Average training hours per employee	3.19	4.07	3.23	3.34
By Gender				
Male	524 people	133 people	21 people	678 people
Average training hours per employee	3.31	5.33	5.41	3.74
Female	498 people	106 people	68 people	672 people
Average training hours per employee	2.95	4.60	0.81	2.97

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B3. Development and Training (Continued)

Table 18: Total percentage of trained employee (%)

	GZXH	DGKD	IPET	Group-total
Total percentage of trained employee	64%	66%	55%	63%
Employee Category				
Senior Management	43%	0%	200%	56%
Middle Management	27%	113%	75%	42%
Frontline and Other Staff	65%	66%	54%	64%
Gender				
Male	64%	72%	57%	65%
Female	63%	60%	55%	62%

B4. Labour Standards

The Group strictly follows the Labour Law of the PRC, the labour Contract Law of the PRC, the Law on the Protection of Minors, and the Labour Protection Act B.E. 2541 of Thailand to manage labour practices.

Background check has been performed when recruiting new employees. Administration department will verify personal documents such as ID card, education certificate and technical certificate to make sure all engagement processes follow applicable laws and internal regulations.

No child labour, forced, or compulsory labour was reported and/or identified within any sites of the Group during the Reporting Period. There are no major risks associated with incidents of child labor, forced or compulsory labour within the Group's operation sites.

B. SOCIAL (Continued)

2. Operating Practices

B5. Supply Chain Management

The Group invested extensively during the Reporting Period to upgrade management on suppliers and has obtained the Authorized Economic Operator (AEO) certificate. The Suppliers and Purchasing Management Procedure was established to evaluate, manage, control, and monitor the business operations of suppliers.

Four major types of suppliers were defined with different levels of control efforts. Type A suppliers are key suppliers that directly impact the Group's operation, including suppliers for raw materials, components, and outsourcing manufacturers. For these key suppliers, they are required to implement ISO 9001 quality management system and sign off a Commitment Letter of Supply Capacity 供應商供貨能力承諾書.

When evaluating suppliers, the Group specifically considers their environmental and social performance to ensure the suppliers are committed to ESG optimization. Following items were included to monitor suppliers' environmental management system in the Supplier Audit Checklist:

- Whether the supplier has obtained License of Discharging Pollutants;
- Whether the supplier has obtained the ISO 14001 certificate;
- Whether the supplier has materials with high toxicity;
- Whether the supplier has a discharge volume of the solid waste within permissible level set by applicable laws/regulations.

The Supplier Audit Checklist also included several items for promoting suppliers' social performance, for example, it encourages the staff training by asking:

- Whether there is a clear ability description for the employee, who contribute to the achievement of the quality;
- Whether there is any education, training, or other related records to ensure the required ability.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B5. Supply Chain Management (Continued)

The Group also established the Agreement on Trade Security with business partners 商業夥伴貿易安全協議. The Agreement needs to be formally signed by business partners, with detailed clauses listed on safety management, including the following areas:

- Workplace safety;
- Entrance security;
- Staff safety
- Suppliers safety
- Material safety
- Container safety;
- Transportation safety; and
- Contingency plans

The Group conducts regular inspections to business partners to ensure that they have implemented above safety management.

The Group continues to source from key suppliers located in OECD countries. IPET has specified human rights clauses in investment agreements, or specified detailed screening on human rights for suppliers.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B5. Supply Chain Management (Continued)

Table 19: Investment and procurement practices for IPET

Total number of significant investment agreements that include human rights clauses or that underwent human rights screening.	1 agreement
Percentage of significant investment agreements that include human rights clauses or that underwent human rights screening.	20%
Total number of significant suppliers and contractors	10 suppliers
Percentage of contracts with significant suppliers and contractors that included criteria or screening on human rights.	20%
Percentage of contracts with significant suppliers and contractors that were either declined or imposed performance conditions, or were subject to other actions as a result of human rights screening.	20%

A total of 726 suppliers were engaged during the Reporting Period, with the majority from mainland China.

Table 20: Number of major suppliers by region/country

Country/region	GZXH	DGKD	IPET	Group-total
Mainland China	462	83	1	546
Hong Kong, Macau, and Taiwan	19	2	4	25
Thailand	n/a	n/a	97	97
Others	51	1	6	58
Total	532	86	108	726

B6. Product Responsibility

Product Labelling, Health and Safety, and Advertising

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.

No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labeling and privacy matters relating to products and services provided had been identified during the reporting period.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B6. Product Responsibility (Continued)

Quality Assurance

As a component supplier to the high-end auto-mobile industry, the Group maintains its product quality at the highest standard. Quality management has been rooted in every aspect of the business operation. Strict QA/QC processes have been followed:

Table 21: Quality assurance and quality control

Control point	Detailed controlling processes
Incoming inspection (raw materials)	Incoming Quality Control (IQC) inspects raw materials according to the "raw materials inspection instructions"《原材料檢查工作指示》and keeps records in the "incoming materials (raw materials) inspection report" 來料(原料)檢查報表 For all batches, suppliers are required to provide a certificate to indicate that chemical composition and/or physical properties of the materials are qualified. When necessary, the material shall be sent to a qualified third-party laboratory for analysis.
Incoming inspection (outsourcing materials)	Incoming inspection (outsourcing materials): IQC inspects the materials according to the inspection plans.
First piece inspection	First piece inspection: under certain circumstance (e.g., drawing revision, power outage), the technician takes first five pieces for inspection. Production will not be started until the first piece inspection results are qualified. All results are recorded.
Process inspection	Input Process Quality Control (IPQC) takes random sampling on an active machine according to the inspection plan. All results are recorded.
Semi-finished product inspection	IQC take inspection of products that need further outward processing, according to drawings and inspection plans. All results are recorded.
Finished product test	Final Quality Control (FQC) takes random sampling on finished products according to drawings and inspection plans. All results are recorded in the "incoming/outgoing inspection report" 來料／出貨檢查報表 or customers' forms.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B6. Product Responsibility (Continued)

Quality Assurance (Continued)

Control point	Detailed controlling processes
Full-size test	Full dimension inspection and functional test of each product are conducted according to the material and performance standards set by customers. All results are made available for customers' review. Full-size test frequency is set by customers.
Customer complaint handling procedure	The quality department shall conduct a preliminary verification after receiving customer complaints. For non-compliance products, short-term solutions are formulated according to the description of the problem by customers. Further actions would be carried out by tracing the original records of the production and inspection records for the suspicious materials (including raw materials, semi-finished products, finished products). The internal investigation shall be with responsible departments for root cause analysis. A permanent improvement plan will be structured according to the analysis. The QA engineers will report to the customer about the planned improvement measurement. After confirming the implementation of the improvement measurement, the corrective action report shall be closed at the requested time set by customers.

Compared with the last Reporting Period, GZXH has reduced the percentage of products' recalls and achieved a 25% reduction on the monetary value lost due to products' recalls.

Table 22: Product compliance, and product recalls

Product Responsibility	GZXH	DGKD	IPET
Total monetary value of significant fines	0	0	0
Total number of products' recalls	1,355,580 PCS	10,268 PCS	567,145 PCS
Percentage of products' recalls	0.58%	<0.01%	0.62%
Total monetary value lost due to products' recalls	RMB 3,092,018	RMB 8,008	THB 2,296,937

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B6. Product Responsibility (Continued)

Customer Data Protection

The Group formulated the Information System Safety Management Procedure 信息安全管理制度 to standardize IT management, to ensure the robustness of computer equipment, to ensure the safe, stable and reliable operation of information systems. The procedure guides all sectors of the computer network and equipment management, e.g., internal network, office network, server, workstation and network equipment.

Data protection and data safety management remain one of the most important aspects within the management procedure. Data is protected through a variety of technical schemes, management and control measures and mechanism. Backup of data was conducted regularly and in time to prevent any data loss and guarantee system robustness and data security due to any intentional and/or unintentional failures such as physical disasters like floods, fires, lightning, or network interruption, data intrusion and destruction. All key data is backed up every day and stored securely on external servers.

Furthermore, the Information Security Accountability Management System guides IT department to ensure data protection 信息安全責任追究管理制度 In case of any tampering with data, change of business data, and/or data leakage, the responsible party will be penalized, some may be handed over to the law enforcement department if the case is serious.

Intellectual Property

Innovation plays a key role to achieve business success. The Group has specified a management procedure on the industry-university-research cooperation to supervise relevant R&D activities. The unique cooperation model has the advantage to combine most updated market information and technical support, to accelerate new technology development and deployment cycle. At the same time, the Group signs a confidentiality agreement with clients when appropriate to protect their intellectual property rights.

The Group continues to protect intellectual property by registering new technologies and applying patent with the State Intellectual Property Office of the PRC. During this Reporting Period, the Group has successfully obtained 16 new utility model patents, 4 new design patents, and 2 new invention patents.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B7. Anti-corruption

The Group has regarded honesty, integrity, and fairness as its core values. All employees are required to undergo a security background check during recruitment to investigate whether the applicant has a criminal record or not. Background checks such as illegal and criminal records shall be investigated regularly, and is further conducted during promotion or job transfer.

Personnel in charge of import and export business are monitored strictly per "accountability system for import and export business" 進出口業務責任追究管理制度. Those who violate laws and regulations will be punished, some may be handed over to law enforcement department if the case is serious.

In addition to internal control, the Agreement on Trade Security with business partners 商業夥伴貿易安全協議 also prohibits business partners to seek to engage in smuggling, selling counterfeit products, commit, or intend to commit tax evasion, and bribery activities.

The Group has not violated, engaged to violate any law relating to corruption. The Group has not been involved in, or seek to engage in, money laundering. The Group has not aided, abetted, assisted or colluded with an individual who has committed, or conspired to commit any unlawful activities. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to corruption, bribery, fraud and money laundering had been identified during the Reporting Period.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B8. Community Investment

The Group encourages employees to participate in various volunteering activities. Furthermore, the Group strongly promotes collaboration with think tanks for mutual benefits according to the management procedure on the industry-university-research cooperation. The Group offers its R&D centre as an off-campus training base for colleges and university students. When production condition allows, students can utilize R&D facilities and equipment for practical activities. In addition, the Group allows researchers to carry out test and other research activities in the R&D centre, providing real production and experimental conditions for scientific research. The Group encourages communication and knowledge exchange between its employees and professors from local institutes and universities. This allows sharing of latest trend and facilitates talent training at both sides.

Table 23: Community investment, collaborators and activities

Time	Activities	Beneficiary/ Collaborators/ Partner organizations
Jan/2018	DGKD has donated to Dongguan Shijie Huangsiwei Village Committee for supporting elderly caring activities 東莞市石碣鎮黃泗圍村委會	Local government
Jan/2018	IPET organized community activities for the Children's Day	Local schools
March/2018	IPET has donated for an event "Wat prabath numpu" for supporting caring of AIDS patients	Local government
June/2018	IPET has donated to Ministry of Industrial Ayutthaya Office for promoting active exchange of knowledge among industrial professionals	Local government
June/2018	GZXH has supported CNC car, CNC milling skills competition and the Group offered RMB 4,600 as the prize	Guangdong Huali technician college 廣東省華立技師學院
December/2018	IPET has shared environmental protection activities with local community	Local communities

APPENDIX: ESG INDEX

HKEx Reporting Guide			Page, Table
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 35
	KPI A1.1	The types of emissions and respective emissions data.	Table 1 & 2
	KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity.	Table 2
	KPI A1.3	Total hazardous waste produced and, where appropriate, intensity.	Table 3
	KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Table 4
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	Page 40
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Table 3 & 4

APPENDIX: ESG INDEX (Continued)

HKEx Reporting Guide			Page, Table
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 43
	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 42
	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 45
	KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Table 8
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 46
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Page 46

APPENDIX: ESG INDEX (Continued)

HKEx Reporting Guide			Page, Table
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 47
Recommended Disclosures	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Table 12
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Table 14
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 55
Recommended Disclosures	KPI B2.1	Number and rate of work-related fatalities.	Table 16
	KPI B2.2	Lost days due to work injury.	Table 16
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Page 55

APPENDIX: ESG INDEX (Continued)

HKEx Reporting Guide			Page, Table
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 57
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 17
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 58
Recommended Disclosures	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Page 58
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Page 58

APPENDIX: ESG INDEX (Continued)

HKEx Reporting Guide			Page, Table
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 59
Recommended Disclosures	KPI B5.1	Number of suppliers by geographical region.	Table 20
	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 59
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 61
Recommended Disclosures	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	n/a
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Table 22
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Page 64
	KPI B6.4	Description of quality assurance process and recall procedures.	Table 21
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Page 64

APPENDIX: ESG INDEX (Continued)

HKEx Reporting Guide			Page, Table
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 65
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.	n/a
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Page 65
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 66
Recommended Disclosures	KPI B8.1	Focus areas of contribution.	Page 66
	KPI B8.2	Resources contributed to the focus area.	Table 23

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 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 12 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDEN7DS

The Group's profit for the year ended 31 December 2018 and the Group's financial position at that date are set out in the financial statements on pages 90 to 93.

An interim dividend of HK$0.9 cent per share (2017: HK$2.2 cents per share) was paid on 21 September 2018. The Board does not recommend the payment of a final dividend (2017: HK$1.6 cents per share) in respect of the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 15 May 2019 to Monday, 20 May 2019 (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 Company's annual general meeting to be held on Monday, 20 May 2019 (the "2019 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, 14 May 2019 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. The review forms part contained in this directors' report.

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.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in note 18 to the financial statements.

PROPERTIES

Particulars of the major properties and property interests of the Group are shown on page 129 of annual report.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share options and share capital during the year are set out in notes 19 and 21 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 19 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Article 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 2018, 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 2018, 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$1,042,000 (2017: HK$140,000).

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 30.1% of the total sales for the year and sales to the largest customer included therein amounted to 9.1%. Purchases from the Group's five largest suppliers accounted for 29.6% of the total purchases for the year and purchases from the largest supplier included therein amounted to 8.0%.

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. Ng Hoi Ping
Mr. Chui Siu On (resigned on 29 October 2018)
Mr. Lau Siu Chung (resigned on 12 November 2018)
Ms. Chiu Tak Chun (resigned on 12 November 2018)

Non-executive director:

Ms. Zeng Jing

Independent non-executive directors:

Mr. Yang Rusheng
Mr. Cheung, Chun Yue Anthony
Mr. Mei Weiyi (appointed on 29 October 2018)
Dr. Cheng Ngok (resigned on 29 October 2018)

According to Article 87 of the Articles of Association, Mr. Yang Rusheng and Mr. Cheung, Chun Yue Anthony shall retire from office by rotation at the 2019 AGM whereas according to Article 86(3) of the Articles of Association, Mr. Mei Weiyi shall hold office until the 2019 AGM. All of the above retiring Directors, being eligible, will offer themselves for re-election at the 2019 AGM.

The Company has received annual confirmations of independence from Mr. Yang Rusheng, Mr. Cheung, Chun Yue Anthony and Mr. Mei Weiyi, as at the date of the report, still considers them to be independent.

REPORT OF THE DIRECTORS

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 17 to 19 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors 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 2019 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 2018, 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 underlying shares of the Company — physically settled unlisted equity derivatives:

Name of director	Capacity and nature of interests	Number of underlying shares in respect of the share options granted	Percentage of underlying shares over the Company's issued capital*
Mr. Zeng Guangsheng	Directly beneficially owned	22,000,000	2.09%
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 2018.

Note: Details of the above share options granted by the Company are set out in the section headed "Share option scheme" below and note 19 to the financial statements.

(B) Long positions in the ordinary shares of the 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%

Save as disclosed above, as at 31 December 2018, 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 19 to the financial statements.

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

Name or category of participant	Number of share options						Date of grant of share options[1][2]	Exercise period of share options	Exercise price of share options[3] HK$ per share
	At 1 January 2018	Granted during the year	Exercised during the year	Expired/ lapsed during the year	Forfeited/ cancelled during the year	At 31 December 2018			
Directors									
Mr. Zeng Guangsheng[4]	22,000,000	–	–	–	–	22,000,000	06-06-17	01-09-18 to 31-08-22	2.0200
Mr. Chui Siu On (resigned on 29 October 2018)	2,000,000	–	–	–	–	2,000,000	06-06-17	01-09-18 to 31-08-22	2.0200
Mr. Lau Siu Chung (resigned on 12 November 2018)	2,000,000	–	–	(2,000,000)	–	–	06-06-17	01-09-18 to 31-08-22	2.0200
Ms. Chiu Tak Chun (resigned on 12 November 2018)	2,000,000	–	–	(2,000,000)	–	–	06-06-17	01-09-18 to 31-08-22	2.0200
Mr. Ng Hoi Ping	10,000,000	–	–	–	–	10,000,000	06-06-17	01-09-18 to 31-08-22	2.0200
Ms. Zeng Jing	8,000,000	–	–	–	–	8,000,000	06-06-17	01-09-18 to 31-08-22	2.0200
	46,000,000	–	–	(4,000,000)	–	42,000,000			
Members of senior management and other employees of the Group									
In aggregate	4,000,000	–	–	(4,000,000)	–	–	06-06-17	01-09-18 to 31-08-22	2.0200
	50,000,000	–	–	(8,000,000)	–	42,000,000			

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 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 extraordinary general meeting held on 14 August 2017 pursuant to the Listing Rules.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 1(n)(ii) and note 19 to the financial statements respectively.

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 2018, 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	Notes	Capacity and nature of interests	Number of ordinary shares in the Company	Percentage of the Company's issued share capital*
Baoan Technology Company Limited		Directly beneficially owned	547,506,250	52.03%
China Baoan Group Co., Ltd.	(a)	Through controlled corporation	547,506,250	52.03%
Tottenhill Limited		Directly beneficially owned	167,966,975	15.96%
Mr. Chui Siu On	(b)	Through controlled corporation	167,966,975	15.96%
		Directly beneficially owned	14,576,250	1.39%
	(c)	Through spouse	125,000	0.01%
			182,668,225	17.36%
Ms. Leung Wing Yi		Directly beneficially owned	125,000	0.01%
	(d)	Through spouse	182,543,225	17.35%
			182,668,225	17.36%

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2018.

Notes:

(a) 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.

(b) These shares were held by Tottenhill Limited. Tottenhill Limited is a wholly owned entity of Mr. Chui Siu On. Accordingly, Mr. Chui Siu On was deemed to be interested in the 167,966,975 shares of the Company owned by Tottenhill Limited pursuant to Part XV of the SFO.

(c) These shares were held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On. Accordingly, 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.

(d) These shares were held by Mr. Chui Siu On, the husband of Ms. Leung Wing Yi. Accordingly, Ms. Leung Wing Yi was deemed to be interested in these shares owned by her husband 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*
Mr. Chui Siu On	Directly beneficially owned	2,000,000	0.19%
Ms. Leung Wing Yi	Through spouse	2,000,000 (Note)	0.19%

* The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2018.

Note: These underlying shares were held by Mr. Chui Siu On, the husband of Ms. Leung Wing Yi. Accordingly, 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 19 to the financial statements.

Save as disclosed above, as at 31 December 2018, 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

KPMG were first appointed as auditors of the Company in 2018 upon the retirement of Ernst & Young.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the 2019 AGM.

GENERAL DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

As detailed in the Company's announcement dated 16 May 2016, pursuant to the term loan facility agreement (the "Facility Agreement"), a term loan facility of HK$300,000,000 (the "Facility Loan") is made available to the Group for the general corporate purposes including, but not limited to financing working capital and refinancing or full repayment of existing indebtedness due under the term and revolving facility made available to the Group in 2013. The Facility Loan is repayable in 10 quarterly instalments commencing 9 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 was the Chief Executive Officer, an executive director and still being 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. In this regard, the Group has granted waivers from the lenders under the Loan Facilities from strict compliance with the provisions involving the role of Mr. Chui in the Group as disclosed above or approvals for the deletion of such provisions from the Loan Facilities.

ON BEHALF OF THE BOARD

Zeng Guangsheng
Chairman and the Chief Executive Officer

Hong Kong
25 March 2019

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 90 to 156, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the 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 2018 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 Hong Kong Institute of Certified Public Accountants ("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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

KEY AUDIT MATTERS (Continued)

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policies on page 114.

The Key Audit Matter	How the matter was addressed in our audit
Revenue of the Group mainly comprises sale of precision components to customers. The Group enters into sales orders with customers and sells its products in accordance with the terms agreed in the sales orders. Once the products are delivered to the location designated by the customers, the control of the goods are considered to have been transferred to the customers and revenue is recognised accordingly. The Group does not offer any discounts or rebates to customers and does not permit sales return except for where the products are damaged or defective. We identified the revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the revenue recognition by management to meet specific targets or expectations.	Our audit procedures to assess the revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting sales orders with customers, on a sample basis, to understand the terms of the sales transactions including the terms of delivery and acceptance and any sales return arrangements to assess the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • inspecting goods delivery notes and shipping documentation, on a sample basis, to assess whether revenue transactions recorded before and after the financial year end date had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the sales orders; • inspecting underlying documentation for manual journal entries and adjustments relating to revenue raised during the year which were considered to be material or met other specific risk-based criteria; and • inspecting actual sales returns and credit notes recorded after the financial year end and evaluating whether the related adjustments to revenue had been recorded in the appropriate financial period.

KEY AUDIT MATTERS (Continued)

Loss allowance for trade receivables

Refer to note 15 to the consolidated financial statements and the accounting policies on pages 105 to 110.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2018, the Group's gross trade receivables totalled HK$265.9 million and loss allowance of HK$1.3 million were recorded. Management measured loss allowance at an amount equal to lifetime expected credit loss, based on aging of the receivables and loss rate. According to the experience of the Group, the loss patterns for different customers are not significantly different. Therefore, the receivables are not segmented when calculating the loss allowance based on aging information. We identified loss allowance for trade receivables as a key audit matter because trade receivables and loss allowance are material to the Group and the recognition of expected credit losses is inherently subjective which requires the exercise of significant management judgement.	Our audit procedures to assess the loss allowance for trade receivables included the following: • Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, estimate of expected credit losses and making related allowances; • Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • Assessing whether items were correctly categorised in the trade receivables aging report by comparing a sample of individual items with the underlying goods delivery notes, sales invoices and other relevant underlying documentation; and • Comparing, on a sample basis, cash receipts from debtors subsequently to the financial year relating to trade receivables balances at 31 December 2018 with bank-in slips.

KEY AUDIT MATTERS (Continued)

Valuation of inventories

Refer to note 14 to the consolidated financial statements and the accounting policies on page 110.

The Key Audit Matter	How the matter was addressed in our audit
Inventories are carried at the lower of cost and net realisable value in the consolidated financial statements. At 31 December 2018, the net carrying value of inventories was HK$284.5 million. Management determines the lower of cost and net realisable value of inventories by considering the ageing profile, inventory obsolescence and the subsequent selling price of individual inventory item. We identified the valuation of inventories as a key audit matter because the Group held significant inventories at the reporting date and because of the significant degree of management judgement involved in evaluating the net realisable value for inventories.	Our audit procedures to assess the valuation of inventories included the following: ▪ obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's internal controls relating to valuation of inventories; ▪ comparing the purchase prices of inventories with supplier invoices, on a sample basis; ▪ for work-in-progress and finished goods, challenging the key assumptions concerning overhead absorption by assessing the cost of items included in the overhead absorption calculations, on a sample basis; ▪ comparing, on a sample basis, the actual selling prices achieved during the current year with the estimated selling prices of the respective inventories at the end of the previous financial year to assess the historical accuracy of management's estimating process; ▪ assessing, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking the goods receipt notes; and ▪ comparing, on a sample basis, the subsequent selling price of the finished goods to their carrying values of these inventories as at the financial year end.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all 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 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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.

- 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.

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

- 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 Li Shiu Chung.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018 (Expressed in Hong Kong dollars)

	Notes	2018 HK$'000	2017 (Note) HK$'000
Revenue	3	**943,476**	941,438
Cost of sales		**(652,687)**	(618,010)
Gross profit		**290,789**	323,428
Other income	4	**8,557**	7,017
Distribution costs		**(26,535)**	(23,778)
Administrative expenses and other expenses		**(152,887)**	(160,639)
Profit from operations		**119,924**	146,028
Finance costs	5(a)	**(18,471)**	(15,972)
Share of losses of an associate	13	**(1,271)**	(17)
Profit before taxation	5	**100,182**	130,039
Income tax	6(a)	**(15,720)**	(15,327)
Profit for the year		**84,462**	114,712
Attributable to:			
Equity shareholders of the Company		**85,328**	114,808
Non-controlling interests		**(866)**	(96)
Profit for the year		**84,462**	114,712
Earnings per share	9		
Basic		**HK8.11 cents**	HK10.91 cents
Diluted		**HK8.11 cents**	HK10.83 cents

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 96 to 156 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 21(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018 (Expressed in Hong Kong dollars)

	Notes	2018 HK$'000	2017 (Note) HK$'000
Profit for the year		**84,462**	114,712
Other comprehensive income for the year			
Exchange differences on translation of foreign operations		**(80,959)**	132,344
Total comprehensive income for the year		**3,503**	247,056
Attributable to:			
Equity shareholders of the Company		**4,325**	246,963
Non-controlling interests		**(822)**	93
Total comprehensive income for the year		**3,503**	247,056

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 96 to 156 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Notes	31 December 2018 HK$'000	31 December 2017 (Note) HK$'000
Non-current assets			
Property, plant and equipment and leasehold land	10	**737,495**	775,257
Lease prepayments	11	**76,848**	83,101
Interest in an associate	13	**1,480**	2,844
Deposits for purchase of non-current assets		**4,269**	16,414
Deferred tax assets	20(b)	**8,608**	5,427
		828,700	883,043
Current assets			
Inventories	14	**284,463**	227,809
Trade and other receivables	15	**301,992**	306,736
Cash and cash equivalents	16	**840,181**	913,434
		1,426,636	1,447,979
Current liabilities			
Trade and other payables	17	**110,311**	107,616
Bank loans	18	**436,775**	325,129
Tax payable	20(a)	**3,784**	6,232
		550,870	438,977
Net current assets		**875,766**	1,009,002
Total assets less current liabilities		**1,704,466**	1,892,045

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Notes	31 December 2018 HK$'000	31 December 2017 (Note) HK$'000
Non-current liabilities			
Bank loans	18	–	179,375
Other payables	17	**1,299**	1,294
Deferred tax liabilities	20(b)	**10,302**	10,101
		11,601	190,770
NET ASSETS		**1,692,865**	1,701,275
CAPITAL AND RESERVES			
Share capital	21(c)	**105,225**	105,225
Reserves		**1,588,355**	1,594,656
Total equity attributable to equity shareholders of the Company		**1,693,580**	1,699,881
Non-controlling interests		**(715)**	1,394
TOTAL EQUITY		**1,692,865**	1,701,275

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

Approved and authorized for issue by the board of directors on 25 March 2019.

Zeng Guangsheng
Director

Ng Hoi Ping
Director

The notes on pages 96 to 156 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018 (Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company											
	Note	Issued capital	Share premium	Contributed surplus	Statutory reserve	Statutory public welfare fund	Capital redemption reserve	Share option reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance 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
Changes in equity for 2017:													
Profit for the year		-	-	-	-	-	-	-	-	114,808	114,808	(96)	114,712
Other comprehensive income		-	-	-	-	-	-	-	132,155	-	132,155	189	132,344
Total comprehensive income for the year		-	-	-	-	-	-	-	132,155	114,808	246,963	93	247,056
Dividends approved in respect of the previous year	21(b)	-	-	-	-	-	-	-	-	(26,306)	(26,306)	(741)	(27,047)
Cancellation of options	19	-	-	-	-	-	-	(8,452)	-	8,452	-	-	-
Equity settled share-based transaction	19	-	-	-	-	-	-	13,720	-	-	13,720	-	13,720
Appropriation for surplus reserve		-	-	-	3,036	-	-	-	-	(3,036)	-	-	-
Dividends declared in respect of the current year	21(b)	-	-	-	-	-	-	-	-	(23,150)	(23,150)	-	(23,150)
Balance 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
Changes in equity for 2018:													
Profit for the year		-	-	-	-	-	-	-	-	85,328	85,328	(866)	84,462
Other comprehensive income		-	-	-	-	-	-	-	(81,003)	-	(81,003)	44	(80,959)
Total comprehensive income for the year		-	-	-	-	-	-	-	(81,003)	85,328	4,325	(822)	3,503
Dividends approved in respect of the previous year	21(b)	-	-	-	-	-	-	-	-	(16,836)	(16,836)	(1,287)	(18,123)
Equity settled share-based transaction	19	-	-	-	-	-	-	10,976	-	4,704	15,680	-	15,680
Appropriation for surplus reserve		-	-	-	4,993	-	-	-	-	(4,993)	-	-	-
Dividends declared in respect of the current year	21(b)	-	-	-	-	-	-	-	-	(9,470)	(9,470)	-	(9,470)
Balance at 31 December 2018		105,225	489,197	(1,116)	50,711	287	7,905	24,696	96,871	919,804	1,693,580	(715)	1,692,865

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 1(c).

The notes on pages 96 to 156 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018 (Expressed in Hong Kong dollars)

	Notes	2018 HK$'000	2017 (Note) HK$'000
Operating activities			
Cash generated from operations	16(b)	**201,941**	202,523
Income tax paid	20(a)	**(21,507)**	(22,397)
Net cash generated from operating activities		**180,434**	180,126
Investing activities			
Interest received		**6,601**	4,383
Payment for purchase of property, plant and equipment		**(106,922)**	(187,232)
Payment for purchase of share in an associate		**–**	(9,779)
Proceeds from disposal of property, plant and equipment		**1,777**	6,792
Net cash used in investing activities		**(98,544)**	(185,836)
Financing activities			
Interest paid	16(c)	**(16,587)**	(14,088)
Proceeds from new bank loans	16(c)	**240,664**	296,978
Repayment of bank loans	16(c)	**(308,213)**	(325,572)
Dividends paid to equity shareholder of the Company	21(b)	**(26,306)**	(49,456)
Dividends paid to non-controlling shareholders		**(1,287)**	(741)
Net cash used in financing activities		**(111,729)**	(92,879)
Net decrease in cash and cash equivalents		**(29,839)**	(98,589)
Cash and cash equivalents at 1 January	16(a)	**913,434**	961,592
Effect of foreign exchange rate changes		**(43,414)**	50,431
Cash and cash equivalents at 31 December	16(a)	**840,181**	913,434

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 96 to 156 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, *Prepayment features with negative compensation*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group chose to recognise the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. However, there is no impact of transition to HKFRS 9 on retained earnings and reserves at 1 January 2018.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)

b. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

— financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables); and

— lease receivables.

For further details on the Group's accounting policy for accounting for credit losses, see note 1(h)(i).

c. *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

— The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  — the determination of the business model within which a financial asset is held; and

  — the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. However, there is no impact of transition to HKFRS 15 on retained earnings and reserves at 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of products.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, *Revenue from contracts with customers* (Continued)

b. Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises financing component from sale of goods and this change in accounting policy had no material impact on opening balances as at 1 January 2018.

c. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 1(j)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The adoption of HKFRS 15 does not have a significant impact on presentation of contract assets and liabilities and this change in accounting policy had no material impact on opening balances as at 1 January 2018.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests (Continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)(ii)).

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is reclassified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(h)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment

The following property held for own use are stated at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation:

— freehold land and buildings.

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the end of reporting period.

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(h)(ii)):

— buildings held for own use which are situated on leasehold land classified as held under operating leases (see note 1(g)); and

— other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Freehold land is not depreciated.

— Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

— Leasehold improvements are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being 5 to 10 years after the date of completion.

—	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 or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Operating leases

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred. The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates); and

— lease receivables.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

<u>Measurement of ECLs</u>
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates ;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and lease receivables (Continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

— For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts);

— pre-paid interests in leasehold land classified as being held under an operating lease; and

— investments in subsidiaries and associates in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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 risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Credit losses and impairment of assets (Continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(h)(i)).

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(h)(i)).

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(h)(i).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(s)).

(n) Employee benefits

(i) Short-term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

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

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. No adjustment was made to the opening balance as at 1 January 2018 due to the adoption of HKFRS 15 has no impact on the Group.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue from sales of precision component products was recognised when the products were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods, irrespective of whether the products had been made-to-order or were standardised.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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).

(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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

Key sources of estimation uncertainty are as follows:

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value.

The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future years is adjusted if there are significant changes from previous estimation.

(b) Impairments

(i) In considering the impairment losses that may be required for certain property, plant and equipment, lease prepayments, non-current financial assets and prepayment for machinery, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs.

(Expressed in Hong Kong dollars unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(b) Impairments (Continued)

(ii) Impairment losses for bad and doubtful debts are assessed and provided based on the directors' regular review of aging analysis and evaluation of collectability. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and collection history of each individual customer.

An increase or decrease in the above impairment losses would affect the net profit or loss in future years.

(iii) Impairment losses for inventories are assessed and provided based on the directors' regular review of market price against inventories costs. A considerable level of judgment is exercised by the directors when assessing the market price.

An increase or decrease in the above impairment losses would affect the net profit or loss in future years.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the manufacturing and sale of precision components products. Further details regarding the Group's principal activities are disclosed in note 3(b).

(i) Disaggregation of revenue

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

	2018	2017 (Note)
	HK$'000	HK$'000
Sales of automotive components	**465,070**	438,009
Sales of hydraulic equipment components	**263,476**	255,326
Sales of Hard Disk Driver ("HDD") components	**165,964**	179,018
Others	**48,966**	69,085
Total	**943,476**	941,438

Note: The group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 1(c)(ii)).

The Group's customer base is diversified and does not include any individual customer (2017: Nil) with whom transactions have exceeded 10% of the Group's revenue.

3 REVENUE AND SEGMENT REPORTING (Continued)

(a) Revenue (Continued)

(ii) As at 31 December 2018, there were no revenue expected to be recognised in the future arising from contracts with customers in existence.

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by the geographical locations of the customers. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following six reportable segments. No operating segments have been aggregated to form the following reportable segments.

(a) Thailand;

(b) Malaysia;

(c) Mainland China, Macau and Hong Kong;

(d) North America;

(e) Europe; and

(f) Other countries.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is gross profit. The Group's senior executive management is provided with segment information concerning segment revenue and gross profit.

(Expressed in Hong Kong dollars unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	2018						
	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
Revenue from external customers recognised by point in time	57,889	108,335	293,750	235,070	218,725	29,707	943,476
Inter-segment revenue	15,430	-	-	-	-	-	15,430
Reportable segment revenue	73,319	108,335	293,750	235,070	218,725	29,707	958,906
Reportable segment profit							
Gross profit	17,842	33,390	90,537	72,451	67,413	9,156	290,789

	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
Revenue from external customers recognised by point in time	58,161	120,328	259,332	275,548	194,785	33,284	941,438
Inter-segment revenue	7,999	-	-	-	-	-	7,999
Reportable segment revenue	66,160	120,328	259,332	275,548	194,785	33,284	949,437
Reportable segment profit							
Gross profit	20,007	41,226	88,951	94,789	67,006	11,449	323,428

(Expressed in Hong Kong dollars unless otherwise indicated)

4 OTHER INCOME

	2018 HK$'000	2017 HK$'000
Interest income	6,601	4,383
Rental income	77	358
Others	1,879	2,276
	8,557	7,017

5 PROFIT BEFORE TAXATION

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

	2018 HK$'000	2017 (Note) HK$'000
(a) Finance costs		
Interest on bank loans (note 16(c))	16,587	14,088
Financial arrangement fees	1,884	1,884
	18,471	15,972
(b) Staff costs (i)		
Contributions to defined contribution retirement plan	12,263	10,584
Equity-settled share-based payment expenses	15,680	13,720
Salaries, wages and other benefits	241,177	184,232
	269,120	208,536

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION (Continued)

	2018 HK$'000	2017 (Note) HK$'000
(c) Other items		
Cost of inventories (ii) (Note 14)	**646,391**	612,146
Depreciation (note 10)	**121,321**	112,792
Amortisation of lease prepayments (Note 11)	**2,158**	2,100
Operating lease charges	**1,508**	1,472
Net foreign exchange (gain)/loss	**(9,592)**	20,074
Research and development costs (iii)	**22,942**	12,515
Auditor's remuneration		
— audit services	**1,800**	2,400
— other services	**699**	901
Loss on disposal of items of property, plant and equipment	**714**	570
Impairment losses/(written back) on:		
— investment in associate (Note 13)	**–**	7,330
— trade receivables (Note 22(a))	**556**	7
— other receivables	**(1,046)**	–

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

(i) The amount of staff costs includes HK$26,554,000 (2017: HK$24,831,000) relating to director's remuneration, which is disclosed in note 7.

(ii) Cost of inventories includes HK$278,006,000 (2017: HK$239,101,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

(iii) Research and development costs includes HK$14,004,000 (2017: HK$6,200,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2018 HK$'000	2017 HK$'000
Current tax		
Provision for current income tax	**19,502**	13,496
(Over)/under-provision in prior years	**(443)**	2,991
	19,059	16,487
Deferred tax		
Origination and reversal of temporary differences	**(3,339)**	(1,160)
	15,720	15,327

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2018 except that the first HK$2 million estimated assessable profits of one of the subsidiaries of the Group in Hong Kong is calculated at 8.25% (2017: 16.5%).

(iii) Pursuant to the income tax rules and regulations of the PRC, the PRC subsidiaries of the Group are liable to PRC corporate income tax at a rate of 25% for 2018 (2017: 25%) except for Guangzhou Xin Hao Precision Metal Products Company Limited ("Guangzhou Xinhao") which was certified as "High and New-Technology Enterprise" and entitled to the preferential income tax rate of 15% from 2018 (2017: 25%).

(iv) 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% (2017: 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.

(v) Under Decree-Law no. 58/99/M, companies in Macau incorporated under the said Decree-Law are exempted from Macau complementary tax (Macau income tax), subject to the fulfilment of certain conditions. IPE Macao Commercial Offshore Limited, a subsidiary of the Group in Macau, is incorporated under the Decree-Law no. 58/99/M and should be qualified for the tax exemption.

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 HK$'000	2017 HK$'000
Profit before taxation	**100,182**	130,039
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**22,295**	22,769
Effect of tax concessions for a subsidiary	**(18,334)**	(28,371)
Super deduction on research and development expenses	**(2,490)**	–
Tax effect of non-deductible expenses	**6,301**	2,871
Tax effect of non-taxable income	**(1,665)**	(269)
Tax effect of unused tax losses not recognised	**8,804**	16,831
Tax losses utilised	**(170)**	(1,495)
Effect of tax rate changes	**1,422**	–
(Over)/under-provision in prior years	**(443)**	2,991
Actual tax expense	**15,720**	15,327

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, deductibility of expenses 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. As advised by the external tax expertise, it is premature to draw a conclusion on the outcome of the review.

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2018						
Executive directors:						
Mr. Zeng Guangsheng	250	2,210	-	6,507	18	8,985
Mr. Ng Hoi Ping	250	1,380	-	3,277	18	4,925
Mr. Chui Siu On (i)	208	2,593	-	655	15	3,471
Mr. Lau Siu Chung (ii)	229	842	1,195	655	17	2,938
Ms. Chiu Tak Chun (ii)	229	792	1,195	655	17	2,888
Non-executive director:						
Ms. Zeng Jing	250	-	-	2,621	-	2,871
Independent non-executive director:						
Mr. Yang Rusheng	150	-	-	-	-	150
Mr. Cheung, Chun Yue, Anthony	150	-	-	-	-	150
Mr. Mei Weiyi (iii)	26	-	-	-	-	26
Dr. Cheng Ngok (i)	150	-	-	-	-	150
	1,892	7,817	2,390	14,370	85	26,554

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' EMOLUMENTS (Continued)

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
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 (iv)	161	392	–	–	1	554
Mr. Li Chi Hang (iv)	100	183	–	–	9	292
Mr. Yuen Chi Ho (iv)	150	550	155	–	8	863
Non-executive director:						
Ms. Zeng Jing	146	–	–	2,293	–	2,439
Independent non-executive director:						
Dr. Cheng Ngok	129	–	–	–	–	129
Mr. Yang Rusheng	88	–	–	–	–	88
Mr. Cheung, Chun Yue, Anthony	88	–	–	–	–	88
Mr. Choi Hon Ting, Derek (v)	100	–	–	–	–	100
Mr. Wu Karl Kwok (v)	100	–	–	–	–	100
Mr. Hung King Kuen, Randy (vi)	50	–	–	–	–	50
	2,566	8,491	1,093	12,573	108	24,831

7 DIRECTORS' EMOLUMENTS (Continued)

(i) Mr. Chui Siu On and Dr. Cheng Ngok resigned as executive directors and independent non-executive directors on 29 October 2018.

(ii) Mr. Lau Siu Chung and Ms. Chiu Tak Chun resigned as executive director on 12 November 2018.

(iii) Mr. Mei Weiyi was appointed as independent non-executive directors on 29 October 2018.

(iv) Mr. Ho Yu Hoi, Mr. Li Chi Hang and Mr. Yuen Chi Ho resigned as executive directors on 2 June 2017.

(v) Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok resigned as independent non-executive directors on 2 June 2017.

(vi) Mr. Hung King Kuen, Randy resigned as independent non-executive directors on 9 May 2017.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 3 (2017: 4) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2017: one) individuals are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other emoluments	**5,709**	1,599
Discretionary bonuses	**–**	155
Share-based payments	**1,310**	1,147
Retirement scheme contributions	**33**	18
	7,052	2,919

The emoluments of the two (2017: one) individuals with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
HK$2,000,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$4,000,000	**2**	–

(Expressed in Hong Kong dollars unless otherwise indicated)

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$85,328,000 (2017: HK$114,808,000) and the weighted average of 1,052,254,135 ordinary shares (2017: 1,052,254,135 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$85,328,000 (2017: HK$114,808,000) and the weighted average number of ordinary shares of 1,052,254,135 shares (2017: 1,060,209,466 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2018	2017
Weighted average number of ordinary shares at 31 December	**1,052,254,135**	1,052,254,135
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (Note 19)	**–**	7,955,331
Weighted average number of ordinary shares (diluted) at 31 December	**1,052,254,135**	1,060,209,466

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At 1 January 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 from construction in progress	7,428	134	8,980	2,676	794	(20,012)	-
Disposals	–	–	(5,162)	(1,592)	(2,265)	(6,330)	(15,349)
Exchange adjustment	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
At 1 January 2018	678,647	16,366	1,556,868	80,260	23,049	43,567	2,398,757
Additions	70,768	686	33,021	5,451	1,739	9,469	121,134
Transfer from construction in progress	-	2,828	1,120	-	-	(3,948)	-
Disposals	-	-	(2,964)	(1,049)	(5,408)	(1,213)	(10,634)
Exchange adjustment	(30,436)	(758)	(68,187)	(3,865)	(791)	(2,364)	(106,401)
At 31 December 2018	718,979	19,122	1,519,858	80,797	18,589	45,511	2,402,856
Accumulated depreciation:							
At 1 January 2017	(211,422)	(5,800)	(1,114,121)	(53,034)	(15,617)	-	(1,399,994)
Charge for the year (Note 5)	(35,536)	(2,349)	(67,424)	(5,907)	(1,576)	-	(112,792)
Written back on disposals	–	–	4,491	1,560	1,936	-	7,987
Exchange adjustment	(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 1 January 2018	(265,659)	(8,549)	(1,271,248)	(61,760)	(16,284)	-	(1,623,500)
Charge for the year (Note 5)	(37,240)	(2,849)	(73,007)	(6,713)	(1,512)	-	(121,321)
Written back on disposals	-	-	2,950	1,026	2,954	-	6,930
Exchange adjustment	12,574	449	55,861	3,028	618	-	72,530
At 31 December 2018:	(290,325)	(10,949)	(1,285,444)	(64,419)	(14,224)	-	(1,665,361)
Net book value:							
At 31 December 2018	428,654	8,173	234,414	16,378	4,365	45,511	737,495
At 31 December 2017	412,988	7,817	285,620	18,500	6,765	43,567	775,257

(Expressed in Hong Kong dollars unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

The freehold land amounting to THB19,201,000 (equivalent to HK$4,633,000 included in land and buildings is situated in Thailand (2017: THB19,201,000 (equivalent to HK$4,613,000)).

As at 31 December 2018, the Group is in the process of applying for the title certificates of certain properties with carrying value of approximately HK$28,745,000 as at 31 December 2018 (2017: HK$33,001,000). The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

11 LEASE PREPAYMENTS

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**85,282**	81,189
Amortised during the year	**(2,158)**	(2,100)
Exchange adjustment	**(4,204)**	6,193
Carrying amount at 31 December	**78,920**	85,282
Current portion included in prepayments, deposits and other receivables	**(2,072)**	(2,181)
Non-current portion	**76,848**	83,101

As at 31 December 2018, the Group is in the process of applying for the title certificates of a land use right with carrying value of approximately HK$3,281,000 (2017: HK$3,584,000). The directors of the Company are of the opinion that the use of and the conduct of operating activities referred to above are not affected by the fact that the Group has not yet obtained the relevant land use right title certificates.

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	Place of incorporation and business	Particulars of issued and paid-up capital and debt securities	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Integrated Precision Engineering (Thailand) Company Limited ("IPE Thailand")	Thailand	THB150,000,000	99.99%	–	99.99%	Trading and manufacture of precision metal components
Integrated Precision Engineering Company Limited	Hong Kong	HK$3,000,000	100%	–	100%	Trading of precision metal components and investment holding
IPE Macao Commercial Offshore Limited	Macau	Macao Pataca 100,000	100%	–	100%	Trading of precision metal components
Dongguan Koda Metal Products Company Limited ("Dongguan Koda")	PRC	HK$213,000,000	100%	–	100%	Manufacture of precision metal components
Guangzhou Xin Hao Precision Metal Products Company Limited ("Xin Hao")	PRC	HK$742,000,000	100%	–	100%	Manufacture of precision metal components
Cullygrat Surface Treatment (Taicang) Company Limited ("Taicang")	PRC	HK$5,000,000	61%	–	61%	Surface and deburring treatment services
International Precision Engineering Company Limited	Hong Kong	HK$1,000	100%	–	100%	Investment holding
Jiangsu Koda Precision Engineering Company Limited ("Jiangsu Koda")	PRC	US$40,000,000	100%	–	100%	Manufacture of precision metal components
Changshu Keyu Greystone Machining Company Limited ("Changshu Keyu")	PRC	US$1,300,000	85%	–	85%	Manufacture of precision metal components
Changshu Kuria Intelligent Equipment Company Limited ("Changshu Kuria")	PRC	HK$20,000,000	100%	–	100%	Trading and manufacture of intelligent equipment

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.

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INTEREST IN AN ASSOCIATE

The following is the Group's only associate which is an unlisted corporate entity:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
Shenzhen X-TEC Technology Company Limited	Incorporated	PRC	RMB 13,953,500	28.33%	28.33%	Manufacture of precision metal components

The above associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

	2018 HK$'000	2017 HK$'000
Gross amounts of the associate		
Current assets	9,360	12,886
Non-current assets	575	222
Current liabilities	4,712	3,069
Equity	5,223	10,039
Revenue	9,266	–
Total comprehensive income	(4,486)	(60)
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	5,223	10,039
Group's effective interest	28.33%	28.33%
Group's share of net assets of the associate	1,480	2,844
Carrying amount in the consolidated financial statements	1,480	2,844

(Expressed in Hong Kong dollars unless otherwise indicated)

14 INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**65,303**	74,962
Consumables	**26,630**	36,026
Work in progress	**70,913**	64,812
Finished goods	**121,617**	52,009
	284,463	227,809

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

	2018 HK$'000	2017 HK$'000
Carrying amount of inventories sold	**652,687**	618,010
Write down of inventories	**(6,296)**	(5,864)
Cost of inventories (Note 5(c))	**646,391**	612,146

15 TRADE AND OTHER RECEIVABLES

	Note	**2018 HK$'000**	2017 HK$'000
Trade debtors and bills receivable, net of loss allowance	(i)	**264,658**	266,630
Other debtors		**29,961**	26,927
Financial assets measured at amortised cost		**294,619**	293,557
Deposits and prepayments		**7,373**	13,179
		301,992	306,736

Notes:

(i) Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade debtors and bills receivable (see note 1(c)(i)).

15 TRADE AND OTHER RECEIVABLES (Continued)

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors (which are included in trade debtors and bills receivables), based on the invoice date and net of loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 month	**91,388**	100,814
1 to 2 months	**70,772**	74,986
2 to 3 months	**51,135**	43,938
3 to 4 months	**33,854**	32,455
4 to 12 months	**17,509**	14,437
	264,658	266,630

Trade debtors are due within 60 to 120 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 22(a).

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2018 HK$'000	2017 HK$'000
Deposits with banks	**175,576**	109,997
Cash at bank and on hand	**664,605**	803,437
Cash and cash equivalents in the consolidated statement of financial position	**840,181**	913,434

(Expressed in Hong Kong dollars unless otherwise indicated)

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2018 HK$'000	2017 (Note) HK$'000
Profit before taxation		**100,182**	130,039
Adjustments for:			
Depreciation	5(c)	**121,321**	112,792
Amortisation of land lease payments	5(c)	**2,158**	2,100
Impairment of an investment in associate		**–**	7,330
Impairment loss of trade receivables	5(c)	**556**	7
Finance costs	5(a)	**18,471**	15,972
Interest income	4	**(6,601)**	(4,383)
Share of losses of an associate		**1,271**	17
Loss on sale of property, plant and equipment	5(c)	**714**	570
Equity-settled share-based payment expenses		**15,680**	13,720
Changes in working capital:			
Increase in inventories		**(56,654)**	(29,238)
Decrease/(increase) in trade and other receivables		**4,192**	(53,044)
Increase in trade and other payables		**651**	6,641
Cash generated from operations		**201,941**	202,523

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

(Expressed in Hong Kong dollars unless otherwise indicated)

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(c) Reconciliation of liabilities arising from financing activities

	Bank loans HK$'000	Interest payable HK$'000	Total HK$'000
At 1 January 2018	**504,504**	**–**	**504,504**
Changes from financing cash flows:			
Proceeds from new bank loans	**240,664**	**–**	**240,664**
Repayments of bank loans	**(308,213)**	**–**	**(308,213)**
Interest paid	**–**	**(16,587)**	**(16,587)**
Total changes from financing cash flows	**(67,549)**	**(16,587)**	**(84,136)**
Other changes:			
Interest on bank loans (Note 5(a))	**–**	**16,587**	**16,587**
Exchange adjustment	**(180)**	**–**	**(180)**
	(180)	**16,587**	**16,407**
At 31 December 2018	**436,775**	**–**	**436,775**
At 1 January 2017	530,516	–	530,516
Changes from financing cash flows:			
Proceeds of new bank loans	296,978	–	296,978
Repayments of bank loans	(325,572)	–	(325,572)
Interest paid	–	(14,088)	(14,088)
Total changes from financing cash flows	(28,594)	(14,088)	(42,682)
Other changes:			
Interest on bank loans (Note 5(a))	–	14,088	14,088
Exchange adjustment	2,582	–	2,582
	2,582	14,088	16,670
At 31 December 2017	504,504	–	504,504

(Expressed in Hong Kong dollars unless otherwise indicated)

17 TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	60,759	60,672
Other payables	26,623	23,808
Accruals	24,228	24,430
	111,610	108,910
Portion classified as non-current:		
Other payables	(1,299)	(1,294)
Current portion	110,311	107,616

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

	2018 HK$'000	2017 HK$'000
Within 1 month	26,241	25,814
1 to 2 months	22,087	24,414
2 to 3 months	9,737	9,619
Over 3 months	2,694	825
	60,759	60,672

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

(Expressed in Hong Kong dollars unless otherwise indicated)

18 BANK LOANS

At 31 December 2018, the bank loans were repayable as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year or on demand	436,775	325,129
After 1 year but within 2 years	–	179,375
	436,775	504,504

Some of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the group's management of liquidity risk are set out in note 22(b). As at 31 December 2018 none of the covenants relating to drawn down facilities had been breached (2017: $ nil).

19 EQUITY SETTLED SHARE-BASED TRANSACTIONS

In 2011, the Company has adopted a 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.

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.

19 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

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 63,075,413 (2017: 55,075,413) shares, which represented approximately 6.00% (2017: approximately 5.23%) of the Company's shares in issue as at that date.

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.

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

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Exercise period	Contractual life of options
Options granted to directors:			
— on 6 June 2017	24,000,000	2018/9/1–2022/8/31	5 years
— on 14 August 2017	22,000,000	2018/9/1–2022/8/31	5 years
Options granted to employees:			
— on 6 June 2017	4,000,000	2018/9/1–2022/8/31	5 years
Total share options granted	50,000,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2018		2017	
	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	**2.02**	**50,000**	1.01	44,300
Granted during the year	**–**	**–**	2.02	50,000
Lapsed during the year	**2.02**	**(8,000)**	–	–
Cancelled during the year	**–**	**–**	1.01	(44,300)
At 31 December	**2.02**	**42,000**	2.02	50,000

(Expressed in Hong Kong dollars unless otherwise indicated)

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2018 HK$'000	2017 HK$'000
At 1 January	**6,232**	12,142
Provision for current income tax (note 6(a))	**19,059**	16,487
Income tax paid	**(21,507)**	(22,397)
At 31 December	**3,784**	6,232

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax assets/(liabilities)

	Provision for impairment of assets HK$'000	Deductible tax loss HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Withholding tax for distributable profit of the PRC subsidiaries HK$'000	Total HK$'000
At 1 January 2017	3,190	–	(665)	(8,637)	(6,112)
Deferred tax credited/(charged) to the statement of profit or loss during the year	1,901	–	(741)	–	1,160
Exchange adjustment	336	–	(58)	–	278
At 31 December 2017 and 1 January 2018	**5,427**	**-**	**(1,464)**	**(8,637)**	**(4,674)**
Deferred tax credited/(charged) to the statement of profit or loss during the year	**1,960**	**2,996**	**(195)**	**-**	**4,761**
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(1,422)**	**-**	**-**	**-**	**(1,422)**
Exchange adjustment	**(233)**	**(120)**	**(6)**	**-**	**(359)**
At 31 December 2018	**5,732**	**2,876**	**(1,665)**	**(8,637)**	**(1,694)**

(Expressed in Hong Kong dollars unless otherwise indicated)

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognised: (Continued)

(ii) Reconciliation to the consolidated statement of financial position

	2018 HK$'000	2017 HK$'000
Net deferred tax asset recognised in the consolidated statement of financial position	**8,608**	5,427
Net deferred tax liability recognised in the consolidated statement of financial position	**(10,302)**	(10,101)
	(1,694)	(4,674)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$165,583,000 (2017: HK$142,836,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2018, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$230,513,000 (2017: HK$185,246,000). Deferred tax liabilities of HK$23,051,300 (2017: HK$18,525,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

(Expressed in Hong Kong dollars unless otherwise indicated)

21 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital HK$'000	Share premium account HK$'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 2017	105,225	472,201	7,905	(9,958)	8,452	348,114	931,939
Changes in equity for 2017							
Total comprehensive income for the year	–	–	–	–	–	63,852	63,852
Dividends approved in respect of the previous year	–	–	–	–	–	(26,306)	(26,306)
Cancellation of options	–	–	–	–	(8,452)	8,452	–
Equity settled share-based transaction	–	–	–	–	13,720	–	13,720
Dividends declared in respect of the current year	–	–	–	–	–	(23,150)	(23,150)
Balance at 31 December 2017	**105,225**	**472,201**	**7,905**	**(9,958)**	**13,720**	**370,962**	**960,055**
Changes in equity for 2018							
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**35,678**	**35,678**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**(16,836)**	**(16,836)**
Equity settled share-based transaction	**–**	**–**	**–**	**–**	**10,976**	**4,704**	**15,680**
Dividends declared in respect of the current year	**–**	**–**	**–**	**–**	**–**	**(9,470)**	**(9,470)**
Balance at 31 December 2018	**105,225**	**472,201**	**7,905**	**(9,958)**	**24,696**	**385,038**	**985,107**

Note: The Group, including the Company, has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

(Expressed in Hong Kong dollars unless otherwise indicated)

21 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2018 HK$'000	2017 HK$'000
Interim dividend declared and paid of HK0.9 cent per ordinary share (2017: HK$2.2 cents per ordinary share)	9,470	23,150
No final dividend proposed after the end of the reporting period (2017: HK$1.6 cents per ordinary share)	–	16,836
	9,470	39,986

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.

	2018 HK$'000	2017 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$1.6 cents per ordinary share (2017: HK$2.5 cents per ordinary share)	16,836	26,306

(c) Issued share capital

	2018		2017	
	No. of shares ('000)	HK$'000	No. of shares ('000)	HK$'000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	1,052,254	105,225	1,052,254	105,225

(Expressed in Hong Kong dollars unless otherwise indicated)

21 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves

(i) Statutory reserve

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 transfer at least 10% of its net profit as determined in accordance with the Company Law of the PRC to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owner. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(r).

(iii) Contributed surplus

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 reorganization prior to the listing of the Company's shares, and the nominal value of the Company's shares issued in exchange therefor.

(iv) Statutory public welfare fund reserve

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 in prior years. The statutory public welfare fund can be used for employee's welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the year ended 31 December 2018 (2017: Nil).

21 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net cash-to-capital ratio. For this purpose, adjusted net cash is defined as total cash less interest-bearing loans and borrowings. Adjusted capital comprises all components of equity.

During 2018, the Group's strategy, which was unchanged from 2017, was to maintain the cash-to-equity ratio at a level considered reasonable by the Group's management from time to time with reference to the prevailing market conditions. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt. The Group's adjusted net cash-to-capital ratio at 31 December 2018 and 2017 was as follows:

	Note	**2018** **HK$'000**	2017 HK$'000
Cash and cash equivalents	16	**840,181**	913,434
Less: Bank loans	18	**(436,775)**	(504,504)
Adjusted net cash		**403,406**	408,930
Total equity		**1,693,580**	1,699,881
Adjusted net cash-to-capital ratio		**24%**	24%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(Expressed in Hong Kong dollars unless otherwise indicated)

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 6.47% (2017: 3.16%) and 32.12% (2017: 28.76%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 60–120 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

(Expressed in Hong Kong dollars unless otherwise indicated)

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	0.1%	181,414	181
1–90 days past due	0.2%	67,008	134
91–180 days past due	0.5%	13,114	66
181–365 days past due	5.0%	3,687	184
Over 1 years past due	100%	691	691
		265,914	1,256

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(h)(i) — policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of HK$6,461,000 were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 HK$'000
Neither past due nor impaired	213,703
Less than 90 days past due	45,880
90 to 180 days past due	6,854
Over 180 days past due	193
	266,630

(Expressed in Hong Kong dollars unless otherwise indicated)

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Comparative information under HKAS 39 (Continued)

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 **HK$'000**	2017 HK$'000
Balance at 1 January	**6,461**	6,005
Amounts written-off during the year	**(5,655)**	–
Impairment losses recognised during the year	**592**	7
Write back during the year	**(36)**	–
Exchange adjustment	**(106)**	449
Balance at 31 December	**1,256**	6,461

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2018 Contractual undiscounted cash outflow			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total HK$'000	Carrying amount at 31 December HK$'000
Bank loans	451,238	–	451,238	436,775
Trade and other payables	110,311	1,299	111,610	111,610
	561,549	1,299	562,848	548,385

	2017 Contractual undiscounted cash outflow			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total HK$'000	Carrying amount at 31 December HK$'000
Bank loans	333,019	181,993	515,012	504,504
Trade and other payables	107,616	1,294	108,910	108,910
	440,635	183,287	623,922	613,414

(Expressed in Hong Kong dollars unless otherwise indicated)

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank loans. Bank loans issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

	2018 Effective interest rate %	2018 HK$'000	2017 Effective interest rate %	2017 HK$'000
Variable rate borrowings:				
Bank loans	**4.07–4.61%**	**436,775**	2.53–3.69%	504,504
Total borrowings		**436,775**		504,504

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK$3,647,000 (2017: HK$4,213,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2017.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi, Euros, United States dollars and Thai Baht.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency is excluded.

Exposure to foreign currencies (expressed in Hong Kong dollars)

	2018		
	United States Dollars HK$'000	**Euros HK$'000**	**Renminbi HK$'000**
Trade and other receivables	**6,945**	**29,903**	**1,600**
Cash and cash equivalents	**183,809**	**19,198**	**19,754**
Trade and other payables	**(1,331)**	**(1,854)**	**(1,193)**
Gross and net exposure arising from recognised assets and liabilities	**189,423**	**47,247**	**20,161**

	2017		
	United States Dollars HK$'000	Euros HK$'000	Renminbi HK$'000
Trade and other receivables	8,245	20,391	2,289
Cash and cash equivalents	212,699	30,689	18,159
Trade and other payables	(46,612)	(2,357)	(1,967)
Gross and net exposure arising from recognised assets and liabilities	174,332	48,723	18,481

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000
United States Dollars	**5%**	**7,508**	5%	6,933
Euros	**5%**	**2,276**	5%	2,396
Renminbi	**5%**	**813**	5%	732

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

(e) Fair value measurement

Fair value of other financial assets and liabilities carried at other than fair value

The carrying amount of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair value as at 31 December 2018 and 2017.

(Expressed in Hong Kong dollars unless otherwise indicated)

23 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 HK$'000	2017 HK$'000
Contracted for:		
— Plant and machinery	**7,024**	12,577
— Buildings	**3,131**	67,121
	10,155	79,698

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	**1,387**	1,435
After 1 year but within 5 years	**2,203**	2,590
	3,590	4,025

24 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2018 HK$'000	2017 HK$'000
Short-term employee benefits	**26,804**	19,899
Discretionary bonuses	**2,390**	1,093
Equity-settled share option expense	**15,680**	13,720
Post-employment benefits	**306**	193
	45,180	34,905

Total remuneration is included in "staff costs" (see note 5(b)).

(Expressed in Hong Kong dollars unless otherwise indicated)

25 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2018 HK$'000	2017 HK$'000
Non-current assets		
Investments in subsidiaries	43	43
Amounts due from subsidiaries	969,452	892,956
Total non-current assets	969,495	892,999
Current assets		
Prepayments, deposits and other receivables	435	262
Cash and cash equivalents	15,615	67,649
Total current assets	16,050	67,911
Current liability		
Other payables and accruals	438	855
Net current assets	15,612	67,056
Net assets	985,107	960,055
Equity		
Issued capital	105,225	105,225
Reserves	879,882	854,830
Total equity	985,107	960,055

26 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2018, the directors consider the immediate parent of the Group to be Baoan Technology Company Limited, while the ultimate controlling party of the Group to be China Baoan Group Co., Ltd., which are both incorporated in the PRC. China Baoan Group Co., Ltd. produces financial statements available for public use.

(Expressed in Hong Kong dollars unless otherwise indicated)

27 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16, *Leases*

As disclosed in note 1(h), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

(Expressed in Hong Kong dollars unless otherwise indicated)

27 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

HKFRS 16, *Leases* (Continued)

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As disclosed in note 23(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$3,590,000, the majority of which is payable either between 1 and 5 years after the reporting date. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to HK$3,500,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material.

HK(IFRIC) 23, *Uncertainty over income tax treatments*

This Interpretation provides guidance on how to apply HKAS 12, Income taxes when there is uncertainty over whether a tax treatment will be accepted by the tax authority.

Under the Interpretation, the key test is whether it is probable that the tax authority will accept the entity's tax treatment. If it is probable, then the entity should measure current and deferred tax consistently with the tax treatment in its tax return. If it is not probable, then the entity should reflect the effect of uncertainty in its accounting for income tax by using the "expected value" approach or the "the most likely amount" approach — whichever better predicts the resolution of the uncertainty and in that case the tax amounts in the financial statements will not be the same as the amounts in the tax return.

Upon the initial adoption of HK (IFRIC)23, there is no impact of the opening balances of income tax payable.

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