

PIPE GROUP LIMITED

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

Interim Report 2019





CONTENTS

Corporate Information	2
Corporate Profile	3
Group Structure	4-5
Corporate Milestone	6
Financial Highlights	7-9
Management Discussion and Analysis	10-13
Condensed Consolidated Statement of Profit or Loss	14
Condensed Consolidated Statement of Comprehensive Income	15
Condensed Consolidated Statement of Financial Position	16-17
Condensed Consolidated Statement of Cash Flows	18
Condensed Consolidated Statement of Changes in Equity	19
Notes to the Condensed Consolidated Financial Statements	20-31
Other Information	32-36

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Zeng Jing
Mr. Chen Kuangguo

Independent Non-executive Directors

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

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
Mr. Xu Bing

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

LEGAL ADVISERS TO THE COMPANY

King & Wood Mallesons

WEBSITE

<http://www.ipegroup.com>

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 5-6, 23/F
Enterprise Square Three
39 Wong 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 54, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

Nanyang Commercial Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited

AUDITORS

KPMG
Certified Public Accountants

STOCK CODE

929

LISTING VENUE

Main Board of The Stock Exchange
of Hong Kong Limited

CORPORATE PROFILE

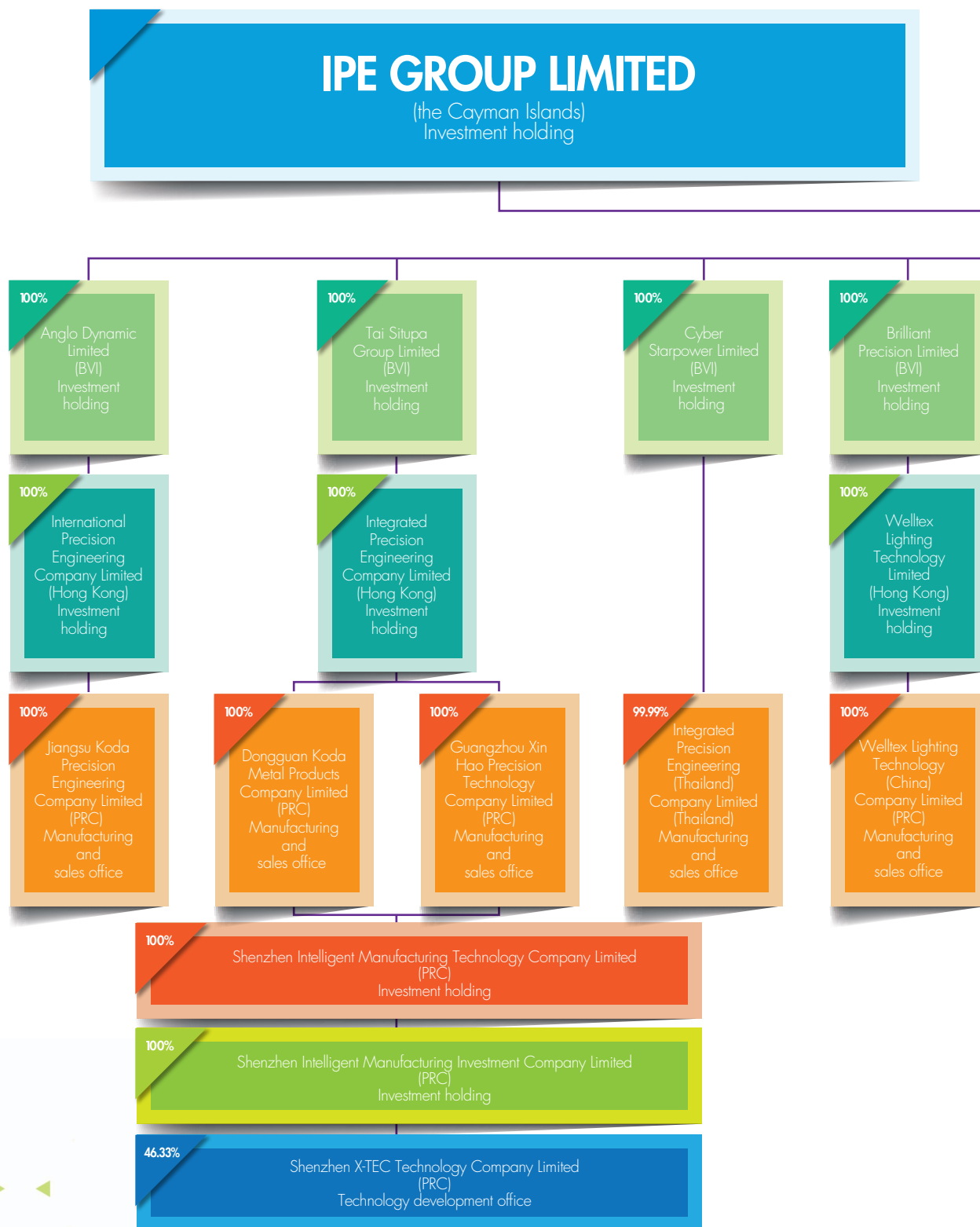
IPE Group Limited (the “Company” or “IPE Group”) was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002. The Company is an investment holding company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacture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

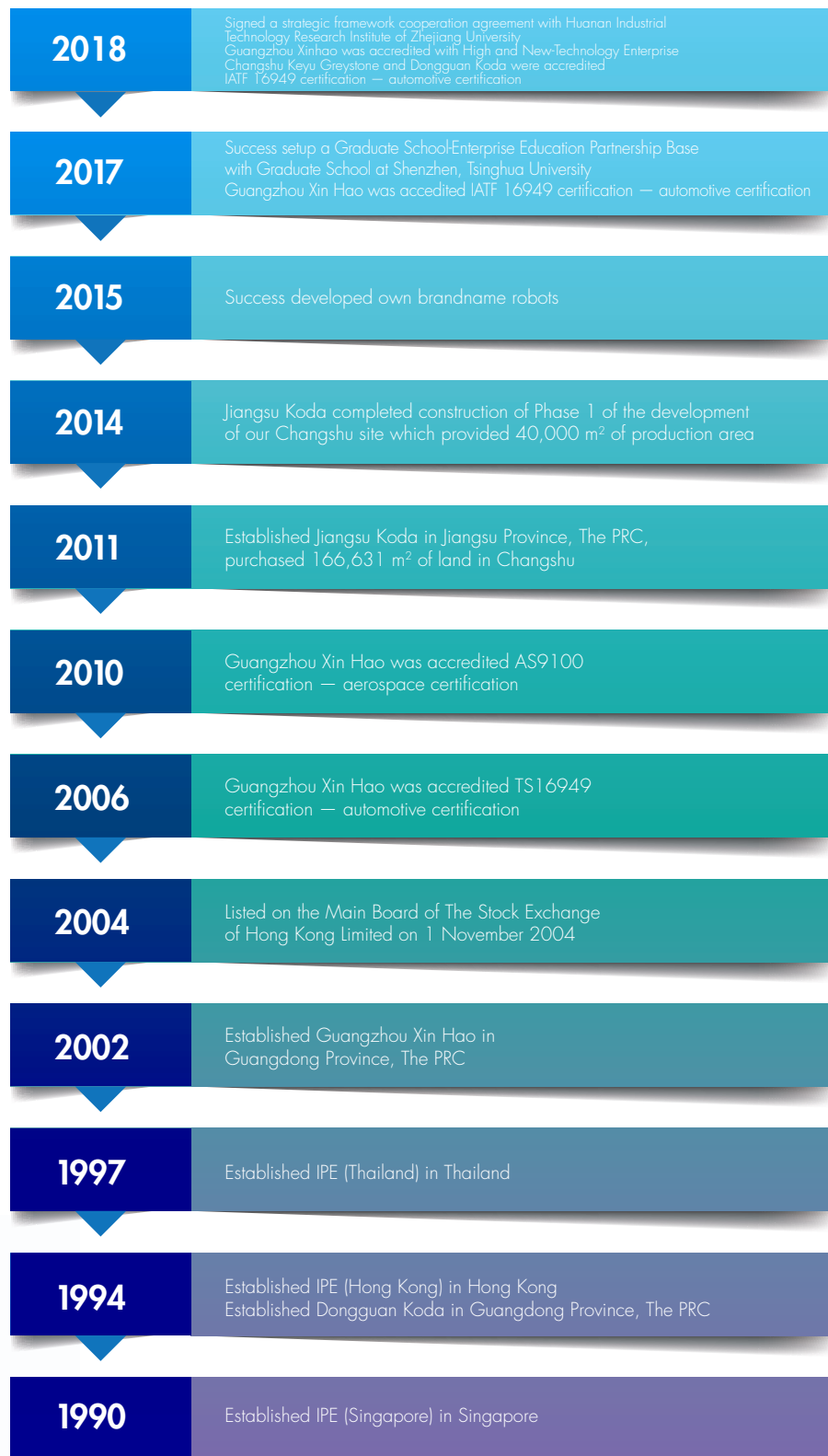
GROUP STRUCTURE

Principal subsidiaries and associate of the Company as at 30 June 2019





CORPORATE MILESTONE

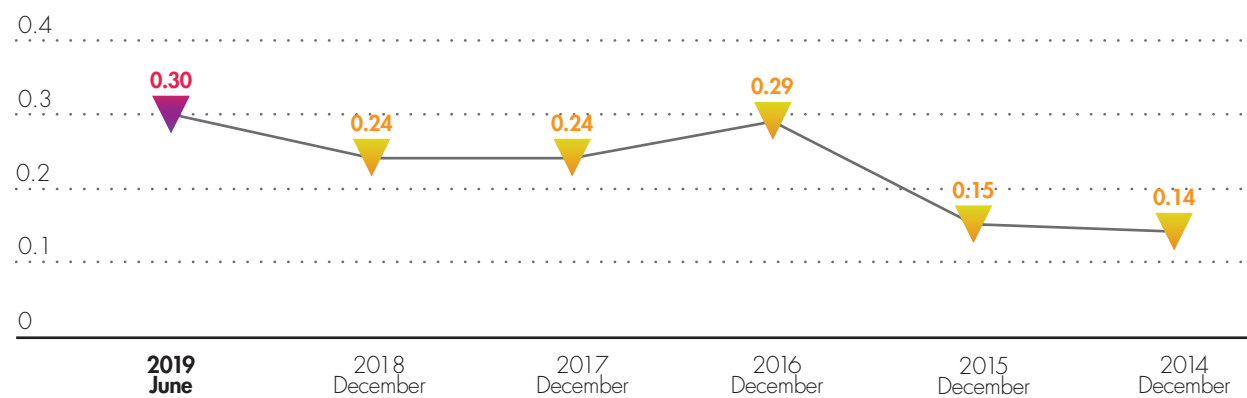


FINANCIAL HIGHLIGHTS

RATIO ANALYSIS

	30 June 2019	Year ended 31 December				
		2018	2017	2016	2015	2014
KEY STATISTICS:						
Current ratio	5.70	2.59	3.30	3.48	2.02	2.10
Net cash to equity ratio	0.30	0.24	0.24	0.29	0.15	0.14
Dividend payout ratio	N/A	11.2%	34.9%	43.0%	40.6%	49.0%
Gross profit margin	21.5%	30.8%	34.4%	30.8%	27.9%	28.0%
Net profit margin	3.9%	9.0%	12.2%	12.9%	9.8%	9.6%
Average days of debtor turnover	109 days	103 days	94 days	93 days	101 days	94 days
Average days of inventory turnover	158 days	143 days	122 days	126 days	135 days	116 days
PER SHARE DATA (HK\$):						
Net asset value per share	1.63	1.61	1.62	1.42	1.55	1.60
Cash per share	0.75	0.80	0.87	0.91	0.75	0.81

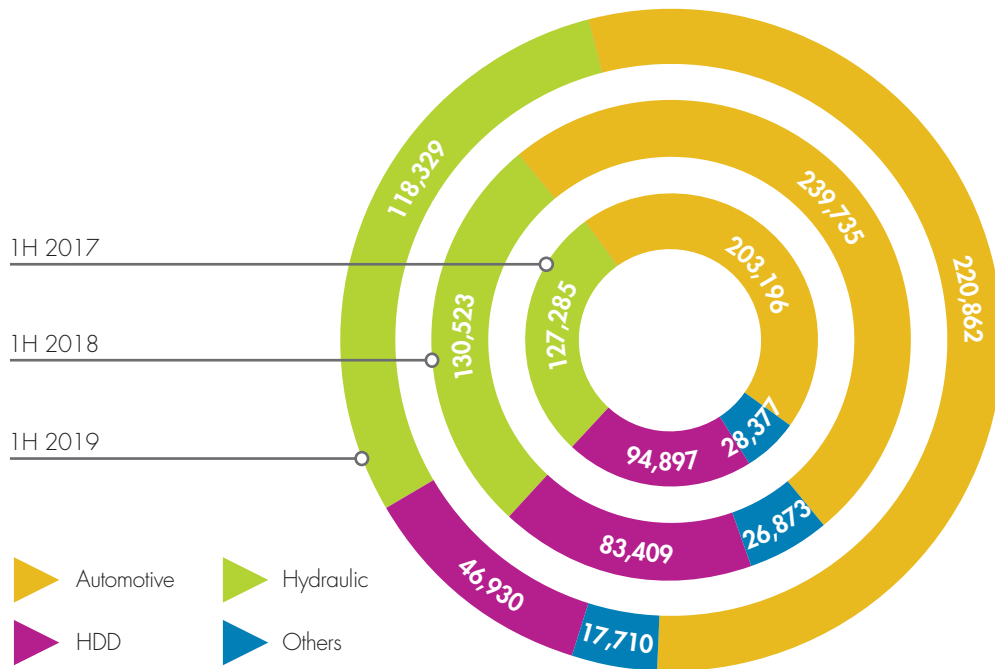
NET CASH TO EQUITY RATIO



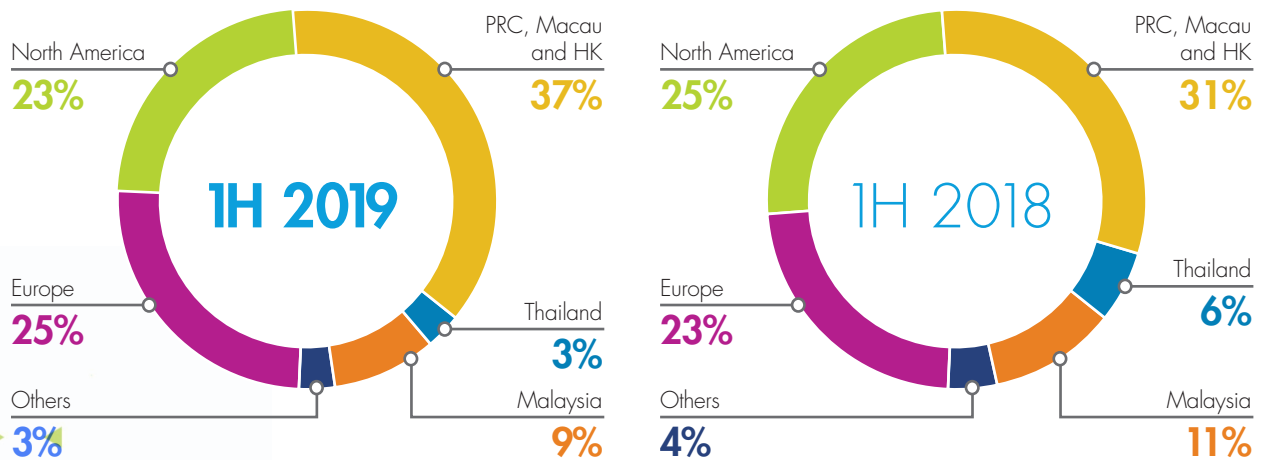
FINANCIAL HIGHLIGHTS

BUSINESS SEGMENTS

(HK\$'000)

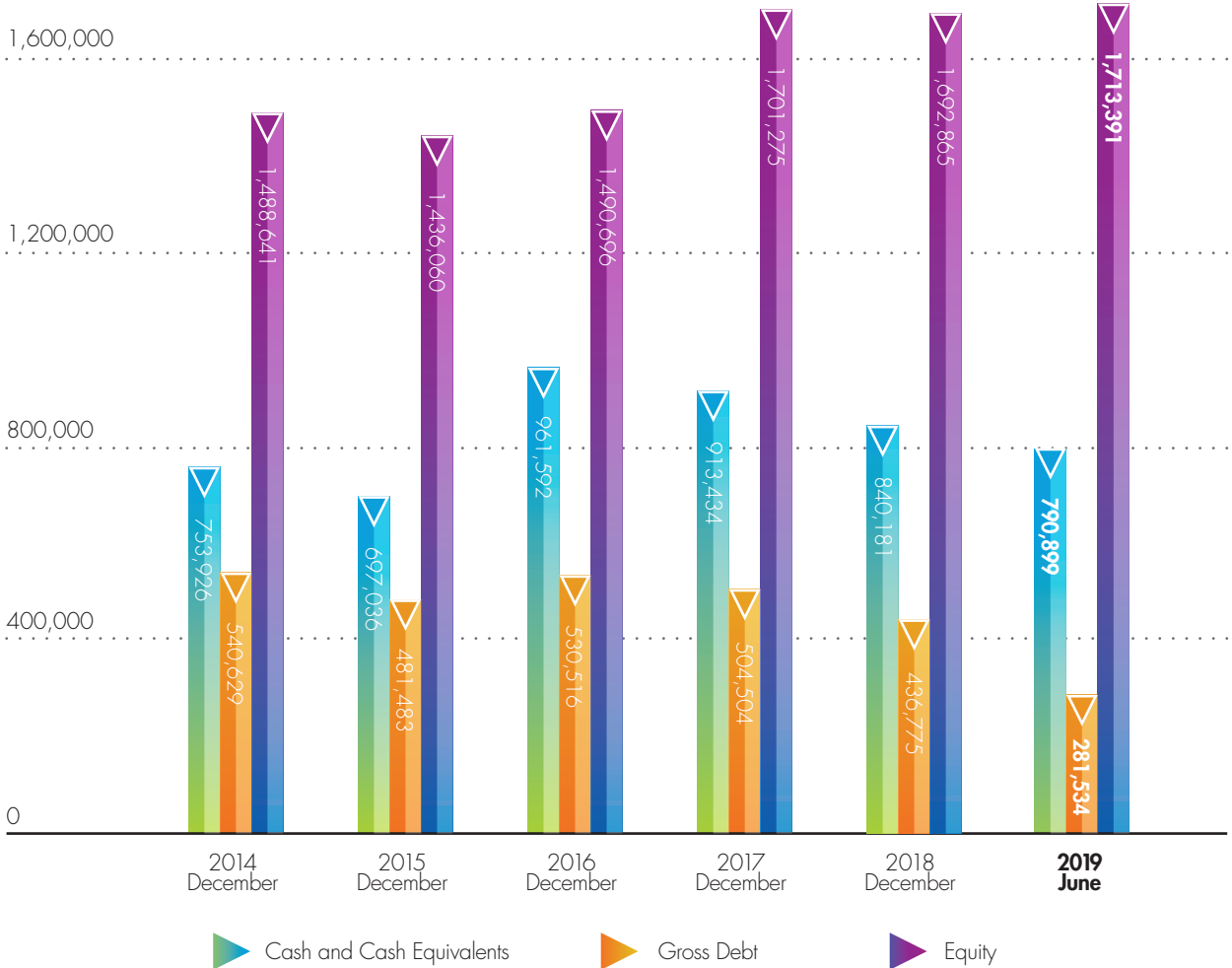


GEOGRAPHICAL COMBINATION



FINANCIAL HIGHLIGHTS

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



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Given that there was a plunge in purchase orders of HDD components in the first half of 2019 coupled with the effect arising from the continuing trade conflict between China and the United States since last year, the Group's overall revenue for the first half of 2019 was HK\$403,831,000 as compared to that of HK\$480,540,000 for the corresponding period of 2018, representing a drop of 16.0%.

The Group's turnover by business segments during the interim period is shown below:

	1H 2019		1H 2018		
	HK\$'000	%	HK\$'000	%	% Change
Automotive components	220,862	54.7	239,735	49.9	-7.9
Hydraulic equipment components	118,329	29.3	130,523	27.2	-9.3
HDD components	46,930	11.6	83,409	17.4	-43.7
Others	17,710	4.4	26,873	5.5	-34.1
	403,831	100.0	480,540	100.0	-16.0

As a result of the decrease in demand of the overall industry due to the weakening computer hard disk drive market, the Group's HDD components business experienced the largest drop in recent years. Accordingly, the Group's sales of HDD components amounted to HK\$46,930,000 in the first half of 2019, representing a decrease of 43.7% from the sales of HK\$83,409,000 in the first half of 2018.

In respect of automotive components which accounted for the largest proportion of the Group's business, the outbreak of trade conflict between China and the United States since last year did not only affect directly the automotive markets in China, Europe and the United States but also indirectly affected the same in other regions at the same time. Under the climate of uncertainty, the Group's revenue from sales of automotive components amounted to HK\$220,862,000 in the first half of 2019, representing a decrease of HK\$18,873,000 or 7.9% from the sales in the first half of 2018.

In respect of hydraulic equipment components, its sales market also suffered from the trade conflict. In the first half of 2019, sales of the Group's hydraulic equipment components amounted to HK\$118,329,000, representing a decrease of HK\$12,194,000 or 9.3% from the sales in the first half of 2018.

Besides, sales of other precision components for the six months ended 30 June 2019 amounted to HK\$17,710,000, representing a decrease of HK\$9,163,000 or 34.1% as compared with sales in the corresponding period of 2018.

Since the Group is categorised as the capital intensive industry, which produces quality products with high precision equipment; therefore, our fixed costs also weigh heavier in proportion. The reduction in economies of scale due to the slump of overall sales resulted in a significant decrease in gross profit in the first half of 2019. The gross profit margin decreased to 21.5% in the first half of 2019 from that of 31.3% in the corresponding period of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Against the backdrop of declining market demand and economic uncertainty worldwide, the Group has reduced its expenditure through several aspects, for instance, in terms of our personnel, the Group has undergone a review of the requirement of staff at all levels to streamline its personnel and, in such case, the Group would be able to improve the quality of staff to align with its future needs on development, which in turn help reduce the salary expenditure. Moreover, measures such as electricity rebates have been carried out on domestic production bases consuming quite an amount of electricity to enjoy a reduction on electricity charges. Furthermore, in terms of capital, the Group would generate more interest income through the usage of funds available. With the global economy clouded with uncertainty, the Company has reduced the capital expenditure to lower the operating costs.

Although the Group has broadened sources of income and reducing expenditure for its operation to mitigate the adverse effect arising from the drop of sales, the Group's future development is a clear direction. To cope with this situation, the Group has appointed Professor Xu Bing as an independent non-executive Director in May 2019. Professor Xu is a professor at the School of Mechanical Engineering of Zhejiang University, a doctoral tutor, the head of the Department of Mechanical and Electronic Engineering and the deputy director of the State Key Laboratory of Fluid Power & Mechatronic Systems. With his extensive academic attainments and experience in mechanical engineering, particularly in the area of hydraulics, Professor Xu contributes to the Group through overcoming the bottleneck emerging in our production technology, achieving breakthroughs and advanced technology in R&D. He also brings new ideas to the Group so as to broaden the Group's horizons. Besides, after signing a strategic framework cooperation agreement with Huanan Industrial Technology Research Institute of Zhejiang University at the end of last year, the Group has appointed several professors from the Institute as consultants in the first half of 2019 to strengthen its technical capabilities and enhance and improve its current internal R&D as well as production technology by leveraging the advanced skills from those consultants.

FINANCIAL REVIEW

During the six months ended 30 June 2019, the Group's turnover was HK\$403,831,000, representing a decrease of HK\$76,709,000 or 16.0% as compared to that of the corresponding period of 2018; while sales of our HDD components and automotive components decreased by HK\$36,479,000 and HK\$18,873,000, respectively, which laid grounds to the decline of the overall sales.

Given the effect of the decline in the overall sales, the Group recorded a gross profit of HK\$86,743,000 in the first half of 2019 and the gross profit margin was 21.5%; while the gross profit for the corresponding period of 2018 was HK\$150,260,000 and the gross profit margin was 31.3%, downed by 9.8 percentage points and HK\$63,517,000 for the gross profit margin and the gross profit, respectively.

Distribution costs amounted to HK\$7,125,000 in the first half of 2019, accounting for 1.8% of the Group's turnover; while the same amounted to HK\$13,966,000 in the corresponding period of 2018, accounting for 2.9% of the Group's turnover for the same period. The decrease was mainly due to the refund of tariffs on imports of the United States, which were involved by the Group last year when there was a trade conflict, of approximately of HK\$5,004,000 upon the grant of waiver.

In addition, administrative and other expenses were HK\$62,563,000 in the first half of 2019, representing a decrease of HK\$19,820,000 or 24.1% as compared to that of the corresponding period of 2018. The decrease was mainly due to the reduction in directors' remuneration as well as salaries and allowances of HK\$9,735,000 in aggregate and the decrease in share option expense of HK\$11,760,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

In respect of finance costs, interest expense was HK\$6,937,000 in the first half of 2019, decreased by HK\$778,000 as compared to the corresponding period of 2018. The Group secured the bank loan facilities amounted to HK\$275 million in May 2019 for refinancing and repayment of bank loans to reduce its finance costs.

For the six months ended 30 June 2019, the Group recorded an unaudited net profit of HK\$15,724,000, representing a decrease of HK\$29,559,000 or 65.3% as compared to the unaudited net profit of HK\$45,283,000 for the corresponding period of 2018.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2019, the Group had total bank loans of HK\$281,534,000; while the total bank loans were HK\$436,775,000 as at 31 December 2018. The Group's total loans were secured by corporate guarantee and bank deposit of HK\$1,600,000 made by the Company and its subsidiaries.

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 30 June 2019, cash per share was HK\$0.75 (31 December 2018: HK\$0.80) and net asset value per share was HK\$1.63, up 1.2% as compared to that of HK\$1.61 as at 31 December 2018, based on the 1,052,254,135 ordinary shares in issue (31 December 2018: 1,052,254,135 ordinary shares).

During the six months ended 30 June 2019, the Group recorded a net cash inflow from operating activities of HK\$111,754,000, increased by HK\$41,332,000 from that of HK\$70,422,000 for the corresponding period of 2018. To mitigating the Group's funding pressure and easing the rising costs, the Group invested only HK\$6,598,000 in acquiring new property, plant and equipment in the first half of 2019, and capital expenditure reduced by HK\$78,028,000 as compared to that of HK\$84,626,000 for the corresponding period of 2018. As a result, the Group recorded a net cash outflow in the investing activities of HK\$6,016,000 in the first half of 2019, compared to the net cash outflow of HK\$84,024,000 for the corresponding period of 2018, it is obvious that the overall capital expenditure was under control.

For the purposes of reducing the finance costs, reorganisation and repayment of bank loans, the Group had also applied for the bank loan facilities amounted to HK\$275 million in May 2019 for refinancing and full repayment of indebtedness due under the syndicated loan facilities made available to the Group of HK\$300,000,000 in 2016. As a result, the total bank borrowings decreased by HK\$155,241,000 to HK\$281,534,000 as at 30 June 2019 from the same of HK\$436,775,000 as at 31 December 2018. Upon repayment of bank loans and imposing control of capital expenditure, the Group was in a net cash position (cash and bank balance less total bank borrowings) of HK\$510,965,000 as at 30 June 2019, increased by HK\$107,559,000 as compared to that of HK\$403,406,000 as at 31 December 2018.

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. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of Renminbi and will closely monitor its impact on the performance of the Group and consider appropriate hedging measures in the future when necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 30 June 2019, the Group had a total of 2,267 employees, a decrease of 102 employees when compared to 2,369 employees as at 31 December 2018. 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.

In spite of the decline in sales orders, the Group understands that talent is an important value for an enterprise. During the period, the Group put in appropriate resources and held several training seminars, including hiring instructors to explain the principles of lean production and offering workshops at different levels to enhance overall work skills of our staff. In terms of work safety knowledge, the Group organized guidance and practice activities with relevant local authorities to reduce the associated risks by imparting relevant knowledge to our staff. Moreover, the Group provided a wide range of activities such as leisure activities, sports competitions and community visits to enhance the promotion of our culture and sense of belonging. Our staff are rewarded based on performance of the Group as well as on individual performance and contribution.

PROSPECT

The Sino-US trade conflict since the fourth quarter of last year showed no sign of resolution. The Group also believes that the contradiction between the two countries will not reach a consensus in the short term. Therefore, the global economy is unstable and the consumption is weak. China's automobile consumer market is also affected, witnessing a negative growth for the first time in the past 20 years, especially the traditional gasoline automobile market. Under the current economic atmosphere, OEM industry has become more competitive, thus seriously affecting sales profits.

The Group, which is principally engaged in the manufacture of high precision automotive parts and hydraulic equipment components, is also affected by the current situation. Facing the slack market and uncertain economic environment, the Company will focus on exploring new customers and strengthening cooperation with automotive manufacturers through direct sales to enhance profit level and stabilize demand. Moreover, the Group will prioritize obtaining Chinese domestic customers, turning from European and American component manufacturers to other areas, especially automotive and hydraulic equipment manufacturers in China. Further, the Group will take developing new products as one of our targets. As the automotive and hydraulic components are constantly changing, for example, the automotive market has moved towards hybrid energy and new energy vehicles, the Group needs to follow the development of our customers and provide one-stop cutting edge metal working solutions to quality customers.

In order to realize the above development, the Group has set short, medium and long-term objectives, including the implementation of lean production to reduce waste, improve quality, enhance production efficiency and achieve incremental cost reduction. Secondly, we will strengthen personnel training so that production managers can continuously improve their skills to meet the needs of new products and new customers. Thirdly, we will improve our technologies, acquire hardware equipment and enhance the technical level of our production staff. In this way, we will be fully prepared for future development, market and challenges.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) ^(Note) HK\$'000
Revenue	4&5	403,831	480,540
Cost of sales		(317,088)	(330,280)
Gross profit		86,743	150,260
Other income	5	8,810	6,760
Distribution costs		(7,125)	(13,966)
Administrative expense and other expense		(62,563)	(82,383)
Profit from operations		25,865	60,671
Finance costs	6	(8,032)	(8,657)
Share of losses of an associate		(762)	(659)
Profit before taxation	7	17,071	51,355
Income tax	8	(1,347)	(6,072)
Profit for the period		15,724	45,283
Attributable to:			
Equity shareholders of the Company		15,870	45,618
Non-controlling interests		(146)	(335)
Profit for the period		15,724	45,283
Earnings per share	9		
Basic		HK1.5 cents	HK4.3 cents
Diluted		N/A	N/A
Interim dividend per share	10	Nil	HK0.9 cents

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) ^(Note) HK\$'000
Profit for the period	15,724	45,283
Other comprehensive income:		
Exchange differences on translation of foreign operations	4,802	(22,799)
Total comprehensive income for the period	20,526	22,484
Attributable to:		
Equity shareholders of the Company	20,668	22,784
Non-controlling interests	(142)	(300)
Total comprehensive income for the period	20,526	22,484

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) ^(Note) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	688,641	737,495
Lease prepayments		–	76,848
Interest in an associate		729	1,480
Right-of-use assets		78,503	–
Deposits for purchase of non-current assets		4,221	4,269
Deferred tax assets		8,652	8,608
Total non-current assets		780,746	828,700
CURRENT ASSETS			
Inventories	12	264,603	284,463
Trade receivables	13	216,582	264,658
Prepayments, deposits and other receivables		50,417	37,334
Tax recoverables		707	–
Cash and bank balances	14	792,499	840,181
Total current assets		1,324,808	1,426,636
CURRENT LIABILITIES			
Trade payables	15	52,532	60,759
Other payables and accruals		43,748	49,552
Lease liabilities		1,220	–
Tax payables		–	3,784
Bank loans	17	134,919	436,775
Total current liabilities		232,419	550,870
NET CURRENT ASSETS		1,092,389	875,766
TOTAL ASSETS LESS CURRENT LIABILITIES		1,873,135	1,704,466

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) ^(Note) HK\$'000
NON-CURRENT LIABILITIES			
Bank loans	17	146,615	–
Lease liabilities		1,654	–
Deferred tax liabilities		10,105	10,302
Other payables		1,370	1,299
Total non-current liabilities		159,744	11,601
Net assets		1,713,391	1,692,865
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital		105,225	105,225
Reserves		1,609,023	1,588,355
		1,714,248	1,693,580
Non-controlling interests		(857)	(715)
Total equity		1,713,391	1,692,865

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) ^(Note) HK\$'000
Net cash flows generated from operating activities		111,754	70,422
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(6,598)	(84,626)
Proceeds from disposal of items of property, plant and equipment		582	602
Net cash flows used in investing activities		(6,016)	(84,024)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank loans		255,000	210,665
Repayment of bank loans		(411,849)	(236,602)
Principal payments of lease liabilities		(595)	–
Increase in pledged bank deposits		(1,600)	–
Dividends paid to the equity shareholders of the Company		–	(16,836)
Net cash flows used in financing activities		(159,044)	(42,773)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(53,306)	(56,375)
Cash and cash equivalents at beginning of period		840,181	913,434
Effect of foreign exchange rate changes		4,024	(13,064)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		790,899	843,995
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		673,511	689,399
Non-pledged time deposits with original maturity of less than three months when acquired		117,388	154,596
Cash and cash equivalents	14	790,899	843,995

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)	Attributable to owners of the Company											
	Issued capital	Share premium account	Contributed surplus	Statutory surplus reserve	Statutory public welfare fund	Capital redemption reserve	Share options reserve	Exchange fluctuation 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
At 1 January 2019	105,225	489,197	(1,116)	50,711	287	7,905	24,696	96,871	919,804	1,693,580	(715)	1,692,865
Profit for the period	-	-	-	-	-	-	-	-	15,870	15,870	(146)	15,724
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	4,798	-	4,798	4	4,802
Total comprehensive income for the period	-	-	-	-	-	-	-	4,798	15,870	20,668	(142)	20,526
At 30 June 2019	105,225	489,197	(1,116)	50,711	287	7,905	24,696	101,669	935,674	1,714,248	(857)	1,713,391
At 1 January 2018	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
Profit for the period	-	-	-	92	-	-	-	-	45,526	45,618	(335)	45,283
Other comprehensive expenses for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(22,834)	-	(22,834)	35	(22,799)
Total comprehensive income for the period	-	-	-	92	-	-	-	(22,834)	45,526	22,784	(300)	22,484
Equity-settled share option	-	-	-	-	-	-	11,760	-	-	11,760	-	11,760
Final 2017 dividend declared	-	-	-	-	-	-	-	-	(16,836)	(16,836)	-	(16,836)
At 30 June 2018	105,225	489,197	(1,116)	45,810	287	7,905	25,480	155,040	889,761	1,717,589	1,094	1,718,683

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies applied in the unaudited condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2018 except for the change mentioned below.

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs") and amendments to HKFRSs which are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over income tax treatments
Amendments to HKAS 28	Long-term interest in associates and joint ventures
Annual Improvements to HKFRSs 2015–2017 Cycle	

The Group has assessed the impact of the adoption of the above new standards and amendments to HKFRSs and considered that there was no significant impact on the Group's results and financial position except for adoption of HKFRS 16 Leases.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table shows the adjustments recognised for each individual line item in the condensed consolidated statement of financial position on 1 January 2019. Line items that were not affected by the changes have not been included.

Condensed consolidated statement of financial position (extract)	31 December 2018, as previously reported (Audited) HK\$'000	Adoption of HKFRS 16 HK\$'000	1 January 2019, as restated HK\$'000
Assets			
Right-of-use assets	–	80,348	80,348
Lease prepayments	76,848	(76,848)	–
	76,848	3,500	80,348
Liabilities			
Lease liabilities	–	3,500	3,500

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the geographical locations of the customers and has six reportable operating segments as follows: (1) Thailand; (2) Malaysia; (3) Mainland China, Macau and Hong Kong; (4) North America; (5) Europe; and (6) Other countries.

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

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

	Six months ended 30 June 2019 (Unaudited)						Total HK\$'000
	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	
Segment revenue:							
Sales to external customers	11,402	35,528	148,948	94,386	101,961	11,606	403,831
Other revenue	-	-	4,830	-	-	-	4,830
Revenue	11,402	35,528	153,778	94,386	101,961	11,606	408,661
Segment results	(806)	(2,513)	13,014	5,187	5,603	638	21,123
Interest income							3,980
Finance costs							(8,032)
Profit before tax							17,071
Income tax							(1,347)
Profit for the period							15,724

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

4. OPERATING SEGMENT INFORMATION *(Continued)*

	Six months ended 30 June 2018 (Unaudited)						Total HK\$'000
	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	
Segment revenue:							
Sales to external customers	30,357	53,314	149,271	122,352	108,875	16,371	480,540
Inter-segment sales	8,043	–	–	–	–	–	8,043
Other revenue	69	–	4,118	–	–	–	4,187
	38,469	53,314	153,389	122,352	108,875	16,371	492,770
Reconciliation:							
Elimination at inter-segment sales							(8,043)
Revenue							484,727
Segment results	6,449	6,138	16,526	14,411	13,014	1,943	58,481
Reconciliation:							
Elimination at inter-segment results							(1,042)
Interest income							2,573
Finance costs							(8,657)
Profit before tax							51,355
Income tax							(6,072)
Profit for the period							45,283

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

5. REVENUE AND OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue recognised at a point in time		
Sale of automotive components	220,862	239,735
Sale of hydraulic equipment components	118,329	130,523
Sale of HDD components	46,930	83,409
Others	17,710	26,873
	403,831	480,540
Other income		
Bank interest income	3,980	2,573
Government grants	1,708	–
Reversal of impairment of other receivables	2,123	–
Others	894	807
	8,705	3,380
Gains		
Gain on disposal of items of property, plant and equipment	105	–
Foreign exchange differences, net	–	3,380
	8,810	6,760

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Interest on bank loans	6,937	7,715
Financial arrangement fees	1,069	942
Interest on lease liabilities	26	–
	8,032	8,657

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Cost of inventories sold	317,088	330,280
Depreciation on property, plant and equipment	53,061	63,271
Depreciation on right-of-use asset	1,494	–
Amortization of lease prepayments	–	1,120
Equity-settled share option expenses	–	11,760
Auditors' remuneration	1,445	1,448
Foreign exchange differences, net	3,276	(3,380)
(Gain)/loss on disposal of items of property, plant and equipment	(105)	903
Provision against inventory obsolescence	85	4,404
Impairment of trade receivables	–	3
Reversal of impairment of other receivables	2,123	–

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (16.5% for the six months ended 30 June 2018) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Current	1,347	6,132
Deferred	–	(60)
Total tax charge for the period	1,347	6,072

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

9. EARNINGS PER SHARE

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

The calculation of diluted earnings per share for the six months ended 30 June 2019 is based on the profit attributable to equity shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Earnings		
Profit attributable to equity shareholders of the Company used in the basic earnings per share calculation	15,870	45,618
Number of shares (in thousands)		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,052,254	1,052,254

10. INTERIM DIVIDEND

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Interim dividend — Nil per ordinary share (2018: HK0.9 cent)	—	9,470

The Board does not recommend the payment of any interim dividend for six months ended 30 June 2019 (2018: HK0.9 cent per ordinary share).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

11. PROPERTY, PLANT AND EQUIPMENT

Unaudited	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 2019	718,979	19,122	1,519,858	80,797	18,589	45,511	2,402,856
Additions	229	-	1,542	4,444	241	142	6,598
Disposals	-	-	(30)	(266)	(679)	-	(975)
Exchange realignment	2,049	(35)	7,747	4	(166)	(113)	9,486
At 30 June 2019	721,257	19,087	1,529,117	84,979	17,985	45,540	2,417,965
Accumulated depreciation:							
At 1 January 2019	290,325	10,949	1,285,444	64,419	14,224	-	1,665,361
Depreciation provided during the period	17,854	1,665	29,491	3,418	633	-	53,061
Disposals – accumulated depreciation	-	-	-	(215)	(283)	-	(498)
Exchange realignment	1,231	(53)	10,169	55	(2)	-	11,400
At 30 June 2019	309,410	12,561	1,325,104	67,677	14,572	-	1,729,324
Net carrying amount							
Cost	721,257	19,087	1,529,117	84,979	17,985	45,540	2,417,965
Accumulated depreciation	(309,410)	(12,561)	(1,325,104)	(67,677)	(14,572)	-	(1,729,324)
At 30 June 2019	411,847	6,526	204,013	17,302	3,413	45,540	688,641
Net carrying amount							
Cost	718,979	19,122	1,519,858	80,797	18,589	45,511	2,402,856
Accumulated depreciation	(290,325)	(10,949)	(1,285,444)	(64,419)	(14,224)	-	(1,665,361)
At 31 December 2018	428,654	8,173	234,414	16,378	4,365	45,511	737,495

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

12. INVENTORIES

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
Raw materials	72,800	77,714
Consumables	48,171	47,587
Work in progress	58,408	73,498
Finished goods	145,063	145,323
	324,442	344,122
Less: Provision against inventory obsolescence	59,839	59,659
	264,603	284,463

13. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers where payments in advance are normally required. The credit period generally ranges from 30 to 120 days, but longer credit terms will be granted to certain major customers with the approval of the directors. Each customer has a maximum credit limit. The Group maintains strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
Within 1 month	67,213	91,940
1 to 2 months	70,975	70,772
2 to 3 months	38,130	51,135
3 to 4 months	30,445	33,854
4 to 12 months	10,058	17,509
Over 1 year	721	704
	217,542	265,914
Less: impairment	960	1,256
	216,582	264,658

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

14. CASH AND BANK BALANCES

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
Cash and bank balances	673,511	175,576
Non-pledged time deposits with original maturity of less than three months when acquired	117,388	664,605
Cash and cash equivalents	790,899	840,181
Pledged bank deposit	1,600	–
	792,499	840,181

15. TRADE PAYABLES

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

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
Within 1 month	15,162	26,241
1 to 2 months	20,933	22,087
2 to 3 months	12,317	9,737
Over 3 months	4,120	2,694
	52,532	60,759

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

16. SHARE CAPITAL

Shares	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
Authorised: 2,000,000,000 (31 December 2018: 1,500,000,000) ordinary shares of HK\$0.1 each	200,000	150,000
Issued and fully paid: 1,052,254,135 (31 December 2018: 1,052,254,135) ordinary shares of HK\$0.1 each	105,225	105,225

No movements in issued and fully paid share capital for the six months ended 30 June 2019 and year ended 31 December 2018.

17. BANK LOANS

	2019 HK\$'000	2018 HK\$'000
Unsecured bank loans — note a	110,000	436,775
Secured bank loan — note a&b	171,534	—
	281,534	436,775

At 30 June 2019, the bank loans were repayables as follow:

	2019 HK\$'000	2018 HK\$'000
Within 1 year or on demand	134,919	436,775
After 1 year but within 2 years	146,615	—
	281,534	436,775

Notes:

- (a) 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. As at 30 June 2019, none of the covenants relating to drawn down facilities had been breached (2018: Nil).
- (b) The bank loan was secured by bank deposit of HK\$1,600,000 (2018: Nil) (Note 14).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

18. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
Contracted but not provided for:		
Buildings	2,948	3,131
Plant and machinery	7,413	7,024
	10,361	10,155

19. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Short term employee benefits	6,967	15,478
Equity-settled share option expense	–	11,760
Post-employment benefits	30	125
Long service payments	390	–
Total compensation paid to key management personnel	7,387	27,363

20. APPROVAL OF THE FINANCIAL STATEMENTS

The condensed financial statements were approved and authorised for issue by the board of directors on 19 August 2019.

OTHER INFORMATION

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

As at 30 June 2019, 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") as set out in Appendix 10 to the Listing Rules, 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 share 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 30 June 2019.

Details of the above share options granted by the Company are set out in the section headed "Share option scheme" below.

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

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

Save as disclosed above, as at 30 June 2019, none of the directors or chief executives 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.

OTHER INFORMATION

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.

The following table discloses movements in the Company's share options outstanding during the six months ended 30 June 2019:

Name or category of participant	Number of share options					At 30 June 2019	Date of grant of share options ⁽¹⁾	Exercise period of share options	Exercise price of share options ⁽²⁾ HK\$ per share
	At 1 January 2019	Granted during the period	Exercised during the period	Expired/lapsed during the period	Forfeited/cancelled during the period				
Directors									
Mr. Zeng Guangsheng ⁽³⁾	22,000,000	-	-	-	-	22,000,000	06-06-17	01-09-18 to 31-08-22	2.02
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	2.02
Mr. Ng Hoi Ping	10,000,000	-	-	-	-	10,000,000	06-06-17	01-09-18 to 31-08-22	2.02
Ms. Zeng Jing	8,000,000	-	-	-	-	8,000,000	06-06-17	01-09-18 to 31-08-22	2.02
	42,000,000	-	-	-	(2,000,000)	40,000,000			

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

- (1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (2) 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.
- (3) The grant of share options to Mr. Zeng Guangsheng in June 2017, which exceeded the individual limit, was approved by the independent shareholders at the Company's extraordinary general meeting held on 14 August 2017 pursuant to the Listing Rules.

OTHER INFORMATION

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

As at 30 June 2019, as far as the directors of the Company are aware, 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:

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%
Tottenham 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	16,576,250	1.58%
		Through spouse	125,000	0.01%
			184,668,225	17.55%
Ms. Leung Wing Yi	(d)	Directly beneficially owned	125,000	0.01%
		Through spouse	184,543,225	17.54%
			184,668,225	17.55%

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 30 June 2019.

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 Tottenham Limited. Tottenham 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 Tottenham 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.

OTHER INFORMATION

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

Save as disclosed above, as at 30 June 2019, 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's shares on the Stock Exchange (2018: Nil).

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (2018: HK\$0.009).

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "CG Code") during the period under review except that there was no separation of the roles of Chairman and Chief Executive Officer as specified in the code provision A.2.1 of the CG Code. Mr. Zeng Guangsheng has assumed the roles of both Chairman of the Board and Chief Executive Officer of the Company. The Board believes that by assuming both roles, Mr. Zeng will be able to provide the Group with strong and consistent leadership, allowing for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. The structure is therefore beneficial to the Group.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising four independent non-executive directors, namely Mr. Yang Rusheng (Chairman of the Audit Committee), Mr. Cheung, Chun Yue Anthony, Mr. Mei Weiyi and Mr. Xu Bing, has reviewed with senior management of the Group the accounting principles and practices adopted by the Group and discussed risk management, internal control and financial reporting processes including the review of the Company's interim report for the six months ended 30 June 2019.

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. 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 six months ended 30 June 2019.

COMPLIANCE WITH WRITTEN GUIDELINES FOR SECURITIES TRANSACTIONS BY THE RELEVANT EMPLOYEES

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 throughout the six months ended 30 June 2019.

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.

OTHER INFORMATION

UPDATE ON DIRECTOR'S INFORMATION UNDER RULE 13.51B(1)

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of a director of the Company is set out below:

- Mr. Mei Weiyi, an independent non-executive director of the Company, has been appointed as the chief executive officer of China Shandong Hi-Speed Finance Group Limited (a company listed on the main board of the Stock Exchange, stock code: 412) with effect from 3 June 2019; and has resigned as a non-executive director of Huadian Fuxin Energy Corporation Limited (a company listed on the main board of the Stock Exchange, stock code: 816) with effect from 21 June 2019.

GENERAL DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

The Group entered into a loan agreement containing covenants relating to specific performance of the controlling shareholder of the Company which was subject to announcement requirement under Rule 13.18 of the Listing Rules and disclosure requirement in this interim Report under Rule 13.21 of the Listing Rules, the details of which is summarised below and further details can be referred to Company's announcement dated 8 May 2019.

Pursuant to the term of a loan facility agreement (the "Facility Agreement") dated 8 May 2019 and entered into, among other parties, Integrated Precision Engineering Company Limited (a wholly-owned subsidiary of the Company) as borrower (the "Borrower"), the Company and fourteen of its subsidiaries as guarantors (together the "Guarantors"), Nanyang Commercial Bank, Limited as coordinator, agent and security trustee, and various financial institutions as original lenders, a term loan facility of HK\$275 million (the "Facility Loan", which may be increased to not more than HK\$400 million as a result of the Lender Accession as defined in the Facility Agreement) is made available to the Borrower for refinancing all the amounts owing under an existing indebtedness due under the term loan facility made available to the Group in 2016 and financing the general corporate requirements of the Borrower. The Facility Loan is repayable in 11 quarterly instalments.

As common with other syndicated loan facilities, the Facility Agreement provides that if the Company has failed to ensure that China Baoan Group Co., Ltd. shall (1) remain the single largest ultimate beneficial owner of the Company; (2) beneficially own, directly or indirectly, not less than 50.1% of the shareholding interest in the Company or (3) control the Company (i.e. has the power to exercise or control the exercise of 50% or more of the voting power at general meetings of the Company, or to control the composition of the majority of the Board, whether through the ownership of voting capital, by contract or otherwise), it may be one of the events of default under the Facility Agreement, in which event all or any part of the commitments under the Facility Loan may be canceled and all amounts outstanding under the Facility Loan may immediately become due and payable.

APPRECIATION

The Board would like to take this opportunity to thank our shareholders for their continued support and the fellow directors and our staff for their contributions to the Group.

By order of the Board

Zeng Guangsheng

Chairman

Hong Kong, 19 August 2019

