IPE GROUP LIMITED

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

Annual Report 2019

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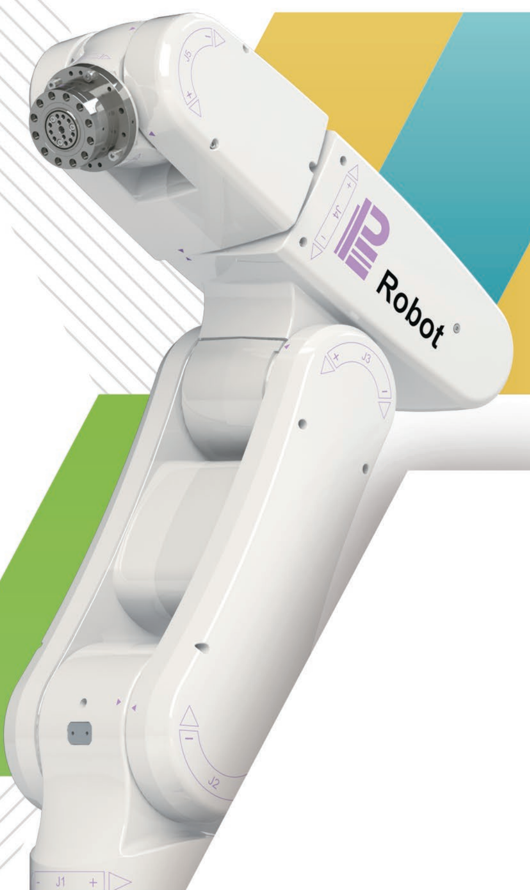


CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Ms. Zeng Jing
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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

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

LEGAL ADVISERS TO THE COMPANY

King & Wood Mallesons

WEBSITE

http://www.ipegroup.com

CORPORATE INFORMATION

REGISTERED OFFICE

89 Nexus Way
Camana Bay
Grand Cayman, KY1-9009
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

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Nanyang Commercial Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

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.

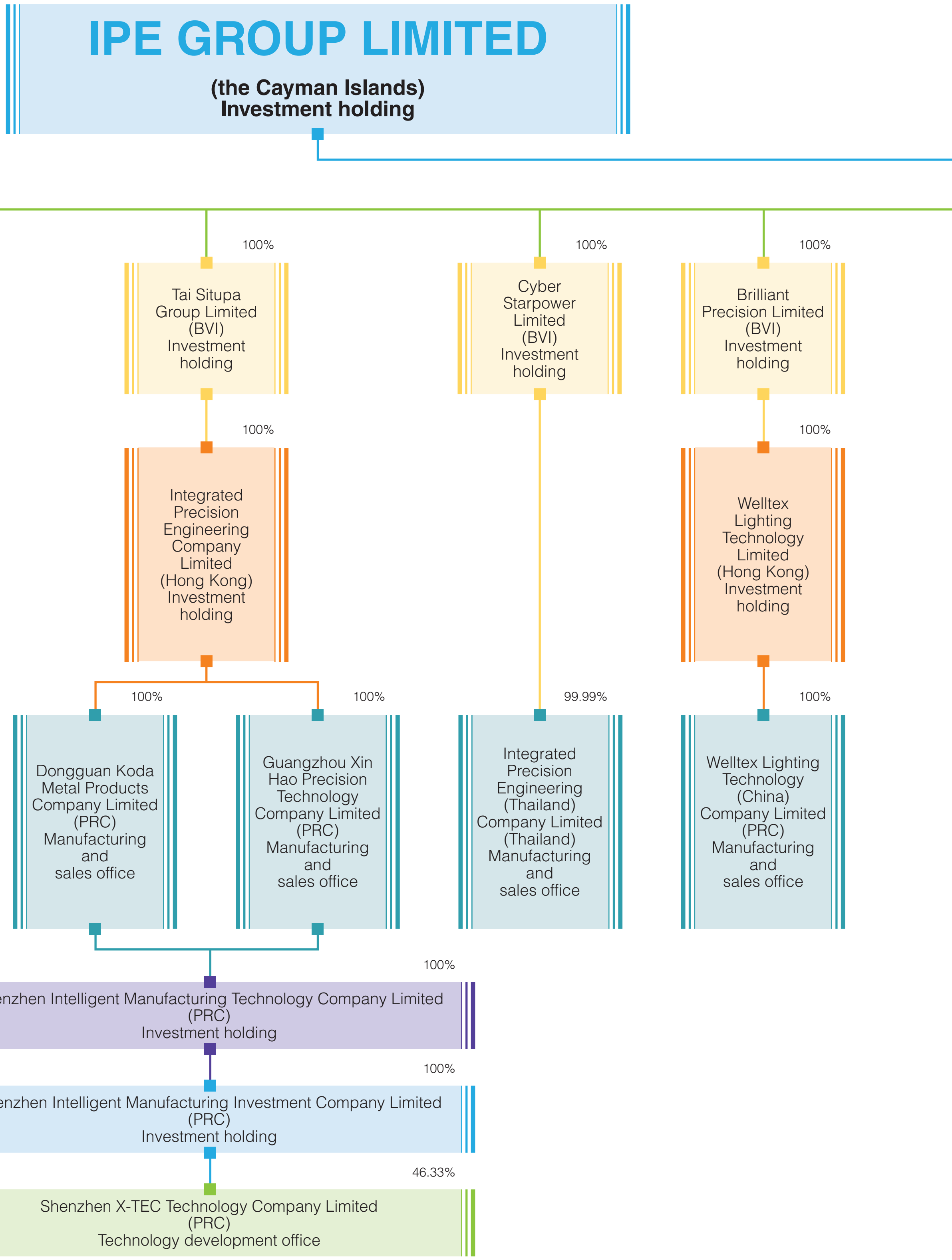
The Group's highly valued customers are top-tier multinational corporations in the information technology, fluid power, automotive and electronic sectors where optimal precision is vital. Apart from supplying high volume precision components according to customer specifications, we are providing solutions 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

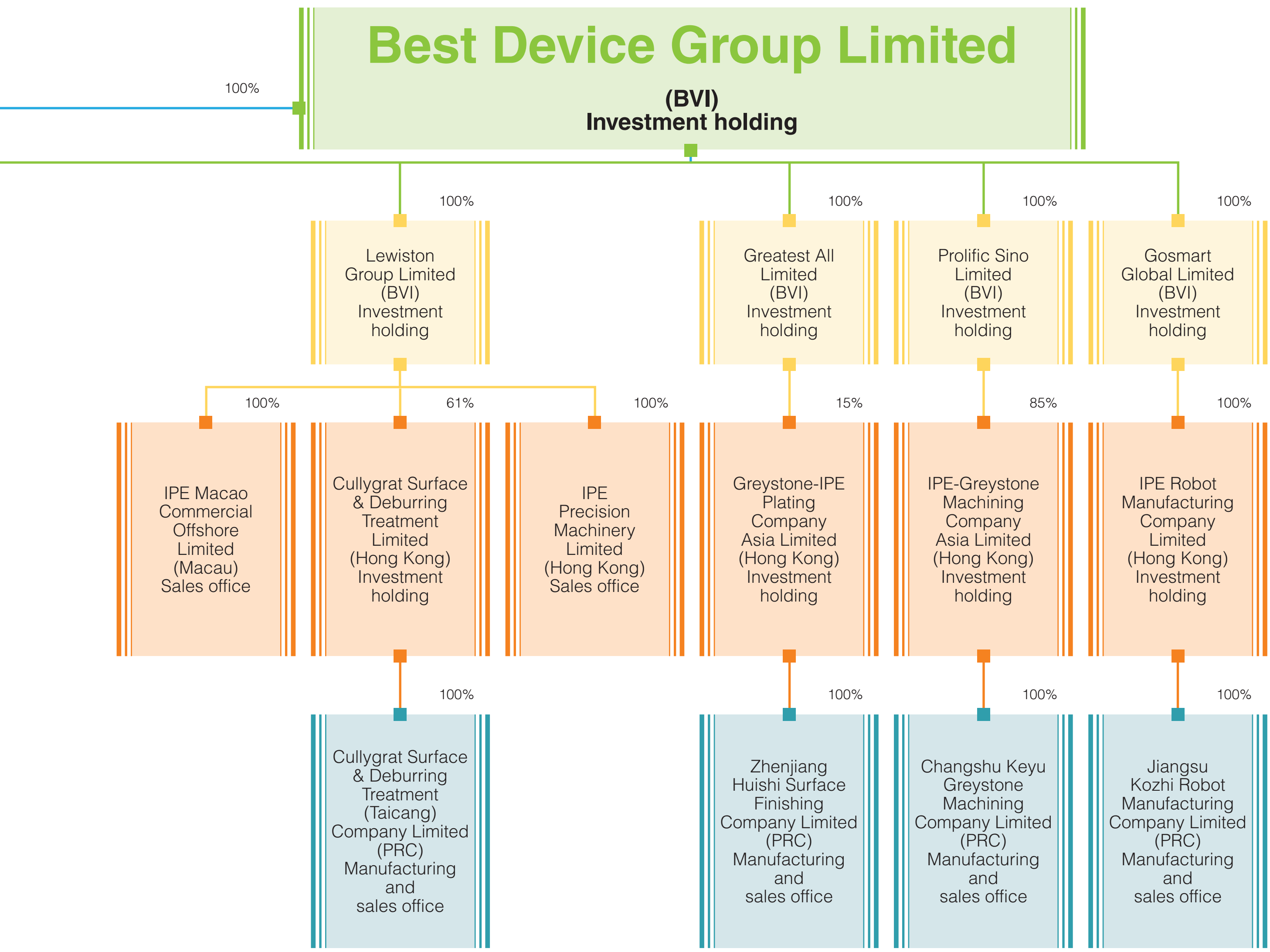
2019	IPE Group Limited was appointed an executive member of the China Robot Industry Alliance Guangzhou Xin Hao was appointed a founding executive member of Guangzhou Robot Association IPE Group Limited nominated as premium supplier by Schaeffler and Continental
2018	Signed a strategic framework cooperation 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 40,000 m^2 of production area
2011	Established Jiangsu Koda in Jiangsu Province, The PRC, purchased 166,631 m^2 of land in Changshu
2010	Guangzhou Xin Hao was accredited AS9100 certification — aerospace certification
2006	Guangzhou Xin Hao was accredited TS16949 certification — automotive certification
2004	Listed on the Main Board of The Stock Exchange of Hong Kong Limited on 1 November 2004
2002	Established Guangzhou Xin Hao in Guangdong Province, The PRC
1997	Established IPE (Thailand) in Thailand
1994	Established IPE (Hong Kong) in Hong Kong Established Dongguan Koda in Guangdong Province, The PRC
1990	Established IPE (Singapore) in Singapore

CORPORATE STRUCTURE

Principal subsidiaries and associate of the Company as at 31 December 2019



CORPORATE STRUCTURE



FINANCIAL HIGHLIGHTS

RESULTS

	Year ended 31 december									
	2019		2018		2017		2016		2015	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
REVENUE	812,177	100%	943,476	100%	941,438	100%	851,908	100%	877,194	100%
Cost of sales	(631,249)	77%	(652,687)	69%	(618,010)	66%	(589,322)	69%	(632,269)	72%
Gross profit	180,928	23%	290,789	31%	323,428	34%	262,586	31%	244,925	28%
Other income	19,913	2%	8,557	1%	7,017	1%	30,913	4%	12,571	1%
Distribution costs	(15,959)	2%	(26,535)	3%	(23,778)	3%	(24,889)	3%	(23,013)	3%
Administrative expenses and other expenses	(123,524)	15%	(152,887)	16%	(160,639)	17%	(120,164)	14%	(113,370)	13%
Finance costs	(14,430)	2%	(18,471)	2%	(15,972)	2%	(13,130)	2%	(19,133)	2%
Share of loss of an associate	1,650	0%	(1,271)	0%	(17)	0%	–	0%	–	0%
PROFIT BEFORE TAX	48,578	6%	100,182	11%	130,039	14%	135,316	16%	101,980	12%
Income tax	(7,467)	1%	(15,720)	2%	(15,327)	2%	(25,766)	3%	(16,181)	2%
PROFIT FOR THE YEAR	41,111	5%	84,462	9%	114,712	12%	109,550	13%	85,799	10%
Attributable to:										
Equity Shareholders of the Company	40,345	5%	85,328	9%	114,808	12%	110,201	13%	86,093	10%
Non-controlling interests	766	0%	(866)	0%	(96)	0%	(651)	0%	(294)	0%
	41,111	5%	84,462	9%	114,712	12%	109,550	13%	85,799	10%

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 december				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Total non-current assets	742,356	828,700	883,043	750,068	857,412
Total current assets	1,364,196	1,426,636	1,447,979	1,388,241	1,163,281
Total current liabilities	171,935	550,870	438,977	399,491	574,735
Net current assets	1,192,261	875,766	1,009,002	988,750	588,546
Total non-current liabilities	218,620	11,601	190,770	248,122	9,898
Total equity	1,715,997	1,692,865	1,701,275	1,490,696	1,436,060

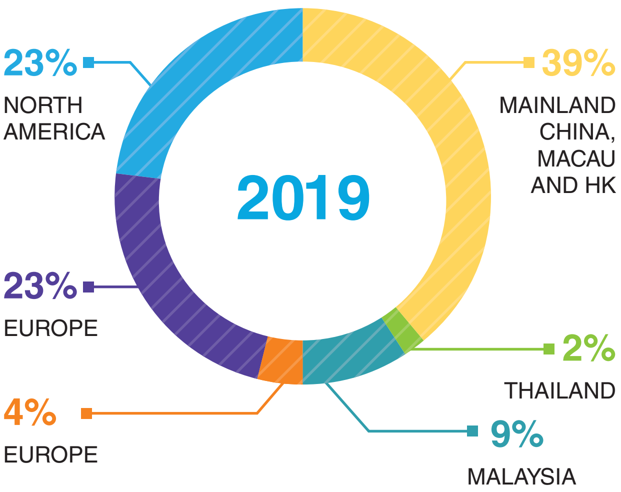
RATIO ANALYSIS

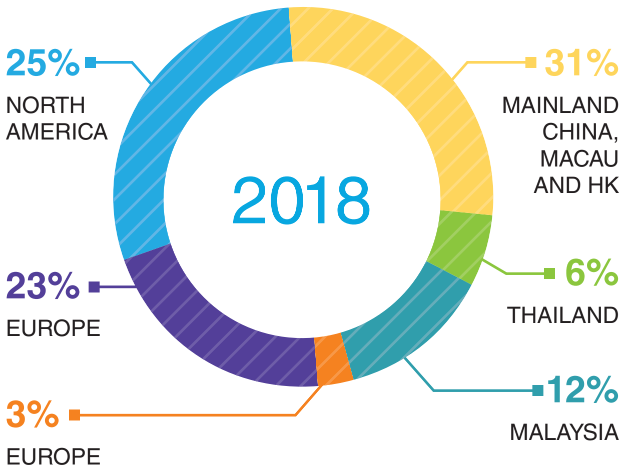
	Year ended 31 december				
	2019	2018	2017	2016	2015
KEY STATISTICS:					
Current ratio	7.93	2.59	3.30	3.48	2.02
Net cash to equity ratio	0.34	0.24	0.24	0.29	0.15
Gearing ratio#	15.1%	25.8%	29.7%	35.6%	33.5%
Dividend payout ratio	13.1%	11.2%	34.9%	43.0%	40.6%
Gross profit margin	22.3%	30.8%	34.4%	30.8%	27.9%
EBITDA margin	19.7%	27.5%	27.7%	32.3%	30.1%
Net profit margin	5.1%	9.0%	12.2%	12.9%	9.8%
Average days of debtor turnover	110 days	103 days	94 days	93 days	101 days
Average days of inventory turnover	153 days	143 days	122 days	126 days	135 days
PER SHARE DATA:					
Net asset value per share (HK$)	1.63	1.61	1.62	1.42	1.55
Dividend per share	HK0.50 cents	HK0.90 cents	HK3.80 cents	HK4.50 cents	HK3.50 cents
Earnings per share – basic	HK3.83 cents	HK8.11 cents	HK10.91 cents	HK10.66 cents	HK9.26 cents
Earnings per share – diluted	HK3.83 cents	HK8.11 cents	HK10.83 cents	HK10.47 cents	HK8.76 cents

The gearing ratio is calculated as interest bearing bank loan divided by equity

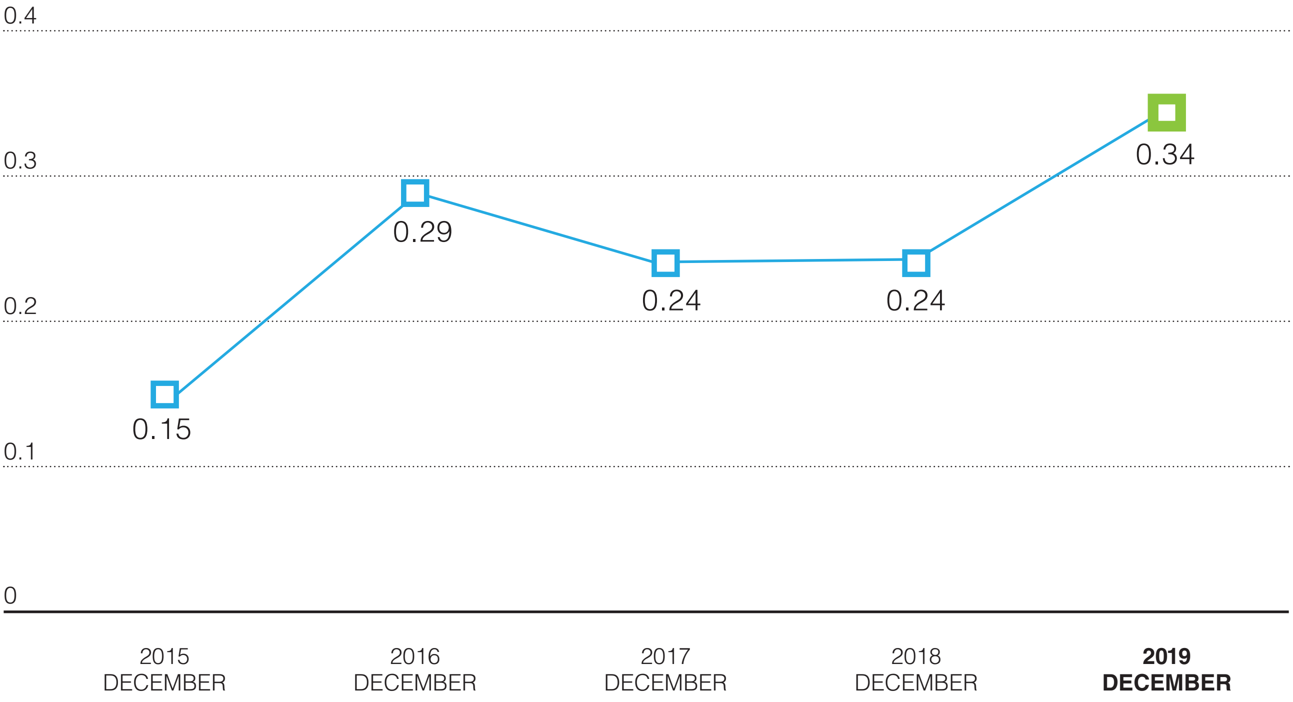
FINANCIAL HIGHLIGHTS

GEOGRAPHICAL COMBINATION





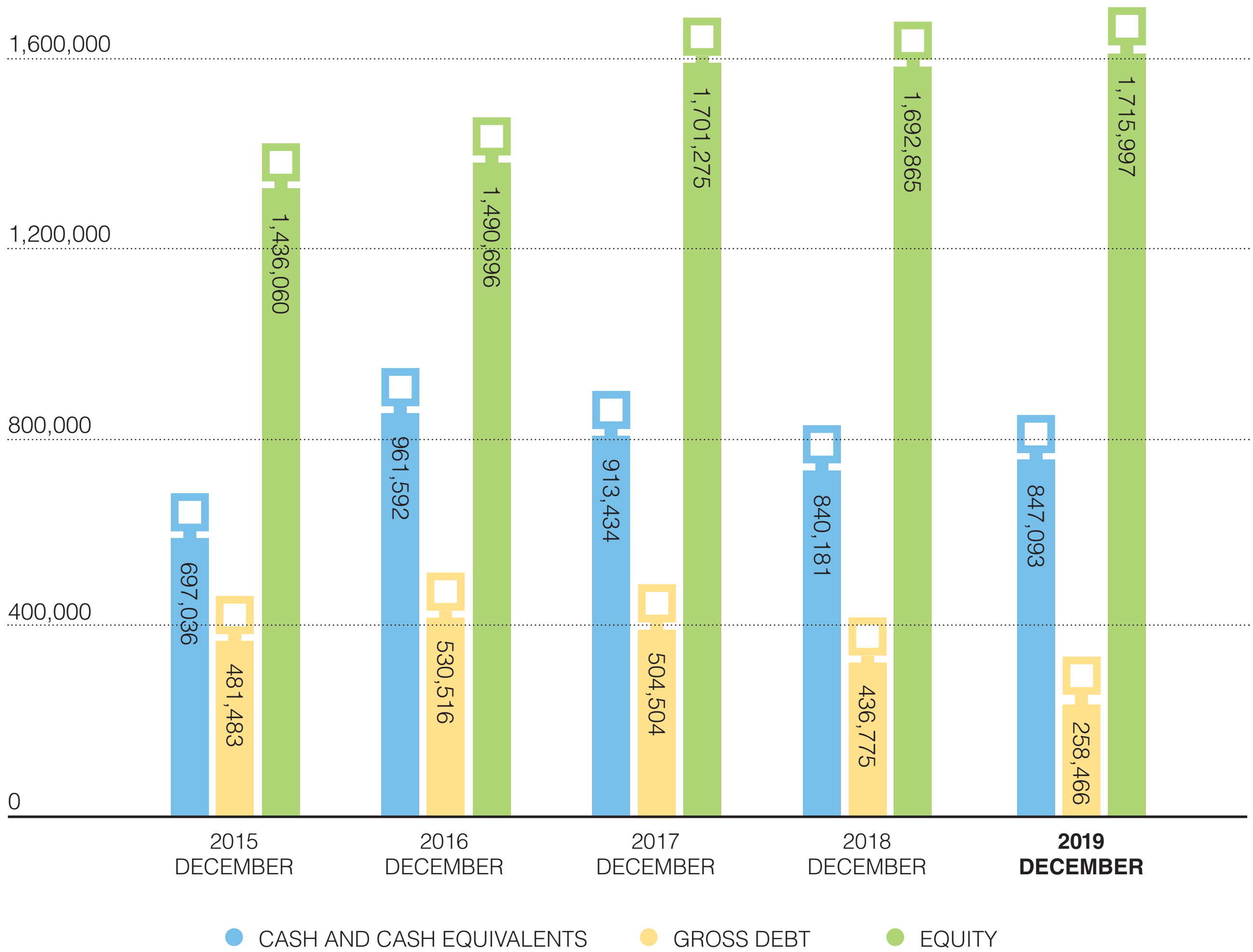
NET CASH TO EQUITY RATIO



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 2019.

BUSINESS REVIEW

The Group's sales by business segments, together with sales in 2018 are shown below for comparison.

	2019		2018		Change %
	HK $'000	**%**	HK $'000	%	
Automotive components	**449,302**	**55.3**	465,070	49.3	-3.4%
Hydraulic equipment components	**228,038**	**28.1**	263,476	27.9	-13.5%
HDD components	**92,452**	**11.4**	165,964	17.6	-44.3%
Others	**42,385**	**5.2**	48,966	5.2	-13.4%
	812,177	**100.0**	943,476	100.0	-13.9%

Since 2015, the global outgoing amount of HDD has been continuously decreasing, the Group also expected such market would keep sliding into recession, therefore, we have been actively searching for new markets and enhancing our business expansion years ago, so as to offset the effect of the sales downturn of HDD by implementing several measures like utilizing relevant idle equipment. Such market deteriorated rapidly in 2019, the sale of the HDD components of the Group amounted to HK$92,452,000, representing a decrease of HK$73,512,000 or 44.3% as compared to the corresponding period of last year.

On the other hand, since the sales of global automotive market has reached the peak in 2017, it has shown a downward trend in general until now. Secondly, the automotive market in the People's Republic of China (the "PRC") also faced negative growth for the first time in two decades. The major customers of the Company are located in Europe and the America. However, since the automotive supply chain has been globalized and the components are assembled in Europe and the America and supply back to China, the end customers are from the PRC. Therefore, the sale of the automotive components of the Company are also encumbered by the decline of the PRC's automotive market. The growth of hydraulic industry will be limited as a recession of infrastructures. In addition, the Sino-US trade dispute commencing on the fourth quarter of 2018 was long-lasting, and the complicated and varying disputes have led to market fluctuation as well as the frequent changes of customers' orders. The sale from US customers amounted to HK$235,070,000 in 2018, but decreased to HK$188,040,000 in 2019, representing a decrease of HK$47,030,000 or 20.0%, the effect of which was more serious. Progresses have been made in the development of new domestic customers and new projects, but being affected by the market, the increase has yet to reach the expected target. Therefore, under the influence of above various factors, the overall sale of the Group in 2019 amounted to HK$812,177,000, representing a decrease of HK$131,299,000 or 13.9% as compared to 2018.

Since the industry where the Group operates has larger investments with higher operating leverage, when the number of orders decreased and not all production equipment are fully utilized, the gross profit would be affected to a relatively large extent. Therefore, the gross profit amounted to HK$180,928,000 in 2019, representing a decrease of HK$109,861,000 or 37.8% as compared to HK$290,789,000 of last year.

While facing the complicated and sluggish operating environment, the operating results have dropped. Nevertheless, the Group has carried out active measures which have made some achievements and achieved cost reduction and efficiency enhancement.

CHAIRMAN'S STATEMENT

In addition to relocating some production lines to our factory in Thailand to avoid the tariffs of selling products to the United States, idle resources have been arranged for the expansion into the 3C market which has commenced production since the third quarter of 2019, so as to expand sales. Meanwhile, our production bases are adjusted to release the potential of Changshu production base, so as to enable it to be the driving force of capacity expansion of the Group in the future. Furthermore, the sales team has devoted more resources to develop new customers, among which, Heng Li Hydraulic, a domestic industry leader, have already commenced new projects. During the year, apart from researching and developing new products of automotive and hydraulic components, some new products have been launched for boosting the future sales, such as the cartridge valve accessories.

With regards to procurement, we will expand new suppliers and introduce new suppliers to carry out healthy competition. In addition to cost reduction, the supply chain will become more healthy and stable. Furthermore, we will match the most optimal supplier according to the demands of different products. During the year, we have developed new suppliers in India and the PRC, so as to solve the issues like long supply chain of material and low flexibility in European regions.

For production, we strictly adhere to safe production and hold safety production education trainings as planned, organize safety activities and carry out investigation and handling of potential hazards of production safety on a monthly basis as well as raising employees' safety awareness and safety skills by strengthening regulatory measures comprehensively. For environmental protection, we inspect our environmental works daily and carry out rectifications timely when potential hazards of environment are identified. We will detect the sewage, exhaust gas and noise generated by the Company regularly to avoid affecting our production level. Also, the Group promotes the improvement of production workmanship, optimization of procedures, production automation as well as carrying out assembling and commissioning works, so as to strengthen on market competitiveness. The Company held the first monthly activity in relation to quality improvement at the first time. With the participation of staff in each production base, the activity themed as "raising awareness, strengthening management, facilitating improvement, maintaining development" was held with a variety of contents and forms. Approximately 18,000 participants have submitted their proposals for quality improvement, subscribers for an WeChat group has increased to more than 1,000 persons, 500 participants have taken part in the online and offline quiz contest, more than 400 awardees and more than 300 effective and reasonable suggestions.

The Company commenced industry-university-research cooperation with clear direction, the results of which has gradually become conspicuous. The industry-university-research cooperation with Tsinghua University includes the cooperative development of harmonic reducer simulation design, gear measurement and flexible assembly technology of hydraulic shuttle valve. With respect to such cooperative development, the Company established project cooperation relationships with the mechanical laboratory and precision measurement laboratory of Tsinghua University respectively. Besides, the cooperation with Zhejiang University and South China Research Institute of Zhejiang University mainly focuses on the development of hydraulic technology and products, industrial automatic equipment and automation solutions. Through specific market demands and project cooperation, the industry-university-research cooperation and run-in between Zhejiang University and the Group can be strengthened, laying the foundation for further deepening the cooperation by bringing the respective advantages of both parties into full play. The cooperation with South China University of Technology during the year mainly covered the design, research and development of decelerators as well as the joint application of research projects. Subsequently, the Company will ensure the smooth progression of the above various industry-university-research activities and implement outcomes into practice by improving trainings and introduction of senior talents.

The internal audit department was established during the year and participated in the audit of constructor and fixed assets procurement. Its scope of work mainly comprises internal control audit, operation audit and audit on construction, with an aim to strengthen cost control and minimize relevant risks.

After being recognized as a high and new technology enterprise earlier, we have been communicating with PRC government at all levels and apply for relevant supporting policies, so as to obtain government subsidies in harsh time and facilitate the development of the Company. Secondly, we will reduce our capital expenditures and increase our interest income from existing funds. Furthermore, for the tariffs caused by Sino-US disputes, the Company apply for the exemption of tariffs of individual components to relieve our burden.

Contributed by the concerted effort of the Group, the net profit attributable to shareholders of the year amounted to HK$41,111,000, even though representing a decrease of HK$43,351,000 or 51.3% as compared to HK$84,462,000 in 2018, the effect of the drop of operating gross profits has already been reduced to a large extent.

CHAIRMAN'S STATEMENT

PROSPECT

In 2019, the Group faced challenges from various aspects, such as the seesaw atmosphere between Sino-US trade parties, the decline of HDD business, product transformation and the rise of competitors in the same industry. The Group has finalized relevant measures and such measures need to be implemented perseveringly and consistently to pay off. In addition to developing new customers (especially treating PRC's customers as the main target), we will strengthen the cooperation between automobile manufacturers and other suppliers. In addition, we will accelerate the transformation of production bases of the Group. What's more necessary is to improve the rules and regulations and implement standardized management, so as to achieve lean production, control the operating risks and lower the cost. Meanwhile, we will improve our craftsmanship and enhance our quality, and instill the idea of enhancing quality to each production line. We will treat the improvement of craftsmanship as one of our major emphasis in daily works and set up specific prizes. Certainly, in respect of operating management, we will strictly control the quality of raw materials, purchased accessories and production materials, so as to be worthy of the name of cutting-edge method working solutions provider.

For the operating principles next year, we will consistently adhere to "promoting transformation, preventing risks, improving efficiency" as our goal and bear in mind the production principles of "reducing costs, improving efficiency, improving quality", so as to achieve safe production with zero incidents, zero cases and zero losses throughout the year. We will strive to tackle the complicated operating environment with three focuses of "increase income, improve quality, upgrade", expand new markets, new customers and new products continuously, identify new profit drivers and proactively promote standardized management and lean production, so as to achieve the missions of the Group.

Therefore, we have set several directions for next year to complete three main goals. First of all, we will endeavor to maintain sales growth; protect our cooperation relationships with existing customers and develop the domestic market actively; organize trainings for relevant employees on a regular basis and participate in seminars relevant to our industry, so as to seek for projects in new sectors; pay attention to the developments and changes of the Sino-US trade war to take corresponding measures.

In addition, we will enhance our cost control and search for the solution to lower the supply cost, such as introducing new suppliers and negotiating with service providers for new measures to lower the cost. Furthermore, we will increase the responding speed of the supply chain, improve flexibility and agility, and pay attention to the safety of the supply chain and control the supply risks, as well as carrying out internal optimization and control our inventory level.

Secondly, we will optimize our cost management, financial analysis and audit, so as to enhance internal control, improve resource distribution and boost operating efficiency. We will strengthen the auditing work on project approval, assessment of fixed asset investment and project settlement.

In addition, we will continuously make the effort on training talents, including the establishment of comprehensive delineation of organizational functions, organizational structures, post management system and remuneration system. We will also introduce and nurture a number of young technical talents in professions ranging from digitally-controlled processing, hydraulic technology, electro-mechanical integration, machinery design and manufacture as well as its automation and robot technology from well-known colleges in the PRC. Furthermore, we will expand the school-enterprise cooperation with various schools in Guangzhou and intends to mass-transfer approximately 90 technicians and trainees to professional counterparts in June 2020, so as to supplement reserve talents in production and technology.

During the preparation of this annual report, it is in the middle of hard time for the world to fight against the novel Coronavirus. On behalf of the board, I would like to wish this epidemic to be controlled as soon as possible and everyone can return to their normal lives. Also, I would like to express my heartfelt thanks to all our employees for their contributions and efforts to our Group throughout many years.

Mr. Zeng Guangsheng
Chairman

23 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Against the backdrop of the decrease of overall revenue, especially the speedy decrease of the orders of HDD components, the revenue of the Group for the year ended 31 December 2019 amounted HK$812,177,000, representing a decrease of HK$131,299,000 or 13.9% as compared to HK$943,476,000 of last year.

The Group produces high-quality products with high-precision equipment, which is a capital-intensive industry. When the revenue drops, the economy of scale cannot be brought into full utilization, resulting in the relatively sharp decrease of the Group's gross profit. The gross profit for 2019 was 22.3%, representing a decrease of 8.5% as compared to 30.8% of last year. The gross profit margin for 2019 amounted to HK$180,928,000, representing a decrease of HK$109,861,000 or 37.8% as compared to HK$290,789,000 of last year.

For the year ended 31 December 2019, other revenue amounted to HK$19,913,000, as compared to HK$8,557,000 in the corresponding period last year. Bank interest income for 2019 amounted to HK$11,341,000, representing an increase of HK$4,740,000 as compared to HK$6,601,000 in the corresponding period of last year. Secondly, the Group proactively applied relevant subsidies from the government and successfully received HK$3,361,000 (2018: nil). In addition, since we had made provisions for receivables which have been fully recovered during 2019, thus recording a reversal of receivables of HK$2,079,000 (2018: nil).

Sales and distribution expenses for 2019 amounted to HK$15,959,000, representing a decrease of HK$10,576,000 or 39.9% as compared to last year, mainly due to the tax refund of HK$7,027,000 for the tariffs of importing components to the United States last year.

Administration expenses and other expenses for 2019 amounted to HK$123,524,000, representing a decrease of HK$29,263,000 or 19.2% as compared to HK$152,887,000 in the corresponding period of last year. We mainly reduced our costs on the amortization of share options decreased by HK$15,680,000, salaries and allowances decreased by HK$13,046,000, directors' remuneration decreased by HK$6,783,000 and maintenance costs decreased by HK$3,373,000. On the other hand, due to the effects of exchange rates, the foreign exchange loss for 2019 amounted to HK$3,424,000, as compared to the foreign exchange gain of HK$9,592,000 in last year. Under the comparison of foreign exchange loss, such expense increased by HK$13,016,000.

While focusing on the reduction of expenditure and under the principle of prudent investments, the Company reduced financing amounts and urged to lower the borrowing rates. Therefore, finance cost for 2019 amounted to HK$14,430,000, representing a decrease of HK$4,041,000 or 21.8% as compared to 2018.

For the year ended 31 December 2019, the profit attributable to the owners of the Group amounted to HK$41,111,000, representing a decrease of HK$43,351,000 or 51.3% as compared to the attributable profit of HK$84,462,000 last year.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2019, the Group had total borrowings of HK$258,466,000 (31 December 2018: HK$436,775,000) 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 2019.

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 2019, cash per share amounted to HK$0.81, which increase slightly as compared to HK$0.80 last year, based on the 1,052,254,135 ordinary shares in issue (31 December 2018: 1,052,254,135 ordinary shares). Under the principle of steady financial management, the net asset value per share for 2019 amounted to HK$1.63, representing a slight increase as compared to HK$1.61 last year.

With regards to cash flow, despite the decrease in revenue, driven by cost rationalization and high-quality customers, combined with previous default of receivables recovered, the Group recorded a net cash inflow from operating activities of HK$228,696,000 in 2019, compared with the a cash inflow from operating activities of HK$180,434,000 in 2018. The cash inflow from operating activities did not record any backslide. Against the backdrop of the decrease in the number of sale orders, capital expenditure would only be made after prudent consideration. Therefore, the net cash outflow from investment activities for 2019 amounted to HK$19,274,000, representing a significant decrease of HK$79,270,000 compared with the net cash outflow of HK$98,544,000 in 2018.

In terms of bank borrowings, interest expenses were also reduced. Therefore, as at 31 December 2019, total bank borrowings amounted to HK$258,466,000, representing a decrease of HK$178,309,000 as compared with HK$436,775,000 in 2018. While facing the decrease in the number of sale orders, the Group explored new customers and new products on one hand, while ensuring the recovery of receivables under the principle of prudent wealth management. The Group also reduced its daily expenses and reduced capital investments by utilizing existing production equipment to the fullest extent, thus net cash, calculated by cash and bank balances less total bank borrowings, will be improved, so as to enable the Group to have more funds to respond to the negative surroundings and seize future development opportunities. As at 31 December 2019, the net cash, calculated by cash and bank balances less total bank borrowings, amounted to HK$588,627,000, representing an increase of HK$185,221,000 as compared with 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.

HUMAN RESOURCES

In addition to the improvement the safety awareness and safety skills of our employees as mentioned above, we have commenced recreational activities for our staff in various types, such as movie shows, Chinese chess competition, badminton match, basketball match, etc. We have also organized design activities for setting up IPE Engineering Institute. Furthermore, we have put effort in promoting brand establishment and promote corporate culture and share important events of the Group through channels like WeChat public account, so as to increase the sense of belongings and cohesion of our staff.

Furthermore, we have strengthened our team establishment and collaboration with colleges to nurture talents, such as participating colleges' job fairs. We have established talent cooperation on the college-enterprises level with colleges like Guangzhou College of South China University of Technology, Guangdong Polytechnic Normal University, Guangzhou Huali Technician College and GETC and organize the IPE order-based classes. Also, trainings sessions and lectures were held to complete trainings in respect of IATF16949 Five Major Tools and quality control. In addition, the Company completed the filing works of a government-subsidized project named "New Apprenticeship" of a number of apprentices with Human Resources and Social Security Bureau of Zengcheng Municipality, Guangzhou, so as to enhance the occupational techniques of technical staff.

The Group has a share option scheme in place as an encouragement and awards to selected participants for their contributions to the Group. The Company has set up a mandatory provident fund and local retirement benefit scheme for our staff.

As at 31 December 2019, the Company had a total of 2,229 employees, representing a decrease of 140 employees or 5.9% when compared to 2,369 employees as at 31 December 2018.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zeng Guangsheng, aged 53, 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 both of the remuneration committee and the environmental, social and governance 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 employee representative director of the fourteenth session of the board of directors and the chief investment officer of China Baoan Group Co., Ltd. (中國寶安集團股份有限公司) ("China Baoan", 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 was an executive director of the thirteenth session of the board of directors of China Baoan during the period between June 2016 and June 2019. He 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 51, 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 Directors

Ms. Zeng Jing, aged 45, 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.

Mr. Chen Kuangguo, aged 35, is a non-executive director of the Company. He joined the Group in June 2019 and China Baoan Group Co., Ltd (中國寶安集團股份有限公司), the controlling shareholder of the Company and listed on the Shenzhen Stock Exchange (stock code: 000009) ("China Baoan", together with its subsidiaries, the "Baoan Group") in July 2006. Mr. Chen has been a director 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), since May 2019, and an executive deputy general manager of the financial investment department of China Baoan. Mr. Chen served as a senior project manager at Tangren Pharmaceutical Co.,Ltd. (唐人藥業有限公司), a subsidiary of Baoan Group, and an executive director of the thirteenth session of the board of directors of China Baoan during the period between June 2016 and June 2019.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Yang Rusheng, aged 52, is an independent non-executive director and a member of each of the remuneration committee, nomination committee and environmental, social and governance 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 37, is an independent non-executive director and a member of both the audit committee and nomination committee of the Company. Mr. Cheung has been appointed as the chairman of the remuneration committee of the Company since October 2018 and the chairman of the environmental, social and governance ("ESG") committee since November 2019. He joined the Group in June 2017. Mr. Cheung has been an independent non-executive director of China Shineway Pharmaceutical Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2877), since January 2019, and an independent non-executive director of Forward Fashion (International) Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2528), since December 2019. Mr. Cheung previously served in renowned institutions, including BNP Paribas, Pictet Asset Management and Gartmore Investment Management. Mr. Cheung holds a bachelor's degree in economics from London School of Economics and Political Science, University of London and is a Fellow of CPA Australia. He was awarded the Certified ESG Analyst designation. Mr. Cheung is a council member of the Hong Kong Independent Non-Executive Director Association and a Board Governor at Friends of the Earth (HK).

Mr. Mei Weiyi, aged 46, is an independent non-executive Director, and a member of each of the audit committee, nomination committee, remuneration committee and environmental, social and governance 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 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 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 the deputy general manager and an executive director of China Re Asset Management (Hong Kong) Company Ltd.

Mr. Xu Bing, aged 49, is an independent non-executive director and a member of each of the audit committee, nomination committee, remuneration committee and environmental, social and governance committee of the Company. He joined the Group in June 2019. Mr. Xu obtained his PhD degree of Mechanical Engineering from Zhejiang University in 2001. He 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 director of the State Key Laboratory of Fluid Power & Mechatronic Systems. He holds various positions, including the director of Chinese Mechanical Engineering Society ("CMES") and the deputy chairman of the branch of the Fluid Transmission and Control Society of CMES (流體傳動與控制分會); the director of China Construction Machinery Society ("CCMS") and the vice chairman of the branch of the Extraordinary Engineering Transportation Vehicle Society of CCMS (特大型工程運輸車輛分會); the member of the Fluid Transmission and Control Professional Committee (流體傳動與控制專業委員會) of Chinese Society of Aeronautics and Astronautics; the member of the Expert Committee of China Hydraulics Pneumatics & Seals Association; the director of the International Standardization Committee of the National Hydraulic and Pneumatic Standardization Technical Committee (全國液壓氣動標準化技術委員會國際標準化委員會); and an expert of the ISO-TC131 (Fluid Transmission System) International Standards Committee (ISO-TC131(流體傳動系統)國際標準委員會). From September 2016, Mr. Xu currently serves as an independent director at Jiangsu Hengli Hydraulic Co., Ltd. (江蘇恒立液壓股份有限公司) (formerly known as Jiangsu Hengli High Pressure Cylinder Co., Ltd. (江蘇恒立高壓油缸股份有限公司)), a company listed on the Shanghai Stock Exchange (stock code: 601100).

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Ho Yu Hoi, Mark, aged 56, is the Vice President of Marketing 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 37 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 55, is the Vice President of Marketing 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 23 years of experience in marketing and sales of precision components and industrial equipment.

Mr. Jiang Fei, aged 47, 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 23 years of experience in the manufacturing industry.

COMPANY SECRETARY

Mr. Tam Yiu Chung, aged 49, is the Chief Financial Officer and Company Secretary of the Company. He joined the Group in 2007. He holds a master's 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 2019.

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 2019:

Board of Directors

Executive Directors
- Mr. Zeng Guangsheng, *Chairman of the Board 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

Executive Committee
- Mr. Zeng Guangsheng, *Chairman*
- Mr. Ng Hoi Ping

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

Environmental, Social and Governance Committee
- Mr. Cheung, Chun Yue Anthony, *Chairman*
- Mr. Zeng Guangsheng
- Mr. Yang Rusheng
- Mr. Mei Weiyi
- Mr. Xu Bing

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 2019, 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. Mr. Zeng Guangsheng has assumed the roles of both Chairman of the Board and Chief Executive Officer of the Company since 29 October 2018. 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 Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company on the grounds that (i) Mr. Zeng and other directors are aware of and undertake to fulfill their fiduciary duties as directors, which require that they act in the best interests of the Company; (ii) there is a check-and-balance mechanism within the Board which comprises executive directors and four independent non-executive directors of high caliber and diverse experience. Major decisions shall be approved by the majority of the Board members after thorough discussions and deliberations at the Board and senior management levels. Therefore, the Board considers that the deviation from code provision A.2.1 of the CG Code is appropriate in such circumstances and beneficial to the Group.

Term of Appointment of Non-executive Directors and Re-election of Directors

Ms. Zeng Jing, a non-executive director, was first appointed on 2 June 2017 and subsequently re-elected at a general meeting held on 14 August 2017 for an initial term of 1 year and shall be subject to retirement by rotation and re-election provisions as set out in the Articles of Association of the Company (the “Articles of Association”).

Mr. Chen Kuangguo, a non-executive director, was appointed on 1 June 2019 for an initial term of 3 years and shall be subject to re-election at the first general meeting of the Company after his appointment.

Mr. Xu Bing, an independent non-executive director, was appointed on 1 June 2019 for an initial term of 1 year and shall be subject to re-election at the first general meeting of the Company after his appointment.

Each of the other independent non-executive directors has entered into a letter of appointment with the Company for a term of about 1 year up to the date of holding the forthcoming annual general meeting of the Company (the “2020 AGM”).

In accordance with articles 86 and 87 of 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 article 86(3) of the Articles of Association, Mr. Chen Kuangguo, a non-executive director, and Mr. Xu Bing, an independent non-executive director, both were appointed with effect from 1 June 2019, will hold office only until the 2020 AGM and, be eligible, offer themselves for re-election at the said meeting.

In addition, pursuant to article 87 of the Articles of Association, Mr. Zeng Guangsheng and Ms. Zeng Jing shall retire by rotation and, being eligible, offer themselves for re-election at the 2020 AGM.

The Board and the Nomination Committee of the Company recommended the re-appointment of these retiring directors standing for re-election at the 2020 AGM. The Company’s circular contains detailed information of such retiring directors for re-election pursuant to the requirements of the Listing Rules.

THE BOARD (Continued)

Induction and Training and Continuing Professional 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 2019, the Company has provided reading materials on regulatory update to all the directors for their reference and studying. Besides, all directors 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 had complied with the Own Code and the Model Code throughout the year ended 31 December 2019.

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.

THE BOARD (Continued)

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 2019, the Board 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.

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 2019 are set out in the table below:

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Environmental, Social and Governance Committee (Note 3)	Annual General Meeting
Mr. Zeng Guangsheng	4/4	–	1/1	1/1	–	1/1
Mr. Ng Hoi Ping	4/4	–	–	–	–	1/1
Ms. Zeng Jing	4/4	–	–	–	–	1/1
Mr. Chen Kuangguo (Note 1)	3/3	–	–	–	–	–
Mr. Yang Rusheng	3/4	2/3	1/1	1/1	–	0/1
Mr. Cheung, Chun Yue Anthony	4/4	3/3	1/1	1/1	–	1/1
Mr. Mei Weiyi	3/4	2/3	1/1	1/1	–	0/1
Mr. Xu Bing (Note 2)	2/3	1/2	–	–	–	–

Notes:

1. Mr. Chen Kuangguo was appointed as a non-executive director of the Company on 1 June 2019. Subsequent to his appointment, 3 Board meetings were held during the year ended 31 December 2019.

2. Mr. Xu Bing was appointed as an independent non-executive director of the Company on 1 June 2019. Subsequent to his appointment, 3 Board meetings and 2 Audit Committee meetings were held during the year ended 31 December 2019.

3. The Environmental, Social and Governance Committee was established on 25 November 2019.

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

BOARD COMMITTEES

The Board has established 5 Board committees, namely, the Executive Committee, Remuneration Committee, Audit Committee, Nomination Committee and Environmental, Social and Governance 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 5 members, being 4 independent non-executive directors, namely, Mr. Cheung, Chun Yue Anthony (Chairman), Mr. Yang Rusheng, Mr. Mei Weiyi and Mr. Xu Bing; 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 2019, the Remuneration Committee 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. Chen Kuangguo and Mr. Xu Bing, the two newly appointed directors.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2019 is set out below:

Remuneration	Number of Individuals
Nil to HK$1,000,000	9
HK$1,000,001 to HK$2,000,000	3
HK$2,000,001 to HK$3,000,000	1

Details of the remuneration of each of the directors of the Company for the year ended 31 December 2019 are set out in note 7 to the financial statements.

BOARD COMMITTEES (Continued)

Audit Committee

The Audit Committee currently comprises a total of 4 members, namely, Mr. Yang Rusheng (Chairman), Mr. Cheung, Chun Yue Anthony, Mr. Mei Weiyi and Mr. Xu Bing. 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 2019, the Audit Committee performed the following major tasks:

- Review and discussion of the annual financial results and report for the year ended 31 December 2018 and interim financial results and report for the six months ended 30 June 2019;

- Review of the scope of audit work, auditors' fees and terms of engagement for the year ended 31 December 2019;

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

- Review of the risk management and internal control systems, and the effectiveness of the internal audit function; 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 was 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 5 members, being 1 executive director, namely, Mr. Zeng Guangsheng (Chairman); and 4 independent non-executive directors, namely, Mr. Yang Rusheng, Mr. Cheung, Chun Yue Anthony, Mr. Mei Weiyi and Mr. Xu Bing. 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. Pursuant to the new Board Diversity Policy adopted by the Company, 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 Nomination Committee is of the view that the diversity level of the Board is appropriate in terms of knowledge, experience and skills of the directors. 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.

BOARD COMMITTEES (Continued)

Nomination Committee (continued)

During the year under review, the Nomination Committee had, in accordance with the Director Nomination Policy of the Company, considered criteria set out therein 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. The Nomination Committee adopted the following procedures and process set out in the Director Nomination Policy to select and recommend candidates for directorship during the year:

(i) Appointment of new directors:

- Potential candidates were identified through various channels, such as internal promotion, re-designation, referral by other member of the management, and external recruitment agents;
- Evaluating the candidates based on the criteria aforementioned;
- Ranking the candidates by order of preference based on the needs of the Company and conducting reference check of each candidate; and
- Making recommendation to the Board for the appointment of the appropriate candidate for directorship.

(ii) Re-election of directors at general meeting:

- Reviewing the overall contribution and service of the retiring director to the Company and his/her level of participation and performance on the Board;
- Reviewing whether the retiring director continues to meet the criteria aforementioned or not; and
- Making recommendation to the Board for its subsequent recommendation to shareholders in respect of the proposed re-election of the director at the general meeting.

During the year ended 31 December 2019, the Nomination Committee 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 2019 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. Chen Kuangguo as a non-executive director and Mr. Xu Bing as an independent non-executive director.

BOARD COMMITTEES (Continued)

Environmental, Social and Governance Committee ("ESG Committee")

The Company has a heritage of strong commitment to the long-term sustainability of the business. On 25 November 2019, the Company established its ESG Committee to further strengthen its risk management and proactively fulfill its social responsibility.

The ESG Committee comprises 5 members, being 4 independent non-executive directors, namely, Mr. Cheung, Chun Yue Anthony (the Chairman), Mr. Yang Rusheng, Mr. Mei Weiyi and Mr. Xu Bing, and 1 executive director, namely Mr. Zeng Guangsheng.

The primary duties of the ESG Committee are to (i) formulate and review the Group's responsibilities, visions, strategies, frameworks, principles and policies of environmental, social & governance and implement relevant policies approved by the Board; (ii) set relevant policy targets, key performance indicators and measures that align with the Group's business model and effectively monitor the progress; (iii) identify issues related to the area of environmental, social & governance arising from external factors; (iv) review and monitor environmental, social & governance policies to ensure their continued effectiveness; (v) monitor staff training related to issues of environmental, social & governance; (vi) approve the Environmental, Social and Governance Report and report to the Board; and (vii) report any new development of matters with its terms of reference to the Board when necessary.

The ESG Committee did not hold any meeting during the reporting year since its establishment.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

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.

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 from time to time, and implemented measures to address the weakness identified by the consulting firm.

The Company adopted a disclosure policy which provides a general guide to its directors, senior management and employees on the handling and dissemination of inside information and responding to enquiries in accordance with the inside information provisions under Part XIVA of the Securities and Futures Ordinance and the Listing Rules.

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

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the Company's financial statements for the year ended 31 December 2019 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 2019 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 2019	1,800
Non-audit services:	
Tax services and others	733
TOTAL:	2,533

COMPANY SECRETARY

During the year ended 31 December 2019, Mr. Tam Yiu Chung, the Company Secretary, took no less than 15 hours of relevant professional training. Biographical details of Mr. Tam are set out in the section headed "Directors and Senior Management" in this annual report.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

Address:	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 subject to the Articles of Association of the Company, all applicable laws and regulations, 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. The Company does not have any pre-determined dividend payout ratio.

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. Computershare Hong Kong 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 fourth 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.

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 2019 to 31 December 2019 ("Reporting Period"), unless otherwise stated:

(i) manufacturing site and sales office at Guangzhou Xinhao 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 reporting scope compared with the last Reporting Period. No major changes in the numbers of employees, net sales/income, and operational locations have occurred. The above three sites are 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 continues to engage 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, addressing them if 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 employees' performance appraisals, shareholder meetings, correspondences, disclosure on company's websites, as well as e-mail communication and regular business meetings with suppliers and customers.

Through the stakeholder surveys carried out during this Reporting Period, it was identified that the key material issues raised by the stakeholders mainly focused on social aspects, with followings topics deemed as the most important:

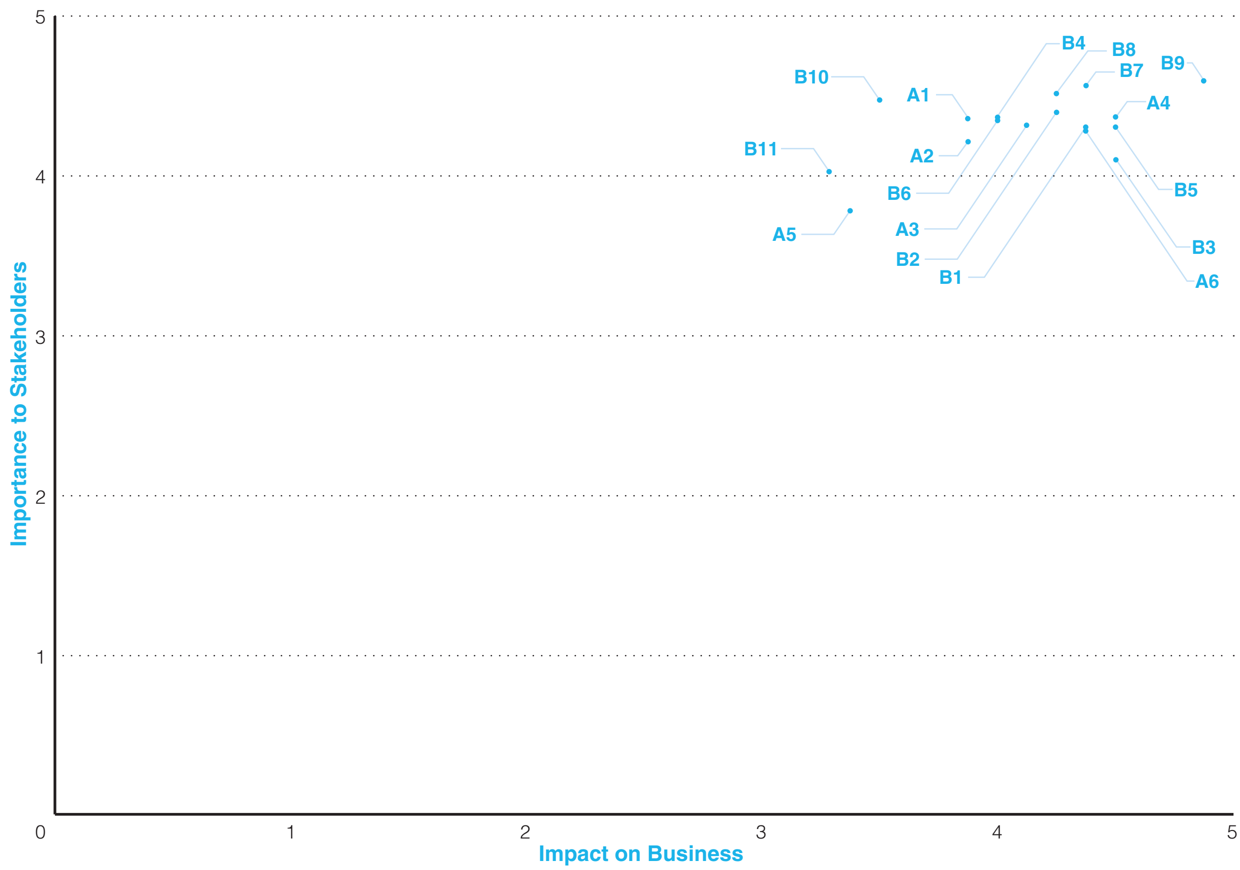
- Product and Service Quality
- Data Protection
- Customer Service
- Anti-corruption
- Occupational Health and Safety

STAKEHOLDER ENGAGEMENT AND MATERIALITY (Continued)

With more understanding on the concept of ESG by the Group and its stakeholders, a diversified yet compatible profile has been observed among key topics raised by different groups during the Reporting Period. Overall, the Group has paid specific attention to labour issues such as training & staff benefits, while other stakeholders have made various constructive suggestions.

Stakeholder group	Specific concerns/suggestions/questions raised
Board members	– Form a Sustainability & ESG Committee to systematically manage the environmental and social issues
Senior management	– Consider extending the lunch break by half an hour to enhance the physical and mental health of the employees and their efficiency
Customers	– Suggest to implement more stringent evaluation processes for key suppliers, such as electroplating suppliers, e.g, checking their contingency plans in addition to standard production license
Suppliers	– Suggest to handle complaints about excessive working hours from employees at GZXH and DGKD, which is addressed by the Group with a new policy on reduction of working hours – Achieve logistics efficiency optimization – Suggest to implement waste recycling

Material Matrix



STAKEHOLDER ENGAGEMENT AND MATERIALITY (Continued)

A. Environmental	
Energy	A1
Water	A2
Emissions	A3
Effluent and Waste	A4
Other Raw Materials Consumption	A5
Environmental Protection Policies	A6

B. Social	
Employment	B1
Occupational Health and Safety	B2
Development and Training	B3
Labour Standards	B4
Supply Chain Management	B5
Intellectual Property Rights	B6
Data Protection	B7
Customer Service	B8
Product and Service Quality	B9
Anti-corruption	B10
Community Investment	B11

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 among maximum profit, responsibility, and satisfaction for stakeholders as a whole. The Group continuously encourages waste reduction and electricity and water conservation.

During this Reporting Period, the Group has successfully established a formal ESG committee, which serves to identify ESG risks, implement ESG policies and track ESG performances. The committee is responsible for setting up ESG related strategies and programmes, which could include drafting policies, assigning responsibilities for ESG operations and setting up processes to manage ESG activities. It also sets relevant policy targets, key performance indicators ("KPIs") and measures that align with the Group's business model and effectively monitors the progress. When necessary, the committee will report any new development of matters with its terms of reference to the Board.

THE GROUP'S SUSTAINABILITY MISSION AND VISION (Continued)

The Group actively strives for management excellence and has continuously awarded of various international accreditations such as IATF16949:2016, AS9100:2016, ISO9001:2015, ISO14001:2004 for selected operational sites. The Group has been awarded "Hong Kong – Guangdong Cleaner Production Partners" by Hong Kong Productivity Council during the Reporting Period. In addition, both GZXH and DGKD have been granted the Work Safety Standardization Certificate.

The Group's continuous investment in R&D and technology advancement has gained recognition in the community. In August 2019, the Group was appointed an executive member of the China Robot Industry Alliance. In December 2019, GZXH was appointed a founding executive member of Guangzhou Robot Association. In November, the Group organized the first "IPE Quality Month" event, receiving a total of 18,000 quality improvement proposals with over 300 of them identified as useful. During the Reporting Period, the Group has also strengthened its collaboration with local think tanks and has signed formal agreements with two local colleges to enhance School-Enterprise cooperation.

A. ENVIRONMENTAL

The Group stringently complies with national and local laws and regulations concerning environmental protection and pollution control. IPET and DGKD strictly observe local, provincial and national 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 observes local laws and regulations such as Soil and Groundwater Contamination Control in Factory Area B.E. 2559 (2016). IPET has also implemented the Ministry of Industry Plant Drainage Standard announced in 2018 during this Reporting Period.

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 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 the canteen was also monitored and within the permissible level set by GB 18483-2001 Emission standard of cooking fume. Apart from 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.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.1 Air Emissions (Continued)

Gaseous Fuel Consumption and Vehicle Operations

Natural gas was consumed in IPET and town gas was used in GZXH for stationary combustion. Nitrogen oxides ("NO_x") and sulphur oxides ("SO_x") were generated from gaseous fuel consumption. Liquefied petroleum gas ("LPG") was also used for canteens in GZXH but was not included in the calculation as the canteen operations was outsourced.

Gasoline passenger cars was used for daily business operations. Diesel was also consumed for other types of vehicles. Their combustion generated several air emissions which include NO_x, SO_x, and respiratory suspended particles ("PM").

Compared with the last Reporting Period, emissions from gaseous fuels have reduced by 5% and various air emissions from mobile fuel combustion have also been reduced substantially.

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

	Air emissions (non-GHG) from gaseous fuel consumption	
Gaseous fuel emissions	**NO_x (kg)**	**SO_x (kg)**
Town gas	1.67	0.01

	Air emissions (non-GHG) from vehicle operations		
Mobile fuel emissions	**NO_x (kg)**	**SO_x (kg)**	**PM (kg)**
Gasoline and diesel	426.83	1.93	16.59

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.

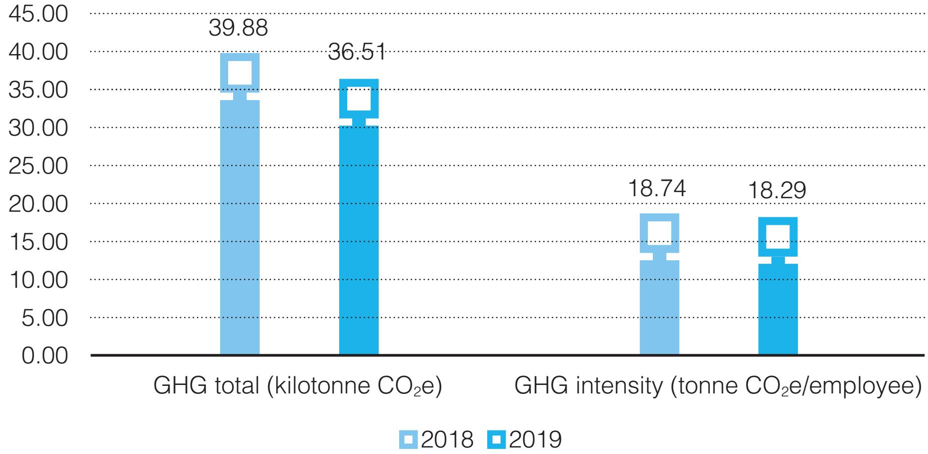
A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.2 Greenhouse Gas ("GHG") Emissions

There were 36,512 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. Compared with the last Reporting Period, a reduction of 8% of the total GHG was achieved. The overall intensity for GHG emissions was 18.29 tCO_2e per employee.

GHG emissions and intensity



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

- Direct (scope 1) GHG emissions from the consumption of stationary and mobile sources, including natural gas, town gas, diesel, and gasoline;
- Energy indirect (scope 2) GHG emissions from purchased electricity and town gas; and
- 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)[1]	Sub-total (in tCO_2e)	Total GHG emission (in percentage)
Scope 1 Direct emissions	Combustion of fuels in stationary sources	Diesel	429.94	806	2%
		Town gas	22.22		
		Natural gas[2]	5.58		
	Combustion of fuels in mobile sources	Diesel	74.90		
		Petrol	273.08		
Scope 2 Energy indirect emissions	Purchased electricity[3]		35,382.86	35,388	97%
	Purchased towngas[4]		4.91		
Scope 3 Other indirect emissions	Paper waste disposed of in landfills		44.02	319	1%
	Electricity used by government departments/third parties for processing freshwater and sewage		175.05		
	Electricity used by government department/third parties for processing sewage		44.12		
	Business air travel by employees[5]		55.60		
Total				**36,513**	**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: Emissions from natural gas combustion in IPET was calculated per GHG Protocol tool: GHG Emissions from Stationary Combustion.

Note 3: Emission factor (EF) of 0.63 kg and 0.57 kg CO_2e/kWh was used for purchased electricity in Guangdong Province, China and Bangkok, Thailand, respectively.

Note 4: Emission factor (EF) of 0.56 kg CO_2e/unit was used for scope 2 GHG of purchased town gas, according to the Towngas Sustainability Report 2018.

Note 5: Emissions were calculated using the online tool provided by the International Civil Aviation Organization.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.3 Hazardous Waste

The Group generated a total of 388.82 tonnes of hazardous waste during the Reporting Period, with an intensity of 194.80 kg/employee of the Group level. 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 waste water treatment facility also generated sludge. All hazardous waste has been managed as per the PRC's regulations on the Prevention and Control of Environmental Pollution by Solid Waste, as well as ISO 14001 standards 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 mineral oil	1,361 kg, collected and treated by government certified 3rd party handler	1,503 kg, collected and treated by government certified 3rd party handler	450 kg, collected and treated by government certified 3rd party handler
Computer hardware and lighting waste (e.g., fluorescent lamps)	n/a	n/a	100 kg, landfilled by government certified 3rd party handler
Waste organic solvent	2,455 kg, collected and treated by government certified 3rd party handler	n/a	n/a
Oil- and chemical-contaminated materials (e.g., waste oil tanks and bottles, cleaning products)	36,108 kg, collected by suppliers and recycled	6,655 kg, collected by suppliers and recycled	22,520 kg, landfilled by government certified 3rd party handler
Sludge	315,150 kg, collected and treated by government certified 3rd party handler[1]	2,525kg, collected and treated by government certified 3rd party handler	n/a
Total hazardous waste	355,074 kg	10,683 kg	23,070 kg
Intensity (kg/employee)[2]	232.68	30.18	198.88

Note 1: The sludge data collection system was updated during 2019 which explains the data inconsistency with the last Reporting Period.

Note 2: The hazardous waste intensity here is not compared with that of the last Reporting Period due to the lack of unified statistical calibre.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.4 Non-hazardous Waste

Apart from waste office paper, the Group generated a total of 112,034 kg (or 112.03 tonnes) of non-hazardous waste during the Reporting Period. Two major categories of non-hazardous waste – 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 types of non-hazardous waste were mainly non-office waste papers, food waste, and waste packaging materials. Food waste from the canteen was collected for animal feed by local farmers. During this Reporting Period, all sites were able to record the food waste data. Nevertheless, GZXH and DGKD are recommended to consider implementing waste auditing for waste office paper.

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

Types of non-hazardous waste	Non-hazardous waste amount and treatment method GZXH	DGKD	IPET
Waste office paper	7,484 kg purchased, assuming all landfilled[1]	1,030 kg purchased, assuming all landfilled[1]	686 kg purchased, 30 kg recycled, and 656 kg landfilled
Non-office paper waste (e.g., wrapping paper)	19,820 kg, recycled by downstream industry	n/a	1,100 kg, recycled by downstream industry
Metal, Glass, and Plastic waste	27,496 kg, recycled by downstream industry	4,250 kg, recycled by downstream industry	n/a
Waste packaging materials (e.g., wooden pallets)	34,588 kg	11,240 kg, recycled by downstream industry	n/a
Food waste	3,900 kg food waste, collected by third-party for composting	8,390 kg food waste, collected by third-party for composting	1,250 kg food waste, collected by third-party for composting
Other general waste	n/a	n/a	66,000 kg, landfilled[2]

Note 1: Under the assumption that all paper, whether is stored or purchased within the organization boundary, will eventually be disposed of in 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.

Note 2: The data collection system was updated during 2019 which explains the data inconsistency with the last Reporting Period.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.4 Non-hazardous Waste (Continued)

Table 4.1: Total non-hazardous waste (except waste office paper) and intensity

	GZXH	DGKD	IPET	Group-total
Landfill diversion rate is 100%:				
Total non-hazardous waste generated were all diverted from landfills (recycled or composted)[1]	85,804 kg	23,880 kg	2,350 kg	112,034 kg
Intensity (total waste(kg) per employee)[2]	56.23	67.46	20.26	56.13

Note 1: The total non-hazardous waste recorded did not include general office and domestic waste.

Note 2: The non-hazardous waste intensity here is not compared with that of the last Reporting Period due to the lack of unified statistical calibre.

A1.5 Measures to Mitigate Emissions

The direct emissions generated onsite were mitigated via various controlling schemes. Effective vehicle management has been implemented to reduce fuel consumption and associated air emissions. Transportation plans are required for advanced scheduling of vehicle dispatch. Carpooling is highly encouraged when schedules allow. Fuel-efficient and low-emissions vehicles are prioritized in future purchase of replacement. The Group also highly encourages employees to use public transport whenever possible. As a result of continuous improvement, major environmental Key Performance Indicators ("KPIs") have been achieved with the results outperformed those of the last Reporting Period.

A1.6 Wastes Reduction and Initiatives

The Group manages its solid waste via waste management procedure, which regulates the sorting procedures, internal transfer and storage procedures, and disposal procedures of waste. To reduce production costs and the amount of waste generation, cutting oil from production lines has been reused. After the cutting oil reached its maximum reusable times, it was stored within designated areas for further collection by certified handlers.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.6 Wastes Reduction and Initiatives (Continued)

Every waste-generating department has set up designated waste collection areas, with clear labeling to avoid any mix of different waste categories, then they shall mark and transfer the classified waste to designated storage yards. Individual department is also responsible for routine inspection and cleaning of its internal waste collection areas. Qualified personnel in charge of the yard shall sort all the waste gathered from various departments to ensure proper external delivery. All waste collection areas are well protected against abnormal storm sewage to avoid any leakage. Fire equipment are placed within 20 meters from the hazardous waste. During the 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 provided recycling bins with clear instructions on separating recyclable and non-recyclable waste. The Group continues to implement the management policy of paper saving in order to reduce paper consumption and paper waste. Waste papers are collected by certified handlers for downstream recycling. 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.

A2. Use of Resources

A2.1 Energy Consumption

Total electricity consumption by the Group was 56,502,265 Kilowatt-hour ("kWh"). Compared with the last Reporting Period, the Group achieved a reduction in electricity consumption as well as intensity for all sites except IPET.

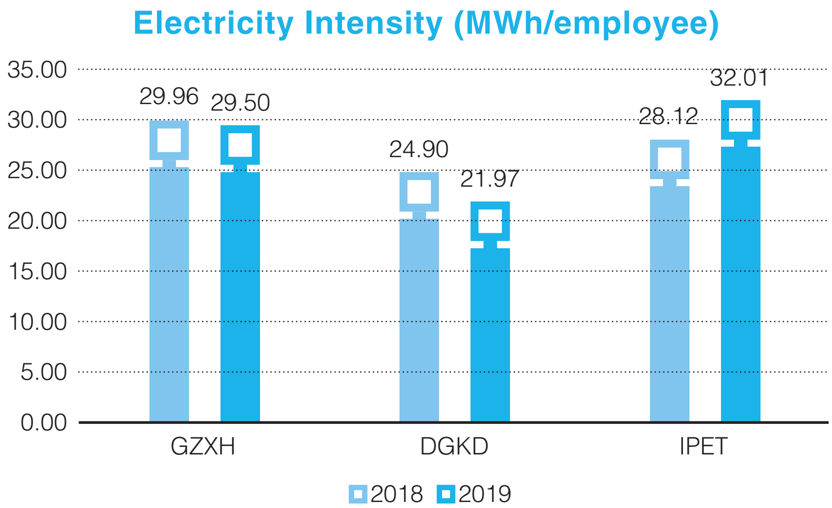
Table 5: Annual direct energy consumption and intensity

Direct energy source (electricity)	Consumption (kWh)	Intensity (MWh/employee)
GZXH	45,010,665	29.50
DGKD	7,778,880	21.97
IPET	3,712,720	32.01
The Group total	56,502,265	28.31

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.1 Energy Consumption (Continued)



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

Table 6: Annual indirect energy consumption

Energy source	Direct consumption	Indirect consumption (in kWh)
Gasoline (for vehicles in three sites)	101,304 liters	923,358.18
Diesel (for vehicles in GZXH and IPET, and machinery in GZXH)	191,590 liters	1,931,215.02
Town gas (for machinery in GZXH)	13,965 kg	116,065.78
Natural gas (for machinery in IPET)	2,070 kg	25,409.60
The Group total		2,996,048.58

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

A. ENVIRONMENTAL (Continued)

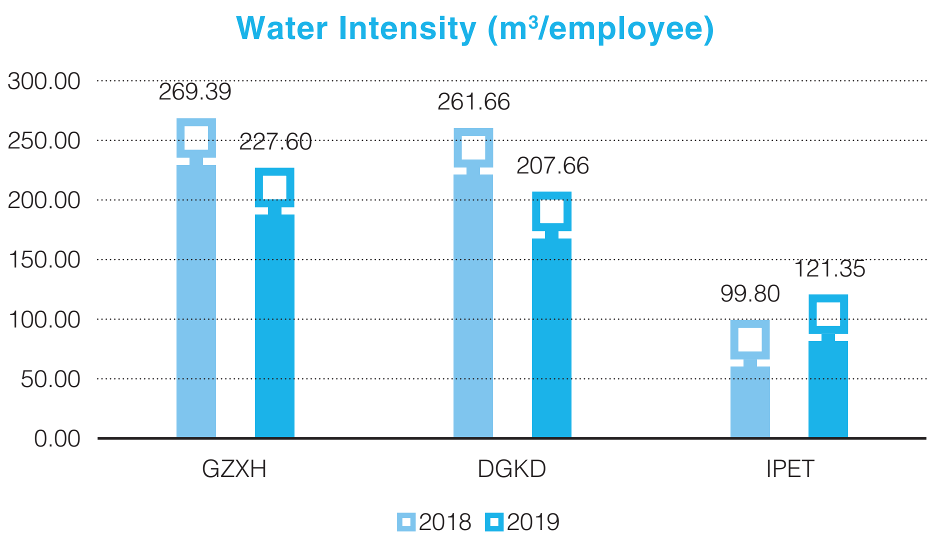
A2. Use of Resources (Continued)

A2.2 Water Consumption

The total water consumption for the Group was 434,899 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. Compared with the water consumption intensity of the last Reporting Period, both GZXH and DGKD achieved a remarkable reduction as a result of the Group's implementation of various schemes to conserve water since water consumption was a hotspot issue in previous year.

Table 7: Annual water consumption and intensity

Site	Water consumption (m^3)	Intensity (m^3/employee)
GZXH	347,312	227.60
DGKD	73,510	207.66
IPET	14,077	121.35
The Group total	434,899	217.89



A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.2 Water Consumption (Continued)

The major source of wastewater for the Group's operational sites was from production wastewater including wastewater from 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 from its operations 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 from 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

With the full adoption of LED lights for production line and office setting during the last Reporting Period, the energy conservation and energy use efficiency initiatives focus on managerial practices during this Reporting Period. For example, a sticker with 'energy-saving' message was put on every single light switch to remind staff of electricity conservation. The Group has closely monitored electricity usage through its energy management system and energy intensity has been reduced incrementally.

The management policy for electricity saving focuses on various aspects:

1. Save electricity from 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 air conditioner is operating; and
   - Clean the air conditioner regularly and improve energy efficiency.
2. Save electricity from the lighting system:
   - Make full use of natural lighting during day time;
   - Minimize unnecessary lighting in public areas of the building (e.g., toilets); and
   - Adopt energy saving lighting throughout office buildings.

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.3 Energy Use Efficiency Initiatives (Continued)

3. Save electricity from 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); and

   - All newly purchased office equipment shall meet applicable energy efficiency labels required by local and national specifications.

4. Save electricity from manufacturing processes:

   - Designated engineer is responsible for checking each equipment is functioning before production. All equipment are disconnected to the power supply when not in-use for a long period of time;

   - Power sockets used in the workshop should be maintained regularly, the switch box should be equipped with leakage protection, with regular inspection performed by qualified electricians; and

   - Transformer and distribution cabinet shall be kept clean and clear, regular inspection on equipment and wiring are performed to eliminate any hidden dangers and power outage.

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 a management policy for water-saving to control and regulate water consumption.

1. Save water from 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; and

   - All water-consumption equipment in the workshop is checked on a daily basis and any leakage will be immediately reported and repaired by the maintenance unit.

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.4 Water Use Efficiency Initiatives (Continued)

2. Save water from domestic consumption:

   - Each department has the obligations to ensure proper 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 and recycle water when appropriate; and
   - 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 Administration department shall regularly review water usage, educate those who make improper use of water, and if necessary, take disciplinary action according to policy;
   - Put up water-saving signs and raise employees' awareness of water-saving through training and posters.

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, printed with company logos, were hard to be reused.

Table 8: Annual consumption of packaging materials

Types of common packaging materials used	Total amount (in kg)		
	GZXH	DGKD	IPET
Corrugated paperboard and plastic tray/bags	78,105	8,143	14,214
Other non-paper-based materials (e.g., plastic pallet)	54,680	6,238	17,411
Total packaging materials	132,785	14,381	31,625[1]

Note 1: The data collection system was updated during 2019 which explains the data discrepancy between this and the previous reporting periods. And the packaging intensity here is not compared with that of the last Reporting Period due to the lack of unified statistical calibre.

A. ENVIRONMENTAL (Continued)

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 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 for water-saving was adopted to control water consumption. The Group also issued a management policy for paper saving in the hope of promoting environmental conservation among staff.

The Group will continue to monitor its air emission, solid waste generation, wastewater discharge, and noise level to ensure minimal impacts on the surrounding environment. In the forthcoming years, with the establishment of the ESG committee, it is believed that continuous improvement on environmental protection will be achieved and the Group will further 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 strictly 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.

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

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.

All qualified staff are encouraged to join the labour union for collective bargaining. Compared with that of the last Reporting Period, both GZXH and DGKD have achieved a slight increase in the number of employees covered by collective bargaining agreements. Major operational and business changes are communicated to workers through various written and verbal channels. The workers will be informed of any significant operational changes that could have a direct impact on them at least three weeks in advance.

Table 9: Labour & management relations

	GZXH	DGKD	IPET
Number of total employees covered by collective bargaining agreements	1,500 people	305 people	115 people
Percentage of total employees covered by collective bargaining agreements	98%	86%	99%
Minimum lead time for notifying employees of significant operational changes	3 weeks	4 weeks	3 weeks

The dismissal policy standardizes the resignation procedures with following processes:

1. Tasks and office items are handed-over and confirmed by the recipient's signature;

2. Personal belongings are packed and placed in the security room, and are received by the security guard on-duty with signed confirmation;

3. Factory uniform and staff card, and the dormitory key are handed over to the housekeeper, who will issue a release form after confirmation;

4. The release form will be further used for collection of personal belongings from the security room;

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

5. All former employees are not allowed to re-enter the workplace and/or to use enterprise information systems; and

6. IT department will prohibit the ex-employees from access to their company email accounts and company system to prevent leakage of information.

During this Reporting Period, the Group has paid special attention to employee benefits. Since May 2019, the Group has started to provide breakfast and late-night snacks to employees in GZXH and DGKD. Any night-shift employees are provided with free late-night snacks while other staff can enjoy the breakfast and/or late-night snacks at a low cost of only RMB5 for each.

The Group has continued to organize various cultural and sports events during the Reporting Period to strengthen the construction of corporate culture and create a sense of belonging in the workplace. Film nights, chess games, badminton games and basketball games have all received positive feedback from employees. Birthday gifts are distributed to employees during their birthday month. Dormitories have been renovated to improve the accommodation conditions for employees. Furthermore, the design and construction of IPE Engineering College has been started during this Reporting Period, with the expected completion date for the sports center by the end of next Reporting Period. The Group has also actively used multimedia channels such as wechat official account, Douyin to publicize relevant activities with the goal to strengthen team spirit and bonding.

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. Compared to the last Reporting Period, the ratios of basic salary of women to men for GZXH and DGKD vary by employee categories. While IPET continues to achieve a balanced ratio of basic salary of women to men across different employee categories.

Table 10: Incidents of discrimination reported

	GZXH	DGKD	IPET
Total number of incidents of discrimination reported by employees in 2019	0	0	0

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

Table 11: Ratio of basic salary of women to men

	GZXH	DGKD	IPET
Employee category			
Senior management	1.27	n/a, only male employees	1.09
Middle management	0.76	0.66	n/a, only female employees
Frontline and other staff	0.91	1.09	0.98

As of 31 December 2019, GZXH, DGKD, and IPET had 1,526, 354 and 116 employees respectively, with a total of 1,996 employees. Compared to the last Reporting Period, the major change in the employment structure is the hiring of part-time employees, this is to counterbalance the unstable workforce while maintaining a certain production capacity at the same time. This is considered as an interim solution and the Group is actively engaging in various ways to reduce employee turnover.

The Group has attached great importance to talent team building and set up various strategies to recruit and retain talents. A total of five senior management and core technical team members have been recruited during this Reporting Period. A comprehensive recruiting plan has been established to attract highly-motivated fresh graduates during the university recruitment. In addition, the Group has strengthened the collaboration with various colleges. Currently, the school-enterprise talents cultivation program has been established with Guangzhou College of South China University of technology, Guangdong Polytechnic Normal University, Guangzhou Huali Technician College, Guangzhou Electromechanical Technician College. The Group also further invested in training programs, with the IATF16949 five tools, quality control trainings completed during the Reporting Period. Last but not the least, 39 employees from GZXH has been nominated for the “New Apprenticeship” government subsidy project, with the filing completed under the Zengcheng Human Resources and Social Security Bureau.

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 2019/12/31)

	GZXH	DGKD	IPET	Total (number, %)
Total number of employees	1,526	354	116	1,996, 100%
Employment types				
Full-time	1,481	308	116	1,905, 95%
Part-time	45	46	0	91, 5%
Employee category				
Senior management	10	1	1	12, 1%
Middle management	68	16	4	88, 4%
Frontline and other staff	1,448	337	111	1,896, 95%
Age				
18-25	253	57	5	315, 16%
26-35	511	100	29	640, 32%
36-45	388	87	66	541, 27%
46-55	331	93	15	439, 22%
56 or above	43	17	1	61, 3%
Gender				
Male	766	188	31	985, 49%
Female	760	166	85	1,011, 51%
Region				
Mainland China	1,525	354	0	1,879, 94%
Thailand	0	0	115	115, 6%
Others (e.g., Hong Kong, Macau, and Taiwan)	1	0	1	2, 0%

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

Table 13: Employment by category, age, gender, and region for employees with a permanent contract (unit: no. of employees)

	GZXH	DGKD	IPET	Total
Total employees with indefinite or permanent contract	343	90	116	549
Employee category				
Senior management	5	1	1	7
Middle management	44	16	4	64
Frontline and other staff	294	73	111	478
Age				
below 30	27	0	9	36
≥ 30 and <50	223	58	100	381
≥ 50	93	32	7	132
Gender				
Male	200	53	31	284
Female	143	37	85	265
Region				
Mainland China	342	90	0	432
Thailand	0	0	115	115
Others (e.g., Hong Kong, Macau, and Taiwan)	1	0	1	2

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

Table 14: 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	9	1	0	10
≥ 50	1	0	1	2
Governance bodies by gender				
Male	9	1	1	11
Female	1	0	0	1
Governance bodies by minority groups				
Chinese_ethnic Han	10	1	n/a	11
Chinese_ethnic non-Han	0	0	n/a	0
Diversity (for all employees)				
Chinese_ethnic Han	1,406	297	n/a	1,703
Chinese_ethnic non-Han	120	57	n/a	177

The overall staff turnover rate was 58% 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.

Table 15: Total turnover rate by employment category, age, gender, and region

Turnover rate by employee category	
Senior management	8%
Middle management	9%
Frontline and other staff	61%
Turnover rate by age	
18-25	138%
26-35	69%
36-45	40%
46-55	16%
56 or above	10%
Turnover rate by gender	
Male	75%
Female	42%
Turnover rate by region	
Mainland China	60%
Thailand	35%
Others (e.g., Hong Kong, Macau, and Taiwan)	100%

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B1. Employment (Continued)

Table 16: Break-down of turnover by employment type, category, age, gender, and region

	GZXH	DGKD	IPET	Total
Total number of employees leaving employment in 2019 (unit: no. of employees)	810	317	40	1167
Turn-over rate	53%	90%	34%	58%
Employees leaving employment by employment types (unit: no. of employees)				
Full-time	622	167	40	829
Part-time	188	150	0	338
Employees leaving employment by employee category (unit: no. of employees)				
Senior management	1	0	0	1
Middle management	8	0	0	8
Frontline and other staff	801	317	40	1158
Employees leaving employment by age (unit: no. of employees)				
18-25	318	106	10	434
26-35	305	117	22	444
36-45	146	64	4	214
46-55	37	28	4	69
56 or above	4	2	0	6
Employees leaving employment by gender (unit: no. of employees)				
Male	509	228	3	740
Female	301	89	37	427
Employees leaving employment by region (unit: no. of employees)				
Mainland China	808	317	0	1125
Thailand	0	0	40	40
Others (e.g., Hong Kong, Macau, and Taiwan)	2	0	0	2

B2. Employee Health and Safety

As a manufacturing business, the Group highly values the importance of providing a safe and accident-free working environment to employees. The Group strictly follows relevant laws and regulations such as the Prevention and Control of Occupational Diseases Law of the PRC, 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.

During the Reporting Period, GZXH has separated vehicular and pedestrian traffic to provide a safer pedestrian precinct for all employees. Effective from October 2019, all vehicles must use the main entrance and the side entrance is open for pedestrian access only except for emergency use. All forklifts are prohibited to be operated within the plant during rush hours to ensure pedestrian safety.

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B2. Employee Health and Safety (Continued)

For production lines, personal protective equipment is provided to all frontline staff. Noise levels, indoor air pollutant levels are monitored according to local and national laws to ensure that they do not exceed permissible levels. The Emergency Evacuation Management Procedure stipulates contingency plans, emergency evacuation, and fire drills. The administration department will organize fire drills every year to ensure that all employees are familiar with evacuation routes in emergency situations. The Fire Control Equipment Management Procedure continues to manage fire safety. During this Reporting Period, both GZXH and DGKD have awarded the Safety Production Standardization certificates. Compared with the last Reporting Period, GZXH has achieved improvement in the respect of lost days, injuries, and absentee rate, whereas DGKD has slightly higher total lost days and injury rate.

Table 17: Work-related fatalities, lost days, injuries, occupational disease, and absentee rate

Occupational safety and health data	GZXH	DGKD	IPET	Group-total
Total working hours ("hrs") by all workforce	3,872,988	1,085,868	3,491,736	8,450,592
No. of work-related fatality	0	0	0	0
Total lost days	249.5	28	0	277.5
Lost day rate ("LDR")	12.88	5.16	0.00	6.57
Number of injury	28	3	0	31
Injury rate ("IR")	1.45	0.55	0	0.73
Number of occupational diseases	0	0	0	0
Occupational diseases rate ("ODR")	0	0	0	0
Absentee rate ("AR")	0.07%	0.03%	0%	0.03%

B3. Development and Training

The Group provided comprehensive career development and training to employees. Training was conducted according to well-constructed training plans. External training was arranged for employees with special duties.

The Group did not have any 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 fundings, such as the Guangzhou Labour Union's "Education Grant for Guangzhou Workers to Realize their Dreams".

During the Reporting Period, a total of 7,128 training hours were provided to 1,111 employees. The average training hours per employee was 3.57 hours, achieving a 3% increase compared with 3.46 average training hours per employee over the last Reporting Period.

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B3. Development and Training (Continued)

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

Training data	GZXH	DGKD	IPET	Group-total
Total number of trained employees	914	130	67	1,111
Total training hours for all employees	5,992	734	402	7,128
Average training hours per employee	3.93	2.07	3.47	3.57
By Employee Category				
Senior Management	10	0	0	10
Average training hours per employee	11.45	0	0	9.54
Middle Management	45	12	0	57
Average training hours per employee	14.86	9.00	0	13.12
Frontline and other Staff	859	118	67	1,044
Average training hours per employee	3.36	1.75	3.62	3.09
By Gender				
Male	541	81	14	636
Average training hours per employee	4.80	2.38	2.71	4.27
Female	373	49	53	475
Average training hours per employee	3.05	1.73	3.74	2.89

Table 19: Total percentage of trained employee (%)

	GZXH	DGKD	IPET	Group-total
Total percentage of trained employee	60%	37%	58%	56%
Employee Category				
Senior Management	100%	0%	0%	83%
Middle Management	66%	75%	0%	65%
Frontline and Other Staff	59%	35%	60%	55%
Gender				
Male	71%	43%	45%	65%
Female	49%	30%	62%	47%

B. SOCIAL (Continued)

1. Employment and labour practices (Continued)

B4. Labour Standards

The Group strictly abides by 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.

All employees have undergone a criminal background check during the recruitment process. Background checks such as illegal and criminal records shall be investigated regularly, and further reviewed in the case of promotion or job transfer. The administration department will verify employees' personal credentials such as ID cards, education certificates, and technical certificates to make sure that all engagement processes abide by 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 labour, forced or compulsory labour within the Group's operation sites.

2. Operating Practices

B5. Supply Chain Management

The Suppliers and Purchasing Management Procedure has been established to evaluate, manage, control, and monitor the business operations of suppliers. The Group conducts regular inspections to business partners to ensure that they have implemented safety management rules listed under the Agreement on Trade Security.

During the Reporting Period, DGKD has slightly modified its suppliers' evaluation procedure by including both process evaluation and risk evaluation. Each supplier must have a total score higher than 80 and lower than 15 for process evaluation and risk evaluation respectively against five different categories shown below. The Group considers specifically suppliers' environmental and social performance to ensure sustainable supply chain management. It is clear that the Group has put more focus on suppliers' overall quality and environmental management system, rather than taking a conventional approach to over-emphasize on areas such as price.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B5. Supply Chain Management (Continued)

Table 20: Risk evaluation for suppliers

Category	Sub-category for selected items	Scoring
Overall capacity and qualification	Registered capital, etc.	Yes/no scheme
Process risk control	Communication channel established with customers, etc.	Yes/no scheme
Materials management system	Designated areas for raw materials storage, etc.	Yes/no scheme
Raw materials risk control	Holding excessive amount of high-risk materials	Yes: 1; No: 0
	Control procedures for high-risk materials	Yes: 0; No: 1
	Environmental materials assessment up to applicable standards	Yes: 0; No: 1
	Any accident-related to raw materials within the past five years	Yes: 1; No: 0
Environmental management system	Whether the supplier has obtained License of Discharging Pollutants	Yes: 0; No: 1
	Whether the supplier has obtained the ISO 14001 certificate	Yes: 0; No: 1
	Whether the supplier has materials with high toxicity	Yes: 1; No: 0
	Whether the supplier has a discharge volume of the solid waste within the permissible level set by applicable laws/regulations	Yes: 0; No: 1

Table 21: Process evaluation for suppliers

Category	Description	Weighing
Regulatory compliance	Providing evidence to meet all regulatory requirement	10
Quality assurance and control	Providing evidence to demonstrate that quality assurance and quality control system is well established	40
Engineering and manufacturing capability	Providing evidence to demonstrate that both the engineering team and equipment capacity are capable of manufacturing products with various design specifications	20
Customer service	Customer service system and handling measures in place with a backup data recording system	15
Price	Reasonable price and open to negotiation if needed	15

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B5. Supply Chain Management (Continued)

The Group continues to source from key suppliers located in OECD countries for raw materials in production. Suppliers from mainland China also serves as a major source for semi-finished products and auxiliary materials for production. A total of 735 suppliers were engaged during the Reporting Period, with the majority from mainland China.

Table 22: Number of major suppliers by region/country

Country/region	GZXH	DGKD	IPET	Total
Mainland China	438	83	3	524
Hong Kong, Macau, and Taiwan	19	1	4	24
Thailand	0	0	128	128
Europe	27	0	0	27
Asia others	13	0	3	16
Others	11	1	4	16
Total	508	85	142	735

IPET has specified human rights clauses in investment agreements or specified detailed screening on human rights for suppliers.

Table 23: Investment and procurement practices for IPET

Total number and percentage 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%

B. SOCIAL (Continued)

2. Operating Practices (Continued)

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 is not banned in any market. The Group does not have product compliance issues or product recalls due to health and/or safety reasons.

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

Quality Assurance

As a component supplier to the high-end automobile industry, the Group maintains its product quality at the highest standard. Quality management has been rooted in every aspect of business operation. Similar to the practices performed during the last Reporting Period, strict QA/QC processes have been followed, with various controlling processes for key control point, including inspection of incoming raw materials and outsourcing materials, first piece inspection, process inspection, semi-finished product inspection, finished product test, full-size test, and customer complaint handling procedure.

Compared with the last Reporting Period, GZXH has achieved a further 28% reduction on the percentage of products' recalls.

Table 24: Product compliance and product recalls due to non-health/safety reasons

Product Responsibility	GZXH	DGKD	IPET
Total monetary value of significant fines	0	0	0
Total number of products' recalls	853,923 PCS	0	1,093,810 PCS
Percentage of products' recalls during this Reporting Period	0.42%	0%	2.5%
Total monetary value lost due to products' recalls	RMB1,754,852	RMB0	THB2,480,416.05

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B6. Product Responsibility (Continued)

Customer Data Protection

Data protection and data safety management remain one of the most important aspects in 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 natural 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.

The Information System Safety Management Procedure continues 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 parts of the computer network and equipment management, e.g., internal network, office network, server, workstation and network equipment. The Information Security Accountability Management System guides IT department to ensure data protection. In case of any tampering with data, change of business data, and/or data leakage, the responsible party will be penalized, or even be handed over to the law enforcement authority if the case is serious.

Intellectual Property

Innovation continues to play a key role in achieving business success. The investment in the R&D on industrial robots has begun to pay off and the robotic products will go to market soon. Specifically, the Group is now at the initial stage of launching harmonic gear/drive to the market. By expanding the domestic market especially for automotive products, the Group's technology competence has been recognized by the industry and has now become a nominated supplier of BYD.

The Group signs a confidentiality agreement with clients when appropriate to protect their intellectual property rights. Work Instruction on Confidentiality is distributed to top management and all relevant departments including Finance & Administration, Quality Assurance, Production, Engineering, Planning & Material Control, Maintenance & Facility, Sales & Marketing for management and monitoring purposes.

The Group continues to protect intellectual property by registering new technologies and applying for patent with the State Intellectual Property Office of the PRC. During this Reporting Period, the Group has successfully obtained a total of 16 new IP rights, including 11 new utility model patents, 1 new design patent, and 4 new invention patents.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B7. Anti-corruption

The Group regards honesty, integrity, and fairness as its core values. IPET has announced the anti-corruption policy, which stipulates that all employees of the company, its subsidiaries, and all affiliated companies including contractors and subcontractors are prohibited to support any form of corruption, directly or indirectly. The implementation of the anti-corruption policy is also regularly reviewed and continuously audited to detect irregularities and identify risks in a timely manner and to improve the effectiveness of the policy.

During the Reporting Period, GZXH has also announced an important notice on the prohibition of corruption and bribery. The notice stipulates that any corruption and bribery are strictly prohibited, including but not limited to:

- Directly and/or indirectly accepting any monetary benefits such as cash, checks, gifts, commissions, gratitude fees, securities from business partners;
- Embezzling fund for personal benefits; and
- Taking advantage of price variation in the name of the company for personal benefits

Personnel in charge of import and export business are monitored strictly per "accountability system for import and export business". Those who violate laws and regulations will be punished, some may be handed over to the law enforcement authority depending on the nature of the case. In addition to internal control, the Agreement on Trade Security with business partners also prohibits business partners to seek to engage in smuggling, selling counterfeit products, commit, or intend to commit tax evasion, and bribery activities.

During the Reporting Period, 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. During this Reporting Period, the Group has strengthened the collaboration with local colleges for mutual benefits.

Table 25: Community investment, collaborators and activities

Time	Activities	Beneficiary/ Collaborators/ Partner organizations
Jan/2019	During the Chinese New Year, DGKD donated RMB10,000 to Dongguan Shijie Huangsiwei Village Committee for supporting elderly caring activities	Local government
Jun/2019	GZXH supported CNC car, CNC milling skills competition and the Group offered RMB4,600 as the prize	Guangdong Huali Technician College
Sep/2019	During the Mid-Autumn Festival, GZXH visited the elderly in Yuehu Village, Xiancun Town, Zengcheng District, Guangzhou and gave them holiday gifts	Local government
Oct/2019	GZXH School-Enterprise Cooperation Program sponsored 2 sets of B018 CNC machine tools + belt material rack, 1 set of CNC machine tools B12+ belt material rack, with a total value of RMB297,973.75	Guangdong Huali Technician College
Oct/2019	GZXH signed formal agreement on school-enterprise cooperation with Guangzhou Institute of Mechanical and Electrical Technology, focusing on provision of internship opportunities for the school graduates	Guangzhou Institute of Mechanical and Electrical Technology
Dec/2019	GZXH signed formal agreement on school-enterprise cooperation with Guangdong Normal University of Technology, focusing on provision of internship opportunities for the school graduates	Guangdong Normal University of Technology

APPENDIX: ESG INDEX

HKEx Reporting Guide			Page, Table/Figure
A. Environmental			
Aspect A1: Emissions			
"Comply or explain" Provisions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste:		Page 39
	KPI A1.1	The types of emissions and respective emissions data.	Table 1
	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 45
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Table 3 & 4

HKEx Reporting Guide			Page, Table/Figure
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 46
	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 49 & 50
	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 50 & 51
	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 52
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Page 52
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 52
Recommended Disclosures	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Table 12 &13
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Table 16

HKEx Reporting Guide			Page, Table/Figure
Aspect B2: Health and Safety			
"Comply or explain" Provisions	General Disclosure Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		Pages 59 & 60
Recommended Disclosures	KPI B2.1	Number and rate of work-related fatalities.	Table 17
	KPI B2.2	Lost days due to work injury.	Table 17
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Pages 59 & 60
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 60
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 62
Recommended Disclosures	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Page 62
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Page 62

HKEx Reporting Guide			Page, Table/Figure
Operating Practices			
Aspect B5: Supply Chain Management			
"Comply or explain" Provisions	General Disclosure Policies on managing environmental and social risks of the supply chain.		Page 62
Recommended Disclosures	KPI B5.1	Number of suppliers by geographical region.	Table 22
	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 62
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 65
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.	n/a
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Page 66
	KPI B6.4	Description of quality assurance process and recall procedures.	Table 24
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Page 66

<table>
<tr><th colspan="3">HKEx Reporting Guide</th><th>Page, Table/Figure</th></tr>
<tr><td colspan="4">Aspect B7: Anticorruption</td></tr>
<tr><td>“Comply or explain” Provisions</td><td colspan="2">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.</td><td>Page 67</td></tr>
<tr><td rowspan="2">Recommended Disclosures</td><td>KPI B7.1</td><td>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.</td><td>n/a</td></tr>
<tr><td>KPI B7.2</td><td>Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.</td><td>Page 67</td></tr>
<tr><td colspan="4">Community</td></tr>
<tr><td colspan="4">Aspect B8: Community Investment</td></tr>
<tr><td>“Comply or explain” Provisions</td><td colspan="2">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.</td><td>Page 68</td></tr>
<tr><td rowspan="2">Recommended Disclosures</td><td>KPI B8.1</td><td>Focus areas of contribution.</td><td>Page 68</td></tr>
<tr><td>KPI B8.2</td><td>Resources contributed to the focus area.</td><td>Table 25</td></tr>
</table>

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 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacturing and sale of precision components products. Further details of the Group's principal activities are set out in note 11 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the Group's financial position at that date are set out in the financial statements on pages 93 to 96.

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2019 (2018: HK0.9 cents per ordinary share). The Board has recommended the payment of a final dividend of HK0.5 cents per ordinary share for the year ended 31 December 2019 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 22 June 2020 (2018: nil) (the "Proposed Final Dividend"). Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 12 June 2020 (the "2020 AGM"), the said final dividend will be paid in cash on Monday, 6 July 2020. Details of dividends for the year ended 31 December 2019 are set out in note 21(b) to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed during the following periods:

(i) From Tuesday, 9 June 2020 to Friday, 12 June 2020 (both days inclusive), during that period no transfer of shares will be effected. In order to qualify for the right to attend and vote at the 2020 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 8 June 2020 for registration of transfer.

(ii) From Friday, 19 June 2020 to Monday, 22 June 2020 (both days inclusive), during that period no transfer of shares will be effected. In order to be eligible to receive the Proposed Final Dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Thursday, 18 June 2020 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 the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business can be found in the Chairman's Statement and Management Discussion and Analysis contained in this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the environmental and social sustainable development in the long term. Pertinent to its environmental and social 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 environmental and social management.

More details of the Company's environmental policy and performance are available in the Environmental, Social and Governance Report contained 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, including but not limited to the Companies Law of the Cayman Islands, the Company Law of the People's Republic of China, Hong Kong Companies Ordinance, Securities and Futures Ordinance ("SFO"), the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and other laws and regulations as stated in the Environmental, Social and Governance Report in the annual report.

KEY RELATIONSHIPS WITH STAKEHOLDERS

The Group strives to maintain a good relationship with its employees, customers, suppliers and other key stakeholders in the course of achieving its long-term business development goals.

Equal opportunity is provided to all employees in respect of promotion, appraisal, training, development and other aspects. The Group has formally established a labour union, to which all qualified staff are encouraged to join for collective bargaining. Employees are encouraged to participate in various volunteering activities for the community.

The Group adopts strict quality management and control process in every aspect of its business operation in order to ensure that products delivered to its customers are of the highest possible quality.

The Group has management procedure to evaluate, manage, control and monitor the business operations of suppliers. When evaluating suppliers, the Group specifically considers their environmental and social performance. It also conducts regular inspections to suppliers to ensure that they have implemented safety management required.

The Group engages with the above and other key stakeholders 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 electronic and business meetings with suppliers and customers.

More details about the Company's relationships with its employees, customers and suppliers and others that have significant impact on the Company and on which the Company's success depends are available in the Environmental, Social and Governance Report in this annual report.

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 2019 are set out in note 17 to the financial statements.

PROPERTIES

Particulars of the major properties and property interests of the Group are set out in note 10 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

As at 31 December 2019, the total number of issued shares of the Company was 1,052,254,135. No share was issued during the year. Details of movements in the Company's share options and share capital during the year are set out in section headed "Share Option Scheme" in this directors' report and notes 19 and 21 to the financial statements.

EQUITY-LINKED AGREEMENTS

Save as the information disclosed under the section headed "Share Option Scheme" in this directors' report and in note 19 to the financial statements, the Company did not enter into any equity-linked agreement for the year, nor was there any equity-link agreement entered into by the Company subsisting as at 31 December 2019.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$1,356,551,000. The Company's share premium account and contributed surplus, amounting to HK$462,243,000 at 31 December 2019, 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$251,394 (2018: HK$1,042,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 31.1% of the total sales for the year and the sales to the largest customer included therein amounted to 9.0%. Purchases from the Group's five largest suppliers accounted for 28.0% of the total purchases for the year and purchases from the largest supplier included therein amounted to 8.5%

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 was 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

Non-executive directors:

Ms. Zeng Jing
Mr. Chen Kuangguo (appointed on 1 June 2019)

Independent non-executive directors:

Mr. Yang Rusheng
Mr. Cheung, Chun Yue Anthony
Mr. Mei Weiyi
Mr. Xu Bing (appointed on 1 June 2019)

After the end of the reporting year, and up to the date of this report, there is no change of directors of the Company.

According to Article 87 of the Articles of Association, Mr. Zeng Guangsheng and Ms. Zeng Jing shall retire by rotation and, being eligible, offer themselves for re-election at the 2020 AGM.

According to Article 86(3) of the Articles of Association, Mr. Chen Kuangguo and Mr. Xu Bing, both were appointed with effect from 1 June 2019, shall hold office until the 2020 AGM, and, being eligible, offer themselves for re-election at the said meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

No director proposed for re-election at the 2020 AGM has a service contract or a letter of appointment 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.

The Company also has in place long-term incentive schemes with details set out in the section headed "Share Option Scheme" in this directors' report and in note 19 to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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.

CHANGES OF INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section of the "Directors and Senior Management" on pages 18 to 21 of this annual report, there was no change to the information which is required to be disclosed by the directors pursuant to paragraphs (a) to (w) of rule 13.51(2) of the Listing Rules.

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

As at 31 December 2019, the interests and short positions of the directors and chief executive of the Company, in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of 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 option 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 2019.

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. 中國寶安集團股份有限公司 ("China Baoan Group"), the Company's holding company:

Name of director	Capacity and Nature of interests	Number of ordinary shares in China Baoan Group	Percentage of China Baoan Group's issued share capital
Mr. Zeng Guangsheng	Directly beneficially owned	672,906	0.03%
Ms. Zeng Jing	Directly beneficially owned	10,222,583	0.40%

Save as disclosed above, as at 31 December 2019, 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. A general description about the share option scheme adopted on 17 May 2011 ("2011 Scheme"), which remains in force for ten years from its date of adoption, is outlined below as required:

(i) Class of shares that may be issued

Ordinary shares

(ii) Number of shares that may be issued

The maximum number of ordinary shares that may be issued upon the exercise of all share options to be granted under the 2011 Scheme mandate limit as refreshed and approved by then shareholders at the annual general meeting of the Company held on 23 May 2016 must not exceed 105,075,413 shares, representing 10% of the issued share capital of the Company as at 23 May 2016 ("Existing Scheme Mandate Limit"). As at the date of this directors' report, a total of 50,000,000 share options has been granted under the Existing Scheme Mandate Limit, of which 10,000,000 share options have lapsed and none of the share options has been exercised and/or cancelled. The number of shares which can be issued pursuant to the grant of share options under the Existing Scheme Mandate Limit shall be 65,075,413 shares, representing approximately 6.18% of the issued share capital of the Company as at the date of this directors' report.

(iii) Participants of the 2011 Scheme

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 entity in which the Group holds any equity interest (the "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.

SHARE OPTION SCHEME (Continued)

(iv) Consideration that the Company has received or will receive

The consideration paid or payable on acceptance of the share options granted under the 2011 Scheme was/is HK$1 each of the grantee. The subscription price shall not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the offer date; and (iii) the nominal value of a share.

(v) Other conditions or terms that remain to be met before the shares are issued

- An offer shall be made by a letter from the Company requiring the participant to undertake on the terms on which it is to be granted and shall remain open for acceptance by the participant concerned for 28 days from the offer date.

- An offer shall be deemed to have been accepted when the offer letter comprising acceptance of the offer is duly signed by the grantee together with a remittance in favour of the Company of HK$1 by way of consideration for the grant is received by the Company.

- The Board may at its discretion determine the minimum period for which the option has to be held before the exercise of the subscription right attaching thereto.

- A share option may be exercised by the grantee giving notice in writing to the Company accompanied by a remittance for the full amount of the exercise price for the shares in respect of which the notice is given.

- The total number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period shall not exceed 1% of the total number of ordinary shares in issue. Any further grant of options would result in exceeding 1% of the total number of ordinary shares in issue must be separately approved by shareholders in general meeting with such participant and his associates abstaining from voting.

- Each grant of options to a director or chief executive or substantial shareholder of the Company or any of their respective associates must comply with rule 17.04 of the Listing Rules and be subject to the approval by the independent non-executive directors of the Company.

SHARE OPTION SCHEME (Continued)

(v) Other conditions or terms that remain to be met before the shares are issued (Continued)

Further details about the 2011 Scheme 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 2019	Granted during the year	Exercised during the year	Expired/ lapsed during the year	Forfeited/ cancelled during the year	At 31 December 2019			
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. 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
	42,000,000	–	–	(2,000,000)	–	40,000,000			
Members of senior management and other employees of the Group									
In aggregate	–	–	–	–	–	–			
	42,000,000	–	–	(2,000,000)	–	40,000,000			

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.

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

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 was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement whose objects were, or one of whose objects was, to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

As at 31 December 2019, 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:

Name of substantial shareholder	Capacity and nature of interests	Number of ordinary shares in the Company	Percentage of the Company's issued share capital*
Baoan Technology Company Limited 寶安科技有限公司 ("Baoan Technology")	Directly beneficially owned	557,721,250	53.00%
China Baoan Group Co., Ltd. 中國寶安集團股份有限公司 ("China Baoan Group")[(a)]	Through controlled corporation	557,721,250	53.00%
Tottenhill Limited	Directly beneficially owned	167,966,975	15.96%
Mr. Chui Siu On	Through controlled corporation[(b)]	167,966,975	15.96%
	Directly beneficially owned	14,576,250[(c)]	1.39%[(c)]
	Through spouse[(d)]	125,000	0.01%
	Total:	182,668,225	17.36%
Ms. Leung Wing Yi	Directly beneficially owned	125,000	0.01%
	Through spouse[(e)]	182,543,225[(c)]	17.35%[(c)]
	Total:	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 2019.

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

Notes:

(a) These shares were held by Baoan Technology, which is a wholly owned entity of China Baoan Group. Accordingly, China Baoan Group was deemed to be interested in the 557,721,250 shares of the Company owned by Baoan Technology pursuant to Part XV of the SFO.

(b) These shares were held by Tottenhill Limited, which 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) Inclusive of the share options granted to Mr. Chui Siu On to subscribe for 2,000,000 shares of the Company which were lapsed on 6 March 2019 following his resignation as a director of the Company on 29 October 2018. For more details, please refer to the section headed "Share Option Scheme" above.

(d) 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.

(e) 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.

Save as disclosed above, as at 31 December 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, Underlying Shares and Debentures" 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.

AUDITORS

KPMG were first appointed as auditors of the Company in 2018 upon the retirement of Ernst & Young, and acted as the auditors of the Company for the year ended 31 December 2019.

KPMG shall retire at the 2020 AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the 2020 AGM.

GENERAL DISCLOSURE PURSUANT TO RULE 13.21 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 annual 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.

Save as otherwise stated, all references above to other sections, reports or notes in this annual report form part of this directors' report.

On Behalf of the Board

Zeng Guangsheng
Chairman and the Chief Executive Officer

Hong Kong
23 March 2020

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 93 to 160, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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 118.

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 14 to the consolidated financial statements and the accounting policies on pages 109 to 112.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2019, the Group's gross trade receivables totalled HK$227 million and loss allowance of HK$0.7 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 2019 with bank-in slips.

KEY AUDIT MATTERS (Continued)

Valuation of inventories

Refer to note 13 to the consolidated financial statements and the accounting policies on pages 113 to 114.

The Key Audit Matter

Inventories are carried at the lower of cost and net realisable value in the consolidated financial statements. At 31 December 2019, the net carrying value of inventories was HK$243 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.

How the matter was addressed in our audit

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

23 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	Notes	2019 HK$'000	2018 (Note) HK$'000
Revenue	3	**812,177**	943,476
Cost of sales		**(631,249)**	(652,687)
Gross profit		**180,928**	290,789
Other income	4	**19,913**	8,557
Distribution costs		**(15,959)**	(26,535)
Administrative expenses and other expenses		**(123,524)**	(152,887)
Profit from operations		**61,358**	119,924
Finance costs	5(a)	**(14,430)**	(18,471)
Share of profit/(losses) of an associate	12	**1,650**	(1,271)
Profit before taxation	5	**48,578**	100,182
Income tax	6(a)	**(7,467)**	(15,720)
Profit for the year		**41,111**	84,462
Attributable to:			
Equity shareholders of the Company		**40,345**	85,328
Non-controlling interests		**766**	(866)
Profit for the year		**41,111**	84,462
Earnings per share	9		
Basic and diluted		**HK3.83 cents**	HK8.11 cents

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

The notes on pages 99 to 160 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 2019 (Expressed in Hong Kong dollars)

	2019 HK$'000	2018 (Note) HK$'000
Profit for the year	**41,111**	84,462
Other comprehensive income for the year		
Exchange differences on translation of foreign operations	**(16,809)**	(80,959)
Total comprehensive income for the year	**24,302**	3,503
Attributable to:		
Equity shareholders of the Company	**23,574**	4,325
Non-controlling interests	**728**	(822)
Total comprehensive income for the year	**24,302**	3,503

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

The notes on pages 99 to 160 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 (Expressed in Hong Kong dollars)

	Notes	**31 December 2019 HK$'000**	31 December 2018 (Note) HK$'000
Non-current assets			
Property, plant and equipment	10	**726,497**	737,495
Lease prepayments		**–**	76,848
Interest in an associate	12	**3,064**	1,480
Deposits for purchase of non-current assets		**1,813**	4,269
Deferred tax assets	20(b)	**10,982**	8,608
		742,356	828,700
Current assets			
Inventories	13	**243,480**	284,463
Trade and other receivables	14	**273,623**	301,992
Cash and cash equivalents	15	**847,093**	840,181
		1,364,196	1,426,636
Current liabilities			
Trade and other payables	16	**109,936**	110,311
Bank loans	17	**53,769**	436,775
Lease liabilities	18	**1,291**	–
Tax payable	20(a)	**6,939**	3,784
		171,935	550,870
Net current assets		**1,192,261**	875,766
Total assets less current liabilities		**1,934,617**	1,704,466

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 (Expressed in Hong Kong dollars)

	Notes	31 December 2019 HK$'000	31 December 2018 (Note) HK$'000
Non-current liabilities			
Bank loans	17	**204,697**	–
Lease liabilities	18	**1,403**	–
Other payables	16	**2,139**	1,299
Deferred tax liabilities	20(b)	**10,381**	10,302
		218,620	11,601
NET ASSETS		**1,715,997**	1,692,865
CAPITAL AND RESERVES			
Share capital	21(c)	**105,225**	105,225
Reserves	21(d)	**1,611,929**	1,588,355
Total equity attributable to equity shareholders of the Company		**1,717,154**	1,693,580
Non-controlling interests		**(1,157)**	(715)
TOTAL EQUITY		**1,715,997**	1,692,865

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

Approved and authorised for issue by the board of directors on 23 March 2020.

Zeng Guangsheng
Director

Ng Hoi Ping
Director

The notes on pages 99 to 160 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company											
	Notes	Issued capital HK$'000 Note 21 (c)	Share premium HK$'000	Contributed surplus HK$'000 Note 21 (d)(iii)	Statutory reserve HK$'000 Note 21 (d)(i)	Statutory public welfare fund HK$'000 Note 21 (d)(iv)	Capital redemption reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000 Note 21 (d)(ii)	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance 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
Changes in equity for 2018:													
Profit/(loss) 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 and 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
Changes in equity for 2019:													
Profit for the year		–	–	–	–	–	–	–	–	40,345	40,345	766	41,111
Other comprehensive income		–	–	–	–	–	–	–	(16,771)	–	(16,771)	(38)	(16,809)
Total comprehensive income for the year		–	–	–	–	–	–	–	(16,771)	40,345	23,574	728	24,302
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(1,170)	(1,170)
Appropriation for surplus reserve		–	–	–	1,213	–	–	–	–	(1,213)	–	–	–
Reclassification of reserve		–	(16,996)	16,996	–	–	–	–	–	–	–	–	–
Balance at 31 December 2019		105,225	472,201	15,880	51,924	287	7,905	24,696	80,100	958,936	1,717,154	(1,157)	1,715,997

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

The notes on pages 99 to 160 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	Notes	2019 HK$'000	2018 (Note) HK$'000
Operating activities			
Cash generated from operations	15(b)	**235,471**	201,941
Income tax paid	20(a)	**(6,775)**	(21,507)
Net cash generated from operating activities		**228,696**	180,434
Investing activities			
Interest received		**11,138**	6,601
Advance to an associate		**(3,415)**	–
Payment for purchase of property, plant and equipment		**(27,655)**	(106,922)
Proceeds from disposal of property, plant and equipment		**658**	1,777
Net cash used in investing activities		**(19,274)**	(98,544)
Financing activities			
Capital element of lease rentals paid	15(c)	**(1,187)**	–
Interest element of lease rentals paid	15(c)	**(122)**	–
Interests paid	15(c)	**(11,915)**	(16,587)
Proceeds from bank loans	15(c)	**351,306**	240,664
Repayment of bank loans	15(c)	**(529,098)**	(308,213)
Dividends paid to equity shareholders of the Company	21(b)	**–**	(26,306)
Dividends paid to non-controlling interest in subsidiaries		**(1,170)**	(1,287)
Net cash used in financing activities		**(192,186)**	(111,729)
Net increase/(decrease) in cash and cash equivalents		**17,236**	(29,839)
Cash and cash equivalents at 1 January	15(a)	**840,181**	913,434
Effect of foreign exchange rate changes		**(10,324)**	(43,414)
Cash and cash equivalents at 31 December	15(a)	**847,093**	840,181

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

The notes on pages 99 to 160 form part of these 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 disclosure 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 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate

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 new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, *Leases* (Continued)

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

a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 10(b). For an explanation of how the Group applies lessee accounting, see note 1(g)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.03%.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, *Leases* (Continued)

b. *Lessee accounting and transitional impact (Continued)*

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 23(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK$'000
Operating lease commitments at 31 December 2018	3,590
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(18)
– leases of low-value assets	(88)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	242
	3,726
Less: total future interest expenses	(226)
Total lease liabilities recognised at 1 January 2019	3,500

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, *Leases* (Continued)

b. Lessee accounting and transitional impact (Continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK$'000	Capitalisation of operating lease contracts HK$'000	Carrying amount at 1 January 2019 HK$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	737,495	82,420	819,915
Lease prepayments	76,848	(76,848)	–
Total non-current assets	**828,700**	**5,572**	**834,272**
Trade and other receivables	2,072	(2,072)	–
Total current assets	**1,426,636**	**(2,072)**	**1,424,564**
Lease liabilities (current)	–	1,188	1,188
Current liabilities	**550,870**	**1,188**	**552,058**
Net current assets	**875,766**	**(3,260)**	**872,506**
Total assets less current liabilities	**1,704,466**	**2,312**	**1,706,778**
Lease liabilities (non-current)	–	2,312	2,312
Total non-current liabilities	**11,601**	**2,312**	**13,913**
Net assets	**1,692,865**	**–**	**1,692,865**

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, *Leases* (Continued)

c. *Impact on the financial result, segment results and cash flows of the Group*

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 15(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 15(d)).

d. *Lessor accounting*

The Group leases out a number of items of machinery as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(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.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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 note 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)):

— interests in leasehold land and buildings which the Group is the registered owner of the property interest (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.

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.

— Leasehold land is depreciated over the unexpired term of lease.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment (Continued)

— 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) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets (Continued)

(i) As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(f) and 1(h)(ii)).

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exception:

— land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in note 1(f). Impairment losses were accounted for in accordance with the accounting policy as set out in note 1(h). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets (Continued)

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019 (Continued)

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(q)(ii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 1(g)(i), then the Group classifies the sub-lease as an operating lease.

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

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 receivables and other receivables, including loans to associates, which are held for the collection of contractual cash flows which represent solely payments of principal and interest); and

— lease receivables.

Other financial assets measured at fair value, including units in bond funds, equity securities measured at fair value through profit or loss ("FVPL"), equity securities designated at fair value through other comprehensive income ("FVOCI") (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

(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)

Measurement of ECLs

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.

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.

(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)

Significant increases in credit risk (Continued)

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).

Basis of calculation of interest income

Interest income recognised in accordance with note 1(q)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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;

(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)

Basis of calculation of interest income (Continued)

— 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.

(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, including right-of-use assets;

— investments in subsidiaries and associates in the Company's statement 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).

(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 (Continued)

— *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.

(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 note 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Inventories (Continued)

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 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 ECLs in accordance with the policy set out in note 1(h)(i).

(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)).

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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) Defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of assets or charged to profit or loss as the related services are rendered by the employees.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance (the "MPF Scheme") for all employees in Hong Kong, which is a defined contribution retirement scheme. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

(iii) 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).

(iv) 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

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.

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.

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.

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.

(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.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Related parties (Continued)

(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.

(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.

(Expressed in Hong Kong dollars unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES

Key sources of estimation uncertainty are as follows:

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.

(ii) The Group estimates the loss allowances for trade and other receivables by assessing the ECLs. This requires the use of estimates and judgements. ECLs are 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 end of reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of trade and other receivables during their expected lives.

(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.

(Expressed in Hong Kong dollars unless otherwise indicated)

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).

Disaggregation of revenue

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

	2019 HK$'000	2018 HK$'000
Sales of automotive components	**449,302**	465,070
Sales of hydraulic equipment components	**228,038**	263,476
Sales of Hard Disk Driver ("HDD") components	**92,452**	165,964
Others	**42,385**	48,966
Total	**812,177**	943,476

The Group's customer base is diversified and does not include any individual customer (2018: Nil) with whom transactions have exceeded 10% of the Group's revenue.

The Group has applied the practical expedient in paragraph 121 of HKFRS15 to its sales contracts for precision components products as the remaining performance obligations under the contracts for sales of precision components products had an original expected duration of one year or less.

(Expressed in Hong Kong dollars unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(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.

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. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

(Expressed in Hong Kong dollars unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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 2019 and 2018 is set out below.

	2019						
	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	19,868	73,251	316,668	188,040	190,579	23,771	812,177
Inter-segment revenue	6,855	–	–	–	–	–	6,855
Reportable segment revenue	26,723	73,251	316,668	188,040	190,579	23,771	819,032
Reportable segment profit							
Gross profit	4,459	16,441	70,255	42,205	42,774	4,794	180,928

	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

(Expressed in Hong Kong dollars unless otherwise indicated)

4 OTHER INCOME

	2019 HK$'000	2018 HK$'000
Interest income	**11,341**	6,601
Government grants	**3,361**	–
Rental income	**3**	77
Others	**5,208**	1,879
	19,913	8,557

5 PROFIT BEFORE TAXATION

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

	2019 HK$'000	2018 (Note) HK$'000
(a) Finance costs		
Interest on bank loans (note 15(c))	**12,385**	16,587
Financial arrangement fees	**1,923**	1,884
Interest on lease liabilities (note 15(c))	**122**	–
	14,430	18,471
(b) Staff costs		
Salaries, wages and other benefits	**204,888**	241,177
Contributions to defined contribution retirement plan (note)	**12,327**	12,263
Equity-settled share-based payment expenses	**–**	15,680
	217,215	269,120

Note: The PRC Operating Entities participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities, whereby the PRC Operating Entities are required to make contribution at the rates required by different local government authorities. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Schemes.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION (Continued)

	2019 HK$'000	2018 (Note) HK$'000
(c) Other items		
Cost of inventories (ii) (note 13)	**631,249**	652,687
Depreciation (note 10)		
– owned property, plant and equipment	**107,864**	121,321
– right-of-use assets	**1,249**	–
Amortisation of leasehold land	**2,071**	2,158
Total minimum lease payments for leases previously classified as operating leases under HKAS17 (i)	**–**	1,508
Lease payments not included in the measurement of lease liabilities	**108**	–
Net foreign exchange loss/(gain)	**3,424**	(9,592)
Research and development costs (iii)	**16,099**	22,942
Auditor's remuneration		
– audit services	**1,800**	1,800
– other services	**733**	699
(Gain)/loss on disposal of items of property, plant and equipment	**(47)**	714
(Reversal)/provision of impairment losses		
– trade receivables (note 22(a))	**(515)**	556
– other receivables	**–**	(1,046)

Note:

(i) The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

(ii) Cost of inventories includes HK$255,770,000 (2018: HK$278,006,000) 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$12,110,000 (2018: HK$14,004,000) 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:

	2019 HK$'000	2018 HK$'000
Current tax		
Provision for current income tax	10,818	19,502
Over-provision in prior years	(888)	(443)
	9,930	19,059
Deferred tax		
Origination and reversal of temporary differences	(2,463)	(3,339)
	7,467	15,720

(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 2019 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% (2018: 8.25%).

(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 2019 (2018: 25%) except for Guangzhou Xin Hao Precision Technology Company Limited ("Guangzhou Xinhao") which was certified as "High & New Technological Enterprise" and entitled to the preferential income tax rate of 15% from 2018 to 2020.

(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% (2018: 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:

	2019 HK$'000	2018 HK$'000
Profit before taxation	**48,578**	100,182
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**25,846**	22,295
Effect of tax concessions for subsidiaries	**(9,291)**	(18,334)
Super deduction on research and development expenses	**(1,796)**	(2,490)
Tax effect of non-deductible expenses	**7,082**	6,301
Tax effect of non-taxable income	**(2,700)**	(1,665)
Tax effect of unused tax losses not recognised	**1,096**	8,804
Utilisation of tax losses previously not recognised as deferred tax assets	**(11,882)**	(170)
Effect of tax rate changes	**–**	1,422
Over-provision in prior years	**(888)**	(443)
Actual tax expense	**7,467**	15,720

The Hong Kong Inland Revenue Department ("IRD") 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 our external tax expert, it is premature to draw a conclusion on the outcome of the review. The directors have taken into account of the advice of the external tax expert and considered that the tax position of these subsidiaries is properly supported and have determined the taxable profits consistent with tax treatment planned to be used in its income tax filings.

(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
2019						
Executive directors:						
Mr. Zeng Guangsheng	250	2,210	205	–	18	2,683
Mr. Ng Hoi Ping	250	1,380	136	–	18	1,784
Non-executive directors:						
Ms. Zeng Jing	250	–	–	–	–	250
Mr. Chen Kuangguo (i)	146	–	–	–	–	146
Independent non-executive directors:						
Mr. Yang Rusheng	150	–	–	–	–	150
Mr. Cheung, Chun Yue, Anthony	150	–	–	–	–	150
Mr. Mei Weiyi	150	–	–	–	–	150
Mr. Xu Bing (i)	88	–	–	–	–	88
	1,434	3,590	341	–	36	5,401

(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
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 (iii)	208	2,593	–	655	15	3,471
Mr. Lau Siu Chung (iv)	229	842	1,195	655	17	2,938
Ms. Chiu Tak Chun (iv)	229	792	1,195	655	17	2,888
Non-executive director:						
Ms. Zeng Jing	250	–	–	2,621	–	2,871
Independent non-executive directors:						
Mr. Yang Rusheng	150	–	–	–	–	150
Mr. Cheung, Chun Yue, Anthony	150	–	–	–	–	150
Mr. Mei Weiyi (ii)	26	–	–	–	–	26
Dr. Cheng Ngok (iii)	150	–	–	–	–	150
	1,892	7,817	2,390	14,370	85	26,554

(i) Mr. Chen Kuangguo and Mr. Xu Bing were appointed as non-executive director and independent non-executive director respectively on 1 June 2019.

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

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

(iv) Mr. Lau Siu Chung and Ms. Chiu Tak Chun resigned as executive director on 18 November 2018.

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 2 (2018: 3) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2018: two) individuals are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowance and other benefit in kind	**3,130**	5,709
Discretionary bonuses	**261**	–
Equity settled share option expense	**–**	1,310
Pension scheme contributions	**36**	33
	3,427	7,052

The emoluments of the three (2018: two) individuals with the highest emoluments are within the following bands:

	2019 Number of individuals	2018 Number of individuals
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$2,000,000	**2**	–
HK$3,000,001 to HK$4,000,000	**–**	2

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$40,345,000 (2018: HK$85,328,000) and the weighted average of 1,052,254,135 ordinary shares (2018: 1,052,254,135 ordinary shares) in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for year ended 31 December 2019 and 2018 were the same as the basic earnings per share.

At 31 December 2019, 40,000,000 (2018: 42,000,000) share options (see note 19) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices of the Company's shares for the period during which the options were outstanding.

(Expressed in Hong Kong dollars unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in leasehold land held for own use carried at cost HK$'000	Other properties leased for own use carried at cost HK$'000	Freehold 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 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	–	–	(5,161)	(1,213)
Disposals	–	–	–	–	(2,964)	(1,049)	(5,408)	–	(9,421)
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
Impact on initial application of HKFRS 16 (note)	78,920	3,500	–	–	–	–	–	–	82,420
At 1 January 2019	78,920	3,500	718,979	19,122	1,519,858	80,797	18,589	45,511	2,485,276
Additions	–	369	606	150	18,369	6,389	779	356	27,018
Transfer from construction in progress	–	–	–	–	75	–	–	(75)	–
Disposals	–	–	–	–	(17,921)	(2,029)	(1,721)	(1,098)	(22,769)
Exchange adjustment	(1,475)	(3)	(5,680)	(272)	(7,921)	132	(185)	(553)	(15,957)
At 31 December 2019	77,445	3,866	713,905	19,000	1,512,460	85,289	17,462	44,141	2,473,568
Accumulated depreciation:									
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)
Charge for the year (note 5)	(2,071)	(1,249)	(34,961)	(3,283)	(61,431)	(6,955)	(1,234)	–	(111,184)
Written back on disposals	–	–	–	–	17,750	1,977	1,333	–	21,060
Exchange adjustment	38	23	1,954	219	5,112	902	166	–	8,414
At 31 December 2019	(2,033)	(1,226)	(323,332)	(14,013)	(1,324,013)	(68,495)	(13,959)	–	(1,747,071)
Net book value:									
At 31 December 2019	75,412	2,640	390,573	4,987	188,447	16,794	3,503	44,141	726,497
At 31 December 2018	–	–	428,654	8,173	234,414	16,378	4,365	45,511	737,495

(Expressed in Hong Kong dollars unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

Note:

(i) The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 1(c).

(ii) The freehold land amounting to THB19,201,000 (equivalent to HK$5,008,000) included in freehold land and buildings is situated in Thailand (2018: THB19,201,000 (equivalent to HK$4,613,000)).

(iii) As at 31 December 2019, the Group is in the process of applying for the title certificates of a land use right and certain properties with carrying value of approximately HK$2,319,000 (2018: HK$3,281,000) and HK$26,143,000 (2018: HK$28,745,000), respectively. 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

11 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
IPE Thailand	Thailand	THB 150,000,000	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	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)

12 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	Proportion of ownership interest: Particulars of issued capital	Group's effective interest	Held by a subsidiary	Principal activity
Shenzhen X-TEC Technology Company Limited ("Shenzhen X-TEC")	Incorporated	PRC	RMB13,953,500	46.33%	46.33%	Manufacture of precision metal components

The Group entered into an equity transfer agreement with other four shareholders of Shenzhen X-TEC in March 2019, whereby the Group acquired 18% equity interest in Shenzhen X-TEC at the consideration of RMB 4 in aggregate. Subsequent to the acquisition, the Group's equity interests in Shenzhen X-TEC increased from 28.33% to 46.33%.

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:

	2019 HK$'000	2018 HK$'000
Gross amounts of the associate		
Current assets	17,659	9,360
Non-current assets	238	575
Current liabilities	(11,283)	(4,712)
Equity	6,614	5,223
Revenue	24,807	9,266
Total comprehensive income	1,391	(4,486)
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	6,614	5,223
Group's effective interest	46.33%	28.33%
Group's share of net assets of the associate	3,064	1,480
Carrying amount in the consolidated financial statements	3,064	1,480

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**51,458**	65,303
Consumables	**24,963**	26,630
Work in progress	**61,583**	70,913
Finished goods	**105,476**	121,617
	243,840	284,463

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

	2019 HK$'000	2018 HK$'000
Carrying amount of inventories sold	**629,770**	646,391
Write-down of inventories	**1,479**	6,296
Cost of inventories (note 5(c))	**631,249**	652,687

14 TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade debtors, net of loss allowance	**226,646**	264,658
Bills receivables	**2,603**	–
Amount due from an associate	**3,432**	–
Other debtors	**33,216**	29,961
Financial assets measured at amortised cost	**265,897**	294,619
Deposits and prepayments	**7,726**	7,373
	273,623	301,992

(Expressed in Hong Kong dollars unless otherwise indicated)

14 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:

	2019 **HK$'000**	2018 HK$'000
Within 1 month	**90,806**	91,388
1 to 2 months	**59,098**	70,772
2 to 3 months	**41,868**	51,135
3 to 4 months	**24,531**	33,854
4 to 12 months	**12,946**	17,509
	229,249	264,658

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).

15 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2019 **HK$'000**	2018 HK$'000
Deposits with banks	**244,486**	175,576
Cash at bank and on hand	**602,607**	664,605
Cash and cash equivalents in the consolidated statement of financial position	**847,093**	840,181

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

	Notes	2019 HK$'000	2018 (Note) HK$'000
Profit before taxation		**48,578**	100,182
Adjustments for:			
Depreciation	5(c)	**109,113**	121,321
Amortisation of leasehold land	5(c)	**2,071**	2,158
(Reversal)/provision of impairment losses of trade receivables	5(c)	**(515)**	556
Finance costs	5(a)	**14,430**	18,471
Interest income	4	**(11,341)**	(6,601)
Share of (profit)/losses of an associate		**(1,650)**	1,271
(Gain)/loss on sale of property, plant and equipment	5(c)	**(47)**	714
Equity-settled share-based payment expenses		**–**	15,680
Changes in working capital:			
Decrease/(increase) in inventories		**41,008**	(56,654)
Decrease in trade and other receivables		**30,366**	4,192
Increase in trade and other payables		**3,458**	651
Cash generated from operations		**235,471**	201,941

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of HK$1,309,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 15(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

(Expressed in Hong Kong dollars unless otherwise indicated)

15 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	Lease liabilities HK$'000	Total HK$'000
At 31 December 2018	436,775	–	–	436,775
Impact on initial application of HKFRS 16 (note)	–	–	3,500	3,500
At 1 January 2019	436,775	–	3,500	440,275
Changes from financing cash flows:				
Capital element of lease rentals paid	–	–	(1,187)	(1,187)
Interest element of lease rentals paid	–	–	(122)	(122)
Interest paid	–	(11,915)	–	(11,915)
Proceeds from new bank loans	351,306	–	–	351,306
Repayments of bank loans	(529,098)	–	–	(529,098)
Total changes from financing cash flows	(177,792)	(11,915)	(1,309)	(191,016)
Other changes:				
Increase in lease liabilities from entering into new leases during the period	–	–	369	369
Interest expense (note 5(a))	–	12,385	122	12,507
Exchange adjustment	(517)	–	12	(505)
Total other changes	(517)	12,385	503	12,371
At 31 December 2019	258,466	470	2,694	261,630

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 1(c) and 15(b).

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Reconciliation of liabilities arising from financing activities (Continued)

	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 of 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)
Total other changes	(180)	16,587	16,407
At 31 December 2018	436,775	–	436,775

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 **HK$'000**	2018 (Note) HK$'000
Within operating cash flows	**108**	1,435
Within financing cash flows	**1,309**	–
	1,417	1,435

Note: As explained in the note 15(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

(Expressed in Hong Kong dollars unless otherwise indicated)

16 TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 (Note) HK$'000
Trade payables	**65,848**	60,759
Interest payables	**470**	–
Other payables	**23,269**	26,623
Accruals	**22,488**	24,228
	112,075	111,610
Portion classified as non-current:		
Other payables	**(2,139)**	(1,299)
Current portion	**109,936**	110,311

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

	2019 HK$'000	2018 HK$'000
Within 1 month	**38,402**	26,241
1 to 2 months	**14,142**	22,087
2 to 3 months	**12,498**	9,737
Over 3 months	**806**	2,694
	65,848	60,759

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)

17 BANK LOANS

At 31 December 2019, the bank loans were repayable as follows:

	2019 HK$'000	2018 HK$'000
Within 1 year or on demand	**53,769**	436,775
After 1 year but within 2 years	**204,697**	–
	258,466	436,775

At 31 December 2019 and 2018, all the bank loans of the Group were unsecured and guaranteed by the Company and certain of its subsidiaries.

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 2019 none of the covenants relating to drawn down facilities had been breached (2018: Nil).

(Expressed in Hong Kong dollars unless otherwise indicated)

18 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (Note)	
	Present value of the minimum lease payments $'000	Total minimum lease payments $'000	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	1,291	1,390	1,188	1,305
After 1 year but within 2 years	1,046	1,093	1,148	1,254
After 2 years but within 5 years	357	363	1,164	1,167
	1,403	1,456	2,312	2,421
	2,694		3,500	
Less: total future interest expenses		(152)		(226)
Present value of lease liabilities		2,694		3,500

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

(Expressed in Hong Kong dollars unless otherwise indicated)

19 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Since 2011, the Company has adopted a Share Option Scheme (the "2011 Scheme").

The purpose of the 2011 Scheme is to provide incentives and rewards to eligible participants for their contribution to the Group, and/or to enable the Group to recruit and retain high-calibre employees and attract the human resources that are valuable to the Group and any entity in which the Group holds any equity interest. The options vest from 1 September 2018 and are exercisable before 31 August 2022. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

The share options outstanding at 31 December 2019 were granted in 2017 and were vested in September 2018. All of them had an exercise price of HK$2.02 (2018: HK$2.02) and a weighted average remaining contractual life of 2.7 years (2018: 3.7 years).

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

	2019		2018	
	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	42,000	2.02	50,000
Lapsed during the year	2.02	(2,000)	2.02	(8,000)
At 31 December	2.02	40,000	2.02	42,000
Exercisable at the end of the period	2.02	40,000	2.02	42,000

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2019 HK$'000	2018 HK$'000
At 1 January	3,784	6,232
Provision for current income tax (note 6(a))	9,930	19,059
Income tax paid	(6,775)	(21,507)
At 31 December	6,939	3,784

(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:

(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 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 and 1 January 2019	**5,732**	**2,876**	**(1,665)**	**(8,637)**	**(1,694)**
Deferred tax credited to the statement of profit or loss during the year	**669**	**1,794**	**–**	**–**	**2,463**
Exchange adjustment	**(4)**	**(85)**	**(79)**	**–**	**(168)**
At 31 December 2019	**6,397**	**4,585**	**(1,744)**	**(8,637)**	**601**

(ii) Reconciliation to the consolidated statement of financial position

	2019 HK$'000	2018 HK$'000
Net deferred tax asset recognised in the consolidated statement of financial position	**10,982**	8,608
Net deferred tax liability recognised in the consolidated statement of financial position	**(10,381)**	(10,302)
	601	(1,694)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(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$112,657,000 (2018: HK$165,583,000) 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 2019, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$241,599,000 (2018: HK$230,513,000). Deferred tax liabilities of HK$24,159,900 (2018: HK$23,051,300) 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 2018	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
Changes in equity for 2019							
Total comprehensive income for the year	–	–	–	–	–	476,669	476,669
Balance at 31 December 2019	105,225	472,201	7,905	(9,958)	24,696	861,707	1,461,776

Note: The Group, including the Company, has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. 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

	2019 HK$'000	2018 HK$'000
Dividend declared and paid during the year (2018: HK0.9 cents per ordinary share)	–	9,470
Final dividend proposed after the end of the reporting period of HK0.5 cents per ordinary share (2018: nil)	5,261	–

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.

	2019 HK$'000	2018 HK$'000
Dividend in respect of the previous financial year, approved and paid during the year (2018: HK1.6 cents per ordinary share)	–	16,836

(c) Issued share capital

	2019		2018	
	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 reorganisation 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 2019 (2018: Nil).

(Expressed in Hong Kong dollars unless otherwise indicated)

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 2019, the Group's strategy, which was unchanged from 2018, 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 2019 and 2018 was as follows:

	Notes	2019 HK$'000	2018 HK$'000
Cash and cash equivalents	15	**847,093**	840,181
Less: Bank loans	17	**(258,466)**	(436,775)
Adjusted net cash		**588,627**	403,406
Total equity		**1,715,997**	1,693,580
Adjusted net cash-to-capital ratio		**34%**	24%

Except for the banking facilities which require the fulfilment of covenants relating to certain of the Group's financial ratios as disclosed in note 17 to the consolidated financial statements, the Group does not 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, 1.59% (2018: 6.47%) and 26.29% (2018: 32.12%) 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:

	2019		
	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	0.10%	197,566	(198)
1 – 90 days past due	0.20%	27,659	(55)
91 – 180 days past due	0.50%	1,507	(8)
181 – 365 days past due	5.00%	184	(9)
Over 1 years past due	100.00%	467	(467)
		227,383	(737)

	2018		
	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	0.10%	181,414	(181)
1 – 90 days past due	0.20%	67,008	(134)
91 – 180 days past due	0.50%	13,114	(66)
181 – 365 days past due	5.00%	3,687	(184)
Over 1 years past due	100.00%	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.

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(a) Credit risk (Continued)

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

	2019 HK$'000	2018 HK$'000
Balance at 1 January	**1,256**	6,461
Amounts written-off during the year	**–**	(5,655)
Impairment losses recognised during the year	**83**	592
Write back during the year	**(598)**	(36)
Exchange adjustment	**(4)**	(106)
Balance at 31 December	**737**	1,256

(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.

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Liquidity risk (Continued)

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:

	2019 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Total HK\$'000	Carrying amount at 31 December HK\$'000
Bank loans	62,346	60,635	153,093	276,074	258,466
Trade and other payables	109,936	2,139	–	112,075	112,075
Lease liabilities (note)	1,390	1,093	363	2,846	2,694
	173,672	63,867	153,456	390,995	373,235

	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

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Other lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 1(c).

(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

	2019 Effective interest rate %	**2019** HK$'000	2018 Effective interest rate %	2018 HK$'000
Variable rate borrowings:				
Bank loans	**4.60%**	**258,466**	4.07 – 4.61%	436,775

(ii) Sensitivity analysis

At 31 December 2019, 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$2,158,000 (2018: HK$3,647,000).

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 2018.

(Expressed in Hong Kong dollars unless otherwise indicated)

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)

	2019		
	United States Dollars HK$'000	**Euros HK$'000**	**Renminbi HK$'000**
Trade and other receivables	**92,790**	**28,631**	**115**
Cash and cash equivalents	**333,953**	**22,617**	**92,119**
Trade and other payables	**(56,347)**	**(3,413)**	**(165)**
Gross and net exposure arising from recognised assets and liabilities	**370,396**	**47,835**	**92,069**

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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.

	2019		2018	
	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%	16,569	5%	7,508
Euros	5%	2,316	5%	2,276
Renminbi	5%	3,849	5%	813

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 2018.

(e) Fair value measurement

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 2019 and 2018.

(Expressed in Hong Kong dollars unless otherwise indicated)

23 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019 HK$'000	2018 HK$'000
Contracted for:		
– Plant and machinery	**2,915**	7,024
– Buildings	**992**	3,131
	3,907	10,155

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

	Properties HK$'000	Others HK$'000
Within 1 year	1,299	88
After 1 year but within 5 years	2,203	–
	3,502	88

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:

	2019 HK$'000	2018 HK$'000
Salary allowance and other benefit in kind	**8,990**	26,804
Discretionary bonuses	**1,012**	2,390
Equity-settled share option expense	**–**	15,680
Pension scheme contributions	**90**	306
	10,092	45,180

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

(Expressed in Hong Kong dollars unless otherwise indicated)

24 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Amount due from an associate

	2019 HK$'000	2018 HK$'000
Shenzhen X-TEC	3,432	–

During the year, a subsidiary of the Group advanced an amount of RMB3,000,000 (equivalent to HK$3,351,000) to Shenzhen X-TEC. The amount with its accrued interest amounting to HK$81,000 is outstanding at 31 December 2019. The amount is unsecured, guaranteed by other four shareholders of Shenzhen X-TEC and repayable by 2020.

25 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2019 HK$'000	2018 HK$'000
Non-current assets		
Investments in subsidiaries	43	43
Amounts due from subsidiaries	971,990	969,452
Total non-current assets	972,033	969,495
Current assets		
Amount due from a subsidiary	484,900	–
Prepayments, deposits and other receivables	454	435
Cash and cash equivalents	4,768	15,615
Total current assets	490,122	16,050
Current liability		
Other payables and accruals	379	438
Net current assets	489,743	15,612
Net assets	1,461,776	985,107
Equity		
Issued capital	105,225	105,225
Reserves	1,356,551	879,882
Total equity	1,461,776	985,107

(Expressed in Hong Kong dollars unless otherwise indicated)

26 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(i) The wide spread of the novel Coronavirus in China since the beginning of 2020 is a challenging situation facing all the industries of the society and brought about additional uncertainties in the Group's operating environment. The Group has already assessed the overall impact of the situation on the operation of the Group and has taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

(ii) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 21(b).

27 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2019, 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.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

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