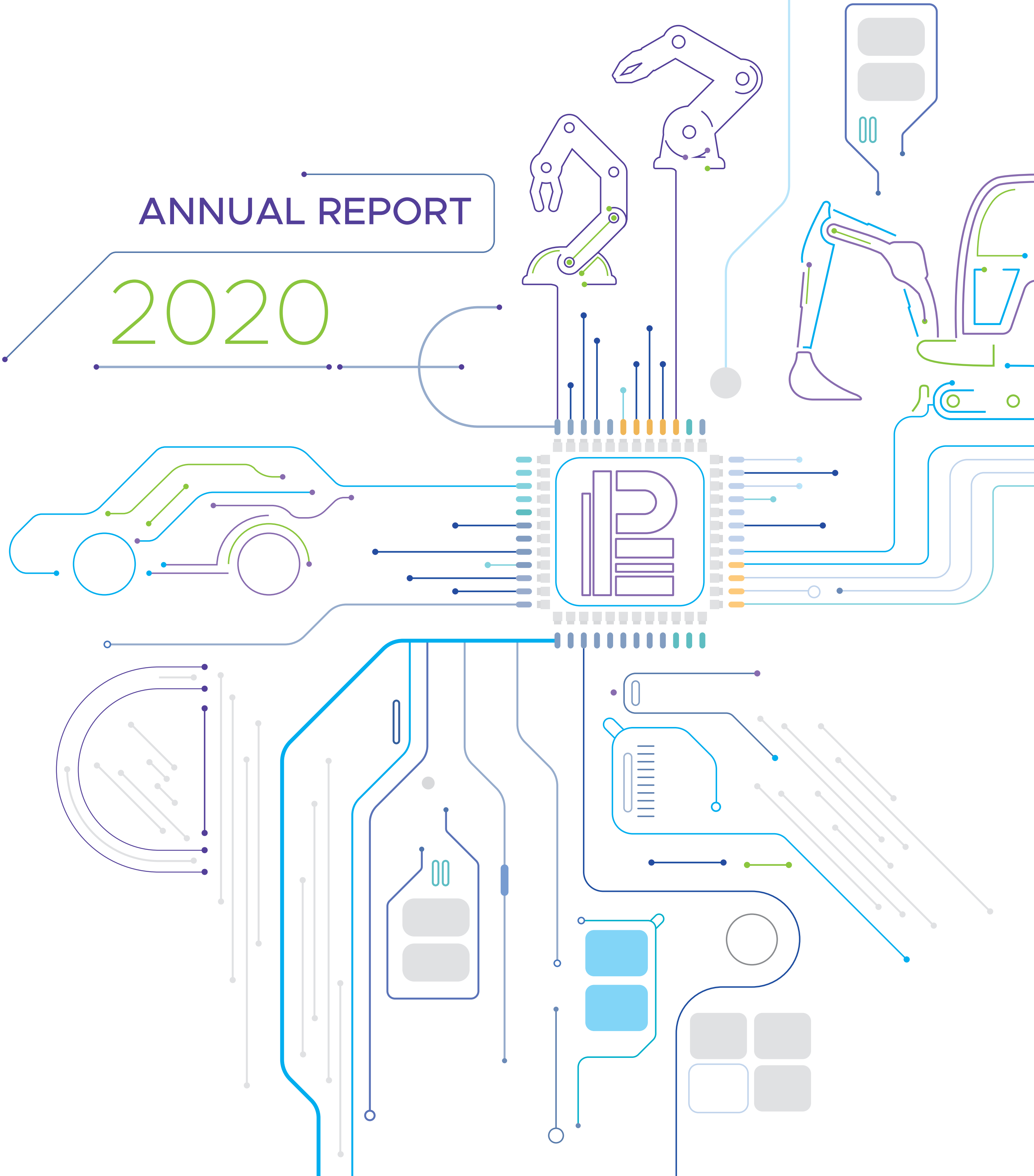
國際精密集團
IPE Group Limited

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

ANNUAL REPORT 2020



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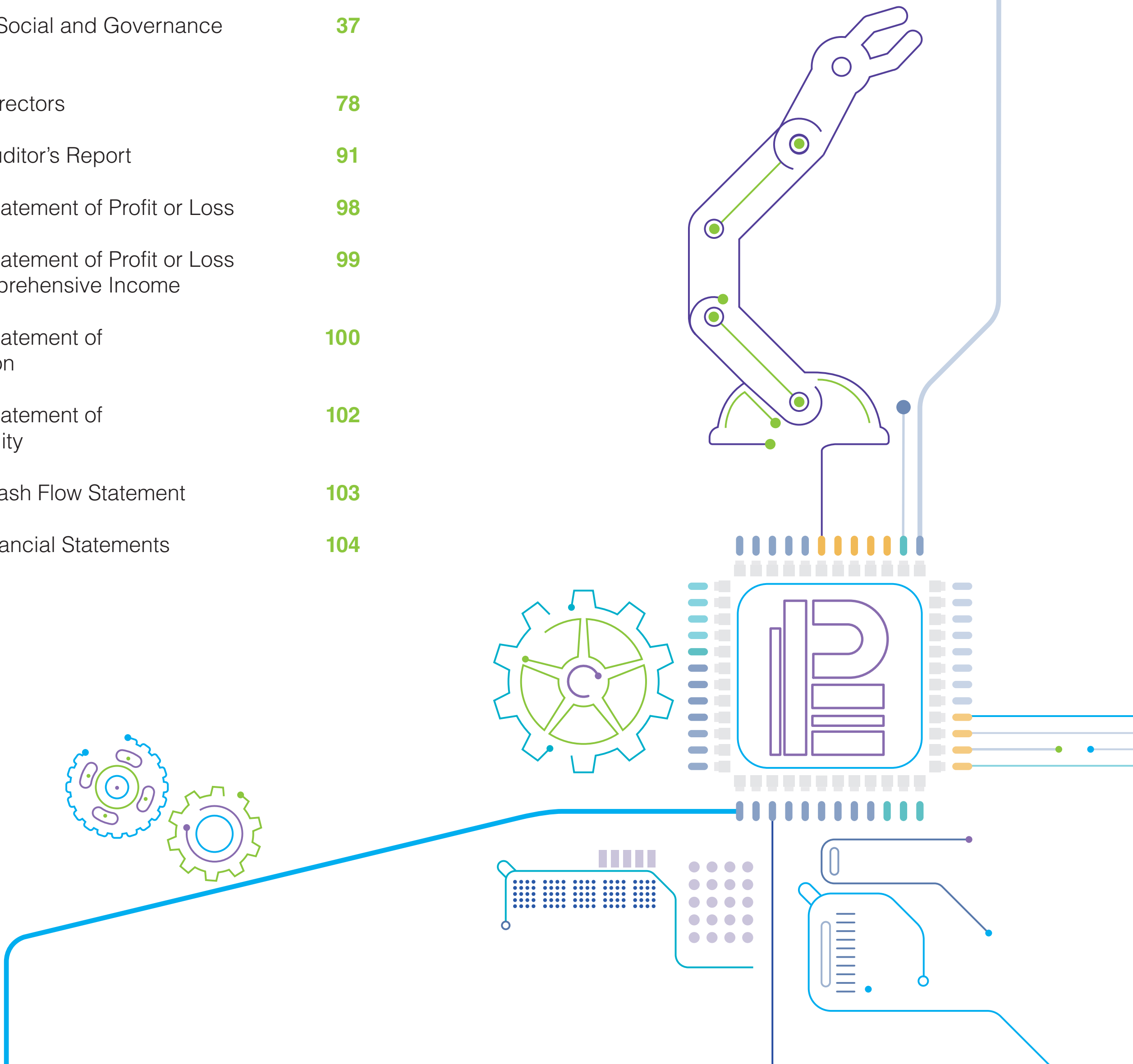


CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Zeng Jing
Mr. Chen Kuangguo

Independent Non-executive Directors

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

AUTHORISED REPRESENTATIVES

Mr. Zeng Guangsheng
Mr. Tam Yiu Chung

COMPANY SECRETARY

Mr. Tam Yiu Chung

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

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

No.8 Zhuxian Road, 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 Hong Kong 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, electronic equipment component and other devices.

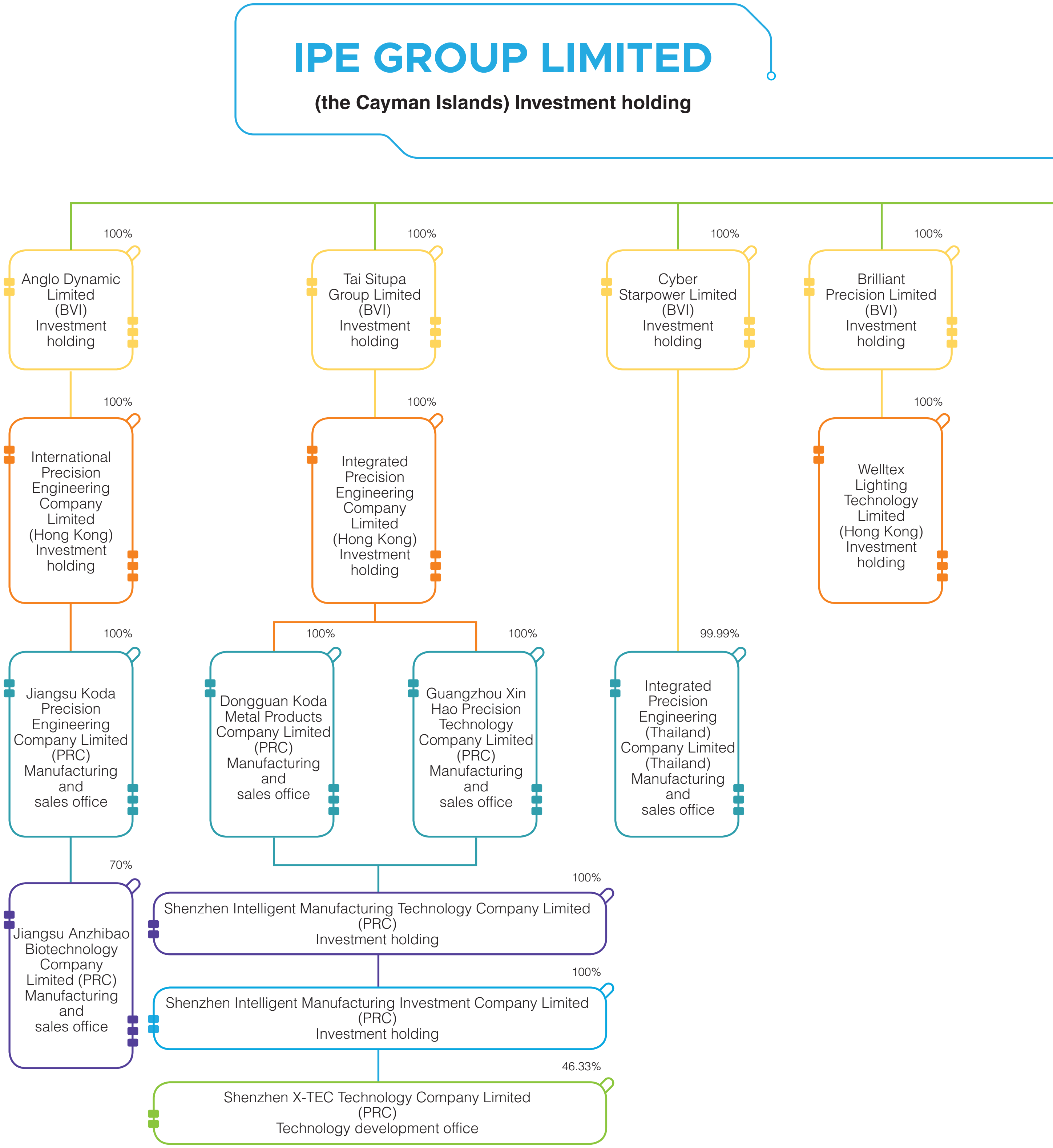
The Group's highly valued customers are top-tier multinational corporations in the information technology, fluid power, automotive and electronic sectors where optimal precision is vital. Apart from supplying high volume precision components according to customer specifications, we are providing solutions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

2020	Guangzhou Xin Hao was one of the Top 500 Enterprises in Guangdong Manufacturing Industry Dongguan Koda received the Supplier Best Progress Award from Dongguan Lingyi Precision Manufacturing Technology Co., Ltd Guangzhou Xin Hao received the Long Service Award from Bosch Rexroth (China) Limited in recognition of providing consistent quality of products and services
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 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

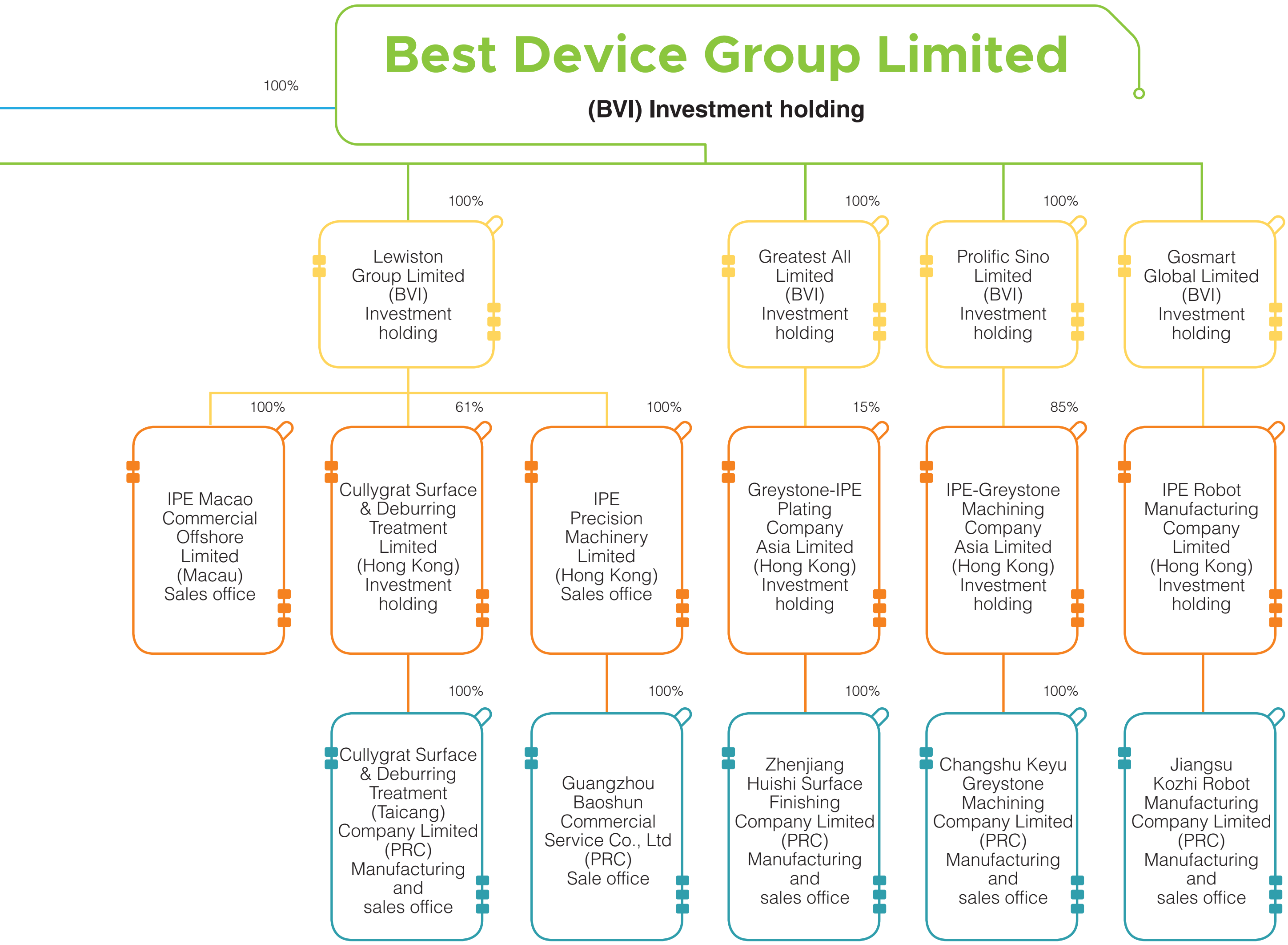
CORPORATE STRUCTURE

Principal subsidiaries and associate of the Company as at 31 December 2020



CORPORATE STRUCTURE

Principal subsidiaries and associate of the Company as at 31 December 2020



FINANCIAL HIGHLIGHTS

RESULTS

	Year ended 31 December									
	2020		2019		2018		2017		2016	
	HK$'000	**%**	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
REVENUE	**793,731**	**100%**	812,177	100%	943,476	100%	941,438	100%	851,908	100%
Cost of sales	**(611,264)**	**77%**	(631,249)	77%	(652,687)	69%	(618,010)	66%	(589,322)	69%
Gross profit	**182,467**	**23%**	180,928	23%	290,789	31%	323,428	34%	262,586	31%
Other income	**35,436**	**4%**	19,913	2%	8,557	1%	7,017	1%	30,913	4%
Distribution costs	**(19,384)**	**2%**	(15,959)	2%	(26,535)	3%	(23,778)	2%	(24,889)	3%
Reversal/Provision of impairment losses related to trade receivables	**170**	**0%**	515	0%	(556)	0%	(7)	0%	6,005	1%
Administrative expenses and other expenses	**(146,841)**	**19%**	(124,039)	15%	(152,331)	16%	(160,632)	17%	(114,159)	13%
Finance costs	**(7,499)**	**1%**	(14,430)	2%	(18,471)	2%	(15,972)	2%	(13,130)	2%
Share of (loss)/profit of an associate	**(2,146)**	**0%**	1,650	0%	(1,271)	0%	(17)	0%	–	0%
PROFIT BEFORE TAXATION	**42,203**	**5%**	48,578	6%	100,182	11%	130,039	14%	135,316	16%
Income tax	**(13,164)**	**1%**	(7,467)	1%	(15,720)	2%	(15,327)	2%	(25,766)	3%
PROFIT FOR THE YEAR	**29,039**	**4%**	41,111	5%	84,462	9%	114,712	12%	109,550	13%
Attributable to:										
Equity shareholders of the Company	**27,410**	**4%**	40,345	5%	85,328	9%	114,808	12%	110,201	13%
Non-controlling interests	**1,629**	**0%**	766	0%	(866)	0%	(96)	0%	(651)	0%
	29,039	**4%**	41,111	5%	84,462	9%	114,712	12%	109,550	13%

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	**818,507**	742,356	828,700	883,043	750,068
Total current assets	**1,460,450**	1,364,196	1,426,636	1,447,979	1,388,241
Total current liabilities	**227,565**	171,935	550,870	438,977	399,491
Net current assets	**1,232,885**	1,192,261	875,766	1,009,002	988,750
Total non-current liabilities	**171,098**	218,620	11,601	190,770	248,122
Total equity	**1,880,294**	1,715,997	1,692,865	1,701,275	1,490,696

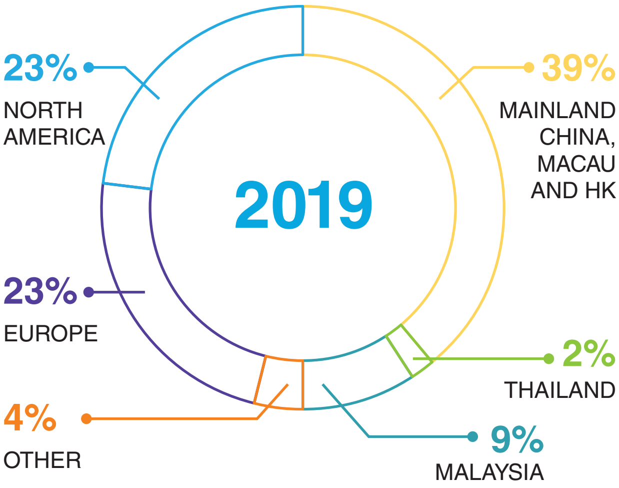
RATIO ANALYSIS

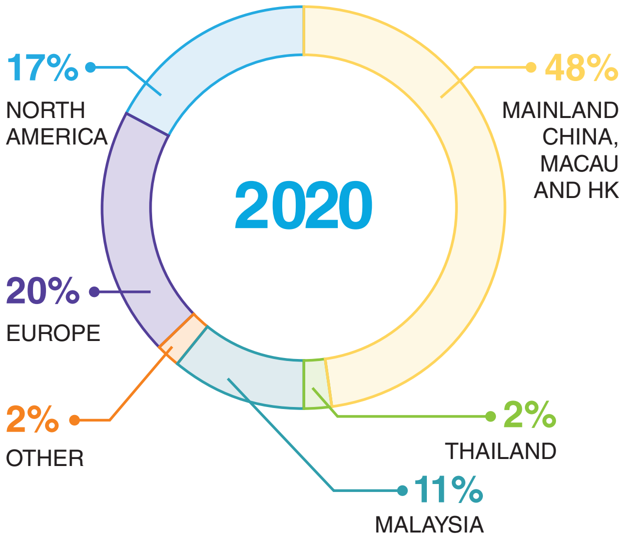
	Year ended 31 December				
	2020	2019	2018	2017	2016
KEY STATISTICS:					
Current ratio	**6.42**	7.93	2.59	3.30	3.48
Net cash to equity ratio	**0.38**	0.34	0.24	0.24	0.29
Gearing ratio#	**10.9%**	15.1%	25.8%	29.7%	35.6%
Dividend payout ratio	**N/A**	13.1%	11.2%	34.9%	43.0%
Gross profit margin	**23.0%**	22.3%	30.8%	34.4%	30.8%
EBITDA margin	**16.9%**	19.7%	27.5%	27.7%	32.3%
Net profit margin	**4.0%**	5.1%	9.0%	12.2%	12.9%
Average days of debtor turnover	**115 days**	110 days	103 days	94 days	93 days
Average days of inventory turnover	**138 days**	153 days	143 days	122 days	126 days
PER SHARE DATA:					
Net asset value per share (HK$)	**1.79**	1.63	1.61	1.62	1.42
Dividend per share	**Nil**	HK0.50 cents	HK0.90 cents	HK3.80 cents	HK4.50 cents
Earnings per share – basic	**HK2.60 cents**	HK3.83 cents	HK8.11 cents	HK10.91 cents	HK10.66 cents
Earnings per share – diluted	**HK2.60 cents**	HK3.83 cents	HK8.11 cents	HK10.83 cents	HK10.47 cents

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

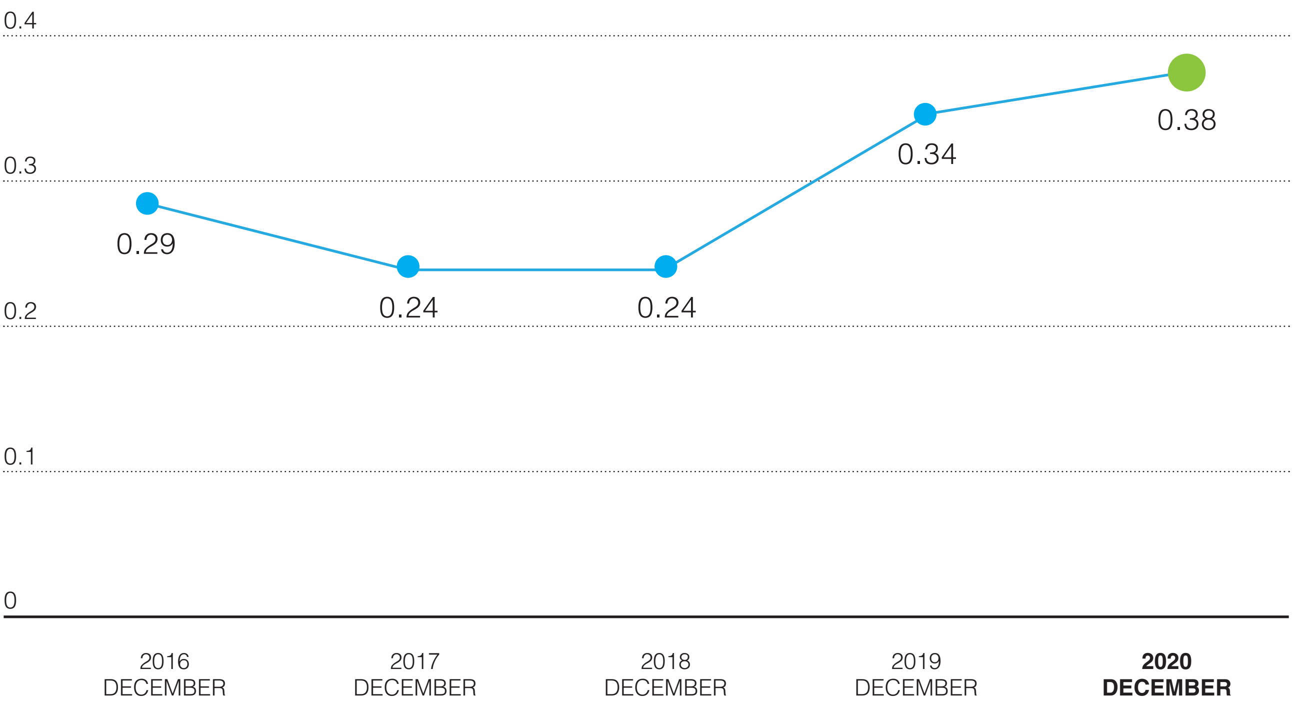
FINANCIAL HIGHLIGHTS

GEOGRAPHICAL COMBINATION



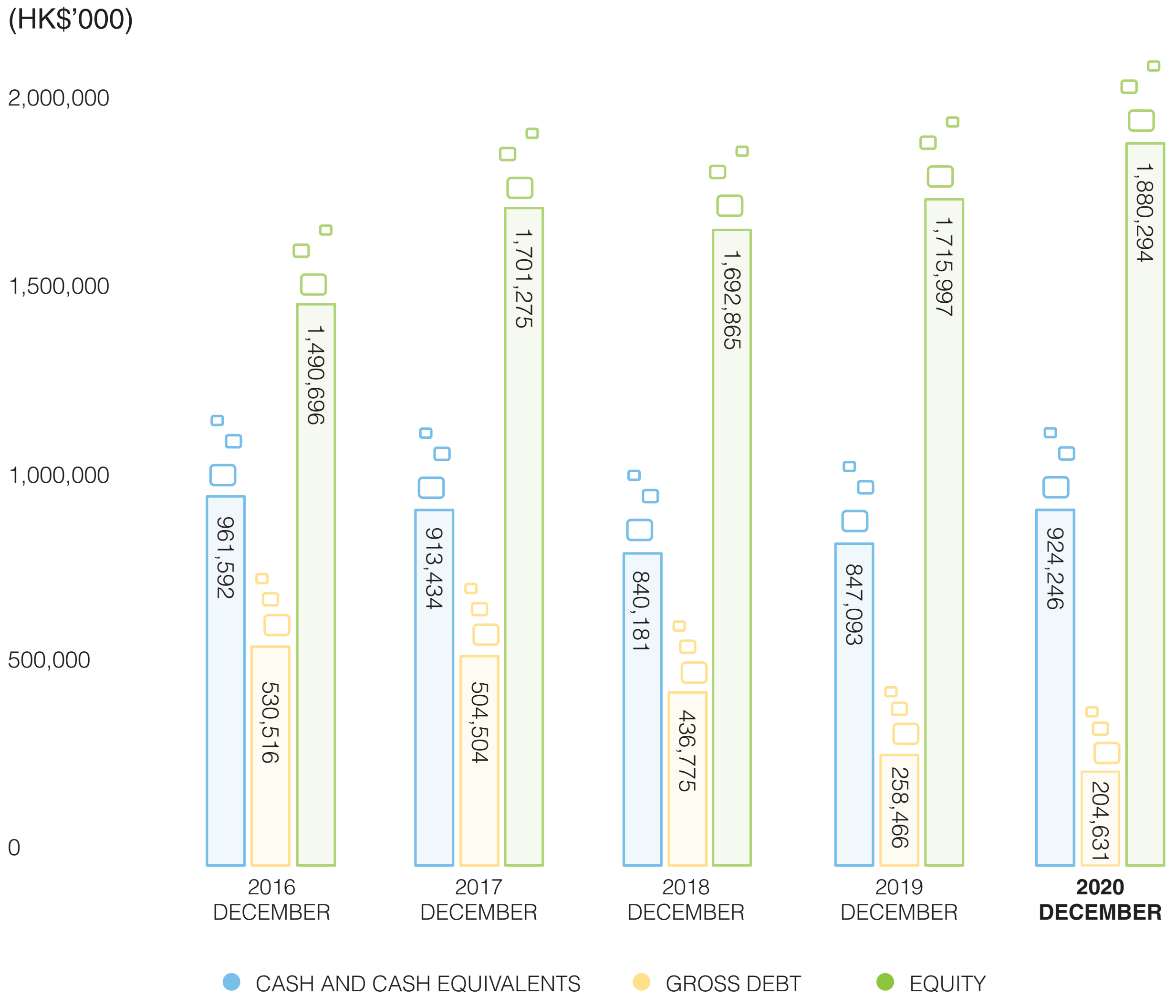


NET CASH TO EQUITY RATIO



FINANCIAL HIGHLIGHTS

CASH AND CASH EQUIVALENTS, GROSS DEBT AND EQUITY



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 2020.

BUSINESS REVIEW

At the beginning of 2020, COVID-19 started to break out in China and quickly spread to the whole world. Both the Group and our customers were impacted. The overseas pandemic was more severe, so there were difficulties in our mass production while the new projects were slowing down. The Group had faced great pressure on our production.

Our exporting business mainly to Europe and the United States was seriously struck. The delayed resumption of work in order to prevent and control the pandemic, the suspension of our customers' work and production, and the canceled or postponed sales orders, had a negative impact on the original sales target. Therefore, our sales in the first half of 2020 amounted to HK$338,286,000, representing a decrease of HK$65,545,000 or 16.2%, as compared to the corresponding period of last year.

In the second half of 2020, while the easing of COVID-19 in China, the economies in Europe and the United States gradually recovered. All the departments of the Group fully cooperated to seize the perfect opportunity from the gradual recovery of global economy, the Group not only maintained good relationship with customers and seized market opportunities to obtain much more orders than our expectation, but also used technical reserves to gain a firm foothold in the supply chain of domestic high-precision hydraulic products. The sales achieved a V-shaped rebound by increasing 34.6% as compared to the first half of the year; In terms of sales scale, in the second half of 2020 it had exceeded that in the second half of 2019 (HK$408,346,000), and approximately increased by 11.5% or HK$47,099,000, reaching the sales scale in 2018 as well.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW (Continued)

The trade war between China and the United States had been repeated. At the beginning of the year, the US Customs imposed a 25% tariff on imported products, thus the costs of customers and the Group were increased, orders were reduced, and the scale of exports to and profits from the United States fell across the board. The unstable political environment in the United States had added more uncertainties and operational risks to the Group's future exports to it.

As for business performance, the following comparing in the table may help to understand the whole picture:

	2020		2019		Change	
	HK$'000	**%**	HK$'000	%	HK$'000	%
Automotive components	**456,253**	**57.5**	449,302	55.3	+6,951	+1.5
Hydraulic equipment components	**192,478**	**24.2**	228,038	28.1	-35,560	-15.6
Electronic equipment components	**111,264**	**14.0**	101,276	12.5	+9,988	+9.9
Others	**33,736**	**4.3**	33,561	4.1	+175	+0.5
	793,731	**100.0**	812,177	100.0	-18,446	-2.3

When the pandemic gradually stabilized in the second half of the year, customers of automotive components resumed their production more quickly, and the Group cooperated with them to resume the production as soon as possible. Therefore, as compared to last year, sales of automotive components in 2020 recorded HK$456,253,000, representing an increase of HK$6,951,000 or 1.5%, and accounted for half of the Group's total sales in terms overall sales; The Group develops all its businesses in a balanced manner to avoid concentration risks.

Regarding the hydraulic equipment components business, one of the Group's major strategic businesses, the Group invested more funds and talents during the year, focusing on developing the domestic market, such as relief valve components, i.e. high-precision hydraulic products, and production lines to obtain new orders from customers, which was highly recognized by our heavyweights, Heng Li Hydraulic and Lonking Holdings. During the year, we promoted the design and development of high-precision hydraulic products, and focused on the market of relief valves and other high-end hydraulic products monopolized by overseas manufacturers, striving to achieve import substitution and share the domestic market of hydraulic products; However, due to a series of unstable factors such as the impact of the pandemic, the project that was originally planned for mass production in the middle of the year had been postponed. Sales of hydraulic equipment components amounted to HK$192,478,000, representing a decrease of HK$35,560,000 or 15.6%, as compared to last year.

In addition to the business of hard disk drive ("HDD") components in the past, the Group has entered the Computer, Consumer electronics, and Communications ("3C") industry in recent years, of which the business has been integrated into the electronic equipment components business segment, to meet the business strategy for the future. As these customers were less affected by the pandemic, the sales in 2020 increased by HK$9,988,000 or 9.9%, as compared to last year.

BUSINESS REVIEW (Continued)

Furthermore, taking COVID-19 as an opportunity and being a producer of personal protective equipment, the Group has entered the medical instruments field, in accordance with the Group's strategic goals, to increase the diversification of businesses in the future.

With the continuous increase in sales orders, the Group's existing production capacity has obvious limitation, and is in great need of expansion. The main difficulties are concentrated in machinery and human resources. By paying close attention to market trends to shorten the time of information transmission, our sales department carefully selects high-quality customers and participates in process monitoring, e.g. production arrangements and shipments, to implement a rapid response mechanism for the linkage of supply, production and sales. Meanwhile, many breakthroughs in the research and development ("R&D") of new projects have been made and result in mass production, of which the products have been delivered to the customers, such as Eaton, Danfoss, Delphi, Magneti Marelli, Shanghai Winkelmann Longchuan ("SWL") Motorcomponents, Vitesco Automotive Changchun, etc.

With the concerted efforts from R&D, engineering and production, the Group focuses on the "goal of automation" to improve production efficiency and conformance rate. The production department continues to optimize the existing production process to promote lean production. In addition to using automation to improve the conformance rate, and the Company also encourages the production department to provide various specific plans for lean production through activities during the year, so as to reach the goal of lean production in multiple dimensions.

In terms of procurement, by developing various domestic and foreign suppliers, we have optimized the selection channel of suppliers, and formulated a reasonable and effective supply model. Meanwhile, we have comprehensively negotiated with suppliers to extend the payments or agree with the payment for goods in acceptance bills to reduce the capital occupation from cash payment; By improving evaluation of suppliers, we have cooperated with suppliers to establish the unified internal quality control standards, and strengthened the audits in supplier quality management, therefore the overall quality of suppliers throughout the year has been improved.

Focusing on the strategic development of hydraulic business, the Group concentrated on the hydraulic industry-university-research cooperation during the year, actively expanding the resources from domestic colleges and universities, and establishing relationships with the professors of domestic key hydraulic institutions, including the deans and doctoral supervisors from Tsinghua University, Yanshan University, Lanzhou University of Technology, Harbin Institute of Technology, Shanghai Jiao Tong University and Tongji University, to lay the foundation for long-term planning such as project cooperation and talent introduction. A technical cooperation agreement with Fluid Transmission and Control Department at Lanzhou University of Technology was signed for the design and research on solenoid valve products, aiming to break through the technical bottleneck. Furthermore, we had in-depth cooperation with Zhejiang University in hydraulic field, and jointly applied for the Leading Innovation Team Project in Zengcheng District. Taking the advantages of the State Key Laboratory of Zhejiang University, the intensive cultivation in hydraulic field will enable us to participate in the formulation of international standards.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW (Continued)

Although overseas pandemic continued to repeat and greatly impacted the Group's overseas marketing, all departments have worked together to improve customer management, supplier management, financial management, process optimization of supply, production and marketing, talent reserves in core and key technologies, and operating cost control comprehensively. An internal audit and supervision mechanism involving a number of institutions has been established to manage the efficiency, while work of increasing revenue, improving quality, reducing consumption and upgrading production, and exploitation of potentialities have been steadily implemented, with a view to raising the overall efficiency of the Group's management, enhancing our core competitiveness, and laying a solid foundation for strategic transformation.

In view of the uncertainties from the pandemic, it may impact our orders and logistics supply chain. The Group has taken actions to preserve sufficient cash and strengthen the liquidity. It has also prepared a certain amount of banking facilities to meet possible funding needs. As a manufacturing enterprise, the Group inevitably needs employees to work on the production line, and relies on a supply chain, especially the logistics. However, the Group can still reduce the impact from the pandemic through various measures, e.g. online meetings and strictly control of the entry of persons and cargo from areas with severe pandemic. During the pandemic, a subsidiary producing personal protective equipment had been established, in accordance with the Group's strategic goals, to increase the diversification of businesses in the future. Meanwhile, the Group continues to reform the supply chain, and communicates closely with customers at home and abroad to gain insight into changes as soon as possible.

In addition, the Group has been very cautious in investing funds and production equipment to prevent the impact from the uncertainties of the pandemic, while the outbreak has already delayed its business promotion activities and several business opportunities such as the discussion and negotiation with customers about new products. After the outbreak in early February 2020, our main domestic production plants followed the initiative from local government and ceased production for about two weeks. Moreover, the interruption of the supply chain and the holidays of employees during the Spring Festival have affected the production progress of the Group. The pandemic resulted in the decrease of the Group's revenue in 2020 by approximately 10% and the increase of additional costs, while Chinese and Hong Kong governments gave us a total subsidy of HK$800,000 for the pandemic.

Paying close attention to the development of the pandemic and maintaining close communication with relevant government departments, the Group ensures the safety of employees and stable operations. It will make corresponding adjustments to measures and plans for pandemic prevention, operations and business development in due course.

CHAIRMAN'S STATEMENT

PROSPECT

The Group will focus on the policy of "Increasing income, Improving quality, Reducing wastage, and Upgrading", concentrate all its efforts on the intricate business environment, continuously expand new markets, customers and products, exploit new profitable points, and implement standardized management and lean production; this is the main direction of its future development.

Based on past experience, our key goals for improvement in the future include: improving the response speed of the supply chain to increase the flexibility of supply, paying attention to the safety of the supply chain and the level of supply risk to further optimize and control the inventory, as well as strengthening procurement management, and abandoning and realizing the stock in a timely manner.

In addition, especially for the hydraulic industry, we will pay more attention to the needs of high-end manufacturing and breakthroughs in imported technologies, the design and development of high-end hydraulic products to be accelerated, the substitution of imported hydraulic products to be gradually realized, the Group's market share in domestic hydraulic products to be further expanded and the R&D and manufacturing of independent intellectual property products to be strengthened.

In terms of talent cultivating, we will establish a completed separation of duties, organizational structure, position management system and job descriptions, formulate an updated salary standard for all job levels, and introduce key talents at mid-to-high level for key positions. We will exploit and obtain an insight into the information of external key talent market, update the talent map of the benchmark industry and target companies, and promote the introduction of key talents at mid-to-high level through multiple channels. We also plan to put priority on introducing and training of high-quality young technical backbones in hydraulic technology, mechanical engineering and medical instruments from the target universities.

In 2021, we will strive for the double-digit growth both in sales of automotive components and hydraulic equipment components, and at the same time make technical reserves to expand in 3C industry and medical instruments industry. Therefore, we will ensure the maintenance of existing customer partnership, and transform into a "product + technical service" of sales model to actively develop the domestic market. Meanwhile, we will actively seek out projects in new fields, regularly organize training of relevant staff, and actively participate in industry-related exchange seminars, in order to break into new fields. Furthermore, we will enter the field of medical instruments, with sufficient technical reserves and preparation in dealing with various risks in this new field.

During the past year, COVID-19 broke out globally. Although the stabilizing pandemic in specific countries and recently available coronavirus vaccines resulted in the Group's recovered sales since the second half of 2020, there are still many countries around the world that have not yet controlled the pandemic, while variant viruses frequently arise. It is difficult to prevent the pandemic from repeating in the future. Therefore, we always pay attention to the pandemic at home and abroad, and actively develop the domestic market to hedge the significant impact on our foreign markets.

On behalf of the Board, I would like to wish this pandemic from COVID-19 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

26 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Affected by the pandemic, the revenue in the first half of the year decreased by HK$65,545,000 or 16.2%, as compared to the corresponding period last year. As the impact of the pandemic has weakened, which has been brought under control in China, and the economy has recovered, the revenue in the second half of the year rebounded significantly, increasing by HK$47,099,000 or 11.5%, as compared to the corresponding period last year. Therefore, for the year ended 31 December 2020, the Group recorded a revenue of HK$793,731,000, representing a decrease of HK$18,446,000 or 2.3%, as compared to the revenue of HK$812,177,000 last year.

The Group has strengthened cost monitoring and actively developed new products. Therefore in 2020, gross profit margin amounted to HK$182,467,000 and gross profit margin was 23.0%, in the same level compared to the gross profit of HK$180,928,000 and gross profit margin of 22.3% last year.

In the overall economic downturn resulted from the pandemic, the Group was actively increasing revenue and reducing expenditures, using existing resources to create revenue. In 2020, bank interest income amounted to HK$13,682,000, increasing by 20.6% or HK$2,341,000 as compared to last year; in addition, at the end of 2020, some of the domestic plants were leased out, while under the accounting standards, corresponding properties recorded an investment property revaluation gain of HK$1,428,000 (2019: nil). In addition, the Chinese government provided a one-off subsidy to companies that were hit by the pandemic. In 2020, the Group received government subsidies of HK$15,049,000, increasing by HK$11,688,000, as compared to HK$3,361,000 last year. Therefore, other income was HK$35,436,000, representing an increase of 78.0% or HK$15,523,000, as compared to last year.

Under the impact of the trade war between China and the United States, changes in distribution costs were mainly due to the acquisition of earlier import tariff refunds of HK$7,027,000 imposed by the United States in 2019. However, since this tariff policy was changed in 2020, the Group has no longer got the tax refund. Therefore, without this one-off tax refund in 2020, the export declaration fee increased by HK$5,227,000 as compared to last year; overall, the distribution costs in 2020 were HK$19,384,000, increasing from HK$15,959,000 last year by HK$3,425,000. Save as the above one-off tariff refund, distribution costs accounted for 2.4% of revenue, which was similar to last year.

The administrative expenses and other expenses in 2020 amounted to HK$146,841,000; increasing by HK$22,802,000 or 18.4%, as compared to HK$124,039,000 last year. Even in the pandemic, the Group continued to invest resources in long-term research and development, speeding up the implementation of automation projects, etc., thus R&D expenses increased by HK$14,042,000 as compared to last year. In addition, when the share options were granted in early 2020, the equity-settled share-based payment expense incurred was HK$9,330,000 (2019: nil); while the outbreak of COVID-19 at the beginning of the year, the Chinese authorities took preventive and control measures, so the Group complied with the instruction of relevant authorities to take appropriate preventive and control measures, which resulted in the suspension of domestic production bases, and the expenses incurred were HK$4,805,000 (2019: nil); On the other hand, some plants were converted to investment properties to increase revenue, with the revised estimate useful live of certain freehold land and building to reflect latest consumption pattern, and resulted in the decrease of depreciation expense by HK$4,652,000. Moreover, domestic companies reduced their tax surcharges by HK$3,042,000 as compared to last year; while we avoided business travel during the pandemic, the car expenses were reduced by HK$1,179,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

In the shadow of the pandemic, in order to avoid the impact on sales orders and use own funds under the principle of prudence in financial management, the bank loan amount is reduced, and the financing cost in 2020 amounted to HK$7,499,000, decreasing by HK$6,931,000 or 48.0%, as compared to HK$14,430,000 last year.

Regarding the performance of associates, struck by the pandemic, their business failed to carry out as usual, and the profit level was affected accordingly. Therefore, as of 31 December 2020, the share of losses of associates were HK$2,146,000 (2019: share of profit of an associate: HK$1,650,000), increasing by HK$3,796,000 as compared to last year.

Furthermore, in terms of income tax, due to the rebound of sales orders in 2020, the profits of domestic wholly-owned subsidiaries recovered, and with the support of government subsidies, they showed a turn from loss to profit. As a result, the overall income tax as of 31 December 2020 was HK$13,164,000, increasing by HK$5,697,000, as compared to HK$7,467,000 last year.

The profit attributable to equity shareholders of the Company for the year ended 31 December 2020 amounted to HK$27,410,000, decreasing by HK$12,935,000 or 32.1%, as compared to HK$40,345,000 last year.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2020, the Group had total borrowings of HK$204,631,000, decreased by HK$53,835,000, as compared to HK$258,466,000 last year, secured by corporate guarantee given by the Company and its subsidiaries. Besides, as at 31 December 2020, the Group pledged deposits of HK$3,672,000 to issue letters of guarantee. Except for pledged and restricted deposit, the Group had no charge on any of its assets for its banking facilities as at 31 December 2020.

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 2020, cash per share amounted to HK$0.88, compared to HK$0.81 last year, based on the 1,052,254,135 ordinary shares in issue (31 December 2019: 1,052,254,135 ordinary shares). Although profits have declined, the Company still holds sufficient funds to face sudden changes. Under the principle of prudence in financial management, the net asset value per share for 2020 amounted to HK$1.79, representing an increase even in the pandemic as compared to HK$1.63 last year.

The net cash inflow generated by the Group's operations in 2020 was HK$161,740,000, representing a decrease as compared to HK$228,696,000 last year due to a significant decline in sales orders. In order to avoid the risk of impairment caused by the backlog of raw materials, the management strictly controlled the purchase of raw materials to deplete the inventories in the warehouse first, which resulted in a large reduction in relevant funds invested; after digesting the backlogged stock, there is no too much inventories available this year. Secondly, the long cycle of accounts receivable in the industry should also be blamed. The accounts receivable collected last year came from the sales in the fourth quarter of the previous year. Revenue in 2020 was similar to that of last year, therefore, there is no such factor affecting cash inflows from operating businesses.

In terms of capital expenditures, the Group believes that despite the impact of the pandemic in the short-term economic level and setbacks in sales orders, since the vaccines will be available, the investment projects in stable industries possess development potential. Therefore, the net cash outflows from investment activities in 2020 was HK$51,779,000, representing an increase of HK$32,505,000 as compared to HK$19,274,000 last year.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS (Continued)

In terms of bank borrowings, in addition to reducing unnecessary interest expenses, the Group did not make new bank borrowings in order to avoid credit risk, and repaid loans on time. Therefore, as of 31 December 2020, the total bank borrowings amounted to HK$204,631,000, decreasing by HK$53,835,000 as compared to HK$258,466,000 in 2019.

Facing the not fully controlled pandemic, the Group developed new customers and new products, and at the same time, under the principle of prudence in financial management, it ensured the collection of accounts receivable, reduced daily expenses, and made full use of existing production equipment. The Group's net cash (cash and bank balances less total bank borrowings) was HK$723,287,000 as at 31 December 2020, increasing by HK$134,660,000, as compared to HK$588,627,000 as at 31 December 2019.

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 appreciation of Renminbi will adversely affect the Group's profitability. The management of the Group monitors its relevant foreign exchange risks by entering into forward foreign exchange contracts, and continuously evaluates the foreign exchange risks of the Group and takes measures when necessary to reduce the risks.

HUMAN RESOURCES

Due to the pandemic, various cultural and recreational activities for employees were cut down during the year, while seven interest groups were established. Meanwhile, the Group improved the spare-time living facilities of employees, built reading rooms, and organized multiple internal training courses; in addition, a scheme of meal subsidies that benefit all levels of employees was implemented to improve staff welfare and enhance the employees' sense of belonging.

Regular safety production meetings are held every month during the year, and safety production responsibility commitment are signed by employees to fully implement the safety production responsibility system and safety production education and training. At the same time, we strengthened emergency drills for firefighting, hazardous chemicals, and special equipment, etc., investigated the hidden dangers of the production workshop, and invited a third-party agency to carry out safety assessments on the Group, in order to comprehensively enhance supervisory measures and improve employees' safety awareness and skills.

The Group attaches great importance to talents cultivating in cooperation with universities. We have established talent cooperation on the college-enterprises level with 7 colleges, including Guangzhou Mechanical and Electrical Technician College, Xinhua College of Sun Yat-Sen University, Guangdong Province Huali Technician College, Guangdong Polytechnic Normal University, and Guangdong Baiyun University, Yanshan University and Guangzhou Huali Science and Technology Vocational College, and organize the IPE order-based classes to improve the current level of human resources.

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

As at 31 December 2020, the Group had a total of 2,163 employees, representing a decrease of 66 employees or 3.0% as compared to 2,229 employees as at 31 December 2019.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zeng Guangsheng, aged 54, 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 52, 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 46, 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 22 years of experience in accounting and financial management.

Mr. Chen Kuangguo, aged 36, 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 53, 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 25 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 38, 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).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Mei Weiyi, aged 47, 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 57, 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 38 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 56, is the Chief Operating Officer and 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 24 years of experience in marketing and sales of precision components and industrial equipment.

Mr. Jiang Fei, aged 48, 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 24 years of experience in the manufacturing industry.

COMPANY SECRETARY

Mr. Tam Yiu Chung, aged 50, 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 2020.

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 in the section headed "The Board" 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.

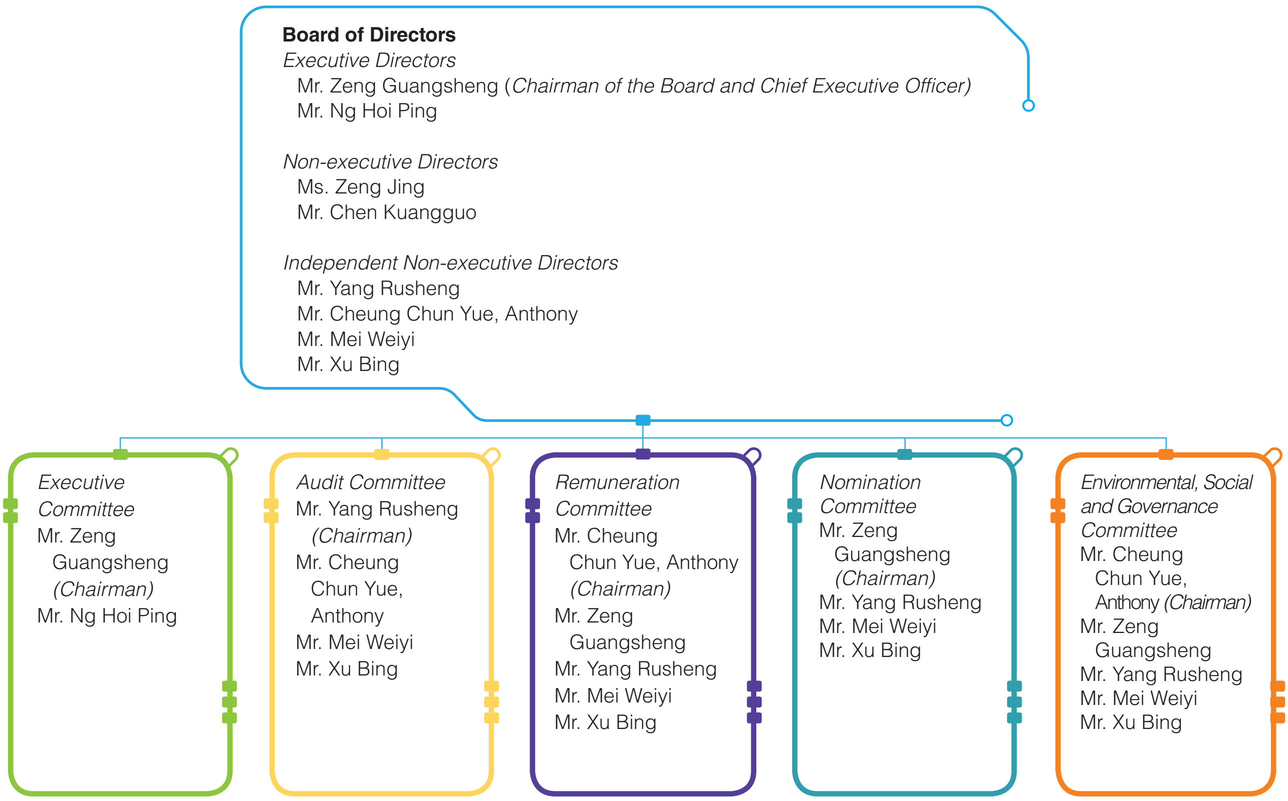
All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice in 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 up to the date of this report:



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 2020, 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.

Non-executive Directors

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Ms. Zeng Jing, a non-executive director, was appointed 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 for an initial term of 3 years and shall be subject to retirement by rotation and re-election provisions as set out in the Articles of Association.

Mr. Yang Rusheng, Mr. Cheung, Chun Yue Anthony, Mr. Mei Weiyi and Mr. Xu Bing, independent non-executive directors, were appointed 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.

Re-election of Directors

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 addition, pursuant to article 87 of the Articles of Association, Mr. Ng Hoi Ping, Mr. Yang Rusheng and Mr. Cheung Chun Yue Anthony shall retire by rotation and, being eligible, offer themselves for re-election at the 2021 AGM.

The Board and the Nomination Committee of the Company recommended the re-appointment of these retiring directors standing for re-election at the 2021 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 2020, 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.

During the year ended 31 December 2020, Directors have attended the following types of training. Mr. Cheung, Chun Yue Anthony has attended Toolkit on Directors' Ethics issued by ICAC and joined a class of Notifiable Transaction Rules by the Hong Kong Institute of Chartered Secretaries through e-learning. Besides that, Mr. Zeng Guangsheng, Mr. Ng Hoi Ping, Ms. Zeng Jing, Mr. Chen Kuangguo, Mr. Yang Rusheng, Mr. Mei Weiyi and Mr. Xu Bing have read news updates and publications regarding relevant rules & regulations.

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 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 Model Code throughout the year ended 31 December 2020.

The Company has also established written guidelines on no less exacting 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 the dealings in the Company's securities, the Company will notify its directors and relevant employee in advance.

CORPORATE GOVERNANCE REPORT

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 2020, 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 2020 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	Annual General Meeting
Mr. Zeng Guangsheng	4/4	–	1/1	1/1	2/2	–/1
Mr. Ng Hoi Ping	4/4	–	–	–	–	1/1
Ms. Zeng Jing	4/4	–	–	–	–	–/1
Mr. Chen Kuangguo	4/4	–	–	–	–	–/1
Mr. Yang Rusheng	3/4	2/2	1/1	1/1	2/2	1/1
Mr. Cheung Chun Yue, Anthony	4/4	2/2	1/1	1/1	2/2	–/1
Mr. Mei Weiyi	3/4	2/2	1/1	1/1	2/2	–/1
Mr. Xu Bing	4/4	2/2	1/1	1/1	2/2	–/1

The chairman was unable to attend the annual general meeting held on 12 June 2020 due to restrictions on the departure policy under the COVID-19.

THE BOARD (Continued)

Attendance Records of Directors and Committee Members (Continued)

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 who are both executive directors of the Board. 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; and (iii) to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management assessing performance of executive directors.

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

During the year ended 31 December 2020, 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;

– To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and

– 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 2020 is set out below:

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 2020 is set out below:

Remuneration	Number of individuals
Nil to HK$1,000,000	4
HK$1,000,001 to HK$2,000,000	7
HK$2,000,001 to HK$3,000,000	2

Details of the remuneration of each of the directors of the Company for the year ended 31 December 2020 are set out in note 7 to the financial statements.

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.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

During the year ended 31 December 2020, the Audit Committee performed the following major tasks:

– Review and discussion of the annual financial results and report for the year ended 31 December 2019 and interim financial results and report for the six months ended 30 June 2020;

– Review of the scope of audit work, auditors' fees and terms of engagement for the year ended 31 December 2020;

– 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.

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, redesignation, 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 2020, 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 2020 annual general meeting of the Company;
- Assessment of the independence of all the independent non-executive directors of the Company; and

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.

During the year ended 31 December 2020, the ESG Committee performed the following major tasks:

– Review of the Company’s and its subsidiaries’ responsibilities, visions, strategies, frameworks, principles and policies of ESG

DIRECTORS’ RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020. 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 statement of the external auditors of the Company about their reporting responsibilities for the Company’s financial statements for the year ended 31 December 2020 is set out in the section headed “Independent Auditor’s Report” in this annual report. 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.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

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 2020 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 2020	1,700
Non-audit services:	
Tax services and others	727
TOTAL:	2,427

COMPANY SECRETARY

During the year ended 31 December 2020, 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.

CORPORATE GOVERNANCE REPORT

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' RIGHT

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.

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.

INVESTOR RELATIONS

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SCOPE AND REPORTING PERIOD

This is the fifth Environmental, Social, and Governance ("ESG") report prepared by the IPE Group Limited (the "Group" or "our"), 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 2020 to 31 December 2020 (the "Reporting Period"), unless otherwise stated:

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

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

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

The principal activities of the above-mentioned operations are the manufacturing and sale of precision components products, which collectively accounted for 83% of the Group's total revenue during the Reporting Period. There were no major operational changes in the reporting scope compared with the last Reporting Period. No significant changes in terms of the numbers of employees, net sales/income, and operational locations have occurred during the Reporting Period.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group communicates with key stakeholders through daily interaction to understand their concerns and expectations on ESG issues. The Group engages stakeholders via various communication channels such as regular meetings, performance appraisals, company website and e-mails. Through regular engagement sessions, the Group obtains valuable feedback and reviews areas of attention which will help the business to meet its potential growth and be prepared for future ESG challenges.

Materiality Assessment

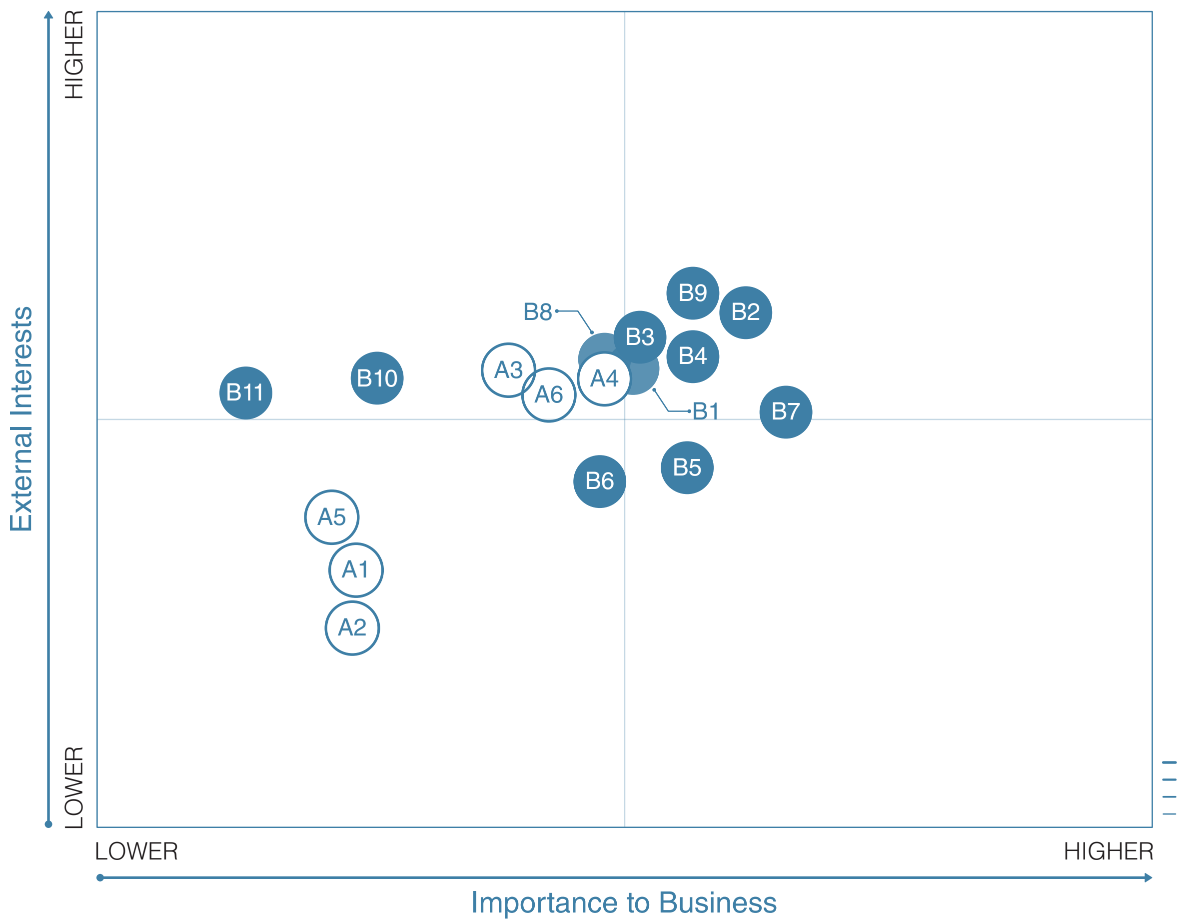
To identify material ESG issues, the Group has specifically engaged a wide range of stakeholders, including the board of directors (the "Board"), shareholders, senior management, frontline workers, customers and suppliers, to gain insights into ESG material topics. In the materiality assessment, stakeholders were asked to rate a list of 17 ESG topics in terms of their relevance and importance to the Group's business continual and sustainability performance, as well as to the wider community.

Results of the materiality assessment and the consolidated list of material aspects with respective management are presented in the following matrix, table and section respectively.

STAKEHOLDER ENGAGEMENT AND MATERIALITY (Continued)

Materiality Assessment (Continued)

Figure 1: Materiality Matrix



STAKEHOLDER ENGAGEMENT AND MATERIALITY (Continued)

Materiality Assessment (Continued)

Table 1: Environmental and Social Issues for Materiality Assessment

A.	**Environmental**	
	Energy	A1
	Water	A2
	Air Emission	A3
	Waste and Effluent	A4
	Other Raw Materials Consumption	A5
	Environmental Protection Policies	A6
B.	**Social**	
	Employment	B1
	Occupational Health and Safety	B2
	Development and Training	B3
	Labor Standards	B4
	Supply Chain Management	B5
	Intellectual Property Rights	B6
	Data Protection	B7
	Customer Service	B8
	Product/Service Quality	B9
	Anti-corruption	B10
	Community Investment	B11

Through ongoing dialogues and materiality assessment during the Reporting Period, the Group has identified 5 material issues that were deeded as the most important by the stakeholders:

- Occupational Health and Safety
- Product/Service Quality
- Data Protection
- Labor Standards
- Development and Training

STAKEHOLDERS' FEEDBACK

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE GROUP'S SUSTAINABILITY MISSION AND VISION

The Group strives to achieve a better balance of profit maximization, corporate sustainability, and stakeholder satisfaction so as to maintain business continuity and develop business resilience.

THE GROUP'S SUSTAINABILITY GOVERNANCE

The Board has overall responsibility for the Group's ESG strategy and reporting and for evaluating and determining the Group's ESG-related risks. The Group has developed a suite of sustainability policies to communicate with the stakeholders its commitment and approach towards enhancing sustainability performance.

To fulfil the vision towards corporate sustainability, the Group has established an Environmental, Social and Governance Committee (the "ESG Committee") which is chaired and managed by the Board. The ESG Committee supervises all ESG related matters and reports to the Board. The ESG committee is responsible for developing ESG related strategies and programs, which could include drafting policies, assigning responsibilities for ESG operations, and setting up processes to manage ESG activities. The ESG committee 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 ESG Committee will report any new development of matters with its terms of reference to the Board.

AWARDS AND RECOGNITION

The Group actively strives for operational excellence and has obtained various international certifications, such as IATF16949:2016, AS9100:2016, ISO9001:2015, ISO14001:2004 for its operations. GZXH was one of the Top 500 Enterprises in Guangdong Manufacturing Industry. Moreover, DGKD received the Supplier Best Progress Award from Dongguan Lingyi Precision Manufacturing Technology Co., Ltd and GZXH received the Long Service Award from Bosch Rexroth (China) Limited in recognition of providing consistent quality of products and services. Both GZXH and DGKD have been granted the Work Safety Standardization Certificate.

The Group's continuous investment in research and development ("R&D") and technology advancement has gained recognition from various sectors in the community. The Group is currently an Executive Member of the China Robot Industry Alliance. GZXH is one of the founding executive members of Guangzhou Robot Association.

A. ENVIRONMENTAL

As a manufacturer, the Group is aware of its obligation to reduce operational impacts on the environment. The Group is committed to continuously improving the environmental sustainability and ensuring environmental consideration remains one of the top priorities in the operation.

The Group stringently complies with national and local laws and regulations concerning environmental protection and pollution control. GZXH and DGKD strictly observe national, provincial and local laws and regulations governing environmental protection, including the Environmental Protection Law of the PRC, Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste, Law of the PRC on the Prevention and Control of Atmospheric Pollution, Water Pollution Prevention and Control Law of the PRC, Soil Pollution Prevention and Control Law of the PRC and Regulations of Guangdong Province on Prevention and Control of Solid Waste Environmental Pollution. IPET observes local laws and regulations such as the Soil and Groundwater Contamination Control in Factory Area B.E. 2559 (2016) and the Industrial Effluent Standards B.E. 2560 (2017) under the Ministry of Industry.

A. ENVIRONMENTAL (Continued)

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

Production Activities

Exhaust gas, especially particulate matter, was emitted from the production activities in the Group's operations. All exhaust gas emissions in GZXH and DGKD are closely monitored and meet the emission levels set by the Emission Limit of Air Pollutants (DB44/27-2001) in Guangdong Province. In IPET, air contaminants including total suspended particulate and Xylene are discharged through the nine chimneys into the air. The respective emissions are monitored and controlled within the permissible levels as set out in the Standard for Administration and Management of Occupational Safety, Health and Environment, B.E. 2549 (A.D. 2006) by the Ministerial Regulation of the Ministry of Labor. Cooking fume discharged from the staff canteen is also within the permissible level set by GB 18483-2001 Emission Standard of Cooking Fume.

Vehicle Operation

During the Reporting Period, the Group-owned vehicles operated on gasoline and diesel were used for daily business operations, which contributed to the emission of nitrogen oxides ("NO_x"), sulfur oxides ("SO_x") and respiratory suspended particles ("RSP"). Due to declining demand for business trips in times of COVID-19, the Group consumed 71% and 37% less gasoline and diesel respectively, resulting in substantially reductions in the respective emissions compared with the last Reporting Period.

Table 2: Air Emissions from Mobile Fuel Combustion

	Air emissions (non-GHG) from vehicle operations		
Mobile fuel emissions	**NO_x (kg)**	**SO_x (kg)**	**PM (kg)**
Gasoline and diesel	361.39	0.71	7.43

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.

Gaseous Fuel Consumption

During the Reporting Period, the Group consumed various types of fuels for machinery operation, incluing natural gas used in IPET, and town gas and diesel used in GZXH. The consumption of town gas generated SO_x and NO_x as presented in the following table. In addition, consumption of these fuels also generated GHG emissions, relevant data is presented in the next section. Since the canteen operation in GZXH had been outsourced to a third-party company, the consumption of liquefied petroleum gas ("LPG") was therefore not included in the calculation.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.1 Air Emissions (Continued)

Gaseous Fuel Consumption (Continued)

Table 3: Air Emissions from Gaseous Fuel Combustion

Gaseous fuel emissions	Air emissions (non-GHG) from gaseous fuel consumption NO_x (kg)	SO_x (kg)
Towngas	1.15	<0.01

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

A1.2 Greenhouse Gas (GHG) Emissions

During the reporting period, the Group's business activities contributed to the GHG emission of 45,236 tonnes of carbon dioxide equivalent ("tCO_2e."), mainly carbon dioxide, methane and nitrous oxide. The overall intensity of the GHG emissions for the Group was 21.38 tCO_2e./employee with reference to the total employees of the Group, representing an increase of 17% when compared to 18.29 tCO_2e./employee during the last Reporting period.

The GHG emissions reported included the following activities and scopes:

- Direct (scope 1) GHG emissions from the consumption of stationary and mobile sources, including natural gas, town gas, gasoline and diesel;
- 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 4: Greenhouse Gas Emissions by Scope

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	460.05	606	1%
		Town gas	15.34		
		Natural gas[2]	4.60		
	Combustion of fuels in mobile sources	Diesel	46.34		
		Gasoline	79.18		
Scope 2 Energy indirect emissions	Purchased electricity[3]		44,299.05	44,303	98%
	Purchased towngas[4]		3.59		
Scope 3 Other indirect emissions	Paper waste disposal at landfills		50.60	327	1%
	Electricity used for freshwater processing		204.27		
	Electricity used for sewage processing		50.61		
	Business air travel by employees[5]		21.31		
Group total				**45,236**	**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 factors of 0.80 kg CO_2e/kWh and 0.48 kg CO_2e/kWh were used for purchased electricity in Guangdong Province of the PRC and Bangkok of Thailand respectively.

Note 4: Emission factor of 0.60 kg CO_2e/unit was used for determining Scope 2 GHG emission of purchased town gas by referring to the Towngas Sustainability Report 2019.

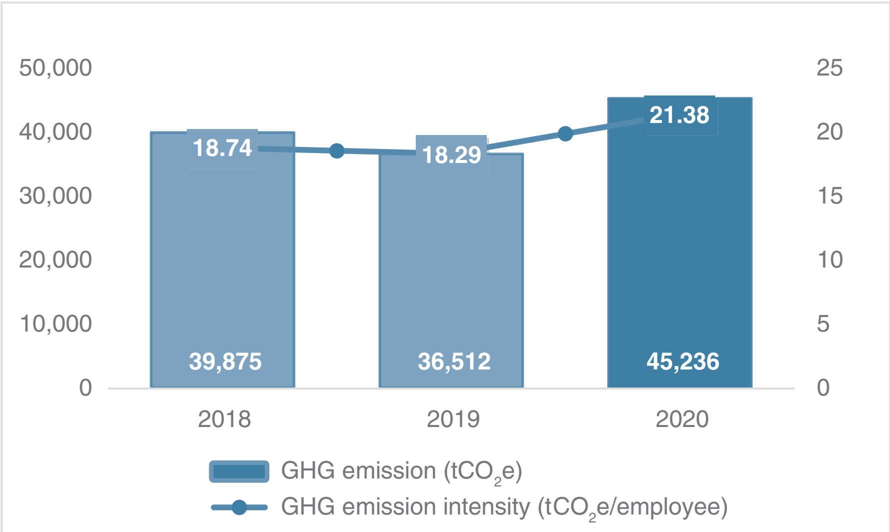
Note 5: Emissions were calculated using the online tool provided by the International Civil Aviation Organization.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

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

Figure 2: Greenhouse Gas Emissions and Intensity in 2018-2020



A1.3 Hazardous Waste

The Group generated a total of 480.99 tonnes of hazardous waste during the Reporting Period, with an overall intensity of 227.31 kg/employee (2019: 194.80 kg/employee). Oil- and chemical-contaminated materials and sludge were the major constituents which made up about 95% of the total amount of hazardous waste. All hazardous waste is managed in accordance with the applicable national regulations and international standards, including the Prevention and Control of Environmental Pollution by Solid Waste of the PRC, as well as the ISO 14001 standard for the safe handling and storage of hazardous waste.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.3 Hazardous Waste (Continued)

Table 5: Hazardous Waste Generated and Treatment Methods

Types of hazardous waste	Hazardous waste amount and treatment method		
	GZXH	DGKD	IPET
Waste mineral oil	1,604 kg, collected and treated by government certified 3rd party handler	1,608 kg, collected and treated by government certified 3rd party handler	21,886 kg, collected and treated by government certified 3rd party handler
Computer hardware and lighting waste (e.g., fluorescent lamps)	n/a	n/a	60 kg, landfilled by government certified 3rd party handler
Waste organic solvent	545 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)	38,063 kg, collected by suppliers and recycled	8,075 kg, collected by suppliers and recycled	17,560 kg, landfilled by government certified 3rd party handler
Sludge	389,789 kg, collected and treated by government certified 3rd party handler	1,809 kg, collected and treated by government certified 3rd party handler	n/a
Laboratory waste (e.g., COD analysis liquids)	50 kg, collected and treated by government certified 3rd party handler	n/a	n/a
Total hazardous waste	430,051 kg	11,492 kg	39,446 kg
Intensity (kg/employee)	262.71	32.10	326.00

A1.4 Non-hazardous Waste

Apart from the 10,542 kg of office paper waste produced, the Group generated a total of 172,429 kg of non-hazardous waste, mainly industrial and domestic waste, during the Reporting Period. Industrial waste mainly included metal scraps, which were generated from production processes. All the industrial waste were collected by designated handlers for downstream recycling. Other types of non-hazardous waste composed of non-office paper waste, general waste, food waste, and waste packaging materials. Food waste from the canteen was collected by local authorities for upcycling into animal feeds.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.4 Non-hazardous Waste (Continued)

Table 6: Non-Hazardous Waste Generated and Treatment Methods

Types of non-hazardous waste	Non-hazardous waste amount and treatment method GZXH	DGKD	IPET
Waste office paper	8,431 kg landfilled, 938 kg recycled	1,166 kg purchased, assuming all landfilled[1]	945 kg landfilled
Non-office paper waste (e.g., wrapping paper)	18,455 kg, recycled by downstream industry	n/a	750 kg, recycled by downstream industry
Metal, glass, and plastic waste	26,100 kg, recycled by downstream industry	8,670 kg, recycled by downstream industry	n/a
Waste packaging materials (e.g., wooden pallets)	22,050 kg	12,080 kg, recycled by downstream industry	n/a
Food waste	10,975 kg, collected by third-party for composting	8,519 kg, collected by third-party for composting	1,038 kg, collected by third-party for composting
Other general waste	n/a	n/a	63,792 kg, landfilled

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.

During the Reporting Period, the Group achieved a landfill waste diversion rate of 100% for non-office paper, metal, glass, plastic and packaging waste.

Table 7: Non-Hazardous Waste Generated (Except Office Paper Waste) and Intensity

	GZXH	DGKD	IPET	Group-total
Total non-hazardous waste diverted from landfills (recycled or composted)[1]	77,580 kg	29,269 kg	1,788 kg	108,637 kg
Intensity (kg/employee)	47.39	81.76	14.78	51.34

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

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

A1.5 Measures to Mitigate Emissions

Direct emissions generated on-site are mitigated via various controlling schemes. Additionally, the Group has enhanced vehicle management to reduce number of vehicles, fuel consumption and associated air emissions. During the Reporting Period, the total number of vehicles owned by the Group reduced from 18 to 15. Transportation plans are required for advanced scheduling of vehicle dispatch. Staff members are highly encouraged to plan their trips ahead and travel via carpooling to reduce the use of vehicles. Fuel-efficient and low-emission vehicles are prioritized in future purchase of replacement. The Group also highly encourages employees to use public transport whenever possible. As a result of the Group's continuous efforts, both fuel consumption and vehicle exhaust emissions reduced significantly compared to the last Reporting Period.

A1.6 Wastes Reduction and Initiatives

The Group strictly observes national laws and follows the requirements of the ISO 14001 standard in handling both hazardous and non-hazardous waste. Internally, the Group has established various waste management procedures to regulate the sorting, storage, transfer, disposal, and recycling of waste.

The Group has provided recycling bins with clear instructions on separating recyclable and non-recyclable waste. Sorted wastes are placed in specific containers which are clearly labeled, and then transferred to on-site storage areas for temporary storage before collection. Firefighting equipment is also provided at easily accessible places near the hazardous waste storage areas. The Group has appointed personnel to maintain the cleanliness and tidiness of on-site waste reception facilities. During the pick-up of hazardous waste, the Group provides necessary documents and material safety data sheets to authorized handlers registered under local government authorities.

Throughout the years, the Group has devoted considerable efforts to strengthening the waste management across the operations. For instance, the Group has developed a waste recordkeeping system for managing and tracking of the amount and types of waste generated during the daily operations of the sites. To reduce waste as well as utilize resources more efficiently, the Group reuses cutting oils as far as possible, and then transfers the waste oils to licensed handlers for disposal.

The Group continues to adopt paper-saving measures to reduce paper waste at source. Paper waste is collected by licensed handlers for downstream recycling. When there is a sudden rise in the paper consumption, the administration department will follow up with the responsible department and take corresponding control measures where necessary.

A. ENVIRONMENTAL (Continued)

A2. Use of Resources

A2.1 Energy Consumption

The total energy consumption of the Group was 59,543,124 Kilowatt-hour ("kWh"), with an overall energy intensity of 28.14 MWh/employee during the Reporting Period. Types of energy consumed included electricity, natural gas, town gas, gasoline and diesel. The table below presents the energy consumption by energy types and the associated energy intensity.

Table 8: Energy Consumption and Intensity

Energy Consumption in 2020 Direct/indirect energy sources	Consumption (unit)	Consumption (kWh)	Energy Intensity (MWh/employee)
Electricity	57,246,244 kWh	57,246,244	27.05
Natural gas – for machinery in IPET	1,708 kg	24,112	0.01
Town gas – for machinery in GZXH	9,637 kg	80,093	0.04
Gasoline – for vehicles in three sites	29,767 L	263,785	0.12
Diesel – for machinery in GZXH, vehicles in GZXH and IPET	192,921 L	1,928,890	0.91
Group total		**59,543,124**	**28.13**

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

Electricity consumption (57,246,244 kWh) accounted for 96% of the total energy consumption during the Reporting Period, contributing to an overall intensity of 27.05 MWh/employee. Compared to the last Reporting Period, the rise in the amount of electricity consumed was mainly attributable to the increased production in DGKD and expanded production capacity in IPET. With the Group's dedicated efforts in reducing electricity usage, GZXH achieved a 3% reduction in electricity consumption compared to the last Reporting Period, leading to a 9% decline in the respective electricity intensity from 29.50 MWh/employee to 26.73 MWh/employee.

A. ENVIRONMENTAL (Continued)

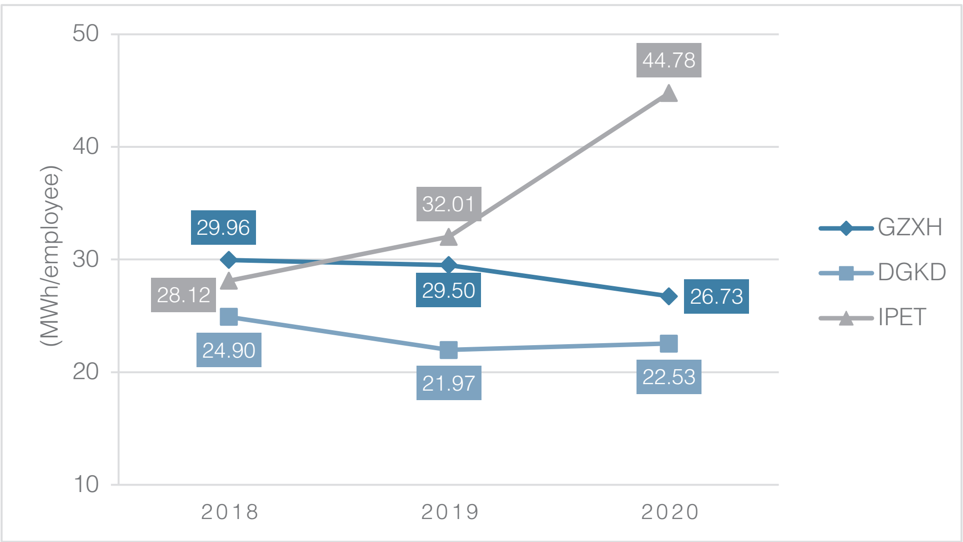
A2. Use of Resources (Continued)

A2.1 Energy Consumption (Continued)

Table 9: Electricity Consumption and Intensity

Operational sites	Consumption (kWh)	Intensity (MWh/employee)
GZXH	43,761,324	26.73
DGKD	8,066,040	22.53
IPET	5,418,880	44.78
Group total	57,246,244	27.05

Figure 3: Electricity Intensity in 2018-2020



A2.2 Water Consumption

The total water consumption for the Group was 481,761 m^3 (2019: 434,899 m^3) during the Reporting Period. Water used by all the Group's operating sites was sourced from municipal tap water for manufacturing and domestic purposes. No issues on sourcing water that is fit for purpose were reported during the Reporting Period. Overall, there was a 11% increase in the total water consumption, representing a rise of 4% in water intensity compared with the last Reporting Period.

A. ENVIRONMENTAL (Continued)

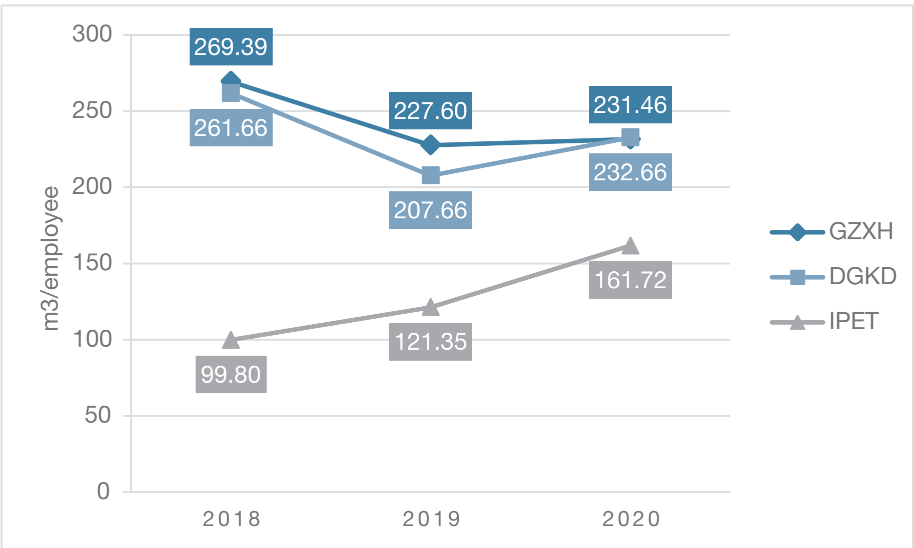
A2. Use of Resources (Continued)

A2.2 Water Consumption (Continued)

Table 10: Water Consumption and Intensity

Site	Water consumption (m^3)	Water intensity (m^3/employee)
GZXH	378,899	231.46
DGKD	83,294	232.66
IPET	19,568	161.72
Group total	481,761	227.68

Figure 4: Water Intensity in 2018-2020



Wastewater is mainly generated at various stages of production activities, including the use of ultrasonic cleaning machine, the cleaning of grinding machine, and the regular cleaning of workplaces. GZXH had upgraded its wastewater treatment facility with increased treatment capacity. Wastewater from the Group's operations in China is closely monitored to ensure compliance with the permissible level set by Emission Limit of Water Pollutants (DB44/26-2001) in Guangdong Province. Wastewater from IPET undergoes biological and chemical treatments. All the effluent samples were within the permissible level set by the Standard Methods for the Examination of Water and Wastewater, 22nd Edition during the Reporting Period.

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.3 Energy Use Efficiency Initiatives

With the full adoption of LED lighting across the production lines and office areas, less energy is consumed compared to traditional lighting and thus the overall energy efficiency is improved. On top of lighting retrofit, the Group has also adopted the following management measures to ensure the rational use of energy resources:

1. Saving electricity usage from air conditioning:
   - Make use of natural ventilation whenever possible;
   - Set temperature of air conditioner at no less than 26°C;
   - Switch off air conditioner at least 30 minutes before leaving;
   - Keep the windows and doors closed when the air conditioner is turned on; and
   - Clean the air conditioner regularly and improve energy efficiency;
2. Saving electricity usage from lighting:
   - Maximize daylight usage whenever possible;
   - Turn off unnecessary lighting in public areas (e.g., toilets);
   - Adopt energy efficient LED lighting across the offices for higher energy efficiency; and
   - Put up reminders and stickers near power switches to remind staff of energy conservation;
3. Saving electricity usage from office equipment:
   - Switch off unnecessary office equipment (e.g., computers, printers, photocopiers and fax machines) when not in use to reduce standby power consumption; and
   - Choose office equipment with energy efficiency labels to improve energy efficiency;

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.3 Energy Use Efficiency Initiatives (Continued)

4. Saving electricity usage from manufacturing processes:

    - Carry out daily inspection of equipment by designated engineers;
    - Switch off machinery/equipment that are not in use for a long period of time to reduce load;
    - Ensure the power sockets are maintained in safe condition, ensure the switch box is equipped with leakage circuit breaker and reinforce inspection by qualified electricians; and
    - Keep all the electrical distribution cabinets clean and clear, and perform regular inspection for equipment and wiring are to identify any hidden hazards.

A2.4 Water Use Efficiency Initiatives

The Group continuously conserves water and promotes the reuse of treated wastewater. The administration department is responsible for tracking the daily water usage. If employees are found to use water improperly, the Group will take disciplinary action accordingly.

The Group also puts up water-saving signs and raises employees' awareness of water-saving through water conservation training and posters. At GZXH, wastewater being treated on-site is reused as cooling water or for irrigation. At DGKD, 65% of wastewater was reused for production after on-site treatment, with the remaining discharged to the municipal wastewater pipelines. At IPET, water conservation practices have been implemented in both production lines and office.

The Group has implemented the following management measures to reduce water consumption and ensure rational use of water resources:

1. Saving water from production lines:

    - Optimize water reuse;
    - Prohibit the use of potable water for non-potable purposes, e.g., cleaning work; and
    - Reinforce daily inspection of all water systems and equipment; and repair leaking pipes promptly.

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

A2.4 Water Use Efficiency Initiatives (Continued)

2. Saving water from domestic use:

   - Ensure proper use of water resources in all departments;
   - Require employees who lived in staff dormitories to abide by the Dormitory Management Regulations on water saving;
   - Educate cleaning workers of the economic use of water in daily cleaning work and reuse water when appropriate; and
   - Enhance maintenance and repairs of pipelines, valves, joints, and fixtures to ensure any leakage and damage are repaired and/or replaced in time.

A2.5 Packaging Material

Packaging materials used by the Group were made from renewable resources (e.g., wood-based, paper, and pulp products) and non-renewable resources (e.g., plastic). The Group has not established formal policies on specifying recycled content of packaging materials. Nevertheless, the Group has been reusing paperboards for packaging and will explore opportunities for optimizing the use of packaging materials. As the volume of production and output increased, the Group consumed more packaging materials compared to the last Reporting Period. During the reporting period, the Group consumed approximately 222 tonnes of packaging materials for finished products (2019: 179 tonnes), contributing to an intensity of 0.60 kg/1,000-unit production.

Table 11: Packaging Materials Consumed

	Total amount (in kg)		
Types of packaging materials	**GZXH**	**DGKD**	**IPET**
Corrugated paperboards, plastic trays and plastic bags	90,640	10,074	19,894
Non-paper-based packaging (e.g., plastic pallets, string, silica gel)	70,060	10,629	20,461
Total packaging materials	160,700	20,703	40,355
Intensity (kg/1,000-unit production)	0.74	0.19	0.98

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. However, substantial amount of energy is consumed for production activities. The Group has implemented various management measures to enhance energy efficiency and regulate electricity consumption. The Group has also established a management policy for paper saving in the hope of promoting environmental conservation among employees.

The Group will continue to manage its air emissions, waste generation, wastewater discharge, and noise levels to ensure minimal impacts on the surrounding environment. With the establishment of the ESG committee, it is believed that continuous improvement on environmental protection can be achieved in the forthcoming years. The Group will implement more measures to reduce the impact on the environment and natural resources arising from business operations.

B. SOCIAL

1. Employment and labor practices

The Group strictly complies with national and local laws and regulations concerning employment and labor practices, including,

- Labor Law of the PRC
- Labor Contract Law of the PRC
- Law on the Protection of Minors
- Law on the Protection of Disabled Persons
- Law on Labor Unions of the PRC
- Labor 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 labor practices (Continued)

B1. Employment

The Group's Staff Management Manual clearly outlines detailed employment and labor-related policies, procedures and rules regarding recruitment, compensation and dismissal, promotion, holiday/paid/sick/compassionate leave, working attendance, remuneration and data protection. During the Reporting Period, GDXH shortened the working hours from 9 hours to 8 hours a day.

Employee Profile and Turnover

As of 31 December 2020, the Group had a total number of 2,116 employees (2019: 1,996 employees), of which GZXH, DGKD, and IPET had 1,637, 358 and 121 employees respectively. There was no major change in the employment structure compared with the last Reporting Period. The Group continued to hire part-time employees, as part of the employment strategies, to counterbalance the unstable workforce while maintaining a certain production capacity at the same time.

Table 12: Employment Data by Employment Type, Category, Contract Type, Age Group, Gender and Region

	GZXH	DGKD	IPET	Total (no. of employees, %)
Total number of employees	1,637	358	121	2,116, 100%
Employment type				
Full-time	1,391	278	121	1,790, 85%
Part-time	246	80	–	326, 15%
Employee category				
Senior management	6	1	1	8, <1%
Middle management	21	17	4	42, 2%
Frontline and other staff	1,610	340	116	2,066, 98%
Age group				
18-25	327	65	11	403, 19%
26-35	541	108	25	674, 32%
36-45	427	81	67	575, 27%
46-55	317	90	17	424, 20%
56 or above	25	14	1	40, 2%
Gender				
Male	954	211	37	1,202, 57%
Female	683	147	84	914, 43%
Region				
Mainland China	1636	358	1	1,995, 94%
Thailand	–	–	120	120, 6%
Others (e.g., Hong Kong, Macau, and Taiwan)	1	–	–	1, <1%

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B1. Employment (Continued)

Table 13: Employment Data of Permanent Employees by Category, Age Group, Gender and Region

	GZXH	DGKD	IPET	Total (no. of employees)
Total employees with indefinite or permanent contract[1]	251	93	121	465
Employee category				
Senior management	3	1	1	5
Middle management	17	17	4	38
Frontline and other staff	231	75	116	422
Age group				
Below 30	6	1	13	20
≥ 30 and <50	195	57	101	353
≥ 50	50	35	7	92
Gender				
Male	177	63	37	277
Female	74	30	84	188
Region				
Mainland China	250	93	1	344
Thailand	–	–	120	120
Others (e.g., Hong Kong, Macau, and Taiwan)	1	–	–	1

Note 1: Permanent contract is defined as a permanent employment contract with an employee, for full-time or part-time work, for an indeterminate period.

During the Reporting Period, a total of 902 employees left the Group, with an annual staff turnover rate[1] of 43%. Similar to the last Reporting Period, employees who left the Group were mainly frontline staff, which is a common phenomenon in the manufacturing industry, especially for Mainland China.

[1] Employee who leaves the Group within a month is not counted.

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B1. Employment (Continued)

Table 14: Total Turnover Rate by Employment Category, Age Group, Gender and Region

Turnover rate by employee category	
Senior management	–
Middle management	7%
Frontline and other staff	44%
Turnover rate by age group	
18-25	69%
26-35	40%
36-45	30%
46-55	33%
56 or above	93%
Turnover rate by gender	
Male	44%
Female	41%
Turnover rate by region	
Mainland China	45%
Thailand	6%

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B1. Employment (Continued)

Table 15: Turnover Breakdowns by Operation

	GZXH	DGKD	IPET	Total
Total number of employees leaving employment in 2020 (no. of employees)	666	229	7	902
Turnover rate	41%	64%	6%	43%
Employees leaving employment by employment types (no. of employees)				
Full-time	491	93	7	591
Part-time	175	136	0	311
Employees leaving employment by employee category (no. of employees)				
Senior management	–	–	–	–
Middle management	3	–	–	3
Frontline and other staff	663	229	7	899
Employees leaving employment by age group (no. of employees)				
18-25	205	70	2	277
26-35	211	60	–	271
36-45	120	50	5	175
46-55	103	39	–	142
56 or above	27	10	–	37
Employees leaving employment by gender (no. of employees)				
Male	394	130	1	525
Female	272	99	6	377
Employees leaving employment by region (no. of employees)				
Mainland China	666	229	0	895
Thailand	0	0	7	7

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B1. Employment (Continued)

Employee Recruitment and Retention Strategy

The Group attaches great importance to the recruitment and retention of high-caliber employees as well as attraction of the human resources that are valuable to the Group. The Group's recruitment procedure is guided by relevant laws and regulations including the Labor Law of the PRC. Employees are selected and recruited in an impartial, just and open manner, which is based upon objective criteria such as the professional qualifications and skill sets needed for the positions. Recruitment plan targeted at recruiting recent graduates is strategically developed to attract highly-motivated candidates. During the Reporting Period, the Group had recruited a total of 8 senior management.

To nurture and retain talents, the Group provides supportive promotion channels for employees. The Group recognizes outstanding employee performance by means of formal appraisal reviews. In addition, the Group has built close partnerships with local colleges and universities in the cultivation of high-caliber talents. Currently, in Guangzhou, the Group has established school-enterprise corporations in the form of talents cultivation programs with Tsinghua Shenzhen International Graduate School, Lanzhou University of Technology, Zhejiang University, Yanshan University, Guangdong Polytechnic Normal University, Xinhua College of Sun Yat Sen University, Guangzhou College of South China University of Technology, Guangzhou Huali Technician College and Guangzhou Electromechanical Technician College.

Competitive Compensation and Benefits Package

The Group provides competitive remuneration and benefits to employees. The Group follows the principle of pay equity and reviews the market information regularly to set up the competitive pay levels. In addition to basic wages, employees are provided with attractive benefit package, including training subsidies, discretionary performance bonuses and an extensive range of leave entitlements. The Group provides social insurance and provident funds according to local government regulations for the PRC employees who have signed formal employment contracts with the Group. At GZXH and DGKD, high-temperature subsidies are given to workers exposed to outdoor temperatures.

Respect for Freedom of Association and Protection of Labor Rights

At IPE, all employees enjoy the freedom to take part in trade unions and collective bargaining. During the Reporting Period, 85% of the total employees had been covered by collective negotiation agreements. The Group communicates any major operational and business changes to its employees through written and verbal channels. The employees and their representatives will be informed at least three weeks before the change come into effect.

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B1. Employment (Continued)

Respect for Freedom of Association and Protection of Labor Rights (Continued)

Table 16: Labor & Management Relations

	Unit	GZXH	DGKD	IPET
Number of total employees covered by collective bargaining agreements	no. of employees	1,391	286	121
Percentage of total employees covered by collective bargaining agreements	%	85%	80%	100%
Minimum lead time for notifying employees of significant operational changes	week	3	4	3

Employee Relations

The Group utilizes multimedia channels, e.g., WeChat public account and Douyin, to publish useful information and company events. Recreational and cultural activities are organized at different operations to strengthen employees' sense of belonging at the workplace. The Group provides birthday gifts to employees during their birthday months. At GZXH, Chinese Chess games, badminton games, basketball games and gala dinner were held during the Reporting Period, which received positive feedbacks from the employees. With the official launch of the IPE College of Engineering in GZXH, various cultural and sports clubs have been formed, and different classes (e.g., yoga class) have been held to enrich employees' lives outside of the work. During the Reporting Period, the Group changed the cafeteria vendors so as to improve catering service and employees' dining experience at the staff canteen.

Equal Opportunity and Anti-discrimination

The Group strives to creating an inclusive working environment where its employees are treated equally and justly. The Code of Conduct, equal opportunity policy and anti-discrimination practices as stipulated in the Staff Management Manual, safeguards employees' legitimate rights and protects them from discrimination against gender, nationality, ethnic background, religion, political affiliation, age, etc. Equal opportunity is provided to all employees in respect of promotion, appraisal, training, development and other aspects. Compared to the last Reporting Period, the ratios of basic salary of women to men for GZXH and DGKD varied by employee categories. The Group promotes gender equality and has achieved 12.5% female representation amongst management positions during the Reporting Period.

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B1. Employment (Continued)

Equal Opportunity and Anti-discrimination (Continued)

Table 17: Incidents of Discrimination Reported

	GZXH	DGKD	IPET
Total number of incidents of discrimination reported by employees in 2020	0	0	0

Table 18: Ratio of Basic Salary of Women to Men

	GZXH	DGKD	IPET
Employee category			
Senior management	n/a, only male employees	n/a, only male employees	1.09
Middle management	0.78	0.81	n/a, only female employees
Frontline and other staff	0.86	0.93	0.98

Table 19: Diversity of Governance Bodies and Employees

	GZXH	DGKD	IPET	Total
Diversity (for governance bodies)				
Governance bodies by age group				
below 30	–	–	–	–
≥30 and <50	3	1	1	5
≥ 50	3	–	–	3
Governance bodies by gender				
Male	6	1	–	7
Female	–	–	1	1
Governance bodies by minority groups				
Chinese ethnic – Han	6	1	n/a	7
Chinese ethnic – non-Han	–	–	n/a	–
Diversity (for all employees)				
Chinese ethnic – Han	1,510	315	n/a	1,825
Chinese ethnic – non-Han	127	43	n/a	170

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B2. Employee Health and Safety

Due to the business nature, the Group put great emphasis on providing a safe and accident-free working environment to employees. The Group strictly follows relevant laws and regulations including the Prevention and Control of Occupational Diseases Law of the PRC, the 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.

The levels of workplace noise and indoor air pollutants (dust and chemical) at designated sensitive receivers are monitored regularly to ensure that they are controlled within the acceptable levels of relevant national and local laws and regulations. To protect frontline workers from exposure to these occupational hazards, the Group provides adequate personal protective equipment to all frontline workers working at assembly lines.

During the Reporting Period, IPET passed the lighting requirements for production activities set out in the Light Intensity Standard B.E. 2560 (2018) under the Department of Labor. Adequate lighting with sufficient illumination levels is provided and maintained in the workplace.

In terms of traffic management, GZXH keeps pedestrians and vehicles apart by providing separate entry and exit gateways for pedestrians and vehicles. To ensure pedestrian safety, the Group regulates the use of forklifts within the plants during rush hours.

The Emergency Evacuation Management Procedure provides contingency plans and emergency procedures for foreseeable workplace emergencies. The Fire Control Equipment Management Procedure describes the arrangements for effectively managing fire safety throughout the manufacturing processes. The administration department organizes fire drills every year to ensure that all employees are familiar with the evacuation routes in emergency situations. Additionally, the Group inspects fire protection systems regularly to ensure their compliance with the latest industry requirements. Both GZXH and DGKD are awarded the Safety Production Standardization certifications since 2019. Compared with the last Reporting Period, DGKD has made substantial improvements in OHS performance, achieving zero accidents, injuries, and occupational diseases. No fatalities of the Group's employees have been recorded in the last three reporting years.

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B2. Employee Health and Safety (Continued)

Table 20: Number of Work-Related Fatality, Injury Cases, Lost Days, Occupational Disease and Absentee Rate

Occupational safety and health data	GZXH	DGKD	IPET	Group-total
Total working hours (hrs) by all workforce	3,693,072	1,091,880	742,560	5,527,512
No. of work-related fatality	0	0	0	0
Total lost days	448	–	–	448
Lost day rate (LDR)	24.26	–	–	16.21
Number of work-related injuries	48	0	0	48
Injury rate (IR)	2.60	–	–	1.74
Number of occupational diseases	0	0	0	0
Occupational diseases rate (ODR)	–	–	–	–
Absentee rate (AR)	0.07%	–	–	0.06%

Our Responses to COVID-19

During the outbreak of COVID-19 pandemic, the Group is highly conscious of the potential health and safety impacts brought to its employees. The Group has put in place a suite of anti-epidemic measures to prevent the spread of the virus. Apart from strengthening the sanitation across the operations, precautionary measures including temperature screening before entering the workplace, and provisions of disinfection supplies such as face masks and hand sanitizers are also implemented.

During the time when business travel is restricted, employees meet with clients via teleconferencing and videoconferencing tools so as to maintain social distancing. Moreover, the Group has enforced restrictions on dine-in services and other hygiene measures at staff canteens to avoid close contact between employees.

B3. Development and Training

The Group's overall training and development strategy focuses on nurturing talents through well-structured internal and external training programs. Training needs analysis is conducted to understand the overall organization goals and priorities and to determine development needs of various levels and departments across the Group. The Group arranges training according to monthly training plans, learning outcomes of which are assessed for continuous program improvement.

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B3. Development and Training (Continued)

Internal training courses ranging from core competency, management skills to professional competency development are conducted for employees to enhance their capabilities and increase production efficiency. External training is arranged for employees with special duties to enhance the overall competitiveness of the Group in the industrial electronics sector. For employees who are in management roles, the Group also provides general, research and development, production and quality assurance trainings according to their functions.

The Group did not have collaborations with educational institutions during the Reporting Period. Nevertheless, GZXH continues to encourage employees to pursue further studies and fully support their applications for local government funding, including the continuing education grant available for workers offered by Guangdong Provincial Federation of Trade Unions.

Establishment of IPE Engineering Institute

The Group continuously invests resources in internal talent development. In 2020, the Group set up the IPE College of Engineering (the "IPE College") in GZXH to develop industry talents to cope with the business development planning. The Institute serves as an incubator for talent cultivation, which provides diversified training opportunities for key employees to enhance core and professional competencies. More than 1,600 of the Group's employees completed the training during the Reporting Period.

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B3. Development and Training (Continued)

Establishment of IPE Engineering Institute (Continued)

Employees from various positions and departments, such as managers, engineers, and senior technicians, are empowered through instructor-led training and practical training sessions hosted by the Institute. A credit-based approach is adopted where learners are required to complete a minimum of 20 course credits each year. Though the establishment of the Institute, the Group nurtures high-quality future talents in order to support the development of the organization to achieve business transformation.

As of 31 December 2020, the Group provided over 8,400 training hours for a total of 1,739 employees (inclusive of employees who have left the Group during the Reporting Period). The average training hours per employee was 4.22 hours.

Table 21: Number of Employees who Received Training and Average Training Hours Completed

Training data	GZXH	DGKD	Total[1]
Total number of trained employees	1,609	130	1,739
Total training hours for all employees	7,678	748	8,426
Average training hours per employee	4.69	2.09	4.22
By employee category			
Senior Management	6	0	6
Average training hours per employee	3.50	0	3.00
Middle Management	28	14	42
Average training hours per employee	7.95	9.88	4.39
Frontline and other Staff	1,575	116	1,691
Average training hours per employee	4.65	1.71	3.84
By gender			
Male	1,103	88	1,191
Average training hours per employee	5.81	2.45	4.83
Female	506	42	548
Average training hours per employee	3.13	1.57	2.68

Note 1: Training data for IPET was not available since training sessions were cancelled because of the COVID-19 pandemic. IPET was excluded from the calculation.

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B3. Development and Training (Continued)

Establishment of IPE Engineering Institute (Continued)

Table 22: Percentage of Employee Who Received Training

	GZXH	DGKD	Total[1]
Total percentage of trained employee	98%	36%	87%
By employee category			
Senior Management	100%	0%	86%
Middle Management	133%	82%	74%
Frontline and Other Staff	98%	34%	81%
By gender			
Male	116%	42%	102%
Female	74%	29%	66%

Note 1: Training data for IPET was not available since training sessions were cancelled because of the COVID-19 pandemic. IPET was excluded from the calculation.

B4. Labor Standards

Child and forced labor are strictly prohibited within the Group. The Group strictly observes applicable laws and regulations regarding employment and labor standards, such as the Labor Law of the PRC, the labor Contract Law of the PRC, the Law on the Protection of Minors, and the Labor Protection Act B.E. 2541 of Thailand.

The Group has set the minimum age requirements and developed an identification system and control measures to avoid employment of child labors at all operating sites. The administration department stringently verifies candidates' identities such as identity cards during the recruitment process. Concepts relating to labor standards are covered in new employee orientation. For candidates employed for key functions, i.e., management and executive positions, the Group specifically conducts background screenings to confirm the validity of their personal credentials such as criminal record, education, employment history and other past activities.

B. SOCIAL (Continued)

1. Employment and labor practices (Continued)

B4. Labor Standards (Continued)

At IPE, employees only work overtime voluntarily and when needed. The Group prohibits any punishments, management methods and behaviors involving verbal abuse, physical punishment, physical abuse, oppression, sexual harassment, etc. against its employees for any reasons. If a violation is found, the Group will terminate the employment of the concerned persons immediately and take necessary disciplinary action against anyone who is in breach of any applicable laws and regulations. Root cause analysis will be conducted with corrective measures taken to prevent recurrence.

No non-compliance with relevant laws and regulations relating to preventing child and forced labor had been identified during the Reporting Period. There were no major risks associated with incidents of child and forced labor within the Group's operation sites.

2. Operating Practices

B5. Supply Chain Management

The Group aims to grow together with its supply chain partners to strengthen and implement sustainable supplier management. To achieve this goal, the Group has established the Suppliers and Purchasing Management Procedure for monitoring and evaluating the business operations of suppliers. The Group conducts regular inspections and assessments to ensure that suppliers comply with the Supplier Code of Conduct and that they have implemented safety management rules as required by the Agreement on Trade Security ("Agreement"). The Agreement also sets out ethical and legal obligations which prohibits suppliers from engaging in smuggling, selling counterfeit products, commit, or intend to commit tax evasion, and bribery activities.

DGKD has a stringent supplier evaluation procedure to assess supply chain risks and select suppliers. On top of operational performance (price, quality, manufacturing capability, customer service, etc.), the Group also considers suppliers' sustainability performance, specifically in areas relating to regulatory compliance, environmental management system, ethical practice and conduct, as well as health and safety. Any supplier with an overall score of no more than 14 points in the following two categories is considered to have passed the risk assessment.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B5. Supply Chain Management (Continued)

Table 23: Environmental Risk Assessment in Supplier Selection

Raw materials risk management	Holding excess inventory of high-risk materials	Yes: 1; No: 0
	Developing control procedures for high-risk materials	Yes: 0; No: 1
	Complying with applicable standards for environmental assessment for high-risk materials	Yes: 0; No: 1
	Accident(s) associated with raw materials occurred in the past five years	Yes: 1; No: 0
Environmental management system	Holding valid pollutants discharge permits	Yes: 0; No: 1
	Certified to the ISO 14001 standard	Yes: 0; No: 1
	Holding materials of high toxicity	Yes: 1; No: 0
	Following disposal limits for solid waste set forth in applicable laws/regulations	Yes: 0; No: 1

Clauses related to human rights or human rights screening are included in some of the IPET's investment agreements to safeguard employee rights along the supply chain and promote an inclusive work environment that is free of discrimination.

Table 24: Investment and Procurement Practices in IPET

Total number of significant investment agreements that include human rights clauses or that underwent human rights screening	161 agreements
Percentage of significant investment agreements that include human rights clauses or that underwent human rights screening	90%
Total number of significant suppliers and contractors	179 suppliers
Percentage of contracts with significant suppliers and contractors that included criteria or screening on human rights	10%
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	–

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B5. Supply Chain Management (Continued)

The Group reviews suppliers' environmental practices regularly to ensure they perform in accordance with relevant environmental laws and other regulations. GZXH and DGKD conducts audits for suppliers to verify their environmental permits on an annual basis. The Group continued to source raw materials from key suppliers located in the Organization for Economic Co-Operation and Development ("OECD") regions. During the Reporting Period, the Group had engaged a total of 767 suppliers, with nearly 70% of semi-finished products and auxiliary materials were procured from Mainland China suppliers.

Table 25: Number of Major Suppliers by Geographical Region/Country

Country/region	GZXH	DGKD	IPET	Total
Mainland China	440	86	5	531
Hong Kong, Macau, and Taiwan	19	1	5	25
Thailand	–	0	145	145
Europe	27	0	5	32
Other countries in Asia	13	0	5	18
Others	11	1	4	16
Total	510	88	169	767

B6. Product Responsibility

Product Labelling, Health and Safety, and Advertising

To ensure product health and safety, GZXH carries out strict inspections from the stage of raw materials procurement to ensure that incoming electronic components meet the environmental regulation/requirements of the Restriction of Hazardous Substances (RoHS) of the European Union. GZXH also submits an International Material Data System (IMDS) report to their customers to demonstrate product compliance.

Due to the nature of our products, the Group does not adopt specific programs related to marketing communications, including advertising, promotion, and sponsors. Neither the Group nor its products were banned from entry into any market during the Reporting Period. There was no product recalled due to safety and health reasons and no non-compliance with relevant laws and regulations that have a significant impact on the Group relating health and safety, advertising, labelling and privacy matters relating to products and services provided had been identified during the Reporting Period.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B6. Product Responsibility (Continued)

Quality Assurance

As one of the top component suppliers in the high-end automotive industry, the Group pursues the highest quality standards and some of our production base has obtained the ISO 9001:2015 Quality Management System certification since 2008.

The Group adopts a systematic quality management approach to ensure strict quality control at the earliest stage, from raw material acquisition, first article production, mass production, quality assessment, to sales and after-sale service. Striving to maintain the highest standard of product quality, the Group carries out continuous supervision of manufacturing processes and stringent quality assessment on the incoming raw materials, the first article, semi-products and finished products. Compared with the last Reporting Period, GZXH and IPET has achieved a 0.29 and 2.44 percentage point decrease in respect of product recalls due to non-health and safety reasons respectively.

Table 26: Product Recalls due to Non-Health and Safety Reasons

Product Responsibility	GZXH	DGKD	IPET
Total monetary value of significant fines	0	0	0
Total number of product recalls	281,385 PCS	1,178,815 PCS	30,357 PCS
Percentage of product recalls	0.13%	1.07%	0.06%
Total monetary value lost due to product recalls	RMB1,384,016	RMB537,136	THB290,009

Customer Service

The Group has established clear protocols and operational procedures for dealing with customer issues. Especially in DGKD, a handling procedure involving combination of the 8D method and the 5 Whys method, is adopted in the handling of customer complaints. Overall, the Group received 4 complaints during the reporting period; all complaints were closed and resolved through the robust complaints handling procedures. The quality assurance department also implemented corrective and preventive actions to prevent recurrence.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B6. Product Responsibility (Continued)

Data Protection and Information Security

The Group regards data privacy and cybersecurity as one of the important issues of the business. The Information Technology ("IT") Department is responsible for the privacy and security of the information system of the Group. IT personnel carries out regular assessment and maintenance of equipment and support tasks to identify and address potential threats effectively. The Group strictly follows relevant laws and regulations and has well-established technical schemes, policies, procedures, and control measures governing customer data privacy, document control, asset management, storage control, security incident management, and regulatory compliance.

The Information Security Accountability Management Policy aims to ensure the privacy and security of data owned by the Group and business partners. Under the Information Security Management Policy, employees are required to follow procedures and rules governing the use of computer network and assets as well as the handling of confidential information for the stable and reliable operation of the information system. The Policy also provides standard procedures for dealing with departing employees to prevent information leaks.

To prevent the damage of important information due to vandalism, natural disasters, or accidental damage, the Group performs data backup every day and stores all the backup files securely on external servers. To reduce cybersecurity risks, the IT Department has established internet firewalls, anti-virus systems and internet authorization systems, and performed software and system updates as necessary.

Confidentiality clauses have been set out in the Staff Management Manual, which stipulates that any misuse or wrongful disclosure of confidential information to third parties is strictly prohibited. In the event of data tampering, change of business data, or data leakage, the employee will be subject to disciplinary actions and the acts might be reported to relevant authority. No non-compliance with laws and regulations in relation to confidentiality and data protection that have a significant impact on the Group was recorded during Reporting Period.

Research and Development

Innovation continues to play a key role in achieving business success. The Group utilizes its advantages and resources in R&D to continuously develop advanced automotive and hydraulic products that can boost sales to strengthen the leading position of the Group in the industry.

The investment in the R&D on industrial robots has begun to pay off and the robotic products are expected to be launched to the market soon. Specifically, the Group is now at the initial stage of launching harmonic gear/drive to the market. Through the expansion of automotive products into the emerging domestic market as well as the integration of automation and robotic technologies in manufacturing, the Group's technological competence has been highly recognized in the industry and has now become the designated supplier of BYD, which is one of the top automakers in China.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B6. Product Responsibility (Continued)

Intellectual Property

The protection of intellectual property rights (the "IPR") is core to the operation of a healthy marketplace. To this end, the Group has implemented a series of internal measures to protect the IPR owned by the Group and third-party organizations. The IPR Policy regulates the implementation, maintenance and continuous improvement of the Group's management on IPR and was in compliance with the Trademark Law of the PRC, the Patent Law of the PRC and the Copyright Law of the PRC. Besides, the Work Instruction on Confidentiality established by the Group governs the purpose of collection, management and deletion of confidential information and specifies the relevant responsibilities of the top management and all relevant departments.

The Group signs a confidentiality agreement with clients when appropriate to protect their IP rights. The right handling of confidential information is clearly regulated in the employment contract, which guides all employees to better verify any possible violation act of its IP rights and take immediate steps to safeguard the Group's legitimate rights and interests. To raise the awareness of IP protection among employees, the Group provided IPR training to employees in key functions to avoid potential IP infringement.

The Group has consistently invested in patent applications for new designs and technologies at the State Intellectual Property Office of the PRC since the early stages of its establishment. As of 31 December 2020, the Group had obtained an officially registered trademark and a total of 61 issued patents. During the Reporting Period, the Group has successfully granted an officially registered trademark and a total of 14 new patents, including 12 new utility model patents and 2 design patents.

B7. Anti-corruption

The Group regards honesty, integrity, and fairness as its core values. The Group's ethical standards are clearly set out in the Code of Conduct and Ethics, which requires all business activities to be operated with high level of integrity. The Anti-corruption Policy stipulates that all employees of the company or subsidiaries, and all affiliated companies including contractors and subcontractors are forbidden to support, engage in or tolerate bribery or any other form of corruption. The Group reviews policies and procedures regularly to detect irregularities and identify risks in a timely manner.

B. SOCIAL (Continued)

2. Operating Practices (Continued)

B7. Anti-corruption (Continued)

At GZXH, the Important Notice on the Prohibition of Corruption and Bribery strictly prohibits any corrupt acts, practices and activities, including,

- 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.

Employees involved in import and export activities are monitored through the internal accountability system. The Group maintains business ethics by signing the Agreement on Trade Security with business partners. Any employee found engaging in unethical behaviors, or in violation of the Code of Conduct, laws and regulations will be subject to disciplinary actions; and reported to law enforcement authorities depending on the nature of the case.

During the Reporting Period, the Group had not violated any laws or regulations relating to bribery and corruption; the Group had not involved in or seek to engage in money laundering. The Group had 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 is devoted to creating sustainable values for the communities through volunteering opportunities and donations. The Group also encourages employees to give back to the community by reaching out to the community and participating in voluntary activities.

Table 27: Donations and Community Activities

Date	Activities	Collaborator(s)
January 2020	During the Chinese New Year, DGKD made a donation of RMB 14,100 to the Dongguan Shijie Huangsiwei Village Committee to support community activities for the elderly.	Local government
November 2020	The Group was invited to introduce the newly enacted Civil Code of the People's Republic of China in the activity held by the Guangzhou New Social Stratum Association and the Guangzhou Federation of Industry and Commerce.	– Guangzhou New Social Stratum Association – Guangzhou Federation of Industry and Commerce

APPENDIX – HKEX ESG REPORTING GUIDE INDEX

General Disclosures and KPIs	Description	Page/Table/ Figure
A.Environmental		
Aspect A1: Emissions		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Page 40-41
KPI A1.1	The types of emissions and respective emissions data.	Page 41-42, Table 2&3
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity.	Page 42, Table 4, Figure 2
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity.	Page 44, Table 5
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Page 45, Table 6, Table 7
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Page 47
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Page 47
Aspect A2: Use of Resources		
General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Page 48, 50
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Page 48, Table 8, Figure 3
KPI A2.2	Water consumption in total and intensity.	Page 49, Table 10, Figure 4
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Page 51-52
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 52-53
KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Page 53, Table 11
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Page 54
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Page 54

General Disclosures and KPIs	Description	Page/Table/ Figure
B.Social		
Employment and Labor Practices		
Aspect B1: Employment		
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 54,59-60
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Page 55, Table 12
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Page 56, Table 14, Table 15
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Page 62
KPI B2.1	Number and rate of work-related fatalities.	Table 20
KPI B2.2	Lost days due to work injury.	Table 20
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Page 62-63
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Page 63-65
KPI B3.1	The percentage of employees trained by gender and employee category.	Table 22
KPI B3.2	The average training hours completed per employee by gender and employee category.	Table 21
Aspect B4: Labor Standards		
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 preventing child or forced labor.	Page 66-67
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	Page 66-67
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Page 67

General Disclosures and KPIs	Description	Page/Table/ Figure
Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Page 67
KPI B5.1	Number of suppliers by geographical region.	Table 25
KPI B5.2	Description of practices relating to engaging supplies, number of supplies where the practices are being implemented, how they are implemented and monitored.	Page 67-69
Aspect B6: Product Responsibility		
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 health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Page 69
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Page 69
KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	Page 70
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Page 72
KPI B6.4	Description of quality assurance process and recall procedures.	Page 70
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Page 71
Aspect B7: Anti-corruption		
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 bribery, extortion, fraud and money laundering.	Page 72-73
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Page 73
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Page 73
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Page 74
KPI B8.1	Focus areas of contribution.	Page 74
KPI B8.2	Resources contributed to the focus area.	Table 27

REPORT OF THE DIRECTORS

The board of directors (the "Board") of IPE Group Limited (the "Company") is pleased to present this report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020.

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 2020 and the Group's financial position at the date are set out in the financial statements on pages 98 to 101.

The Board does not recommend the payment of a final dividend (2019: 0.5 cents per ordinary share) in respect of the year ended 31 December 2020.

CLOSURE OF REGISTER OF MEMBER

The register of members of the Company will be closed from Wednesday, 16 June 2021 to Monday, 21 June 2021 (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 2021 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 Tuesday, 15 June 2021 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.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to environmental and social sustainable development in the long term. For the year ended 31 December 2020, the Group strictly complied with all applicable environmental and social laws, regulations, and standards. Technological advancement, especially the newly deployed industrial robots and operation automation, continues to assist the Group to build long-term business resilience. Specifically, the Group continues to improve operational efficiency with the aims to further reduce resource consumption and prevent workplace injuries. Engagement with stakeholders has resulted in raised concerns on various material issues, which include occupational health and safety, product/service quality, data protection, labor standards and development and training. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing management on environmental, social and governance.

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 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 RELATIONSHIP 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. 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 quality. The Group has management procedure to evaluate, manage, control and monitor the business operations of suppliers. 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.

REPORT OF THE DIRECTORS

FIVE YEAR FINANCIAL SUMMARY

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 this annual report.

PRINCIPAL PROPERTIES

Details of principal properties held for development and/or sale and for investment purposes are set out in note 10 of this annual report.

SHARES ISSUED IN THE YEAR

As at 31 December 2020, the total number of issued shares of the Company was 1,052,254,135. No share was issued during the year.

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 2020.

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 2020, 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$1,344,062,000. The Company's share premium account and contributed surplus, amounting to HK$462,243,000 at 31 December 2020, 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 totaling HK$251,484 (2019: HK$251,394).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 33% of the total sales for the year and the sales to the largest customer included therein amounted to 9.3%. Purchases from the Group's five largest suppliers accounted for 26.5% of the total purchases for the year and purchases from the largest supplier included therein amounted to 7.6%. None of the directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the number of issued shares of the Company) had any beneficial interests in the Group's five largest customers and suppliers.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Zeng Guangsheng
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

According to Article 87 of the Articles of Association, Mr. Ng Hoi Ping, Mr. Yang Rusheng and Mr. Cheung Chun Yue Anthony, shall retire by rotation and, being eligible, offer themselves for re-election at 2021 AGM.

Ms. Zeng Jing and Mr. Chen Kuangguo are non-executive directors and were appointed for one-year and three-year terms respectively.

Mr. Yang Rusheng, Mr. Cheung, Chun Yue Anthony, Mr. Mei Weiyi and Mr. Xu Bing are independent non-executive directors and were appointed for one-year term.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

No director proposed for re-election at the 2021 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.

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 104,300,000 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 10,775,413 shares, representing approximately 1.02% 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.

(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.

SHARE OPTION SCHEME (Continued)

(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.

Further details about the 2011 Scheme are disclosed in note 19 to the financial statements.

SHARE OPTION SCHEME (Continued)

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

Name or categories of participant	Number of share options: At 1 January 2020	Granted during the year	Exercised during the year	Expired/ lapsed during the year	Forfeited/ cancelled during the year	At 31 December 2020	Date of grant of share options[(1)(2)]	Exercise period of share options	Exercise price of share option[(3)] (HK$ per share)
Directors									
Mr. Zeng Guangsheng[(4)]	22,000,000	–	–	–	–	22,000,000	05-06-17	01-09-18 to 31-08-22	2.0200
	–	20,000,000	–	–	–	20,000,000	03-04-20	01-03-21 to 28-02-26	0.9000
Mr. Ng Hoi Ping	10,000,000	–	–	–	–	10,000,000	05-06-17	01-09-18 to 31-08-22	2.0200
	–	10,000,000	–	–	–	10,000,000	03-04-20	01-03-21 to 28-02-26	0.9000
Ms. Zeng Jing	8,000,000	–	–	–	–	8,000,000	05-06-17	01-09-18 to 31-08-22	2.0200
	–	5,000,000	–	–	–	5,000,000	03-04-20	01-03-21 to 28-02-26	0.9000
Mr. Chen Kuangguo	–	5,000,000	–	–	–	5,000,000	03-04-20	01-03-21 to 28-02-26	0.9000
Subtotal	40,000,000	40,000,000	–	–	–	80,000,000			
Employee in aggregate	–	12,300,000	–	–	–	12,300,000	03-04-20	01-03-21 to 28-02-26	0.9000
A supplier	–	2,000,000	–	–	–	2,000,000	03-04-20	01-03-21 to 28-02-26	0.9000
Subtotal	–	14,300,000	–	–	–	14,300,000			
Total	40,000,000	54,300,000	–	–	–	94,300,000			

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

(1) The closing price of the Company's shares at the date of grant of share options was HK$0.73 per share. The fair value of the options granted on 3 April 2020 was determined at the date of grant using the binominal option pricing model and was approximately HK$11.4 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 April 2020, which exceeded the individual limit, was approved by the independent shareholders at the Company's annual general meeting held on 12 June 2020, pursuant to the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2020, the interests and short positions of the directors and chief executive of the Company, in the shares, underlying shares and debentures of the Company and its associates (within the meaning of Part XV of the Securities of Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(A) Long positions in the underlying shares of Company – physically settled unlisted equity derivatives:

Name of director	Capacity and nature of business	Number of underlying shares in respect of the share options granted	Percentage of underlying shares over the Company's issued share capital as at 31 December 2020*
Mr. Zeng Guangsheng	Directly beneficially owned	42,000,000	3.99%
Mr. Ng Hoi Ping	Directly beneficially owned	20,000,000	1.90%
Ms. Zeng Jing	Directly beneficially owned	13,000,000	1.24%
Mr. Chen Kuangguo	Directly beneficially owned	5,000,000	0.48%

* The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2020.

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS (Continued)

(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 interest	Number of ordinary shares in China Baoan Group	Percentage of China Baoan Group's issued share capital
Mr. ZENG Guangshen	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 2020, none of the directors or chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Information on the accounting policy for share options granted and the weighted average value per option is provided in 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.

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

As at 31 December 2020, as far as the directors of the Company are aware, the following parties (not being directors or chief executive of the Company) with interests of more than 5% in shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the ordinary shares of the Company:

Name of substantial shareholder	Notes	Capacity and nature of interests	Number of ordinary shares in the Company	Percentage of the Company's issued share capital at 31 December 2020*
Baoan Technology Company Limited 寶安科技有限公司 ("Baoan Technology")		Directly beneficially owned	565,606,250	53.75%
China Baoan Group Co., Ltd. 中國寶安集團股份有限公司 ("China Baoan Group")	(a)	Through controlled corporation	565,606,250	53.75%
Tottenhill Limited		Directly beneficially owned	167,966,975	15.96%
Mr. Chui Siu On	(b)	Through controlled corporation	167,966,975	15.96%
		Directly beneficially owned	14,576,250 (c)	1.39%
	(d)	Through spouse	125,000	0.01%
		Total:	182,668,225	17.36%
Ms. Leung Wing Yi	(e)	Directly beneficially owned	125,000	0.01%
		Through spouse	182,543,225 (c)	17.35%
		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 2020.

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

Notes:

(a) These shares were held by Baoan Technology. Baoan Technology is a wholly owned entity of China Baoan Group. Accordingly, China Baoan Group was deemed to be interested in the 565,606,250 shares of the Company owned by Baoan Technology pursuant to Part XV of the SFO.

(b) These shares were held by Tottenhill Limited. Tottenhill Limited is wholly owned by 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 2020, 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 of the Company" 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 2020. KPMG shall retire at the 2021 AGM and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of KPMG as auditors of the Company will be proposed at the 2021 AGM.

REPORT OF THE DIRECTORS

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
26 March 2021

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 98 to 166, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, 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 2020 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 121.

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. For direct sales, 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. For consignment sales, once the products are withdrawn from consignees' warehouse, the control of the goods is considered to have been transferred and revenue is recognised at that point. 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 contracts/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, shipping documentation and consignment products withdrawn statements 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)

Expected credit loss allowance for trade receivables

Refer to note 14 to the consolidated financial statements and the accounting policies on pages 112 to 113.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2020, the Group's gross trade receivables totalled HK$270 million and an allowance of HK$0.6 million for expected credit losses (ECLs) were recorded. Management measured loss allowance at an amount equal to lifetime ECL of the trade receivables based on the estimated loss rate. The estimated loss rate takes into account the ageing of trade receivable balances, the repayment history of the Group's customers of different risk characteristics, current market conditions, and forward-looking information. 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 ECL allowance for trade receivables as a key audit matter because trade receivables and the loss allowance are material to the Group and the recognition of ECLs is inherently subjective which requires the exercise of significant management judgement.	Our audit procedures to assess the ECL 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; • evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standard; • assessing the appropriateness of management's estimates of loss allowance by examining the information used by management to derive such estimates, 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 in the trade receivables aging report were categorised in the appropriate ageing bracket by comparing a sample of individual items with the underlying goods delivery notes, sales invoices and other relevant underlying documentation; and • re-performing the calculation of the loss allowance as at 31 December 2020 based on the Group's credit loss allowance policies.

KEY AUDIT MATTERS (Continued)

Valuation of inventories

Refer to note 13 to the consolidated financial statements and the accounting policies on page 116.

The Key Audit Matter

Inventories are carried at the lower of cost and net realisable value in the consolidated financial statements. At 31 December 2020, the net carrying value of inventories was HK$219 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, 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;
- comparing inventory balances against respective balances in prior years and the movement against historical movements to identify inventories which are relatively slow moving; 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.

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.

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

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.

- 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.

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

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, actions taken to eliminate threats or safeguards applied.

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

26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020 (Expressed in Hong Kong dollars)

	Notes	2020 HK$'000	2019 HK$'000
Revenue	3	**793,731**	812,177
Cost of sales		**(611,264)**	(631,249)
Gross profit		**182,467**	180,928
Other income	4	**35,436**	19,913
Distribution costs		**(19,384)**	(15,959)
Reversal of impairment losses related to trade receivables		**170**	515
Administrative expenses and other expenses		**(146,841)**	(124,039)
Profit from operations		**51,848**	61,358
Finance costs	5(a)	**(7,499)**	(14,430)
Share of (loss)/profit of an associate	12	**(2,146)**	1,650
Profit before taxation	5	**42,203**	48,578
Income tax	6(a)	**(13,164)**	(7,467)
Profit for the year		**29,039**	41,111
Attributable to:			
Equity shareholders of the Company		**27,410**	40,345
Non-controlling interests		**1,629**	766
Profit for the year		**29,039**	41,111
Earnings per share	9		
Basic and diluted		**HK2.60 cents**	HK3.83 cents

The notes on pages 104 to 166 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 2020 (Expressed in Hong Kong dollars)

	2020 HK$'000	2019 HK$'000
Profit for the year	**29,039**	41,111
Other comprehensive income for the year (after tax adjustment)		
Items that will not be reclassified to profit or loss		
– Surplus on revaluation of investment properties reclassified from property, plant and equipment	**34,527**	–
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**97,715**	(16,809)
Total comprehensive income for the year	**161,281**	24,302
Attributable to:		
Equity shareholders of the Company	**159,722**	23,574
Non-controlling interests	**1,559**	728
Total comprehensive income for the year	**161,281**	24,302

The notes on pages 104 to 166 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020 (Expressed in Hong Kong dollars)

	Notes	31 December 2020 HK$'000	31 December 2019 HK$'000
Non-current assets			
Investment properties	10	**128,082**	–
Property, plant and equipment	10	**664,647**	726,497
Interest in an associate	12	**896**	3,064
Deposits for purchase of non-current assets		**11,261**	1,813
Deferred tax assets	20(b)	**13,621**	10,982
		818,507	742,356
Current assets			
Inventories	13	**219,173**	243,480
Trade and other receivables	14	**313,359**	273,623
Pledged and restricted deposits	15	**3,672**	–
Cash and cash equivalents	15	**924,246**	847,093
		1,460,450	1,364,196
Current liabilities			
Trade and other payables	16	**152,724**	109,936
Contract liabilities		**624**	–
Bank loans	17	**53,769**	53,769
Lease liabilities	18	**1,123**	1,291
Tax payable	20(a)	**19,325**	6,939
		227,565	171,935
Net current assets		**1,232,885**	1,192,261
Total assets less current liabilities		**2,051,392**	1,934,617

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020 (Expressed in Hong Kong dollars)

	Notes	31 December 2020 HK$'000	31 December 2019 HK$'000
Non-current liabilities			
Bank loans	17	**150,862**	204,697
Lease liabilities	18	**366**	1,403
Other payables	16	**2,475**	2,139
Deferred tax liabilities	20(b)	**17,395**	10,381
		171,098	218,620
NET ASSETS		**1,880,294**	1,715,997
CAPITAL AND RESERVES			
Share capital	21(c)	**105,225**	105,225
Reserves	21(d)	**1,775,720**	1,611,929
Total equity attributable to equity shareholders of the Company		**1,880,945**	1,717,154
Non-controlling interests		**(651)**	(1,157)
TOTAL EQUITY		**1,880,294**	1,715,997

Approved and authorised for issue by the board of directors on 26 March 2021.

Zeng Guangsheng
Director

Ng Hoi Ping
Director

The notes on pages 104 to 166 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company												
		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$'000	Properties revaluation reserves HK$'000 Note 21 (d)(v)	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2019		105,225	489,197	(1,116)	50,711	287	7,905	24,696	–	96,871	919,804	1,693,580	(715)	1,692,865
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 and 1 January 2020		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
Changes in equity for 2020:														
Profit for the year		–	–	–	–	–	–	–	–	–	27,410	27,410	1,629	29,039
Other comprehensive income		–	–	–	–	–	–	–	34,527	97,785	–	132,312	(70)	132,242
Total comprehensive income for the year		–	–	–	–	–	–	–	34,527	97,785	27,410	159,722	1,559	161,281
Dividends approved in respect of the previous year		–	–	–	–	–	–	–	–	–	(5,261)	(5,261)	–	(5,261)
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	(1,053)	(1,053)
Appropriation for surplus reserve		–	–	–	344	–	–	–	–	–	(344)	–	–	–
Equity settled share-based transactions	5(b)	–	–	–	–	–	–	9,330	–	–	–	9,330	–	9,330
Balance at 31 December 2020		105,225	472,201	15,880	52,268	287	7,905	34,026	34,527	177,885	980,741	1,880,945	(651)	1,880,294

The notes on pages 104 to 166 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2020 (Expressed in Hong Kong dollars)

	Notes	2020 HK$'000	2019 HK$'000
Operating activities			
Cash generated from operations	15(b)	169,347	235,471
Income tax paid	20(a)	(7,607)	(6,775)
Net cash generated from operating activities		161,740	228,696
Investing activities			
Interest received		13,903	11,138
Repayment from/(advance) to an associate		1,347	(3,415)
Payment for purchase of property, plant and equipment		(71,700)	(27,655)
Proceeds from disposal of property, plant and equipment		3,339	658
Payment for purchase of securities		(70,463)	–
Proceeds from disposal of securities		71,795	–
Net cash used in investing activities		(51,779)	(19,274)
Financing activities			
Capital element of lease rentals paid	15(c)	(1,205)	(1,187)
Interest element of lease rentals paid	15(c)	(80)	(122)
Interests paid	15(c)	(6,023)	(11,915)
Proceeds from bank loans	15(c)	–	351,306
Repayment of bank loans	15(c)	(53,835)	(529,098)
Dividends paid to equity shareholders of the Company	21(b)	(5,261)	–
Dividends paid to non-controlling interest in subsidiaries		(1,053)	(1,170)
Net cash used in financing activities		(67,457)	(192,186)
Net increase in cash and cash equivalents		42,504	17,236
Cash and cash equivalents at 1 January	15(a)	847,093	840,181
Effect of foreign exchange rate changes		34,649	(10,324)
Cash and cash equivalents at 31 December	15(a)	924,246	847,093

The notes on pages 104 to 166 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the 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 amendments to 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 2020 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 except for investment properties that are measured at fair value and explained in Note 1(f).

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 Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*

- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred.

None of the amendments have had a material effect on how the Group's results and financial position for the current or prior years have been prepared or presented in these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests

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

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

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

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

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(i)(ii)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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(i)(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.

(f) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(s)(ii).

When an own-occupied property becomes an investment property that will be carried at fair value, any surplus at the date of such transfer between the carrying amount of the property and its fair value is recorded in other comprehensive income and accumulated separately in equity in properties revaluation reserve, when a deficit arises, it will be charged to profit or loss.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other property, plant and equipment

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

— freehold land and buildings.

— right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and

— items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 1(h)).

The cost of self-constructed items of other property, plant and equipment includes the cost of materials, direct labor, the initial estimate and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Gains or losses arising from the retirement or disposal of an item of other 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 properties revaluation reserve to retained profits and is not reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other property, plant and equipment (Continued)

Depreciation is calculated to write off the cost or valuation of items of other 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.

— 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

Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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

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.

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(g) and 1(i)(ii)).

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(i) As a lessee (Continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(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(s).

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(h)(i), then the Group classifies the sub-lease as an operating lease.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Measurement of ECLs (Continued)

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.

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).

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Basis of calculation of interest income

Interest income recognised in accordance with note 1(s)(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;

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

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

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

Write-off policy

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Impairment of other non-current assets

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

— other 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).

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) Interim financial reporting and impairment

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

(j) Inventories

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) 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(i)(i)).

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) 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(i)(i).

(m) 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.

(n) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(s)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(k)).

(o) 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(u)).

(p) 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employee benefits (Continued)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

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

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

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

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

  — the same taxable entity; or

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

(r) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) 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

For direct sales, 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.

For sales through consignees, once the products are withdrawn from consignees' warehouse, the control of the goods is considered to have been transferred in accordance with the terms of consignment agreements and revenue is recognised at that point.

(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.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) 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.

(u) 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.

(v) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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.

(w) 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 other property, plant and equipment, 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.

Fair value determination of investment properties

As described in Note 1(f), investment properties are stated at fair value based on the valuation performed by independent firm of professional surveyors after taking into consideration the comparable market transactions and the net rental income allowing for reversionary income potential.

In determining the fair value, the valuers have based on a method of valuation which involves, inter-alia, certain estimates including current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and certain factors generated by market transactions involving comparable assets such as quality of and location of a building, tenant credit quality and lease terms. In relying on the valuation report, management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market condition.

NOTES TO THE FINANCIAL STATEMENTS

(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 is as follows:

	2020 HK$'000	2019 HK$'000
Sales of automotive components	**456,253**	449,302
Sales of hydraulic equipment components	**192,478**	228,038
Sales of electronic equipment components	**111,264**	101,276
Others	**33,736**	33,561
Total	**793,731**	812,177

The Group's customer base is diversified and does not include any individual customer (2019: Nil) with whom transactions have exceeded 10% of the Group's revenue.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

(i) Segment results

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)

(i) Segment results (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 2020 and 2019 is set out below.

	2020						
	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	15,969	83,913	381,784	132,527	161,635	17,903	793,731
Inter-segment revenue	13,988	–	–	–	–	–	13,988
Reportable segment revenue	29,957	83,913	381,784	132,527	161,635	17,903	807,719
Reportable segment profit							
Gross profit	3,671	19,290	87,766	30,466	37,157	4,117	182,467

	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

(Expressed in Hong Kong dollars unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(ii) Geographic information

The geographical location of customers is based on the location at which the goods delivered, and the Group's revenue from external customers were disclosed in Note 3(b)(i).

The following table sets out information about the geographical location of the Group's investment property, other property, plant and equipment, interests in associates and deposits for purchase of non-current assets ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, and the location of operations, in the case of interests in associates and joint venture.

	2020 HK$'000	2019 HK$'000
Mainland China	**696,835**	617,896
Hong Kong and Macau	**70,486**	75,193
Thailand	**37,565**	38,285
	804,886	731,374

4 OTHER INCOME

	2020 HK$'000	2019 HK$'000
Interest income	**13,682**	11,341
Government grants	**15,049**	3,361
Valuation gains on investment properties	**1,428**	–
Net realised gains on trading of securities	**1,332**	–
Others	**3,945**	5,211
	35,436	19,913

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2020 HK$'000	2019 HK$'000
(a) Finance costs		
Interest on bank loans (note 15(c))	**5,714**	12,385
Financial arrangement fees	**1,705**	1,923
Interest on lease liabilities (note 15(c))	**80**	122
	7,499	14,430
(b) Staff costs		
Salaries, wages and other benefits	**208,457**	204,888
Contributions to defined contribution retirement plan (Note)	**7,855**	12,327
Equity-settled share-based payment expenses (note 19)	**9,330**	–
	225,642	217,215

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.

The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

Since the outbreak of COVID-19, the Group's PRC subsidiaries were granted several months exemptions of contributions to the schemes during 2020.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION (Continued)

	2020 HK$'000	2019 HK$'000
(c) Other items		
Cost of inventories (i) (note 13)	**611,264**	631,249
Depreciation (note 10)		
– owned property, plant and equipment	**81,463**	107,864
– right-of-use assets	**1,294**	1,249
Amortisation of leasehold land	**2,006**	2,071
Lease payments not included in the measurement of lease liabilities	**81**	108
Net foreign exchange loss	**3,199**	3,424
Research and development costs (ii)	**30,140**	16,099
Auditor's remuneration		
– audit services	**1,700**	1,800
– other services	**727**	733
Loss/(gain) on disposal of items of other property, plant and equipment	**595**	(47)

(i) Cost of inventories includes HK$224,365,000 (2019: HK$255,770,000) 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.

(ii) Research and development costs includes HK$26,779,000 (2019: HK$12,110,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

(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:

	2020 HK$'000	2019 HK$'000
Current tax		
Provision for current income tax	10,344	10,818
Under/(over)-provision in prior years	9,649	(888)
	19,993	9,930
Deferred tax		
Origination and reversal of temporary differences	(6,829)	(2,463)
	13,164	7,467

(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 2020 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% (2019: 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 2020 (2019: 25%) except for Guangzhou Xin Hao Precision Technology Company Limited ("Guangzhou Xin Hao") which was certified as "High & New Technological Enterprise" and entitled to the preferential income tax rate of 15% from 2019 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% (2019: 20%).

(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:

	2020 HK$'000	2019 HK$'000
Profit before taxation	**42,203**	48,578
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**16,112**	25,846
Effect of tax concessions for subsidiaries	**(12,033)**	(9,291)
Super deduction on research and development expenses	**(3,347)**	(1,796)
Tax effect of non-deductible expenses	**7,837**	7,082
Tax effect of non-taxable income	**(1,385)**	(2,700)
Tax effect of unused tax losses not recognised	**6,228**	1,096
Recognition of tax losses previously not recognised as deferred tax assets and adjustment of deferred tax in prior years	**(7,285)**	–
Utilisation of tax losses previously not recognised as deferred tax assets	**(2,612)**	(11,882)
Under/(over) provision in prior years (Note)	**9,649**	(888)
Actual tax expense	**13,164**	7,467

Note: 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 of the past years. After taking into consideration of purchase of tax reserve certificates in prior years, the Group had agreed with the IRD to pay an additional tax expense of HK$6,271,000 to settle the above-mentioned tax review during the year ended 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS

(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 (ii)	Pension scheme contributions HK$'000	Total remuneration HK$'000
2020						
Executive directors:						
Mr. Zeng Guangsheng	250	2,210	–	3,436	18	5,914
Mr. Ng Hoi Ping	250	1,380	–	1,718	18	3,366
Non-executive directors:						
Ms. Zeng Jing	250	–	–	859	–	1,109
Mr. Chen Kuangguo (i)	250	–	–	859	–	1,109
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)	150	–	–	–	–	150
	1,600	3,590	–	6,872	36	12,098

(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
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

(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) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(p)(iii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 19.

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2019: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2019: three) individuals are as follows:

	2020 HK$'000	2019 HK$'000
Salaries, allowances and other benefits in kind	2,370	3,130
Discretionary bonuses	–	261
Equity settled share option expense	515	–
Pension scheme contributions	18	36
	2,903	3,427

The emoluments of the two (2019: three) individuals with the highest emoluments are within the following bands:

	2020 Number of individuals	2019 Number of individuals
Nil to HK$1,000,000	–	1
HK$1,000,001 to HK$2,000,000	2	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$27,410,000 (2019: HK$40,345,000) and the weighted average of 1,052,254,000 ordinary shares (2019: 1,052,254,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for year ended 31 December 2020 and 2019 were the same as the basic earnings per share.

At 31 December 2020, 94,300,000 (2019: 40,000,000) share options (see note 19(b)) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	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$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Investment properties HK$'000	Total HK$'000
Cost or valuation:										
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
Representing cost	77,445	3,866	713,905	19,000	1,512,460	85,289	17,462	44,141	–	2,473,568
Additions	–	–	7,552	–	35,832	10,117	2,014	18,002	–	73,517
Transfer from construction in progress	–	–	–	–	15,448	1,115	–	(16,563)	–	–
Disposals	–	–	(55)	–	(33,579)	(3,376)	(4,816)	–	–	(41,826)
Surplus on revaluation	36,383	–	–	–	–	–	–	–	–	36,383
Transfer to investment properties	(49,091)	–	(37,034)	–	–	–	–	(33,277)	119,402	–
Fair value adjustment	–	–	–	–	–	–	–	–	1,428	1,428
Exchange adjustment	4,288	216	34,836	935	79,947	5,672	615	1,232	7,252	134,993
At 31 December 2020	69,025	4,082	719,204	19,935	1,610,108	98,817	15,275	13,535	128,082	2,678,063
Representing:										
Cost	69,025	4,082	719,204	19,935	1,610,108	98,817	15,275	13,535	–	2,549,981
Valuation–2020	–	–	–	–	–	–	–	–	128,082	128,082
	69,025	4,082	719,204	19,935	1,610,108	98,817	15,275	13,535	128,082	2,678,063
Accumulated depreciation:										
At 1 January 2019	–	–	(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)
Charge for the year (note 5)	(2,006)	(1,294)	(25,987)	(2,388)	(44,269)	(7,668)	(1,151)	–	–	(84,763)
Written back on disposals	–	–	28	–	31,239	1,809	4,816	–	–	37,892
Elimination on revaluation	316	–	9,633	–	–	–	–	–	–	9,949
Exchange adjustment	(235)	(79)	(19,052)	(866)	(76,487)	(4,046)	(576)	–	–	(101,341)
At 31 December 2020	(3,958)	(2,599)	(358,710)	(17,267)	(1,413,530)	(78,400)	(10,870)	–	–	(1,885,334)
Net book value:										
At 31 December 2020	65,067	1,483	360,494	2,668	196,578	20,417	4,405	13,535	128,082	792,729
At 31 December 2019	75,412	2,640	390,573	4,987	188,447	16,794	3,503	44,141	–	726,497

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Reconciliation of carrying amount (Continued)

Notes:

(i) The freehold land amounting to THB19,201,000 (equivalent to HK$4,966,000 included in freehold land and buildings is situated in Thailand (2019: THB19,201,000 (equivalent to HK$5,008,000)).

(ii) As at 31 December 2020, 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$1,878,000 (2019: HK$2,319,000) and HK$22,380,000 (2019: HK$26,143,000), 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.

(iii) All of the Group's investment properties were revalued as at 31 December 2020. The valuations were carried out by an independent firm of surveyors, Ascent Partners Advisory Service Limited, who have among their staff fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date. For more quantitative information on the valuation of investment properties, please refer to Note 22(e).

(iv) The Group revised the estimated useful live of certain freehold land and buildings to reflect the latest consumption pattern effective from 1 January 2020. As a result, the depreciation charged for the year ended 31 December 2020 decreased by HK$5,872,000 and the depreciation charged for the following years will decrease by HK$5,872,000 annually in remaining useful life.

(b) Right-of use asset

(i) The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2020 HK$'000	2019 HK$'000
Included in other property, plant and equipment:		
– Ownership interests in leasehold land held for own use	**65,067**	75,412
– Other properties leased for own use	**1,483**	2,640
	66,550	78,052
Ownership interests in leasehold investment property, carried at fair value, with remaining lease term of:		
– between 10 and 50 years	**128,082**	–

(Expressed in Hong Kong dollars unless otherwise indicated)

10 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Right-of use asset (Continued)

(ii) The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020 HK$'000	2019 HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
– Ownership interests in leasehold land held for own use	**2,006**	2,071
– Other properties leased for own use	**1,294**	1,249
Interest on lease liabilities (note 5(a))	**80**	122
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**81**	108

(c) Investment properties

The Group leases out investment properties under operating leases. The leases typically run for an initial period of 6 to 12 years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased every year or every three years to reflect market rentals.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2020 HK$'000
Within 1 year	**4,512**
After 1 year but within 2 years	**4,512**
After 2 year but within 3 years	**4,630**
After 3 year but within 4 years	**4,744**
After 4 year but within 5 years	**4,766**
After 5 years	**30,887**
	54,051

(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	THB150,000,000	99.99%	–	99.99%	Trading and manufacture of precision metal components
Integrated Precision Engineering Company Limited	Hong Kong	HK$3,000,000	100%	–	100%	Trading of precision metal components and investment holding
IPE Macao Commercial Offshore Limited	Macau	Macao Pataca 100,000	100%	–	100%	Trading of precision metal components
Dongguan Koda Metal Products Company Limited	PRC	HK$213,000,000	100%	–	100%	Manufacture of precision metal components
Guangzhou Xin Hao	PRC	HK$800,000,000	100%	–	100%	Manufacture of precision metal components
Cullygrat Surface Treatment (Taicang) Company Limited	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
IPE Precision Machinery Limited	Hong Kong	HK$100,000	100%	–	100%	Trading of precision metal components

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.

The subsidiaries incorporated in PRC are wholly foreign-owned enterprises in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

(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:

			Proportion of ownership interest			
Name of associate	Form of business structure	Place of incorporation and business	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 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:

	2020 HK$'000	2019 HK$'000
Gross amounts of the associate		
Current assets	**10,440**	17,659
Non-current assets	**3,734**	238
Current liabilities	**(11,703)**	(11,283)
Non-current liabilities	**(537)**	–
Equity	**1,934**	6,614
Revenue	**10,886**	24,807
Profit from continuing operations	**(4,633)**	1,532
Total comprehensive income	**(4,680)**	1,391
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**1,934**	6,614
Group's effective interest	**46.33%**	46.33%
Group's share of net assets of the associate	**896**	3,064
Carrying amount in the consolidated financial statements	**896**	3,064

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw materials	**53,295**	51,458
Consumables	**16,465**	24,963
Work in progress	**66,909**	61,583
Finished goods	**82,504**	105,476
	219,173	243,480

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

	2020 HK$'000	2019 HK$'000
Carrying amount of inventories sold	**604,921**	629,770
Write-down of inventories	**6,343**	1,479
Cost of inventories (note 5(c))	**611,264**	631,249

14 TRADE AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade debtors, net of loss allowance	**269,953**	226,646
Bills receivables	**2,508**	2,603
Amount due from an associate (Note 24)	**2,211**	3,432
Other debtors	**10,204**	13,522
Financial assets measured at amortised cost	**284,876**	246,203
Deposits and prepayments	**18,022**	12,264
Deductible input VAT	**10,461**	15,156
	313,359	273,623

All of trade and other receivables are expected to be recovered or recognised as expense within one year.

(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:

	2020 HK$'000	2019 HK$'000
Within 1 month	114,421	90,806
1 to 2 months	75,882	59,098
2 to 3 months	54,619	41,868
3 to 4 months	24,851	24,531
4 to 12 months	2,688	12,946
	272,461	229,249

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 BANK BALANCES AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2020 HK$'000	2019 HK$'000
Deposits with banks	41,555	244,486
Cash at bank and on hand	886,363	602,607
Less: pledged and restricted deposits	(3,672)	–
Cash and cash equivalents in the consolidated statement of financial position	924,246	847,093

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION (Continued)

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

	Notes	2020 HK$'000	2019 HK$'000
Profit before taxation		**42,203**	48,578
Adjustments for:			
Depreciation	5(c)	**82,757**	109,113
Amortisation of leasehold land	5(c)	**2,006**	2,071
Reversal of impairment losses of trade receivables		**(170)**	(515)
Finance costs	5(a)	**7,499**	14,430
Net realised gains on trading of securities	4	**(1,332)**	–
Interest income	4	**(13,682)**	(11,341)
Share of losses/(profit) of an associate	12	**2,146**	(1,650)
Loss/(gain) on sale of other property, plant and equipment	5(c)	**595**	(47)
Equity-settled share-based payment expenses		**9,330**	–
Foreign exchange loss		**3,214**	–
Changes in working capital:			
Decrease in inventories		**41,019**	41,008
Increase in pledged and restricted deposits		**(3,672)**	–
(Increase)/decrease in trade and other receivables		**(30,703)**	30,366
Increase in trade and other payables		**28,137**	3,458
Cash generated from operations		**169,347**	235,471

(Expressed in Hong Kong dollars unless otherwise indicated)

15 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION (Continued)

(c) Reconciliation of liabilities arising from financing activities

	Bank loans HK$'000 (Note 17)	Interest payable HK$'000	Lease liabilities HK$'000 (Note 18)	Total HK$'000
At 1 January 2020	**258,466**	**470**	**2,694**	**261,630**
Changes from financing cash flows:				
Capital element of lease rentals paid	–	–	(1,205)	(1,205)
Interest element of lease rentals paid	–	–	(80)	(80)
Interest paid	–	(6,023)	–	(6,023)
Repayments of bank loans	(53,835)	–	–	(53,835)
Total changes from financing cash flows	**(53,835)**	**(6,023)**	**(1,285)**	**(61,143)**
Other change:				
Interest expense (note 5(a))	–	5,714	80	5,794
Total other change	**–**	**5,714**	**80**	**5,794**
At 31 December 2020	**204,631**	**161**	**1,489**	**206,281**
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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION (Continued)

(d) Total cash outflow for leases

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

	2020 HK$'000	2019 HK$'000
Within operating cash flows	**81**	108
Within financing cash flows	**1,285**	1,309
	1,366	1,417

	2020 HK$'000	2019 HK$'000
Lease rental paid	**1,366**	1,417

16 TRADE AND OTHER PAYABLES

	2020 HK$'000	2019 HK$'000
Trade payables	**91,495**	65,848
Interest payables	**161**	470
Other payables	**43,198**	23,269
Accruals	**20,345**	22,488
	155,199	112,075
Portion classified as non-current:		
Other payables	**(2,475)**	(2,139)
Current portion	**152,724**	109,936

16 TRADE AND OTHER PAYABLES (Continued)

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

	2020 HK$'000	2019 HK$'000
Within 1 month	**41,127**	38,402
1 to 2 months	**28,645**	14,142
2 to 3 months	**15,452**	12,498
Over 3 months	**6,271**	806
	91,495	65,848

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

17 BANK LOANS

At 31 December 2020, the bank loans were repayable as follows:

	2020 HK$'000	2019 HK$'000
Within 1 year or on demand	**53,769**	53,769
After 1 year but within 2 years	**150,862**	204,697
	204,631	258,466

At 31 December 2020 and 2019, 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 2020, none of the covenants relating to drawn down facilities had been breached (2019: nil).

(Expressed in Hong Kong dollars unless otherwise indicated)

18 LEASE LIABILITIES

At 31 December 2020, the lease liabilities were repayable as follows:

	2020 HK$'000	2019 HK$'000
Within 1 year	**1,123**	1,291
After 1 year but within 2 years	**366**	1,046
After 2 years but within 5 years	**–**	357
	1,489	2,694

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 3 April 2020 respectively, and are exercisable before 31 August 2022 and 28 February 2026 respectively. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

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

	Number of instruments	Exercise period	Contractual life of options
Options granted to directors:			
– on 6 June 2017	24,000,000	2018/9/1 – 2022/8/31	5 years
– on 14 August 2017	22,000,000	2018/9/1 – 2022/8/31	5 years
– on 3 April 2020	40,000,000	2021/3/1 – 2026/2/28	6 years
	86,000,000		
Options granted to employees:			
– on 3 April 2020	14,300,000	2021/3/1 – 2026/2/28	6 years
Total share options granted	100,300,000		

(Expressed in Hong Kong dollars unless otherwise indicated)

19 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

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

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

	2020 Weighted average exercise price HK$ per share	**2020** Number of options '000	2019 Weighted average exercise price HK$ per share	2019 Number of options '000
At 1 January	**2.02**	**40,000**	2.02	42,000
Granted during the year	**0.90**	**54,300**	–	–
Lapsed during the year	**–**	**–**	2.02	(2,000)
At 31 December	**1.38**	**94,300**	2.02	40,000
Exercisable at the end of the year	**1.38**	**94,300**	2.02	40,000

The option outstanding at 31 December 2020 had an exercise price of HK$2.02 or HK$0.90 (2019: HK$2.02) and a weighted average remaining contractual life of 3.7 years (2019: 2.7 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value at measurement date	
Share price	0.73
Exercise price	0.90
Expected volatility (%)	45.73%
Dividend yield (%)	2.40%
Expected life of options (year)	5.91
Risk-free interest rate (%)	0.72%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the service received. There were no market conditions associated with the share option grants.

(Expressed in Hong Kong dollars unless otherwise indicated)

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2020 HK$'000	2019 HK$'000
At 1 January	6,939	3,784
Provision for current income tax (note 6(a))	19,993	9,930
Income tax paid	(7,607)	(6,775)
At 31 December	19,325	6,939

(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:

	Provision for impairment of assets HK$'000	Deductible tax loss HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Properties Revaluation HK$'000	Withholding tax for distributable profit of the PRC subsidiaries HK$'000	Total HK$'000
At 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 and 1 January 2020	6,397	4,585	(1,744)	–	(8,637)	601
Deferred tax credited/(charged) to the statement of profit or loss during the year	2,132	595	689	(337)	3,750	6,829
Deferred tax charged to other comprehensive income	–	–	–	(11,805)	–	(11,805)
Exchange adjustment	448	164	9	(20)	–	601
At 31 December 2020	8,977	5,344	(1,046)	(12,162)	(4,887)	(3,774)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

(ii) Reconciliation to the consolidated statement of financial position

	2020 HK$'000	2019 HK$'000
Net deferred tax asset recognised in the consolidated statement of financial position	**13,621**	10,982
Net deferred tax liability recognised in the consolidated statement of financial position	**(17,395)**	(10,381)
	(3,774)	601

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$60,897,000 (2019: HK$45,742,000) 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 unrecognised tax losses will expire in the following years:

	2020 HK$'000	2019 HK$'000
2021	**–**	101
2022	**16,448**	19,509
2023	**22,710**	21,342
2024	**461**	–
2025	**21,278**	–
No expiry year	**–**	4,790

(d) Deferred tax liabilities not recognised

At 31 December 2020, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$385,202,703 (2019: HK$241,599,000). Deferred tax liabilities of HK$19,260,135 (2019: HK$12,080,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

(Expressed in Hong Kong dollars unless otherwise indicated)

21 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2019	105,225	472,201	7,905	(9,958)	24,696	385,038	985,107
Change 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**
Changes in equity for 2020							
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(21,819)**	**(21,819)**
Equity settled share-based transaction	**–**	**–**	**–**	**–**	**9,330**	**–**	**9,330**
Balance at 31 December 2020	**105,225**	**472,201**	**7,905**	**(9,958)**	**34,026**	**839,888**	**1,449,287**

(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

	2020 HK$'000	2019 HK$'000
Final dividend proposed after the end of the reporting period of HK Nil cents per ordinary share (2019: HK0.5 cents)	**–**	5,261

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

	2020 HK$'000	2019 HK$'000
Dividend in respect of the previous financial year, approved and paid during the year, of HK0.5 cents per ordinary share (2019: Nil)	**5,261**	–

(c) Issued share capital

	2020		2019	
	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

The ordinary shares of the Company have a par value of HK$0.1 per share.

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(t).

(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 2020 (2019: Nil).

(v) Properties revaluation reserve

The properties revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for investment properties transferred from property and equipment in Note 1(f).

(Expressed in Hong Kong dollars unless otherwise indicated)

21 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Distributability of reserves

As at 31 December 2020, the aggregate amount of distributable reserves of the Company, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$1,344,062,000 (2019: HK$1,356,551,000).

(f) 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 2020, the Group's strategy, which was unchanged from 2019, 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 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 2020 and 2019 was as follows:

	Notes	**2020 HK$'000**	2019 HK$'000
Cash and cash equivalents	15	**924,246**	847,093
Pledged and restricted deposits	15	**3,672**	–
Less: Bank loans	17	**(204,631)**	(258,466)
Adjusted net cash		**723,287**	588,627
Total equity		**1,880,294**	1,715,997
Adjusted net cash-to-capital ratio		**38%**	34%

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 is not subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

(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'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

In respect of trade and other receivables, the Group has established a credit risk management policy under which 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 has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 15.52% (2019: 1.59%) and 23.34% (2019: 26.29%) of the total trade receivables and contract assets was due from the Group's largest customer and the five largest customers respectively within the automotive and electronic components business segment.

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:

	2020 Expected loss rate %	 Gross carrying amount HK$'000	 Loss allowance HK$'000
Current (not past due)	**0.06%**	**232,817**	**(128)**
1 - 90 days past due	**0.20%**	**35,707**	**(71)**
91 - 180 days past due	**0.50%**	**329**	**(2)**
181 - 365 days past due	**5.00%**	**1,370**	**(69)**
Over 1 years past due	**100.00%**	**298**	**(298)**
		270,521	**(568)**

	2019 Expected loss rate %	 Gross carrying amoun 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)

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.

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

(a) Credit risk (Continued)

Trade receivables (Continued)

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

	2020 HK$'000	2019 HK$'000
Balance at 1 January	**737**	1,256
Impairment losses recognised during the year	**–**	83
Write back during the year	**(170)**	(598)
Exchange adjustment	**1**	(4)
Balance at 31 December	**568**	737

(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.

NOTES TO THE FINANCIAL STATEMENTS

(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:

	2020 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 1 year but less than 2 years HK$'000	Total HK$'000	Carrying amount at 31 December HK$'000
Bank loans	**60,635**	**153,093**	**–**	**213,728**	**204,631**
Trade and other payables	**152,724**	**2,475**	**–**	**155,199**	**155,199**
Lease liabilities (note 18)	**1,179**	**395**	**–**	**1,574**	**1,489**
	214,538	**155,963**	**–**	**370,501**	**361,319**

	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 1 year but less than 2 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 18)	1,390	1,093	363	2,846	2,694
	173,672	63,867	153,456	390,995	373,235

NOTES TO THE FINANCIAL STATEMENTS

(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

	2020 Effective interest rate %	**2020** HK$'000	2019 Effective interest rate %	2019 HK$'000
Variable rate borrowings:				
Bank loans	**1.78%**	**204,631**	4.60%	258,466

(ii) Sensitivity analysis

At 31 December 2020, 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$1,709,000 (2019: HK$2,158,000).

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 2019.

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 and United States dollars.

(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)

	2020		
	United States Dollars HK$'000	**Euros HK$'000**	**Renminbi HK$'000**
Trade and other receivables	**73,373**	**29,740**	**2**
Cash and cash equivalents	**182,156**	**17,591**	**7,774**
Trade and other payables	**(22,566)**	**(2,144)**	**(154)**
Gross and net exposure arising from recognised assets and liabilities	**232,963**	**45,187**	**7,622**

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

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.

	2020		2019	
	Increase in foreign exchange rates	Effect on profit after tax and retained profits HK$'000	Increase in foreign exchange rates	Effect on profit after tax and retained profits HK$'000
United States Dollars	5%	10,740	5%	16,569
Euros	5%	2,162	5%	2,316
Renminbi	5%	318	5%	3,849

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 2019.

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Fair value measurement

(i) Financial instruments and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 31 December 2020 HK$'000	Fair value measurements as at 31 December 2020 categorised into		
		Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurements				
Investment properties	128,082	–	–	128,082

During the years ended 31 December 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. As at 31 December 2019, the Group has no assets accounted for using fair value model.

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Fair value measurement (Continued)

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range	Weighted average
Investment properties	Discounted cash flow	Risk-adjusted discount rate	4.8% to 7.0%	6.8%

The fair value of investment properties located in the Mainland China is determined by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the size and location of the buildings, trading time and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

Investment properties

	2020 HK$'000
At 1 January	–
Transfer from other properties	119,402
Fair value adjustment	1,428
Exchange adjustment	7,252
At 31 December	128,082

(Expressed in Hong Kong dollars unless otherwise indicated)

23 COMMITMENTS

Capital commitments outstanding at 31 December 2020 not provided for in the financial statements were as follows:

	2020 HK$'000	2019 HK$'000
Contracted for:		
– Plant and machinery	**20,932**	2,915
– Buildings	**2,656**	992
	23,588	3,907

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:

	2020 HK$'000	2019 HK$'000
Salaries, allowances and other benefits in kind	**8,800**	8,990
Discretionary bonuses	**–**	1,012
Equity-settled share option expense	**7,645**	–
Pension scheme contributions	**83**	90
	16,528	10,092

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

Amount due from an associate

	2020 HK$'000	2019 HK$'000
Shenzhen X-TEC	**2,211**	3,432

The amounts due from Shenzhen X-TEC of RMB1,800,000 (equivalent to HK$2,142,630) (2019: RMB3,000,000, equivalent to HK$3,351,000) and with its accrued interest amounting to HK$69,000 (2019: HK$81,000) was outstanding at 31 December 2020. The amount is unsecured and repayable by 2021.

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(Expressed in Hong Kong dollars unless otherwise indicated)

25 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2020 HK$'000	2019 HK$'000
Non-current assets		
Investments in subsidiaries	43	43
Amounts due from subsidiaries	1,447,732	971,990
Total non-current assets	1,447,775	972,033
Current assets		
Amount due from a subsidiary	–	484,900
Prepayments, deposits and other receivables	428	454
Cash and cash equivalents	1,372	4,768
Total current assets	1,800	490,122
Current liability		
Other payables and accruals	288	379
Net current assets	1,512	489,743
Net assets	1,449,287	1,461,776
Equity		
Issued capital	105,225	105,225
Reserves	1,344,062	1,356,551
Total equity	1,449,287	1,461,776

(Expressed in Hong Kong dollars unless otherwise indicated)

26 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2020, 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.

27 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 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, Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37, Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022

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.

28 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. These contingency measures include but not limited to: assessing the suppliers' readiness, improving the production process, negotiating with customers on delivery schedule, continuously monitoring the operations of the Group and strengthening cost control. The Group will keep the contingency measures under review as the situation evolves.

As far as the Group's businesses are concerned, the outbreak has caused negative impact on the revenue and profit from operation and delays of production and delivery as well as inventory turnover in 2020.

The directors believe export market sentiment will be recovered from COVID-19 pandemic eventually amid the expectation of vaccine will be available for overseas extensive distribution in 2021. The Group will be cautious and stay vigilant and react to the evolving situation.

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