IPE GROUP LIMITED

國際精密集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 929)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board of Directors (the "Board") of IPE Group Limited (the "Company") would like to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016, together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*4&5*	**424,197**	471,885
Cost of sales		**(295,648)**	(341,722)
Gross profit		**128,549**	130,163
Other income and gains	*5*	**15,290**	7,579
Selling and distribution expenses		**(10,468)**	(12,142)
Administrative expenses		**(51,201)**	(50,802)
Other expenses		**(6,485)**	(7,943)
Finance costs	*6*	**(7,371)**	(9,429)
PROFIT BEFORE TAX	*7*	**68,314**	57,426
Income tax expense	*8*	**(17,191)**	(12,128)
PROFIT FOR THE PERIOD		**51,123**	45,298
Attributable to:			
Owners of the Company		**51,355**	45,142
Non-controlling interests		**(232)**	156
		51,123	45,298
EARNINGS PER SHARE	*9*		
Basic		**HK5.1 cents**	HK4.8 cents
Diluted		**HK5.0 cents**	HK4.6 cents
INTERIM DIVIDEND PER SHARE	*10*	**HK2.0 cents**	HK1.5 cents

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period	**51,123**	45,298
Other comprehensive (expenses)/income:		
Exchange differences on translation of foreign operations	**(18,632)**	1,272
Total comprehensive income for the period	**32,491**	46,570
Attributable to:		
Owners of the Company	**32,757**	46,428
Non-controlling interests	**(266)**	142
	32,491	46,570

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2016 (Unaudited) HK$'000	At 31 December 2015 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**734,504**	732,956
Prepaid land lease payments		**83,848**	86,046
Loan to an unlisted equity investment		**–**	59
Available-for-sale investment		**140**	290
Deposits for purchase of non-current assets		**2,949**	36,246
Deferred tax assets		**1,881**	1,815
Total non-current assets		**823,322**	857,412
CURRENT ASSETS			
Inventories	*12*	**189,464**	223,444
Trade receivables	*13*	**226,743**	216,721
Prepayments, deposits and other receivables		**35,869**	26,080
Cash and cash equivalents		**740,828**	697,036
Total current assets		**1,192,904**	1,163,281
CURRENT LIABILITIES			
Trade and bills payables	*14*	**49,910**	39,756
Other payables and accruals		**46,415**	46,473
Tax payable		**11,699**	7,023
Interest-bearing bank and other borrowings		**104,335**	481,483
Total current liabilities		**212,359**	574,735
NET CURRENT ASSETS		**980,545**	588,546
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,803,867**	1,445,958

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

	At 30 June 2016 (Unaudited) ***HK$'000***	At 31 December 2015 (Audited) *HK$'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**267,135**	–
Deferred tax liabilities	**9,224**	9,154
Other payables and accruals	**764**	744
Total non-current liabilities	**277,123**	9,898
Net assets	**1,526,744**	1,436,060
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**105,225**	92,815
Reserves	**1,418,939**	1,339,541
	1,524,164	1,432,356
Non-controlling interests	**2,580**	3,704
Total equity	**1,526,744**	1,436,060

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash flows from operating activities	**180,284**	78,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(81,603)**	(68,381)
Proceeds from disposal of items of property, plant and equipment	**6,902**	2,169
Dividend received from an unlisted equity investment	**1,197**	–
Decrease in non-pledged time deposits with original maturity of over three months and within one year when acquired	**10,122**	99,194
Receipt of repayment of loan to an unlisted equity investment	**61**	1,419
Net cash flows (used in)/from investing activities	**(63,321)**	34,401
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	**–**	(2,805)
Share options exercised	**80,096**	640
New bank loans and other borrowings	**434,860**	246,365
Repayment of bank loans and other borrowings	**(546,644)**	(194,292)
Capital element of finance lease rental payments	**–**	(3,461)
Dividend paid to non-controlling interests	**(858)**	–
Dividends paid to the shareholders of the Company	**(21,045)**	(22,299)
Capital contributed from non-controlling interests	**–**	1,161
Net cash flows (used in)/from financing activities	**(53,591)**	25,309
NET INCREASE IN CASH AND CASH EQUIVALENTS	**63,372**	138,577
Cash and cash equivalents at beginning of period	**686,915**	654,732
Effect of foreign exchange rate changes, net	**(9,459)**	2,778
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**740,828**	796,087
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**730,413**	531,675
Non-pledged time deposits with original maturity of less than three months when acquired	**10,415**	264,412
Cash and cash equivalents as stated in the consolidated statement of financial position	**740,828**	796,087

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company											
(Unaudited)	Issued share capital	Share premium account	Contributed surplus	Statutory surplus reserve	Statutory public welfare fund	Capital redemption reserve	Share options reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	**92,815**	**395,214**	**(1,116)**	**35,397**	**287**	**7,905**	**34,756**	**137,621**	**729,477**	**1,432,356**	**3,704**	**1,436,060**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**51,355**	**51,355**	**(232)**	**51,123**
Other comprehensive expenses for the period:												
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,598)**	**–**	**(18,598)**	**(34)**	**(18,632)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,598)**	**51,355**	**32,757**	**(266)**	**32,491**
Issue of shares upon exercise of share option	**12,410**	**93,990**	**–**	**–**	**–**	**–**	**(26,304)**	**–**	**–**	**80,096**	**–**	**80,096**
Final 2015 dividend declared	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(21,045)**	**(21,045)**	**–**	**(21,045)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(858)**	**(858)**
At 30 June 2016	**105,225**	**489,204***	**(1,116)***	**35,397***	**287***	**7,905***	**8,452***	**119,023***	**759,787***	**1,524,164**	**2,580**	**1,526,744**
At 1 January 2015	93,245	398,404	(1,116)	30,384	287	7,275	33,007	238,727	685,234	1,485,447	3,194	1,488,641
Profit for the period	–	–	–	–	–	–	–	–	45,142	45,142	156	45,298
Other comprehensive expenses for the period:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	1,286	–	1,286	(14)	1,272
Total comprehensive income for the period	–	–	–	–	–	–	–	1,286	45,142	46,428	142	46,570
Capital contributed	–	–	–	–	–	–	–	–	–	–	1,161	1,161
Issue of shares upon exercise of share option	100	529	–	–	–	–	–	–	–	629	–	629
Shares Repurchase	(332)	(2,462)	–	–	–	332	–	–	(332)	(2,794)	–	(2,794)
Equity-settled share option arrangements	–	–	–	–	–	–	2,177	–	–	2,177	–	2,177
Final 2014 dividend declared	–	–	–	–	–	–	–	–	(22,299)	(22,299)	–	(22,299)
At 30 June 2015	93,013	396,471*	(1,116)*	30,384*	287*	7,607*	35,184*	240,013*	707,745*	1,509,588	4,497	1,514,085

* *These reserve accounts comprise the consolidated reserves of HK$1,418,939,000 (30 June 2015: HK$1,402,668,000) in the condensed consolidated statement of financial position.*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2016

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies applied in the unaudited condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2016.

The adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

4. OPERATING SEGMENT INFORMATION

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

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

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

	Six months ended 30 June 2016 (Unaudited)						
	Thailand *HK$'000*	**Malaysia** *HK$'000*	**Mainland China, Macau and Hong Kong** *HK$'000*	**North America** *HK$'000*	**Europe** *HK$'000*	**Other countries** *HK$'000*	**Total** *HK$'000*
Segment revenue:							
Sales to external customers	25,156	78,709	94,170	124,147	87,369	14,646	424,197
Inter-segment sales	598	–	–	–	–	–	598
Other revenue	245	–	14,154	–	–	–	14,399
	25,999	78,709	108,324	124,147	87,369	14,646	439,194
Reconciliation:							
Elimination at inter-segment sales							(598)
Revenue							438,596
Segment results	2,825	14,286	17,095	22,150	15,860	2,643	74,859
Reconciliation:							
Elimination at inter-segment results							(65)
Interest income							891
Finance costs							(7,371)
Profit before tax							68,314
Income tax expense							(17,191)
Profit for the period							51,123

4. OPERATING SEGMENT INFORMATION *(Continued)*

	Six months ended 30 June 2015 (Unaudited)						
	Thailand *HK$'000*	Malaysia *HK$'000*	Mainland China, Macau and Hong Kong *HK$'000*	North America *HK$'000*	Europe *HK$'000*	Other countries *HK$'000*	Total *HK$'000*
Segment revenue:							
Sales to external customers	46,647	97,616	104,439	116,499	90,267	16,417	471,885
Inter-segment sales	10,539	–	–	–	–	–	10,539
Other revenue	446	–	178	–	–	–	624
	57,632	97,616	104,617	116,499	90,267	16,417	483,048
Reconciliation:							
Elimination at inter-segment sales							(10,539)
Revenue							472,509
Segment results	8,362	12,289	12,903	14,530	11,153	2,029	61,266
Reconciliation:							
Elimination at inter-segment results							(1,366)
Interest income							6,955
Finance costs							(9,429)
Profit before tax							57,426
Income tax expense							(12,128)
Profit for the period							45,298

5. REVENUE AND OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period.

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sale of goods and materials	**424,197**	471,885
Other income		
Bank interest income	**891**	6,955
Others	**1,683**	624
	2,574	7,579
Gains		
Foreign exchange differences, net	**5,084**	–
Gain on disposal of an unlisted equity investment	**7,632**	–
	12,716	–
	15,290	7,579

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**5,600**	6,841
Interest on finance leases	**–**	22
Financial arrangement fees	**1,771**	2,566
	7,371	9,429

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**295,648**	341,722
Depreciation	**63,803**	72,472
Amortization of land lease payments	**1,075**	1,138
Equity-settled share option expenses	**–**	2,177
Auditors' remuneration	**1,371**	1,310
Foreign exchange differences, net	**–**	2,918
Loss on disposal of items of property, plant and equipment	**1,326**	903
Provision against inventory obsolescence	**5,161**	–

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (16.5% for the six months ended 30 June 2015) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Group:		
Current (charge for the period) — Hong Kong	**–**	–
Current (charge for the period) — Elsewhere	**17,187**	10,710
	17,187	10,710
Deferred	**4**	1,418
Total tax charge for the period	**17,191**	12,128

9. EARNINGS PER SHARE

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

The calculation of diluted earnings per share for the six months ended 30 June 2016 is based on the profit attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the Company used in the basic earnings per share calculation	**51,355**	45,142
	Number of shares (in thousands)	
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,014,637**	931,529
Effect of dilution — weighted average number of ordinary shares:		
Share options	**18,363**	40,200
	1,033,000	971,729

10. INTERIM DIVIDEND

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interim dividend — HK2.0 cents per ordinary share (2015: HK1.5 cents)	**21,045**	13,907

At the Board meeting held on 22 August 2016, the Board declared an interim dividend of HK2.0 cents per ordinary share (2015: HK1.5 cents).

11. PROPERTY, PLANT AND EQUIPMENT

Unaudited	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Cost:							
At 1 January 2016	540,732	12,406	1,375,493	69,693	19,582	72,519	2,090,425
Additions	–	–	192	482	–	80,929	81,603
Transfer in/(out)	91,487	–	5,993	3,289	158	(100,927)	–
Disposals	(437)	–	(8,927)	(1,901)	(154)	(6,741)	(18,160)
Exchange realignment	(6,256)	(140)	(10,897)	(754)	(163)	(545)	(18,755)
At 30 June 2016	625,526	12,266	1,361,854	70,809	19,423	45,235	2,135,113
Accumulated depreciation:							
At 1 January 2016	(188,652)	(4,155)	(1,096,334)	(52,767)	(15,561)	–	(1,357,469)
Depreciation provided during the period	(16,206)	(925)	(43,356)	(2,604)	(712)	–	(63,803)
Disposals – accumulated depreciation	145	–	7,826	1,807	154	–	9,932
Exchange realignment	1,611	45	8,404	521	150	–	10,731
At 30 June 2016	(203,102)	(5,035)	(1,123,460)	(53,043)	(15,969)	–	(1,400,609)
At 30 June 2016							
Cost	625,526	12,266	1,361,854	70,809	19,423	45,235	2,135,113
Accumulated depreciation	(203,102)	(5,035)	(1,123,460)	(53,043)	(15,969)	–	(1,400,609)
Net carrying amount	422,424	7,231	238,394	17,766	3,454	45,235	734,504
At 31 December 2015							
Cost	540,732	12,406	1,375,493	69,693	19,582	72,519	2,090,425
Accumulated depreciation	(188,652)	(4,155)	(1,096,334)	(52,767)	(15,561)	–	(1,357,469)
Net carrying amount	352,080	8,251	279,159	16,926	4,021	72,519	732,956

12. INVENTORIES

	At 30 June 2016 (Unaudited) *HK$'000*	At 31 December 2015 (Audited) *HK$'000*
Raw materials	**61,644**	77,263
Consumables	**35,306**	38,813
Work in progress	**33,664**	39,032
Finished goods	**97,480**	101,805
	228,094	256,913
Provision against inventory obsolescence	**(38,630)**	(33,469)
	189,464	223,444

13. TRADE RECEIVABLES

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

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

	At 30 June 2016 (Unaudited) *HK$'000*	At 31 December 2015 (Audited) *HK$'000*
Within 1 month	**74,960**	71,463
1 to 2 months	**66,725**	67,264
2 to 3 months	**47,614**	40,861
3 to 4 months	**25,089**	23,383
4 to 12 months	**7,856**	12,713
Over 1 year	**4,499**	1,037
	226,743	216,721

14. TRADE AND BILLS PAYABLES

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

	At 30 June 2016 (Unaudited) ***HK$'000***	At 31 December 2015 (Audited) *HK$'000*
Within 1 month	**18,260**	17,261
1 to 2 months	**16,697**	14,674
2 to 3 months	**11,588**	5,933
Over 3 months	**3,365**	1,888
	49,910	39,756

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

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Plagued by a plethora of persisting problems, the global economy remains mired in a morass not conducive to economic expansion despite the concerted efforts of central bank policies to stimulate growth. Generally speaking, in 2016, demand conditions continue anaemic. For industrial companies in particular, the operating environment is very challenging; in China, made more so by rising labour cost and reduced availability, particularly of skilled staff.

Reflecting the adverse operating environment, the Group recorded total revenue of HK$424.2 million, for the six months ended 30 June 2016, a decline of 10.1% from total revenue of HK$471.9 million in the same period of last year. However, the Group's unaudited net profit amounted to HK$51.1 million for the period under review, an increase of 12.9% compared to unaudited net profit of HK$45.3 million in the same period of last year.

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

	1H 2016		**1H 2015**		
	HK$'000	***%***	*HK$'000*	*%*	***% change***
Hard disk drives ("HDD") components	**104,399**	**24.6**	145,121	30.8	**-28.1**
Hydraulic equipment components	**121,133**	**28.6**	130,739	27.7	**-7.3**
Automotive components	**172,965**	**40.8**	164,638	34.9	**+5.1**
Other	**25,700**	**6.0**	31,387	6.6	**-18.1**
	424,197	**100.0**	471,885	100.0	**-10.1**

At its inception the Group was a manufacturer of HDD components and our business developed strongly due to the then boom in the personal computer ("PC") market. The demand for PCs is the most important determinant of demand for HDDs. PC sales worldwide peaked in 2011 and have been declining since. Our sales of HDD components, which amounted to HK$104.4 million, fell 28.1% in the first six months of this year compared to sales in the first six months of last year. HDD components now account for only 24.6% of the Group's sales.

Demand for hydraulic equipment components is highly sensitive to the overall macro-economic environment. Given the global macro-economic situation and, in particular, the weak market for capital goods, we are satisfied that our sales of hydraulic equipment components fell only 7.3% to HK$121.1 million in the first half of this year.

Sales of automotive components have continued to grow rising 5.1% to HK$173.0 million. Automotive components sales have grown in every six months period since we diversified into this segment and now account for 40.8% of the Group's sales.

Sales of other precision components fell 18.1% to HK$25.7 million in the six months ended 30 June 2016.

FINANCIAL REVIEW

When first we started to diversify away from HDD components, anticipating, as has happened, that the PC market would eventually mature, we sought to maximize sales rather than profitability. Manufacturing high quality and high precision components is a capital intensive business and it was necessary to achieve a certain volume of business to ensure a baseload of capacity utilization. There are significant barriers to entry in the manufacture of precision components so we sought to be very price competitive although of course price competitiveness is not the only criteria to becoming a qualified supplier.

In each of our three main business segments we have an adequate volume of business and while we do want to have higher sales, our Group focuses more on profitability and is willing to forego marginally profitable orders. The gross profit margin in the six months ended 30 June 2016 was 30.3%, representing an increase of 2.7 percentage points as compared to 27.6% in the same period of last year.

Other income, which amounted to HK$15.3 million in the first half of 2016, increased by HK$7.7 million when compared to the corresponding period in 2015. The difference was mainly due to the gain of disposal of an unlisted equity investment of HK$7.6 million, the increase of exchange gain of HK$5.1 million and the decrease in interest income amounting to HK$6.1 million.

During the period under review, selling and distribution expenses amounted to HK$10.5 million, accounting for 2.5% of the Group's turnover; such expenses were 2.6% of the Group's turnover in the corresponding period of 2015. The decrease was mainly due to our more streamlined operations.

During the period under review, the Group's administrative expenses increased by 0.8% from HK$50.8 million to HK$51.2 million as compared to the corresponding period of 2015. The increase was mainly due to the professional fee of HK$4.6 million incurred in connection with Baoan Technology Company Limited's amended conditional offer in February 2016 which was offset by the decrease of equity settled share option expenses of HK$2.2 million and the decrease of staff salaries and allowances of HK$2.3 million.

Finance costs decreased by 21.8% or HK$2.1 million to HK$7.4 million for the period under review as compared to the corresponding period in 2015. The decrease of HK$2.1 million was mainly due to the decrease in interest expenses of HK$1.3 million and the decrease in loan arrangement fee of HK$0.8 million. During the period under review, the Group refinanced a club loan of HK$300 million in May.

For the six months ended 30 June 2016, the Group had a net profit of HK$51.1 million, an increase of 12.9% when compared to the six months ended 30 June 2015.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2016, the Group had total borrowings of HK$371.5 million (31 December 2015: HK$481.5 million) secured by corporate guarantee made by the Company. The Group had no charges on any of its assets for its banking facilities as at 30 June 2016.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

The Group generally finances its operations with internally generated cash flow as well as banking facilities provided by its bankers. As at 30 June 2016, cash per share was HK$0.70 (31 December 2015: HK$0.75) and net asset value per share was HK$1.45 (31 December 2015: HK$1.55), based on the 1,052,254,135 ordinary shares in issue (31 December 2015: 928,154,135 ordinary shares). During the period under review, the Group recorded a net cash inflow from operating activities of HK$180.3 million (2015: HK$78.9 million). With the purchase of property, plant and equipment of HK$81.6 million, the Group recorded a net cash outflow in investing activities of HK$63.3 million (2015: HK$34.4 million net cash inflow).

The total bank borrowings as at 30 June 2016 decreased to HK$371.5 million (31 December 2015: HK$481.5 million). The Group is in a net cash position (cash and bank balances less total bank borrowings) of HK$369.4 million as at 30 June 2016 (31 December 2015: HK$215.6 million).

CURRENCY EXPOSURE AND MANAGEMENT

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

HUMAN RESOURCES

As at 30 June 2016, the Group had 2,207 employees, a decrease of 10 employees when compared to 2,217 employees as at 31 December 2015.

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

The Group encourages employees to seek training to strengthen their work skills and for personal development. The Group also provides workshops for staff at different levels to enhance their knowledge of work safety and to build team spirit. Staff are rewarded based on performance of the Group as well as on individual performance and contribution.

PROSPECTS

Season factors may slow the fall in PC shipments in the second half of 2016 but are not expected to reverse the trend which is expected to continue into 2017. So the prospect for HDD components sales growth is not encouraging, but we expect sales in the second half of 2016 could be maintained at around the level recorded in the first half.

Interest rates in all the major economies have been falling for a number of years and in several very important economies government bonds have a negative yield: a bond holder is in effect paying a government to borrow money. It has been suggested governments could take advantage of this negative interest rate environment for sovereign debt to finance infrastructure investment, thereby stimulating economic growth. That would certainly boost demand for capital goods and hence demand for our hydraulic equipment components business. This is wishful thinking on our part. Frankly, the near term prospect for our hydraulic equipment components business is negative.

Among our three main business segments, only the automotive components is expected to grow and, importantly, to continue growing as we expect the momentum of growth to re-accelerate over the next few years.

Although we are cautious about the near term outlook for HDD components and hydraulic equipment components, the second half results should be satisfactory as the growth in sales of automotive components is expected to continue.

In the first half, we started to use a number of the robots we have developed in our production process and the results to date have been very encouraging. Plans for large scale production of these robots have been finalized and are being implemented with the placement of orders for production equipment. We are very excited about the prospects for this new business and expect that within a few years robot sales will become our largest business segment. Meanwhile, deployment of such robots in our production lines will increase the efficiency of our operations and boost profitability.

SUPPLEMENTARY INFORMATION

Purchase, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2016, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's shares on the Stock Exchange (2015: a total of 3,325,000 shares were cancelled upon repurchase).

Interim Dividend

The Board recommends the payment of an interim dividend of HK$0.020 per share for the six months ended 30 June 2016 (2015: HK$0.015). The interim dividend will be paid in cash on Thursday, 15 September 2016 to the shareholders whose names appear on the Register of Members of the Company as at the close of business on Wednesday, 7 September 2016.

Closure of Register of Members

The Register of Members of the Company will be closed from Tuesday, 6 September 2016 to Wednesday, 7 September 2016 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the interim dividend for the six months ended 30 June 2016, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 5 September 2016.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the period under review, save for the following deviation:

Code Provision A.2.1

The code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Currently, Mr. Chui Siu On assumes the roles of both Chairman and Chief Executive Officer of the Company. As one of the founders of the Group, Mr. Chui has extensive experience in the design and manufacture of automation equipment, precision mechanical components and machinery parts. The Board believes that by holding both roles Mr. Chui will be able to provide the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. The structure is therefore beneficial to the Group.

Audit Committee

The Audit Committee of the Company, comprising three independent non-executive directors, namely Dr. Cheng Ngok (Chairman of the Audit Committee), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, has reviewed with senior management of the Group the accounting principles and practices adopted by the Group and discussed internal control and financial reporting processes including the review of the Company's interim report for the six months ended 30 June 2016.

Board of Directors

As at the date of this announcement, the Board comprises the following directors:

Executive Directors:
Mr. Chui Siu On
Mr. Ho Yu Hoi
Mr. Li Chi Hang
Mr. Lau Siu Chung
Mr. Yuen Chi Ho
Ms. Chiu Tak Chun
Mr. Zeng Guangsheng
Mr. Wu Kai Ping

Independent Non-Executive Directors:
Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok
Mr. Hung, Randy King Kuen

By order of the Board
IPE Group Limited
Chui Siu On
Chairman

Hong Kong, 22 August 2016