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 2019

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 2019, together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

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

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

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company											
(Unaudited)	Issued capital	Share premium account	Contributed surplus	Statutory surplus reserve	Statutory public welfare fund	Capital redemption reserve	Share options reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2019	**105,225**	**489,197**	**(1,116)**	**50,711**	**287**	**7,905**	**24,696**	**96,871**	**919,804**	**1,693,580**	**(715)**	**1,692,865**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,870**	**15,870**	**(146)**	**15,724**
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,798**	**–**	**4,798**	**4**	**4,802**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,798**	**15,870**	**20,668**	**(142)**	**20,526**
At 30 June 2019	**105,225**	**489,197**	**(1,116)**	**50,711**	**287**	**7,905**	**24,696**	**101,669**	**935,674**	**1,714,248**	**(857)**	**1,713,391**
At 1 January 2018	105,225	489,197	(1,116)	45,718	287	7,905	13,720	177,874	861,071	1,699,881	1,394	1,701,275
Profit for the period	–	–	–	92	–	–	–	–	45,526	45,618	(335)	45,283
Other comprehensive expenses for the period:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(22,834)	–	(22,834)	35	(22,799)
Total comprehensive income for the period	–	–	–	92	–	–	–	(22,834)	45,526	22,784	(300)	22,484
Equity-settled share option	–	–	–	–	–	–	11,760	–	–	11,760	–	11,760
Final 2017 dividend declared	–	–	–	–	–	–	–	–	(16,836)	(16,836)	–	(16,836)
At 30 June 2018	105,225	489,197	(1,116)	45,810	287	7,905	25,480	155,040	889,761	1,717,589	1,094	1,718,683

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2019

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

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

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

4. OPERATING SEGMENT INFORMATION

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

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

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

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

5. REVENUE AND OTHER INCOME AND GAINS

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

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

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

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

7. PROFIT BEFORE TAX

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

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

8. INCOME TAX

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

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

9. EARNINGS PER SHARE

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

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

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

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

10. INTERIM DIVIDEND

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

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

11. PROPERTY, PLANT AND EQUIPMENT

Unaudited	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Cost:							
At 1 January 2019	718,979	19,122	1,519,858	80,797	18,589	45,511	2,402,856
Additions	229	–	1,542	4,444	241	142	6,598
Disposals	–	–	(30)	(266)	(679)	–	(975)
Exchange realignment	2,049	(35)	7,747	4	(166)	(113)	9,486
At 30 June 2019	**721,257**	**19,087**	**1,529,117**	**84,979**	**17,985**	**45,540**	**2,417,965**
Accumulated depreciation:							
At 1 January 2019	290,325	10,949	1,285,444	64,419	14,224	–	1,665,361
Depreciation provided during the period	17,854	1,665	29,491	3,418	633	–	53,061
Disposals – accumulated depreciation	–	–	–	(215)	(283)	–	(498)
Exchange realignment	1,231	(53)	10,169	55	(2)	–	11,400
At 30 June 2019	**309,410**	**12,561**	**1,325,104**	**67,677**	**14,572**	**–**	**1,729,324**
Net carrying amount							
Cost	721,257	19,087	1,529,117	84,979	17,985	45,540	2,417,965
Accumulated depreciation	(309,410)	(12,561)	(1,325,104)	(67,677)	(14,572)	–	(1,729,324)
At 30 June 2019	**411,847**	**6,526**	**204,013**	**17,302**	**3,413**	**45,540**	**688,641**
Net carrying amount							
Cost	718,979	19,122	1,519,858	80,797	18,589	45,511	2,402,856
Accumulated depreciation	(290,325)	(10,949)	(1,285,444)	(64,419)	(14,224)	–	(1,665,361)
At 31 December 2018	428,654	8,173	234,414	16,378	4,365	45,511	737,495

12. INVENTORIES

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

13. TRADE RECEIVABLES

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

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

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

14. CASH AND BANK BALANCE

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

15. TRADE PAYABLES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

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

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

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

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

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

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

CHARGES ON THE GROUP'S ASSETS

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

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

The Group generally finances its operations with internally generated cash flow as well as banking facilities provided by its bankers. As at 30 June 2019, cash per share was HK$0.75 (31 December 2018: HK$0.80) and net asset value per share was HK$1.63, up 1.2% as compared to that of HK$1.61 as at 31 December 2018, based on the 1,052,254,135 ordinary shares in issue (31 December 2018: 1,052,254,135 ordinary shares).

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

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

CURRENCY EXPOSURE AND MANAGEMENT

The Group is exposed to fluctuations in foreign exchange rates. Since most of the Group's revenue is denominated in US dollars, whereas most of the Group's expenses, such as costs of major raw materials, machineries and production expenses, are denominated in Japanese Yen, Renminbi, Thai Baht and Hong Kong dollars, fluctuations in exchange rates can materially affect the Group; in particular, the fluctuation of Renminbi will adversely affect the Group's profitability. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of Renminbi and will closely monitor its impact on the performance of the Group and consider appropriate hedging measures in the future when necessary.

HUMAN RESOURCES

As at 30 June 2019, the Group had a total of 2,267 employees, a decrease of 102 employees when compared to 2,369 employees as at 31 December 2018. The Group has a share option scheme in place for selected participants as incentive and reward for their contribution to the Group. A mandatory provident fund scheme and local retirement benefit schemes are also in effect.

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

PROSPECT

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

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

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

SUPPLEMENTARY INFORMATION

Purchase, Redemption or Sale of Listed Securities of the Company

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

Interim Dividend

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

Corporate Governance

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

Audit Committee

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

Board of Directors

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

Executive Directors:
Mr. Zeng Guangsheng *(Chairman)*
Mr. Ng Hoi Ping

Non-Executive Directors:
Ms. Zeng Jing
Mr. Chen Kuanguo

Independent Non-Executive Directors:
Mr. Yang Rusheng
Mr. Cheung, Chun Yue Anthony
Mr. Mei Weiyi
Mr. Xu Bing

By order of the Board
IPE Group Limited
Zeng Guangsheng
Chairman

Hong Kong, 19 August 2019