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IPE GROUP LIMITED

國際精密集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 929)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

1. Revenue for the year increased by 29.9% to HK\$1,030.8 million (2020: HK\$793.7 million).
2. Gross profit margin for the year was 25.9% (2020: 23.0%).
3. Profit for the year increased by 212.5% to HK\$90.7 million (2020: HK\$29.0 million).
4. Basic earnings per share for the year was HK7.74 cents (2020: HK2.60 cents).
5. Net asset value per share as at 31 December 2021 was HK\$1.96 (2020: HK\$1.79).
6. The Group was in a net cash position (i.e. cash and bank balances less total bank borrowings) as at 31 December 2021 in the amount of HK\$692 million or equivalent to HK65.77 cents per share (2020: HK\$723.3 million or HK68.74 cents per share).
7. The Board does not recommend the payment of a final dividend (2020: HK Nil cents per share for the year).

* For identification purposes only

The board of directors (the “**Board**”) of IPE Group Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2021, together with the comparative results for the previous year:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	3	1,030,808	793,731
Cost of sales		<u>(763,995)</u>	<u>(611,264)</u>
Gross profit		266,813	182,467
Other income	4	63,290	34,008
Net valuation gain on investment property		10,847	1,428
Distribution costs		(25,618)	(19,384)
Reversal of impairment losses related to receivables		1,870	170
Administrative expenses and other expenses		(146,974)	(116,701)
Research and development costs		<u>(47,153)</u>	<u>(30,140)</u>
Profit from operations		123,075	51,848
Finance costs	5(a)	(4,677)	(7,499)
Share of loss of an associate		<u>(815)</u>	<u>(2,146)</u>
Profit before taxation	5	117,583	42,203
Income tax	6	<u>(26,837)</u>	<u>(13,164)</u>
Profit for the year		<u>90,746</u>	<u>29,039</u>
Attributable to:			
Equity shareholders of the Company		81,432	27,410
Non-controlling interests		<u>9,314</u>	<u>1,629</u>
Profit for the year		<u>90,746</u>	<u>29,039</u>
Earnings per share	7		
Basic and diluted		<u>HK7.74 cents</u>	<u>HK2.60 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2021

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	90,746	29,039
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	<u>37,875</u>	<u>97,715</u>
Total comprehensive income for the year	<u>128,621</u>	<u>161,281</u>
Attributable to:		
Equity shareholders of the Company	118,620	159,722
Non-controlling interests	<u>10,001</u>	<u>1,559</u>
Total comprehensive income for the year	<u>128,621</u>	<u>161,281</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2021

(Expressed in Hong Kong dollars)

	Notes	2021 HK\$'000	2020 HK\$'000
Non-current assets			
Investment properties	9	142,631	128,082
Property, plant and equipment	9	730,044	664,647
Intangible assets	10	6,456	–
Goodwill	11	11,618	–
Interest in an associate		3,725	896
Deposits for purchase of property, plant and equipment		11,362	11,261
Deferred tax assets		24,316	13,621
		<u>930,152</u>	<u>818,507</u>
Current assets			
Financial assets measured at fair value through profit or loss (FVPL)		10,194	–
Inventories	12	316,004	219,173
Trade and other receivables	13	356,812	313,359
Pledged and restricted deposits		2,427	3,672
Cash and cash equivalents		840,383	924,246
		<u>1,525,820</u>	<u>1,460,450</u>
Current liabilities			
Trade and other payables	14	183,109	152,724
Contract liabilities		4,296	624
Bank loans		150,795	53,769
Lease liabilities		250	1,123
Deferred income		2,367	–
Tax payable		21,691	19,325
		<u>362,508</u>	<u>227,565</u>
Net current assets		<u>1,163,312</u>	<u>1,232,885</u>
Total assets less current liabilities		<u>2,093,464</u>	<u>2,051,392</u>

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current liabilities		
Bank loans	–	150,862
Lease liabilities	–	366
Other payables	2,238	2,475
Deferred income	2,039	–
Deferred tax liabilities	27,887	17,395
	<u>32,164</u>	<u>171,098</u>
NET ASSETS	<u>2,061,300</u>	<u>1,880,294</u>
CAPITAL AND RESERVES		
Share capital	105,225	105,225
Reserves	1,901,121	1,775,720
	<u>2,006,346</u>	<u>1,880,945</u>
Total equity attributable to equity shareholders of the Company	2,006,346	1,880,945
Non-controlling interests	<u>54,954</u>	<u>(651)</u>
TOTAL EQUITY	<u>2,061,300</u>	<u>1,880,294</u>

NOTES TO FINANCIAL STATEMENTS

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 the 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 place of business is located at Unit 5–6, 23/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Hong Kong.

The principal activities of the Group during the year were the manufacture and sale of precision metal components for automotive parts, hydraulic equipment, electronic equipment components and components for other applications.

2. 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 2(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 2021 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 that the following assets are stated at their fair value as explained in the accounting policies set out below:

- investment properties;
- derivative financial instruments; and
- other investments in equity securities

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.

(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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform — phase 2
- Amendment to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021

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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform – phase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“**IBOR reform**”).

Amendment to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

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.

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:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of automotive components	510,900	456,253
Sales of hydraulic equipment components	361,669	192,478
Sales of electronic equipment components	113,009	111,264
Others	45,230	33,736
	<hr/>	<hr/>
Total	1,030,808	793,731
	<hr/> <hr/>	<hr/> <hr/>

The Group's customer base is diversified and does not include any individual customer (2020: Nil) with whom transactions have exceeded 10% of the Group's revenue.

(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.

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 2021 and 2020 is set out below.

	2021						
	Thailand <i>HK\$'000</i>	Malaysia <i>HK\$'000</i>	Mainland China, Macau and Hong Kong <i>HK\$'000</i>	North America <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Other countries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers							
recognised by point in time	12,263	96,384	512,131	147,211	235,386	27,433	1,030,808
Inter-segment revenue	19,789	-	-	-	-	-	19,789
Reportable segment revenue	32,052	96,384	512,131	147,211	235,386	27,433	1,050,597
Reportable segment profit							
Gross profit	<u>3,233</u>	<u>25,413</u>	<u>130,058</u>	<u>38,814</u>	<u>62,062</u>	<u>7,233</u>	<u>266,813</u>
	2020						
	Thailand <i>HK\$'000</i>	Malaysia <i>HK\$'000</i>	Mainland China, Macau and Hong Kong <i>HK\$'000</i>	North America <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Other countries <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>3,671</u>	<u>19,290</u>	<u>87,766</u>	<u>30,466</u>	<u>37,157</u>	<u>4,117</u>	<u>182,467</u>

(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, intangible assets, goodwill, 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, in the case of intangible assets and goodwill and the location of operations, in the case of interests in associates.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Mainland China	812,731	696,835
Hong Kong and Macau	63,285	70,486
Thailand	29,820	37,565
	<u>905,836</u>	<u>804,886</u>

4. **OTHER INCOME**

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Gains on disposal of interest in an associate	21,384	–
Government grants	16,414	15,049
Interest income	14,709	13,682
Net gains on sale of property, plant and equipment	2,337	–
Net realised gains on trading of securities	1,905	1,332
Dividend income	1,176	–
Change in fair value of securities	499	–
Others	4,866	3,945
	<u>63,290</u>	<u>34,008</u>

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on bank loans	2,941	5,714
Financial arrangement fees	1,705	1,705
Interest on lease liabilities	31	80
	<u>4,677</u>	<u>7,499</u>

(b) Staff costs

Salaries, wages and other benefits	296,044	208,457
Contributions to defined contribution retirement plan	13,876	7,855
Equity settled share-based payment expenses	2,542	9,330
	<u>312,462</u>	<u>225,642</u>

(c) Other items

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost of inventories	763,995	611,264
Depreciation		
– owned property, plant and equipment	89,012	81,463
– right-of-use assets	1,287	1,294
Amortisation of intangible assets	979	–
Amortisation of leasehold land	2,211	2,006
Lease payments not included in the measurement of lease liabilities	128	81
Net foreign exchange loss	2,450	3,199
Research and development costs	47,153	30,141
Auditor's remuneration		
– audit services	2,231	1,700
– other services	453	727
(Gain)/loss on disposal of items of other property, plant and equipment	<u>(2,337)</u>	<u>595</u>

6. INCOME TAX

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current tax		
Provision for current income tax	27,840	10,344
Under-provision in prior years (<i>Note</i>)	<u>853</u>	<u>9,649</u>
	28,693	19,993
Deferred tax		
Origination and reversal of temporary differences	<u>(1,856)</u>	<u>(6,829)</u>
	<u>26,837</u>	<u>13,164</u>

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.

7. 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\$ 81,432,000 (2020: HK\$27,410,000) and the weighted average of 1,052,254,000 ordinary shares (2020: 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 2021 and 2020 were the same as the basic earnings per share.

At 31 December 2021, 95,700,000 (2020: 94,300,000) share options 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.

8. DIVIDEND

The Board does not recommend the payment of any final dividend for in respect of the year ended 31 December 2021 (2020: Nil).

9. INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in leasehold land held for own use carried at cost HK\$'000	Other properties leased for own use carried at cost HK\$'000	Freehold land and buildings HK\$'000	Leasehold 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 2020	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
Additions	-	-	20,548	-	77,990	10,693	1,298	583	-	111,112
Transfer from construction in progress	-	-	7,265	-	-	-	-	(7,265)	-	-
Addition through acquisition of a subsidiary	9,127	-	20,182	-	23,455	621	401	172	-	53,958
Disposals	-	-	(70)	-	(52,235)	(864)	(2,845)	-	-	(56,014)
Fair value adjustment	-	-	-	-	-	-	-	-	10,847	10,847
Exchange adjustment	1,906	117	10,295	421	18,612	2,880	225	433	3,702	38,591
At 31 December 2021	80,058	4,199	777,424	20,356	1,677,930	112,147	14,354	7,458	142,631	2,836,557
Representing:										
Cost	80,058	4,199	777,424	20,356	1,677,930	112,147	14,354	7,458	-	2,693,926
Valuation-2021	-	-	-	-	-	-	-	-	142,631	142,631
	80,058	4,199	777,424	20,356	1,677,930	112,147	14,354	7,458	142,631	2,836,557
Accumulated depreciation:										
At 1 January 2020	(2,033)	(1,226)	(323,332)	(14,013)	(1,324,013)	(68,495)	(13,959)	-	-	(1,747,071)
Charge for the year	(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)
Charge for the year	(2,211)	(1,287)	(25,019)	(1,341)	(52,945)	(8,059)	(1,648)	-	-	(92,510)
Addition through acquisition of a subsidiary	(484)	-	(5,381)	-	(9,528)	(468)	-	-	-	(15,861)
Written back on disposals	-	-	55	-	47,603	695	2,658	-	-	51,011
Exchange adjustment	(109)	(73)	(4,488)	(408)	(14,341)	(1,622)	(147)	-	-	(21,188)
At 31 December 2021	(6,762)	(3,959)	(393,543)	(19,016)	(1,442,741)	(87,854)	(10,007)	-	-	(1,963,882)
Net book value:										
At 31 December 2021	73,296	240	383,881	1,340	235,189	24,293	4,347	7,458	142,631	872,675
At 31 December 2020	65,067	1,483	360,494	2,668	196,578	20,417	4,405	13,535	128,082	792,729

10. INTANGIBLE ASSETS

	<i>HK\$'000</i>
Cost:	<i>Patents</i>
At 31 December 2020	–
Addition through acquisition of a subsidiary	7,310
Exchange adjustment	139
	<hr/>
At 31 December 2021	7,449
	<hr/> <hr/>
Accumulated amortisation:	
At 31 December 2020	–
Charge for the year	(979)
Exchange adjustment	(14)
	<hr/>
At 31 December 2021	(993)
	<hr/> <hr/>
Net book value:	
At 31 December 2021	6,456
	<hr/> <hr/>
At 31 December 2020	–
	<hr/> <hr/>

11. GOODWILL

	2021 HK\$'000
Cost and carrying amount	
At date of acquisition	11,402
Exchange adjustment	216
	<hr/>
At 31 December 2021	11,618 <hr/> <hr/>

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to country of operation and operating segment as follows:

	2021 HK\$'000
Jiangsu Kemai	11,618 <hr/> <hr/>

The recoverable amount of the Jiangsu Kemai is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The average budgeted sales growth rate of the five-year period is 3%. Cash flow beyond the aforementioned financial forecasts period are extrapolated using estimated sales growth rate of 3%, which was estimated on the basis of the long-term inflation rate in the PRC. It is a commonly used valuation assumption that the long-term growth rate of a company will converge with the long-term inflation rate of the PRC. The cash flows are discounted using a discount rate of 13.3%. The discount rates used are pre-tax and reflect specific risks relating to the Jiangsu Kemai.

12. INVENTORIES

	2021 HK\$'000	2020 HK\$'000
Raw materials	76,945	53,295
Consumables	16,598	16,465
Work in progress	107,014	66,909
Finished goods	115,447	82,504
	<hr/>	<hr/>
	316,004 <hr/> <hr/>	219,173 <hr/> <hr/>

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

	2021 HK\$'000	2020 HK\$'000
Carrying amount of inventories sold	754,598	604,921
Write-down of inventories	9,397	6,343
	<hr/>	<hr/>
Cost of inventories	763,995 <hr/> <hr/>	611,264 <hr/> <hr/>

13. TRADE AND OTHER RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade debtors, net of loss allowance	275,049	269,953
Bills receivables	29,354	2,508
Amount due from an associate	–	2,211
Other debtors	23,736	10,204
Less: allowance for doubtful debts	<u>(2,622)</u>	<u>–</u>
Financial assets measured at amortised cost	325,517	284,876
Deposits and prepayments	21,169	18,022
Deductible input VAT	<u>10,126</u>	<u>10,461</u>
	<u><u>356,812</u></u>	<u><u>313,359</u></u>

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

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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	126,989	114,421
1 to 2 months	79,760	75,882
2 to 3 months	57,883	54,619
3 to 4 months	26,948	24,851
4 to 12 months	<u>12,823</u>	<u>2,688</u>
	<u><u>304,403</u></u>	<u><u>272,461</u></u>

Trade debtors are due within 60 to 120 days from the date of billing.

14. TRADE AND OTHER PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bills payable	3,785	–
Trade payables	104,506	91,495
Interest payables	120	161
Other payables	47,172	43,198
Accruals (<i>Note</i>)	<u>29,764</u>	<u>20,345</u>
	185,347	155,199
Portion classified as non-current:		
Other payables	<u>(2,238)</u>	<u>(2,475)</u>
Current portion	<u>183,109</u>	<u>152,724</u>

Note: As at 31 December 2021, HK\$8,042,000 for the potential surcharge on one of the subsidiaries' land use right was included in the balance of accruals.

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	45,445	41,127
1 to 2 months	36,418	28,645
2 to 3 months	16,871	15,452
Over 3 months	<u>9,557</u>	<u>6,271</u>
	<u>108,291</u>	<u>91,495</u>

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

Despite emergence of various coronavirus variants with continuous and ongoing influence of COVID-19, the manufacturing industry has gradually recovered due to implementation of effective preventive measures in China. Together with gradual recovery of orders from overseas customers in Europe and the United States, orders from the Group's customers improved significantly and recorded an upward trend.

Under the above environment, the following table summarizes the performance of the Group's principal businesses:

	2021		2020		Change	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Automotive components	510,900	49.5	456,253	57.5	54,647	+12.0%
Hydraulic equipment components	361,669	35.1	192,478	24.2	169,191	+87.9%
Electronic equipment components	113,009	11.0	111,264	14.0	1,745	+1.6%
Others	45,230	4.4	33,736	4.3	11,494	+34.1%
	<u>1,030,808</u>	<u>100.0</u>	<u>793,731</u>	<u>100.0</u>	<u>237,077</u>	<u>+29.9%</u>

Although the automotive components business was affected by the shortage of automotive chips, orders of the Group's automotive components was still able to return to the pre-pandemic level, and the annual sales of automotive components recorded HK\$510,900,000, representing an increase of HK\$54,647,000 or 12.0% as compared to last year, and accounted for approximately 50% of the Group's annual sales, which is still one of the principal and important businesses of the Company.

In order to strengthen the development of the hydraulic business segment under its overall development strategy, the Group focused on developing domestic leading hydraulic enterprise customers, with orders increased significantly and returned or even exceeded the pre-pandemic level. Sales of hydraulic components amounted to HK\$361,669,000, representing a significant increase of HK\$169,191,000 or 87.9% as compared to last year.

The electronic equipment components business segment recorded a reasonable increase of HK\$113,009,000 in sales in 2021, which remained within the level of 11%, being similar to the level of last year.

In order to enter into the market of high value-added products, the Group increased its investments in equipment during the year to purchase advanced production equipment at an international level, expand production capacity and improve production efficiency. In addition to relief of the pressure on the delivery of existing production orders, it also helped the Group to develop high-precision production technology, laying a foundation for future development.

In addition to shortage of automotive chips during the year, a widespread power rationing policy was implemented in the third quarter of 2021 in China, which affected the Group's domestic production capacity. Moreover, the uncontrolled overseas pandemic has made import and export transportation more difficult and logistics cycle longer, resulting in a shortage of container space, soaring freight rate, unstable transportation cycle and serious port congestion in the logistics market, which impeded the flow of goods. Therefore, the Group continued to optimize the logistics method during the period to reduce logistics costs, as well as ensuring timely delivery of components without affecting the customer supply chain, so as to gain trust from customers.

The Group concentrated on the industry-university-research-and-development cooperation for the hydraulic business during the year, and carried out research and development cooperation with Tsinghua University, Zhejiang University, Yanshan University and Lanzhou University of Technology. The Group and Yanshan University jointly established Graduate School-Enterprise Education Partnership Base of Yanshan University during the year. On one hand, this may help the Group to enrich its resources for research and development in new fields, and accelerate breakthrough of production technical difficulties by the Group. On the other hand, it can attract talents from colleges and universities to join the Group and provide human resources network. In addition, the Group cooperated with Huali College to carry out intelligent manufacturing workstation and industrial robot installation and commissioning training equipment projects.

The Group actively responded to the national strategic goal of “peaking carbon dioxide emissions and carbon neutrality” by building such clean energy projects as photovoltaic equipments, energy-saving air compressors and energy-efficient air conditioning at domestic bases, and introduced professional energy management companies to cooperate with energy management contract (EMC) model, which can reduce equipment, operation and maintenance and energy consumption during the project period, as well as stabilizing the supply level of various facilities and strengthen the Group's production reliability.

Effective measures have been taken to control costs, such as carrying out lean projects at domestic production bases, promoting automation transformation and reducing labor costs. Meanwhile, with rising market price of raw materials, the Group secured high-quality suppliers through multiple channels to enhance its bargaining power. It believes that the above work can control costs and help improve its profitability. At the same time, the Group will recruit and cultivate talents. In addition to introduction of urgently needed talents, it will also strengthen the cultivation of key talents, and lay a sound foundation of human resources for the Group to develop its business and new fields in the future.

PROSPECT

Facing the intricate business environment, the Group will adhere to the principle of “technology improvement, product innovation and quality upgrading” to continuously expand new markets, customers and products, explore new drivers of business growth, develop different businesses through various channels, as well as regulate operation and management and promote automation transformation for lean production, in order to achieve the aim of becoming an industry-leading enterprise with continuous profitability.

Therefore, the Group will accelerate scientific research work, establish and improve research work in the short run, and cooperate with top domestic colleges and universities to jointly establish high-end industry-university-research cooperation and provide technical support for the Group. Meanwhile, it will recruit high-quality and experienced industry elites to provide human resources for the Group in high-precision business, so as to meet its development requirements. Besides, the Group will develop its existing production resources in Jiangsu, so as to expand more profitable businesses in the high-precision industry.

For sales expansion, the Group has been developing new markets and new projects. On one hand, it will improve order delivery rate through multiple channels and methods, ensure its quality, make greatest efforts to serve customers and maintain the satisfaction of existing customers; on the other hand, it will actively explore new customers, and continue to secure potential customers for new projects. The Group will set up a dedicated department to be responsible for new projects, accelerate the production of samples to facilitate the mass production of samples and continuously extend the life cycle of components, which will help the Group maintain its profit level.

The Group will improve the response speed of the supply chain to increase the flexibility of supply, pay attention to the safety of the supply chain and control supply risk, optimize and control the inventory; reduce the Group's exposure to risk and cost, such as procurement optimization, develop new material suppliers, and enhance the Group's procurement bargaining power to achieve the annual objective of reducing procurement costs. Moreover, it will strengthen the quality and delivery management of outsourcing suppliers, regulate and improve the supplier process control system and supplier evaluation system to consolidate its resource base for the Group's rapid development. Meanwhile, it will also continue to optimize the procurement cycle and the accuracy of forecasts to improve its response to market changes, and establish a flexible and fast supply chain system.

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 resume 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.

FINANCIAL REVIEW

As the pandemic has brought under control as a result of taking vaccine in China, the sales order has gradually recovered, and therefore the revenue rebounded to HK\$1,030,808,000, increasing by HK\$237,077,000 or 29.9%, as compared to the corresponding period of last year.

With the sales orders recovering and the costs being under control, the Group recorded a gross profit of HK\$266,813,000 with gross profit margin of 25.9% in 2021, which returned to the earning level before pandemic; as compared to gross profit of HK\$182,467,000 and gross profit margin of 23.0% in the corresponding period of last year, the gross profit increased by approximately HK\$84,346,000 or 46.2%.

The other income including net valuation gains on investment property for the year amounted to HK\$74,137,000, increasing by HK\$38,701,000 as compared to last year. It was mainly from gains on disposal of partial interests in an associate and the receipt of dividend of equity interest investment, which amounted to HK\$21,384,000 and HK\$1,176,000 (last year: Nil), respectively. In addition, after revaluation of related properties leased out, the net increase in fair value of HK\$10,847,000 was included in the other income for the year. Apart from receipt of one-off subsidy from Chinese government in this year which followed last year, the Group also received other government subsidies, thus recording HK\$16,414,000 throughout the year, representing an increase of HK\$1,365,000 as compared to last year. Moreover, the Group received bank interest income of HK\$14,709,000 by further use of capital on hand, representing an increase of HK\$1,027,000 as compared to last year.

The distribution costs amounted to HK\$25,618,000 in 2021, increasing by HK\$6,234,000, as compared to HK\$19,384,000 last year. The increase in expenses was mainly resulted from several reasons: first, as the relevant policy changes and some tariff cost cannot be returned, the tariff and customs clearance costs HK\$2,850,000 was imposed in this year, representing an increase of HK\$2,400,000 as compared to last year; second, upon acquisition of Jiangsu Kemai Hydraulic Control System Company Limited (“**Jiangsu Kemai**”), the expenses arising from the sales team of Jiangsu Kemai increased by HK\$1,100,000; moreover, the relevant accrued expenses arising from after-sales maintenance of products by Jiangsu Kemai amounted to approximately HK\$860,000.

The administrative and other expenses including research and development costs in 2021 amounted to HK\$194,127,000; increasing by HK\$47,286,000 or 32.2%, as compared to HK\$146,841,000 in the corresponding period of last year. The increase in expenses was affected by several factors: first, in order to relieve manpower pressure to enhance production efficiency and product quality, more funds were invested in the research and development so as to implement various automation projects. Therefore, the research and development expenses increased by HK\$17,012,000 as compared to the corresponding period of last year; second, as a result of new environmental protection policies issued by Chinese government in 2020, domestic companies incurred relevant expenses during the year, which represented an increase of approximately HK\$7,260,000 as compared to last year; third, remuneration expense increased by approximately HK\$3,900,000. On one hand, due to the expire of COVID-19 related social securities relief policy in 2021, social insurance and provident fund expense increased by HK\$2,490,000; on the other hand, relevant salaries of HK\$1,243,000 (2020: Nil) were included as a result of acquisition of Jiangsu Kemai. For tax surcharges such as urban maintenance and construction tax, HK\$12,390,000 was paid in this year (2020: HK\$7,790,000), increasing by HK\$4,600,000; as a result of cancellation of tax incentives granted by Chinese government to domestic enterprises in this year for overcoming difficulties during the pandemic, relevant tax increased by HK\$1,380,000; moreover, as a result of recovery of sales volume, the relevant tax surcharges also increased.

As the bank loan amount was reduced and the bank loan interest was reduced, the financing cost in 2021 amounted to HK\$4,677,000, decreasing by HK\$2,822,000, as compared to HK\$7,499,000 in the corresponding period of last year.

As a result of sales of equity interests during the year to reduce the shareholding percentage in associates, the share of losses of an associate was HK\$815,000 during the year, representing a significant decrease as compared to last year.

The profit attributable to holders of the Group for the year ended 31 December 2021 amounted to HK\$81,432,000, increasing by HK\$54,022,000 or 197.1%, as compared to HK\$27,410,000 last year.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2021, the Group had total borrowings of HK\$150,795,000, decreased by HK\$53,836,000, as compared to HK\$204,631,000 in the corresponding period of last year, secured by guarantees given by the Company and its subsidiaries. Besides, as at 31 December 2021, the Group pledged deposits of HK\$2,427,000 to issue letters of guarantee (2020: HK\$3,672,000). As at 31 December 2021, the Group had no charge on any of its assets for its banking facilities.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

As at 31 December 2021, cash per share amounted to HK\$0.80, compared to HK\$0.88 last year, based on the 1,052,254,135 ordinary shares in issue (31 December 2020: 1,052,254,135 ordinary shares), which was mainly used to acquire and invest in fixed assets. The net asset value per share for 2021 amounted to HK\$1.96, representing an increase of 9.5% as compared to HK\$1.79 last year.

The net cash inflow generated by the Group's operations in 2021 was HK\$83,614,000. The net cash inflow from operations decreased as compared to the net cash inflow of HK\$161,740,000 last year due to the obvious recovery of sales orders in 2021 and the fact that more funds were invested in working capital, such as raw materials and receivables.

In terms of capital expenditures, amid the recovery of sales orders in 2021, the Group invested HK\$112,740,000 in fixed assets, which was mainly utilized in production equipment to enhance the production efficiency and future development of the Group. In addition, HK\$84,451,000 was utilized in the acquisition of Jiangsu Kemai. Furthermore, the Group generated a net cash inflow of HK\$18,021,000 (2020: Nil) from the disposal of part interests in an associate during the year. As a result, the net cash outflow from investing activities in 2021 was HK\$159,308,000, representing an increase of HK\$107,529,000 as compared to the net cash outflow of HK\$51,779,000 in last year.

In terms of financing activities, the net cash used was HK\$16,175,000. On one hand, there is repayment of loans of HK\$53,836,000 (2020: HK\$53,835,000) in 2021. On the other hand, capital injection of HK\$42,888,000 (2020: Nil) was obtained which was mainly due to the establishment of Huitong Company in 2021. Therefore, the cash outflow decreased by HK\$51,282,000 as compared to the net cash outflow from financing activities of HK\$67,457,000 last year.

In addition, as the term of current bank loans is 3 years and the balance is to be repaid in May 2022, all of which should be classified as current liabilities pursuant to the accounting treatment, hence the current liabilities in 2021 increased significantly as compared to the corresponding period of last year, and the bank loans will be repaid on schedule as usual.

The Group's net cash (cash and bank balances less total bank borrowings) was HK\$692,015,000 as at 31 December 2021, representing a decrease of HK\$31,272,000 in net cash as compared to HK\$723,287,000 as at 31 December 2020.

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 and Euros, whereas most of the Group's expenses, such as costs of major raw materials, machineries and production expenses, are denominated in US dollars, Euros and Renminbi, 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

The Group understands that talents are the most important assets of the Company. On one hand, we have nurtured talents to take over future projects; on the other hand, we have explored talents to grow together with the Company. In 2021, the Company continued to improve the spare-time facilities for employees, the living infrastructure, the environment around the dormitories, and leisure facilities. At the same time, the Company increased the employees' subsidies and improved employees' welfare to enhance the employees' sense of belongings. Meanwhile, the Company also continued to explore talents and maintained cooperation with many universities. During the year, the Company held online and offline campus recruitment and mutual selection sessions with many target universities, so as to recruit suitable talents for the future development of the Company.

In terms of staff training, we have completed various training programs throughout the year, including production management, general management, quality management, supply chain management, financial management, sales management, R&D management and other aspects, to enhance the relevant skills of our existing staff, thus improving their work performance.

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

As at 31 December 2021, the Company had a total of 2,207 employees, representing an increase of 44 employees or 2.0% as compared to 2,163 employees as at 31 December 2020.

SUPPLEMENTARY INFORMATION

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.

Final Dividend

The Board does not recommend the payment of a final dividend (2020: nil) in respect of the year ended 31 December 2021.

Closure of Register of Members

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

From 11 April 2022, Monday to 14 April 2022, Thursday (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 2022 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 8 April 2022, Friday for registration of transfer.

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 2021.

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

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**") in force during the period under review except that there was no separation of the roles of Chairman and Chief Executive Officer as specified in code provision A.2.1 (now renumbered as code provision C.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 three independent non-executive directors, namely Mr. Yang Rusheng (Chairman of the Audit Committee), Mr. Cheung, Chun Yue Anthony and Mr. Mei Weiyi, has reviewed 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 consolidated financial statements for the year ended 31 December 2021 with senior management of the Group and external auditor.

Scope of Work of KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

Board of Directors

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

By order of the Board

IPE Group Limited

Zeng Guangsheng

Chairman

Hong Kong, 14 March 2022