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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 2023, together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Revenue	4&5	419,761	502,857
Cost of sales		(323,343)	(367,101)
Gross profit		96,418	135,756
Other income	5	37,683	24,580
Distribution costs		(11,945)	(12,014)
Administrative expense and other expense		(77,798)	(94,804)
Research and development costs		(32,076)	(20,967)
Profit from operations		12,282	32,551
Finance costs	6	(4,366)	(1,913)
Share of losses of an associate		(610)	(600)
Profit before taxation	7	7,306	30,038
Income tax	8	925	(10,394)
Profit for the period		8,231	19,644
Attributable to:			
Equity shareholders of the Company		(1,249)	11,482
Non-controlling interests		9,480	8,162
Profit for the period		8,231	19,644
Earnings per share	9		
Basic		HK(0.1) cents	HK1.1 cents
Diluted		HK(0.1) cents	HK1.1 cents
Interim dividend per share	10	–	–

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>
Profit for the period	<u>8,231</u>	<u>19,644</u>
Other comprehensive loss for the period (after tax adjustment):		
items that may be classified subsequently to profit or loss:		
– Exchange difference on translation of foreign operation	<u>(51,844)</u>	<u>(86,163)</u>
Total comprehensive loss for the period	<u>(43,613)</u>	<u>(66,519)</u>
Attributable to:		
Equity shareholders of the Company	(45,535)	(73,997)
Non-controlling interests	<u>1,922</u>	<u>7,478</u>
Total comprehensive loss for the period	<u>(43,613)</u>	<u>(66,519)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2023 (Unaudited) HK\$'000	At 31 December 2022 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment properties	<i>11</i>	130,196	135,132
Property, plant and equipment	<i>11</i>	670,896	698,031
Intangible assets		3,477	4,288
Goodwill		10,233	10,196
Interest in an associate		2,293	2,903
Deposits for purchase of property, plant and equipment		1,037	1,267
Deferred tax assets		21,911	22,723
		<hr/> 840,043	<hr/> 874,540
CURRENT ASSETS			
Financial assets measured at fair value through profit or loss (“FVPL”)		17,030	17,511
Inventories	<i>12</i>	308,699	325,574
Trade receivables	<i>13</i>	260,214	301,357
Prepayments, deposit and other receivables		46,361	66,206
Pledged and restricted deposits	<i>14</i>	20,776	22,239
Cash and cash equivalents	<i>14</i>	705,552	729,058
		<hr/> 1,358,632	<hr/> 1,461,945
CURRENT LIABILITIES			
Trade payables	<i>15</i>	72,367	101,110
Other payables and accruals		53,763	84,801
Bank and other loans		45,643	45,849
Lease liabilities		950	1,031
Deferred income		677	702
Tax payables		2,730	15,591
		<hr/> 176,130	<hr/> 249,084

	At 30 June 2023 (Unaudited) <i>Notes</i> HK\$'000	At 31 December 2022 (Audited) <i>HK\$'000</i>
NET CURRENT ASSETS	<u>1,182,502</u>	<u>1,212,861</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>2,022,545</u>	<u>2,087,401</u>
NON-CURRENT LIABILITIES		
Bank loans	130,000	150,000
Lease liabilities	1,809	1,899
Other payables	2,647	2,751
Deferred income	903	1,285
Deferred tax liabilities	<u>18,713</u>	<u>19,380</u>
	<u>154,072</u>	<u>175,315</u>
NET ASSETS	<u>1,868,473</u>	<u>1,912,086</u>
CAPITAL AND RESERVES		
Share capital	105,225	105,225
Reserves	<u>1,689,654</u>	<u>1,735,189</u>
Total equity attributable to equity shareholders of the Company	1,794,879	1,840,414
Non-controlling interests	<u>73,594</u>	<u>71,672</u>
TOTAL EQUITY	<u>1,868,473</u>	<u>1,912,086</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>
Net cash generated from operating activities	<u>39,818</u>	<u>32,356</u>
INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(43,904)	(70,535)
Proceeds from disposal of items of property, plant and equipment	6,415	25,854
Dividend income received	<u>2,015</u>	<u>1,539</u>
Net cash used in investing activities	<u>(35,474)</u>	<u>(43,142)</u>
FINANCING ACTIVITIES		
Interest paid	(4,312)	(1,859)
Proceeds from new bank loans	–	220,000
Repayment of bank loans	(20,000)	(148,936)
Capital injection from Non-controlling interest	–	1,327
Principal payments of lease liabilities	<u>(227)</u>	<u>(304)</u>
Net cash (used in)/generated from financing activities	<u>(24,539)</u>	<u>70,228</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
	(20,195)	59,442
Cash and cash equivalents at beginning of period	729,058	840,383
Effect of foreign exchange rate changes	<u>(3,311)</u>	<u>(45,524)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>705,552</u>	<u>854,301</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

(Unaudited)	Attributable to owners of the Company													Non-controlling interest	Total equity
	Statutory											Total	interest		
	Issued capital	Share premium account	Contributed surplus	Statutory surplus reserve	public welfare fund	Capital redemption reserves	Share options reserves	Properties revaluation reserves	Exchange fluctuation reserves	Others reserves	Retained profit				
HK\$'000	HK\$'000	HK\$'000	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 2023	105,225	472,201	15,880	72,283	287	7,905	51,594	34,527	25,153	4,239	1,051,120	1,840,414	71,672	1,912,086	
Profit for the period	-	-	-	-	-	-	-	-	-	-	(1,249)	(1,249)	9,480	8,231	
Other comprehensive loss for the period:															
Exchange difference on translation of foreign operations	-	-	-	-	-	-	-	-	(44,286)	-	-	(44,286)	(7,558)	(51,844)	
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(44,286)	-	(1,249)	(45,535)	1,922	(43,613)	
At 30 June 2023	<u>105,225</u>	<u>472,201</u>	<u>15,880</u>	<u>72,283</u>	<u>287</u>	<u>7,905</u>	<u>51,594</u>	<u>34,527</u>	<u>(19,133)</u>	<u>4,239</u>	<u>1,049,871</u>	<u>1,794,879</u>	<u>73,594</u>	<u>1,868,473</u>	
At 1 January 2022	105,225	472,201	15,880	69,984	287	7,905	36,299	34,527	215,073	4,239	1,044,726	2,006,346	54,954	2,061,300	
Profit for the period	-	-	-	-	-	-	-	-	-	-	11,482	11,482	8,162	19,644	
Other comprehensive loss for the period:															
Exchange difference on translation of foreign operations	-	-	-	-	-	-	-	-	(85,479)	-	-	(85,479)	(684)	(86,163)	
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(85,479)	-	11,482	(73,997)	7,478	(66,519)	
Capital injection	-	-	-	-	-	-	-	-	-	-	-	-	1,327	1,327	
Equity-settled share options arrangements	-	-	-	-	-	-	5,601	-	-	-	-	5,601	-	5,601	
At 30 June 2022	<u>105,225</u>	<u>472,201</u>	<u>15,880</u>	<u>69,984</u>	<u>287</u>	<u>7,905</u>	<u>41,900</u>	<u>34,527</u>	<u>129,594</u>	<u>4,239</u>	<u>1,056,208</u>	<u>1,937,950</u>	<u>63,759</u>	<u>2,001,709</u>	

NOTES TO THE CONDENSED FINANCIAL STATEMENT

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, electronic equipment components 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 2022.

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRSs that are mandatorily effective for the current period

HKFRS 17	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

Segment reporting

The Group manages its businesses by divisions, which are organised by the geographical locations of the customers. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following six reportable segments. No operating segments have been aggregated to form the following reportable segments.

- (a) Thailand;
- (b) Malaysia;
- (c) Mainland China, Macau and Hong Kong;
- (d) North America;
- (e) Europe; and
- (f) Other countries.

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is gross profit. The Group's senior executive management is provided with segment information concerning segment revenue and gross profit. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

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 six months ended 30 June 2023 and 2022 is set out below.

	Six months ended 30 June 2023 (Unaudited)						
			Mainland China	North		Other	Total
	Thailand	Malaysia	Macau and Hong Kong	America	Europe	Countries	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers recognised by point in time and reportable segment revenue	<u>6,321</u>	<u>21,384</u>	<u>188,887</u>	<u>86,326</u>	<u>102,497</u>	<u>14,346</u>	<u>419,761</u>
Reportable segment profit							
Gross profit	<u>1,452</u>	<u>4,912</u>	<u>43,387</u>	<u>19,829</u>	<u>23,543</u>	<u>3,295</u>	<u>96,418</u>
	Six months ended 30 June 2022 (Unaudited)						
			Mainland China	North		Other	Total
	Thailand	Malaysia	Macau and Hong Kong	America	Europe	Countries	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers recognised by point in time and reportable segment revenue	<u>6,129</u>	<u>54,638</u>	<u>234,777</u>	<u>81,926</u>	<u>110,937</u>	<u>14,450</u>	<u>502,857</u>
Reportable segment profit							
Gross profit	<u>1,655</u>	<u>14,751</u>	<u>63,383</u>	<u>22,118</u>	<u>29,948</u>	<u>3,901</u>	<u>135,756</u>

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	
	2023	2022
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Revenue recognised at a point in time		
Sale of automotive components	207,303	221,888
Sale of hydraulic equipment components	180,051	206,286
Sale of electronic equipment components	22,130	60,683
Others	10,277	14,000
	<u>419,761</u>	<u>502,857</u>
Other income		
Bank interest income	7,240	7,105
Government grants	6,204	3,744
Dividend income	2,015	1,539
Rental income	4,495	639
Insurance compensation on fire loss	7,798	–
Others	2,206	1,717
	<u>29,958</u>	<u>14,744</u>
Gains		
Gains on disposal of items of property, plant and equipment	4,269	–
Foreign exchange difference, net	3,456	9,836
	<u>37,683</u>	<u>24,580</u>

6. FINANCE COST

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Interest on bank loans	3,802	836
Financial arrangement fees	510	1,023
Interest on lease liabilities	54	54
	<u>4,366</u>	<u>1,913</u>

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Cost of inventory sold	323,343	367,101
Depreciation on property, plant and equipment	43,137	46,049
Depreciation on right-of-use asset	306	226
Amortzation	685	1,634
Equity-settled share option expenses	–	5,601
Auditors' remuneration	992	1,444
Foreign exchange differences, net	(3,456)	(9,836)
Gains on disposal of items of property, plant and equipment	<u>(4,269)</u>	<u>–</u>

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 2022) 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	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current	(925)	17,221
Deferred	–	(6,827)
	<hr/>	<hr/>
Total tax charge for the period	(925)	10,394

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 2023 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	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
(Loss)/profit attributable to equity shareholders of the Company used in the basic earnings per share calculation	(1,249)	11,482
	<hr/>	<hr/>
	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
	<hr/>	<hr/>

10. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2023 (2022: Nil).

11. INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT

	Ownership interest 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 building HK\$'000	Leasehold improvement HK\$'000	Plant and Machinery HK\$'000	Furniture and Fixtures HK\$'000	Motor car HK\$'000	Construction in progress HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost										
At 1 January 2023	72,454	7,442	748,259	17,602	1,548,738	117,321	13,615	10,644	135,132	2,671,207
Additions	-	-	8,895	-	27,553	1,128	549	5,779	-	43,904
Transfer from Construction in Progress	-	-	-	-	237	-	-	(237)	-	-
Disposals	-	-	-	-	(38,369)	(10)	-	-	-	(38,379)
Exchange realignment	(2,901)	(266)	(27,091)	(629)	(54,875)	(4,236)	(508)	(1,324)	(4,936)	(96,766)
At 30 June 2023	69,553	7,176	730,063	16,973	1,483,284	114,203	13,656	14,862	130,196	2,579,966
Accumulated depreciation										
At 1 January 2023	8,237	4,657	387,474	17,316	1,325,882	84,391	10,087	-	-	1,838,044
Depreciation provided during the period	981	306	14,017	286	23,744	3,597	512	-	-	43,443
Disposals	-	-	-	-	(36,224)	(9)	-	-	-	(36,233)
Exchange realignment	(646)	(179)	(14,422)	(629)	(46,953)	(3,161)	(390)	-	-	(66,380)
At 30 June 2023	8,572	4,784	387,069	16,973	1,266,449	84,818	10,209	-	-	1,778,874
Net carrying amount										
Cost/Valuation	69,553	7,176	730,063	16,973	1,483,284	114,203	13,656	14,862	130,196	2,579,966
Accumulated depreciation	(8,572)	(4,784)	(387,069)	(16,973)	(1,266,449)	(84,818)	(10,209)	-	-	(1,778,874)
At 30 June 2023	60,981	2,392	342,994	-	216,835	29,385	3,447	14,862	130,196	801,092
Net carrying amount										
Cost/Valuation	72,454	7,442	748,259	17,602	1,548,738	117,321	13,615	10,644	135,132	2,671,207
Accumulated depreciation	(8,237)	(4,657)	(387,474)	(17,316)	(1,325,882)	(84,391)	(10,087)	-	-	(1,838,044)
At 31 December 2022	64,217	2,785	360,785	286	222,856	32,930	3,528	10,644	135,132	833,163

12. INVENTORIES

	At 30 June 2023 (Unaudited) HK\$'000	At 31 December 2022 (Audited) HK\$'000
Raw materials	86,307	97,173
Consumables	52,077	55,321
Work in progress	95,518	101,178
Finished goods	<u>152,807</u>	<u>153,043</u>
	386,709	406,715
Less: Provision against inventory obsolescence	<u>78,010</u>	<u>81,141</u>
	<u>308,699</u>	<u>325,574</u>

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 60 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 2023 (Unaudited) HK\$'000	At 31 December 2022 (Audited) HK\$'000
Within 1 month	98,951	89,393
1 to 2 months	72,152	72,041
2 to 3 months	44,570	63,950
3 to 4 months	19,721	39,120
4 to 12 months	<u>24,820</u>	<u>36,853</u>
	<u>260,214</u>	<u>301,357</u>

14. CASH AND BANK BALANCES

	At 30 June 2023 (Unaudited) <i>HK\$'000</i>	At 31 December 2022 (Audited) <i>HK\$'000</i>
Bank deposit and cash	726,328	751,297
Less: Pledged and restricted deposits	<u>(20,776)</u>	<u>(22,239)</u>
Cash and cash equivalents	<u>705,552</u>	<u>729,058</u>

15. TRADE PAYABLES

	At 30 June 2023 (Unaudited) <i>HK\$'000</i>	At 31 December 2022 (Audited) <i>HK\$'000</i>
Within 1 month	31,015	33,556
1 to 2 months	21,907	31,333
2 to 3 months	12,028	18,396
Over 3 months	<u>7,417</u>	<u>17,825</u>
	<u>72,367</u>	<u>101,110</u>

16. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	At 30 June 2023 (Unaudited) <i>HK\$'000</i>	At 31 December 2022 (Audited) <i>HK\$'000</i>
Contracted but not provided for:		
Buildings	33,583	7,955
Plant and machinery	<u>3,355</u>	<u>3,085</u>
	<u>36,938</u>	<u>11,040</u>

CHAIRMAN’S STATEMENT

On behalf of the board of directors (the “**Board**”), I present to shareholders the first half-year results of IPE Group Limited (“**IPE**” or the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**” or “**IPE Group**”) as of 30 June 2023.

BUSINESS REVIEW

As the Solid State Disk (hereinafter referred to as “**SSD**”) occupied the market of computer hard disk, the Company witnessed a cliff-diving drop in its orders of traditional Hard Disk Drive (HDD). As a result, in the first half of the year, the Company’s revenue from the electronic equipment components business recorded a decrease of HK\$38,553,000 or 63.5% from HK\$60,683,000 for the corresponding period last year. The dramatic fall in the sales revenue from electronic equipment components has posed negative impact on the Company’s sales revenue for the first half of the year.

Meanwhile, since the Chinese government has vigorously supported the development of new energy automobiles by introducing policies to encourage the consumers to purchase new energy automobiles, the sales of new energy automobiles have shown a strong growth momentum, causing a blow on the development of traditional automobile industry. As an upstream supplier of traditional automobiles, the Company is experiencing gradual drop in the sales orders of automotive components due the fact that the sales of automotive components were directly impacted by declined demand from the customers.

For hydraulic components business, the sales of hydraulic components were not promising since the number of orders from major customers has not picked up as a result of the not yet fully recovered construction machinery industry. In response to the depression in the construction machinery industry, the Company has proactively implemented strategic transformation, explored new customers and expanded new application market, in order to minimize the impact caused by industry fluctuation. The following table shows the sales and comparative data of each of the Group's businesses for the first half of 2023:

	1H 2023		1H 2022		Change
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	%
Automotive components	207,303	49.4	221,888	44.1	-6.6
Hydraulic equipment components	180,051	42.9	206,286	41.0	-12.7
Electronic equipment components	22,130	5.3	60,683	12.1	-63.5
Others	10,277	2.4	14,000	2.8	-26.6
Total	<u>419,761</u>	<u>100</u>	<u>502,857</u>	<u>100</u>	<u>-16.5</u>

In the first half of 2023, customers were more inclined to adopt a wait-and-see attitude against the pessimistic market environment. The market condition in the automotive and construction machinery industries was even worse than that of the previous year. In light of the economic recession and other factors, the Company has taken active measures to constantly improve production capacity, continuously carry out automation projects, keep refining projects, promote cost reduction, quality improvement and efficiency improvement, as well as multi-directionally expanding new business and exploring new customer. To this end, on one hand, the Company has accelerated strategic transformation, increased its publicity by attending activities such as trade fair, broadened potential customer base and explored new markets at home and abroad, while building close cooperative relationship with colleges to tackle with existing technical difficulties. On the other hand, the Company has tightly controlled product quality by comprehensively implementing lean production management and automation transformation.

The Company analyzed possibilities of cost reduction in many ways and conducted strict quality control; and independently mastered core processing technologies while constantly optimizing technological process of production to improve product quality and production efficiency. In terms of raw materials control and management, the prices for materials, such as imported base metal of iron materials, stainless iron of Europe base metal and stainless iron of Japan and South Korea base metal, were all cut down. Meanwhile, the Company has basically completed negotiation with its major suppliers to adopt stepped rebate model in cutting price. Through all these efforts, the Company strives to maintain its competitiveness and advantages by reducing costs and improving efficiency amid depressed market sentiment.

FINANCIAL REVIEW

For the six months ended 30 June 2023, the Group recorded sales of HK\$419,761,000, representing a decrease of 16.5% as compared to HK\$502,857,000 for the corresponding period last year. Apart from the severe decline in the sales of electronic equipment components, other businesses also suffered a setback to varying extents affected by various factors including economic weakness. Gross profit for the first half of 2023 was HK\$96,418,000, representing a decrease of HK\$39,338,000 as compared to the corresponding period last year, and the gross profit margin was 23.0%, representing a decrease of 4.0% as compared to the corresponding period last year.

Other income amounted to HK\$37,683,000 for the first half of the year, representing an increase of approximately HK\$13,103,000 as compared to the corresponding period last year, which was mainly attributable to the facts that the Company has successfully received the premium income of HK\$7,798,000 after filing a claim against the insurance company in respect of the fire in a warehouse in the United States last year, recorded exchange gains of HK\$3,456,000 (HK\$9,836,000 for the corresponding period last year), made a profit of approximately HK\$4,269,000 from the disposal of fixed assets (there was no such gain for the corresponding period last year) and received government subsidies of approximately HK\$6,204,000 (HK\$3,744,000 for the corresponding period last year).

Selling and distribution expenses for the first half of the year amounted to HK\$11,945,000, approximate to HK\$12,014,000 for the corresponding period last year. Apart from transportation fees and customs clearance fees arose in the process of sales, the promotion and publicity expenses generated by the Company from seizing opportunities to attend various trade fairs, running promotions and engaging with additional new customers after the Chinese government lifted pandemic prevention and control measures at the beginning of this year, were also included in selling and distribution expenses.

For the past few years, the Company has always been attaching great importance to cutting fees and expenses, improving efficiency and intensifying expense control in order to boost its profits. Impacted by economic downturn, administrative expenses and other expenses amounted to HK\$77,798,000 for the first half of the year, representing a decrease of HK\$17,006,000 or 17.9% as compared to the corresponding period last year, with main changes seen in the following aspects: salaries and allowances amounted to HK\$21,802,000 for the first half of the year, representing a decrease of HK\$5,003,000 as compared to the corresponding period last year since the Company adopted various measures such as streamlining personnel; directors' emoluments amounted to HK\$3,347,000 for the first half of the year, representing a decrease of HK\$2,435,000 as compared to the corresponding period last year; maintenance costs amounted to HK\$1,931,000 for the first half of the year, representing a decrease of HK\$2,445,000 since the Company completed the maintenance of air-conditioners, electric cabinets, pure water systems, air compressors, etc. and replacement of consumables last year. Moreover, the amortisation cost for share options granted in last year of HK\$5,601,000 was also reduced since there is no such cost for the first half of the year.

In the highly competitive high-precision processing market, especially in the face of the fierce competition in domestic processing industry, the Company has to maintain its competitiveness and advantages. In light of this, the Company replaced traditional Hard Disk Drive (HDD) with new products and reduced the market size of traditional hard disk. Accordingly, the Company established a research institute in May 2022, while maintaining cooperation with college in scientific research and other aspects for the purpose of strengthening its efforts in technological improvement, cost reduction etc. Besides, the Company constantly explored new areas of development and further special products. At the beginning of the year, it proactively channeled resources in the research and development of new products. Consequently, an aggregate of research and development costs of HK\$32,076,000 was invested in the first half of the year, representing an increase of HK\$11,109,000 as compared to the corresponding period last year.

Affected by several interest rate hikes by American financial institutions, cost of the Company's Hong Kong dollar-denominated loan rose. As a result, the Company recorded finance costs of HK\$4,366,000 for the first half of the year as compared to HK\$1,913,000 for the corresponding period last year.

For the six months ended 30 June 2023, the Group recorded an unaudited net profit of HK\$8,231,000, representing a decrease of HK\$11,413,000 as compared to HK\$19,644,000 for the corresponding period last year.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2023, the Group had total bank borrowings of HK\$170,000,000 (31 December 2022: HK\$190,000,000) were secured by corporate guarantees given by the Company and its subsidiaries and deposits of its subsidiary of HK\$20,000,000 (31 December 2022: HK\$20,000,000). Besides, the Group pledged deposits of HK\$776,000 to issue letters of guarantee (31 December 2022: HK\$2,427,000). Except for pledged and restricted deposit, the Group had no charge on any of its assets for its banking facilities as at 30 June 2023.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

The Group generally finances its operations with internally generated cash flow as well as banking facilities provided by the banks. As at 30 June 2023, based on the 1,052,254,135 ordinary shares in issue (31 December 2022: 1,052,254,135 ordinary shares), cash attributable to each share amounted to HK\$0.69 (31 December 2022: HK\$0.71).

For the six months ended 30 June 2023, net cash inflow from the Company's operating activities was HK\$39,818,000, representing an increase of HK\$7,462,000 as compared to HK\$32,356,000 for the corresponding period last year.

Net cash outflow from investment activities was HK\$35,474,000, mainly due to the investment in machinery and equipment in the first half of the year to develop new projects and for research and development, while net cash outflow from investment activities for the corresponding period last year was HK\$43,142,000, representing a decrease of HK\$7,668,000.

Net cash outflow from financing activities was HK\$24,539,000 for the first half of the year, mainly due to the repayment of the bank loans granted last year and relevant interests, while net cash inflow from financing activities was HK\$70,228,000 for the corresponding period last year mainly due to the fact that the Group was granted a three-year bank loan in the first half of 2022 to repay bank loans due and payable.

Overall, the Group's net cash (cash and bank balances less total bank and other borrowings) as at 30 June 2023 was HK\$550,685,000, representing a decrease of HK\$4,763,000 as compared to HK\$555,448,000 as at 31 December 2022.

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 major raw materials, machineries and equipment, 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

Although the market has declined this year, the Company believes that it is necessary to establish a good team and talent training system to face challenges and opportunities in the future. In the first half of this year, the Company accelerated the implementation of the "four determine" (i.e., determine post, determine staffing, determine salary and determine responsibility) work projects, so as to facilitate the diversion of redundant personnel and personnel supplement plan of functional departments, increase the introduction and training of talents, focus on the recruitment of key talents, and improve and implement the training plan. In addition, the Company implements the internal lecturer mechanism to improve the curriculum development degree and teaching skills of the internal lecturers in the technical sequence, and conducts the feasible training effect evaluation scheme to master the talent training direction, give full play to the talent characteristics and improve the post adaptability.

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

As at 30 June 2023, the Company had a total of 2,171 employees, representing a decrease of 234 employees as compared to 2,405 employees as at 30 June 2022.

PROSPECT

In the first half of this year, as the global economic saw slow recovery, the three major business segments of the Company were affected to varying degrees at the same time: First, the Hard Disk Drive (HDD) market saw changes in storage technology, and customer demand dropped significantly. Second, in the first half of the year, the overall sales, especially of the traditional automotive components, decreased synchronously due to the low demand for traditional automobile in the terminal. Third, the domestic real estate market was still slowly recovering, which led to insufficient driver in the local infrastructure investment and sluggish demand for engineering hydraulic equipment, thus affecting the domestic customers' order demand for hydraulic components.

Under the sluggish market environment, the Company is required to deepen a series of development and innovation measures such as “building team, promoting sales, strengthening management, focusing on research and development, ensuring on quality, seeking development and expanding production capacity”, and broaden the new road for upgrading products under “leading technology, product innovation and quality upgrading”. The Company will strengthen lean team building, realize lean production, build an integrated supply chain of production, supply and sales, strengthen quality control, further explore new drivers of business growth, continuously develop new markets, customers and products, and expand business channels in a three-pronged manner. The Company will conduct in-depth exploration of new product research and development, seek development in a multi-thinking and multi-dimensional way, do its best to move towards the performance goal, and strive to become a leader of emerging production enterprises.

Recently, the Company has successfully obtained the construction permit for the Phase 2 plant project of Yangzhou Kemai, which can be officially constructed in the second half of the year and is expected to be completed in mid-2024. After completion, it can increase the production capacity and broaden the production capability of new products. On the other hand, the Company is promoting the construction of the plant area in Changshu base, and plans to build new plants to create the infrastructure for the future expansion of production capacity.

Finally, on behalf of the Board, I would like to thank all the staff for their contributions and dedication to the Group in the past.

SUPPLEMENTARY INFORMATION

Purchase, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2023 (2022: Nil).

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 six months ended 30 June 2023.

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 Company has adopted the principles and code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Part 2 of the Appendix 14 to Listing Rules as the basis of the Company’s corporate governance practices and the Board is of the view that the Company has met 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 C.2.1 of the CG Code. Mr. Zeng Guangsheng (“**Mr. Zeng**”) 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 Shareholders of the Company as a whole.

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. Zhu Jianbiao, has reviewed together 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 as well as reviewed the interim results of the Group for the six months ended 30 June 2023.

AMENDMENTS AND ADOPTION OF NEW MEMORANDUM AND ARTICLES OF ASSOCIATION AND ADOPTION OF CHINESE NAME

Subsequent to the passing of the special resolutions approving the amendments to and the adoption of new memorandum and articles of association (the “**Amendment and Adoption of M&A**”) and adoption of the Chinese name “國際精密集團有限公司” as the dual foreign name of the Company (the “**Adoption of Chinese name**”) by the shareholders of the Company at the annual general meeting of the Company held on 15 May 2023 and the Certificate of Incorporation of Change of Name was issued by the Registrar of Companies in the Cayman Islands on 29 May 2023 and the Certificate of Registration of Alternation of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 29 June 2023. For details of the Amendment and Adoption of M&A as well as the Adoption of Chinese name, please refer to the announcements dated 27 March 2023, 15 May 2023 and 4 July 2023 and the circular dated 21 April 2023 of the Company.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.ipegroup.com>) respectively. The interim report for the six months ended 30 June 2023 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the same websites in due course.

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. Zhu Jianbiao

By order of the Board

IPE Group Limited

Mr. Tam Yiu Chung

Company Secretary

Hong Kong, 25 August 2023