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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)

(1) ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023 (2) PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

FINANCIAL HIGHLIGHTS

1. Revenue for the year decreased by 6.6% to HK\$898.7 million (2022: HK\$962.6 million).
2. Gross profit margin for the year was 24.8% (2022: 28.5%).
3. Profit for the year decreased by 43.6% to HK\$15.6 million (2022: HK\$27.7 million).
4. Basic earnings per share for the year was HK0.54 cents (2022: HK0.83 cents).
5. Net asset value per share as at 31 December 2023 was HK\$1.86 (2022: HK\$1.82).
6. The Group was in a net cash position (i.e. cash and bank balances less total borrowings) as at 31 December 2023 in the amount of HK\$488.8 million or equivalent to HK46.45 cents per share (2022: HK\$555.4 million or HK52.79 cents per share).
7. The Board does not recommend the payment of a final dividend for the year (2022: Nil).

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 2023, together with the comparative results for the previous year:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	3	898,733	962,566
Cost of sales		<u>(675,909)</u>	<u>(688,379)</u>
Gross profit		222,824	274,187
Other income	4	62,015	45,606
Change in fair value of investment properties		(2,557)	4,775
Provision for impairment losses related to receivables		(4,501)	(538)
Distribution costs		(28,947)	(26,178)
Administrative expenses and other expenses		(149,368)	(183,874)
Research and development costs		<u>(57,696)</u>	<u>(68,966)</u>
Profit from operations		41,770	45,012
Finance costs	5(a)	(11,239)	(6,832)
Share of loss of an associate		<u>(1,158)</u>	<u>(822)</u>
Profit before taxation	5	29,373	37,358
Income tax	6	<u>(13,728)</u>	<u>(9,617)</u>
Profit for the year		<u>15,645</u>	<u>27,741</u>
Attributable to:			
Equity shareholders of the Company		5,667	8,693
Non-controlling interests		<u>9,978</u>	<u>19,048</u>
Profit for the year		<u>15,645</u>	<u>27,741</u>
Earnings per share			
Basic and diluted	7	<u>HK0.54 cents</u>	<u>HK0.83 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Profit for the year	15,645	27,741
Other comprehensive loss for the year (after tax adjustment)		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of foreign operations	<u>(17,114)</u>	<u>(195,145)</u>
Total comprehensive loss for the year	<u>(1,469)</u>	<u>(167,404)</u>
Attributable to:		
Equity shareholders of the Company	(7,527)	(181,227)
Non-controlling interests	<u>6,058</u>	<u>13,823</u>
Total comprehensive loss for the year	<u>(1,469)</u>	<u>(167,404)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current assets			
Investment properties	9	130,189	135,132
Property, plant and equipment	9	794,191	698,031
Intangible assets	10	68,362	4,288
Goodwill	11	69,206	10,196
Interest in an associate		1,745	2,903
Deposits for purchase of property, plant and equipment		2,198	1,267
Deferred tax assets		16,562	22,723
		1,082,453	874,540
Current assets			
Financial assets measured at fair value through profit or loss		16,902	17,511
Inventories	12	330,503	325,574
Trade and other receivables	13	420,470	367,563
Pledged and restricted deposits		22,099	22,239
Cash and cash equivalents		674,400	729,058
		1,464,374	1,461,945
Current liabilities			
Trade and other payables	14	342,317	185,911
Bank and other loans		71,147	45,849
Lease liabilities		2,071	1,031
Deferred income		431	702
Tax payable		11,391	15,591
		427,357	249,084
Net current assets		1,037,017	1,212,861
Total assets less current liabilities		2,119,470	2,087,401

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Non-current liabilities			
Bank and other loans		114,399	150,000
Lease liabilities		3,465	1,899
Other payables	14	2,364	2,751
Deferred income		831	1,285
Deferred tax liabilities		34,221	19,380
		<u>155,280</u>	<u>175,315</u>
NET ASSETS		<u>1,964,190</u>	<u>1,912,086</u>
CAPITAL AND RESERVES			
Share capital		105,225	105,225
Reserves		<u>1,725,798</u>	<u>1,735,189</u>
Total equity attributable to equity shareholders of the Company		1,831,023	1,840,414
Non-controlling interests		<u>133,167</u>	<u>71,672</u>
TOTAL EQUITY		<u>1,964,190</u>	<u>1,912,086</u>

NOTES

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. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of registered office of the Company is 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands. The principal places of business of the Company in Hong Kong, the People's Republic of China (the "**PRC**") and Thailand are Unit 5-6, 23/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong, No. 8 Zhuzian Road, Yue Hu Cun, Zengcheng, Guangzhou, Guangdong Province, the PRC and 99/1 Mu Phaholyothin Road, Sanubtueb, Wangnoi, Ayutthaya 13170, Thailand respectively.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are production of computer numerical control ("**CNC**") lathes and manufacturing and sale of high precision metal components products. There were no significant changes in the nature of the Group's principal activities during the year.

At 31 December 2023, the directors of the Company consider the immediate parent of the Group to be Baoan Technology Company Limited, a company incorporated in Hong Kong while the ultimate controlling party of the Group to be China Baoan Group Co., Ltd., a company incorporated in the PRC.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Principal accounting policies adopted by the Group are disclosed in note 1 to the consolidated financial statements.

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 consolidated financial statements.

(b) Basis of preparation of the consolidated financial statements

These consolidated financial statements for the year ended 31 December 2023 comprise the Company and its subsidiaries and the Group's interest in an associate.

These consolidated financial statements are presented in Hong Kong Dollar ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

The measurement basis used in the preparation of the consolidated 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; and
- other investments.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 2 to the consolidated financial statements.

(c) Changes in accounting policies

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

(i) Amendments to HKAS 1: Disclosure of Accounting Policies

The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies.

The amendments have no effect on the measurement, recognition or presentation of any items in the consolidated financial statements.

(ii) Amendments to HKAS 8: Definition of Accounting Estimates

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are production of CNC lathes and manufacturing and sale of precision components products. The Group does not offer any discounts or rebates to customers and does not permit sales return except for where the products are damaged or defective. 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:

	2023	2022
	HK\$'000	HK\$'000
Sales of automotive components	445,241	458,334
Sales of hydraulic equipment components	364,444	394,296
Sales of electronic equipment components	36,192	91,151
Sales of CNC lathes	28,334	–
Others	24,522	18,785
	<hr/>	<hr/>
Total	898,733	962,566
	<hr/>	<hr/>

The Group's customer base is diversified and does not have any individual customer (2022: 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 organized 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:

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 2023 and 2022 is set out below.

	2023						Total HK\$'000
	Thailand HK\$'000	Malaysia HK\$'000	Mainland China, Macau and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	
Revenue from external customers							
recognised by:							
– point in time	17,933	34,239	427,200	167,033	196,137	27,857	870,399
– over time	–	–	28,334	–	–	–	28,334
	17,933	34,239	455,534	167,033	196,137	27,857	898,733
Inter-segment revenue	9,814	–	–	–	–	–	9,814
Reportable segment revenue	27,747	34,239	455,534	167,033	196,137	27,857	908,547
Reportable segment profit							
Gross profit	<u>4,446</u>	<u>8,489</u>	<u>112,941</u>	<u>41,413</u>	<u>48,628</u>	<u>6,907</u>	<u>222,824</u>
	2022						
	Thailand HK\$'000	Malaysia HK\$'000	Mainland China, Macau and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	Total HK\$'000
Revenue from external customers							
recognised by:							
– point in time	8,039	83,959	461,196	171,528	206,420	31,424	962,566
Inter-segment revenue	29,555	–	–	–	–	–	29,555
Reportable segment revenue	37,594	83,959	461,196	171,528	206,420	31,424	992,121
Reportable segment profit							
Gross profit	<u>2,290</u>	<u>23,915</u>	<u>131,372</u>	<u>48,860</u>	<u>58,799</u>	<u>8,951</u>	<u>274,187</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 properties, other property, plant and equipment, intangible assets, goodwill and deposits for purchase of property, plant and equipment ("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 interest in an associate.

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	984,862	761,773
Hong Kong	58,451	61,796
Thailand	22,578	25,345
	<u>1,065,891</u>	<u>848,914</u>

4 OTHER INCOME

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Government grants	10,872	8,204
Insurance claim	8,208	–
Interest income	14,335	13,881
Net gain on disposal of other property, plant and equipment	4,704	2,195
Dividend income	2,376	1,540
Net exchange gain	4,703	11,597
Rental income from investment properties	9,753	2,213
Sale of scrap materials	125	1,677
Others	6,939	4,299
	<u>62,015</u>	<u>45,606</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
(a) Finance costs		
Interest on bank loans	10,112	5,379
Financial arrangement fees	1,021	1,345
Interest on lease liabilities	106	108
	<u>11,239</u>	<u>6,832</u>
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
(b) Staff costs		
Salaries, wages and other benefits	248,534	287,645
Contributions to defined contribution retirement plan	19,462	13,307
Equity settled share-based payment expenses	141	15,295
	<u>268,137</u>	<u>316,247</u>
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
(c) Other items		
Cost of inventories	675,909	688,379
Depreciation		
– owned property, plant and equipment	97,932	90,170
– right-of-use assets	1,016	608
Amortisation of intangible assets (included in administrative expenses)	1,344	1,418
Amortisation of leasehold land	2,079	2,136
Lease payments not included in the measurement of lease liabilities	92	128
Research and development costs	57,696	68,966
Auditor's remuneration		
– audit services	1,450	1,200
– other services	900	484
Gain on disposal of items of other property, plant and equipment	(4,704)	(2,195)
Direct operating expenses arising from investment properties that generated rental income	63	64
	<u>63</u>	<u>64</u>

6 INCOME TAX

Taxation in the consolidated statement of profit or loss represents:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current tax		
<i>Hong Kong Profits Tax</i>		
Provision for current income tax	<u>1,672</u>	<u>1,000</u>
<i>PRC corporate income tax</i>		
Provision for current income tax	8,098	14,052
(Over) Under-provision in prior years	<u>(4,656)</u>	<u>376</u>
	<u>3,442</u>	<u>14,428</u>
<i>Thailand's income tax</i>		
Provision for current income tax	–	1,713
Under-provision in prior years	<u>16</u>	<u>1,049</u>
	<u>16</u>	<u>2,762</u>
	5,130	18,190
Deferred tax		
Origination and reversal of temporary differences	<u>8,598</u>	<u>(8,573)</u>
	<u>13,728</u>	<u>9,617</u>

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\$5,667,000 (2022: HK\$8,693,000) and the weighted average of 1,052,254,000 ordinary shares (2022: 1,052,254,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for years ended 31 December 2023 and 2022 were the same as the basic earnings per share.

At 31 December 2023, 105,400,000 (2022: 105,700,000) 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 a final dividend for in respect of the year ended 31 December 2023 (2022: 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 2022	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-2022	-	-	-	-	-	-	-	-	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
Additions	910	3,243	27,028	-	43,867	21,450	987	4,726	-	102,211
Transfer from inventories	-	-	-	-	19,600	-	-	-	-	19,600
Disposals	-	-	-	(1,486)	(53,942)	(6,589)	(768)	(759)	-	(63,544)
Fair value adjustment	-	-	-	-	-	-	-	-	4,775	4,775
Exchange adjustment	(8,514)	-	(56,193)	(1,268)	(138,717)	(9,687)	(958)	(781)	(12,274)	(228,392)
At 31 December 2022	72,454	7,442	748,259	17,602	1,548,738	117,321	13,615	10,644	135,132	2,671,207
Representing										
Cost	72,454	7,442	748,259	17,602	1,548,738	117,321	13,615	10,644	-	2,536,075
Valuation-2022	-	-	-	-	-	-	-	-	135,132	135,132
	72,454	7,442	748,259	17,602	1,548,738	117,321	13,615	10,644	135,132	2,671,207
Additions	48	-	16,369	-	45,144	12,788	713	27,867	-	102,929
Transfer from construction in progress	-	-	-	-	8,794	530	-	(9,324)	-	-
Addition through acquisition of subsidiaries	10,890	5,050	50,766	-	57,281	6,693	2,548	6,713	-	139,941
Disposals	-	-	(889)	-	(77,088)	(5,936)	(44)	-	-	(83,957)
Fair value adjustment	-	-	-	-	-	-	-	-	(2,557)	(2,557)
Exchange adjustment	(1,282)	(500)	(9,764)	(233)	(22,780)	(1,763)	(163)	(557)	(2,386)	(39,428)
At 31 December 2023	82,110	11,992	804,741	17,369	1,560,089	129,633	16,669	35,343	130,189	2,788,135
Representing										
Cost	82,110	11,992	804,741	17,369	1,560,089	129,633	16,669	35,343	-	2,657,946
Valuation-2023	-	-	-	-	-	-	-	-	130,189	130,189
	82,110	11,992	804,741	17,369	1,560,089	129,633	16,669	35,343	130,189	2,788,135
Accumulated depreciation:										
At 1 January 2022	(6,762)	(3,959)	(393,543)	(19,016)	(1,442,741)	(87,854)	(10,007)	-	-	(1,963,882)
Charge for the year	(2,136)	(608)	(23,749)	(826)	(55,275)	(8,850)	(1,470)	-	-	(92,914)
Written back on disposals	-	-	-	1,486	51,385	5,683	749	-	-	59,303
Exchange adjustment	661	(90)	29,818	1,040	120,749	6,630	641	-	-	159,449
At 31 December 2022	(8,237)	(4,657)	(387,474)	(17,316)	(1,325,882)	(84,391)	(10,087)	-	-	(1,838,044)
Charge for the year	(2,079)	(1,016)	(23,569)	(548)	(61,978)	(10,445)	(1,392)	-	-	(101,027)
Addition through acquisition of subsidiaries	(1,968)	(1,860)	(7,532)	-	(16,509)	(3,893)	(1,563)	-	-	(33,325)
Written back on disposals	-	-	587	-	76,993	5,065	43	-	-	82,688
Exchange adjustment	478	511	5,265	495	17,782	1,345	77	-	-	25,953
At 31 December 2023	(11,806)	(7,022)	(412,723)	(17,369)	(1,309,594)	(92,319)	(12,922)	-	-	(1,863,755)
Net book value:										
At 31 December 2023	70,304	4,970	392,018	-	250,495	37,314	3,747	35,343	130,189	924,380
At 31 December 2022	64,217	2,785	360,785	286	222,856	32,930	3,528	10,644	135,132	833,163

10 INTANGIBLE ASSETS

	Computer Software <i>HK\$'000</i>	Patents <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2021	–	7,449	7,449
Exchange adjustment	–	(629)	(629)
	<hr/>	<hr/>	<hr/>
At 31 December 2022 and 1 January 2023	–	6,820	6,820
Addition through acquisition of subsidiaries	747	64,558	65,305
Exchange adjustment	–	(153)	(153)
	<hr/>	<hr/>	<hr/>
At 31 December 2023	<hr/> 747	<hr/> 71,225	<hr/> 71,972
Accumulated amortisation:			
At 31 December 2021	–	(993)	(993)
Charge for the year	–	(1,418)	(1,418)
Exchange adjustment	–	(121)	(121)
	<hr/>	<hr/>	<hr/>
At 31 December 2022 and 1 January 2023	–	(2,532)	(2,532)
Charge for the year	–	(1,344)	(1,344)
Exchange adjustment	–	266	266
	<hr/>	<hr/>	<hr/>
At 31 December 2023	<hr/> –	<hr/> (3,610)	<hr/> (3,610)
Net book value:			
At 31 December 2023	<hr/> 747	<hr/> 67,615	<hr/> 68,362
At 31 December 2022	<hr/> –	<hr/> 4,288	<hr/> 4,288

11 GOODWILL

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Cost and carrying amount		
At 1 January	10,196	11,618
At date of acquisition of subsidiaries	58,761	–
Exchange adjustment	249	(1,422)
	<u>69,206</u>	<u>10,196</u>
At 31 December	<u>69,206</u>	<u>10,196</u>

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:

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Jiangsu Kemai Hydraulic control System Company Limited ("Jiangsu Kemai")	(i)	10,445	10,196
Yutai Hydraulic Technology (Shanghai) Company Limited and Wuhu Inno Hydraulic Technology Co., Ltd. (together as "Yutai Hydraulic Group")	(ii)	58,761	–
		<u>69,206</u>	<u>10,196</u>

- (i) 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% (2022: 3%). Cash flows beyond the aforementioned financial forecasts period are extrapolated using estimated sales growth rate of 2% (2022: 2%), 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% (2022: 13.3%). The discount rates used are pre-tax and reflect specific risks relating to the Jiangsu Kemai.

- (ii) It was arising from the acquisition of Yutai Hydraulic Group in December 2023. The recoverable amount of the Yutai Hydraulic Group 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 8%. Cash flows beyond the aforementioned financial forecasts period are extrapolated using estimated sales growth rate of 2%, 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 13.22%. The discount rates used are pre-tax and reflect specific risks relating to the Yutai Hydraulic Group.

12 INVENTORIES

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	99,655	95,256
Consumables	16,616	20,694
Work in progress	88,445	81,231
Finished goods	125,787	128,393
	<u>330,503</u>	<u>325,574</u>

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

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of inventories sold	668,563	684,068
Write-down of inventories	7,346	4,311
Cost of inventories	<u>675,909</u>	<u>688,379</u>

13 TRADE AND OTHER RECEIVABLES

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors, net of loss allowance	269,645	268,226
Bills receivables	54,242	33,131
Other debtors, net of loss allowance	20,146	13,080
Contract assets	17,131	–
	<hr/>	<hr/>
Financial assets measured at amortised cost	361,164	314,437
Deposits and prepayments	26,738	27,104
Prepayment for purchasing property, plant and equipment	14,800	16,462
Deductible input value added taxes	17,768	9,560
	<hr/>	<hr/>
	420,470	367,563
	<hr/> <hr/>	<hr/> <hr/>

All of trade and other receivables are expected to be recovered or recognised as expense within one year. The Group does not hold any collaterals over the trade and other receivables as at 31 December 2023 (2022: Nil).

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:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	106,371	89,393
1 to 2 months	85,440	72,041
2 to 3 months	50,517	63,950
3 to 4 months	34,399	39,120
4 to 12 months	47,160	36,853
	<hr/>	<hr/>
	323,887	301,357
	<hr/> <hr/>	<hr/> <hr/>

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

14 TRADE AND OTHER PAYABLES

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	102,351	101,110
Interest payables	687	811
Other payables	23,753	42,768
Other tax payables	4,048	2,950
Payable for purchasing property, plant and equipment	5,088	9,118
Accruals	40,689	31,905
Consideration payable for acquisition of subsidiaries	168,065	–
	344,681	188,662
Portion classified as non-current:		
Other payables	(2,364)	(2,751)
Current portion	342,317	185,911

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:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	55,584	33,556
1 to 2 months	24,698	31,333
2 to 3 months	10,812	18,396
Over 3 months	11,257	17,825
	102,351	101,110

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

In the face of the economic downturn, the Company achieved sales of HK\$898,733,000 for the year, representing a decrease of 6.6% or HK\$63,833,000 as compared to the corresponding period of last year. In particular, the electronic equipment components recorded remarkable decline in sales. Under the impact of Solid State Disk (hereinafter referred to as “SSD”), the demand for traditional Hard Disk Drive (HDD) orders dropped significantly, resulting in a decline in the sales of this business from HK\$91,151,000 last year to HK\$36,192,000 this year; therefore, this business accounted for only 4.0% of the total sales of the Company.

In the face of rapid technological development, the Company must innovate and constantly explore new business segments. Revenue from the production and sales of high-end CNC lathe business recorded an amount of HK\$28,334,000. Driven by this new business, the decline in sales of electronic equipment components was partially offset, thereby helping the Company diversify its business and consolidate its various sales sources.

As for the automotive components business, which currently accounts for the largest proportion of the Company, sales rose from HK\$207,303,000 in the first half to HK\$237,938,000 in the second half, resulting in sales of HK\$445,241,000 for the year, representing a decrease of 2.9% as compared to the same period last year. The automotive components business remained the largest share of sales of the Company.

For hydraulic components business, due to the impact of sluggish market in China, weak demand for construction machinery and the failure to recover orders from major customers, sales of hydraulic components business amounted to HK\$364,444,000, representing a decrease of HK\$29,852,000 or 7.6% as compared to HK\$394,296,000 last year. The sales order situation in the second half of the year reflected that the hydraulic components business has stabilized.

Total sales for the year amounted to HK\$898,733,000, representing a decrease of HK\$63,833,000 or 6.6% as compared to last year. Due to the decrease in sales, the Company was unable to achieve economies of scale and the gross profit contribution decreased accordingly, with the gross profit for the year amounting to HK\$222,824,000, representing a decrease of HK\$51,363,000 as compared to last year. In addition, the Company generated substantial foreign exchange gains by benefiting from the depreciation of Renminbi last year, while the Company's Renminbi liabilities for the current year decreased as compared to last year, resulting in a significant decrease in foreign exchange gains for 2023 as compared to last year. Moreover, the interest rates of loans in Hong Kong have been rising since 2022 in line with the interest rate hikes in the United States, resulting in a sharp increase in borrowing costs of the Company during 2023. As a result of the above several factors, the Company's net profit after tax for the year ended 31 December 2023 amounted to HK\$15,645,000, representing a decrease of 43.6% as compared to last year.

The following table shows the sales of each of the Group's businesses.

	2023		2022		Change	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Major business categories						
Automotive components	445,241	49.5	458,334	47.6	-13,093	-2.9
Hydraulic equipment components	364,444	40.6	394,296	41.0	-29,852	-7.6
Electronic equipment components	36,192	4.0	91,151	9.5	-54,959	-60.3
CNC lathes	28,334	3.2	–	–	28,334	+100.0
Others	24,522	2.7	18,785	1.9	5,737	+30.5
	<u>898,733</u>	<u>100.0</u>	<u>962,566</u>	<u>100.0</u>	<u>63,833</u>	<u>-6.6</u>

In the face of declining profits, the management adopted various reduction plans to save costs, implemented a remuneration reduction plan for the executive directors and senior management during the year to tide over the difficult times, and also implemented various cost reductions, as a result, the administrative expenses were reduced by HK\$34,506,000 as compared to last year.

Despite the weak economic climate and the decline in orders, the Company has continued to consolidate its high-precision manufacturing level and to carry out fundamental work to prepare for the economic recovery. As the plant in Guangdong has reached its full capacity, the Company signed a contract for the construction of a 28,977 square meter plant in August 2023 at a cost of RMB66,660,000 to prepare for the market recovery. Secondly, our subsidiary, Jiangsu Kemai, expanded the second phase of the plant in Yangzhou to lay the groundwork for the expansion of production capacity. In addition, the Company built a testing center of the research institute to provide the convenience of on-site testing, which helps to improve the quality of the Company's products.

Moreover, during the year, our subsidiary, Jiangsu Kemai, strived for obtaining the Science and Technology Award of the Machinery Industry (機械工業科學技術獎) by the China Machinery Industry Federation (中國機械聯合會). In addition, Guangzhou Huitong (廣州匯通) and Dongguan Koda (東莞科達) obtained the qualification of High and New Technology Enterprise by the end of the year, which recognized the Company's high-precision technology level.

In order to achieve long-term and sustainable growth in sales and diversify sales, based on its cumulative hydraulic business for many years, the Company successfully completed the acquisition of Yutai Hydraulic Technology (Shanghai) Co., Ltd. (裕泰液壓技術(上海)有限公司), a large well-known domestic hydraulic equipment enterprise, and its subsidiaries (collectively referred to as “**Yutai Hydraulic**”) at the end of 2023, with a total consideration of RMB228,428,000, and obtained bank loans to support the acquisition project. For further details of the acquisition, please refer to the announcements of the Company dated 26 December and 27 December 2023. Yutai Hydraulic is engaged in research, design, production and sales of hydraulic valve components, modular hydraulic products and integrated hydraulic valve products, with a broad customer base in China, and its products can also be applied to different scenarios, including construction machinery, agricultural machinery, industrial vehicles and aerial work equipment. The Company considers that mergers and acquisitions can continuously expand its product portfolio and customer base, which is conducive to improving the core competitiveness of the Group and achieving long-term sustainable development; this is also conducive to the long-term business development of its precision metal components business. Although the hydraulic industry was in a downturn, there was no impairment loss after mergers and acquisitions during the year.

PROSPECT

We take “building team, promoting sales, strengthening management, focusing on research and development, ensuring on quality, seeking development and expanding production capacity” as its basic policy, in order to promote the future development of the Company’s business. During the year, we focused on implementation of several tasks.

The first and foremost is business diversification, gradually seeking new business, including hydraulic business expansion and new energy automobile components; developing new products and new customers, driving new customer areas through mergers and acquisitions of new members, etc.;

In order to satisfy the needs of the market and our existing customers, we will actively communicate with our customers about the market situation and provide them with solutions rapidly based on our experience in high-precision processing. At the same time, through the establishment of the testing center of the research institute, we will provide a perfect testing platform for the Company’s products and provide customers with multi-dimensional testing and operational testing in real environments, to strengthen customer confidence in our products.

We will continue to carry out automation projects, not only to automate a certain position to reduce labor demand and cost, but also to realize integrated automation solutions to improve the Company’s production capacity, strictly control product quality level, and strengthen customer confidence in quality. We will promote cost reduction in multiple ways and explore new procurement methods starting from the source of procurement. While reducing costs, we will speed up delivery cycle, reduce inventory storage demand, etc.

In addition, we will continue to optimize production process, encourage employees of each position to provide suggestions on cost reduction and quality improvement, and directly reward the relevant employees with results arising from their suggestions. In order to have young talents in the future, we will implement a program to cultivate talents, to provide suitable talents for the Company’s expansion and new areas. We will introduce professional and high-quality fresh graduates with master’s or doctoral degree, laying adequate resources for the future development of the Company. In order to ensure excellent product quality, obtain customer recognition, and strengthen customer confidence, the Company will continue to strictly comply with the quality management system for all subsidiaries and work together to promote the application of quality system certificate to establish the cornerstone of good quality products.

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.

FINANCIAL REVIEW

Faced with the downturn of the electronic equipment business, coupled with the weak economic climate in the PRC, the hydraulic market was sluggish. Operating under such difficult conditions, the Group recorded a turnover of HK\$898,733,000, representing a decrease of HK\$63,833,000 or 6.6% from HK\$962,566,000 of the same period last year.

The Group recorded a gross profit of HK\$222,824,000 in 2023 as compared to HK\$274,187,000 for the same period last year, representing a decrease of HK\$51,363,000 over last year;

Due to failure to benefit from economies of scale with a decline in sales, gross profit margin decreased to 24.8% in 2023 from 28.5% last year, representing a decrease of 3.7%.

Other income recorded an amount of HK\$62,015,000 for the year, of which, the disposal of scrap equipment during the year recorded an amount of HK\$4,704,000, representing a year-on-year increase of HK\$2,509,000; secondly, after the COVID-19 pandemic, the rental income of investment properties for the year rebounded to HK\$9,753,000, representing a year-on-year increase of HK\$7,540,000. In addition, due to the depreciation of RMB last year, a significant exchange gain was generated. Although the relevant income was affected by the reduction of Renminbi liabilities compared with last year, the exchange gain still recorded an amount of HK\$4,703,000.

Selling and distribution expenses amounted to HK\$28,947,000 in 2023, representing an increase of HK\$2,769,000 from HK\$26,178,000 last year. The increase was mainly due to the following factors: as the PRC lifted all border lockdowns after the COVID-19 pandemic, the sales team resumed communication with customers, resulting in an increase in travel expenses of HK\$851,000; secondly, with the increase in the proportion of domestic sales, the increase in exhibition and entertainment expenses arising from related sales activities also led to an increase in selling and distribution expenses.

Administrative expenses and other expenses amounted to HK\$149,368,000 in 2023, representing a decrease of HK\$34,506,000 or 18.8% as compared to HK\$183,874,000 for the same period last year. In particular, amortisation of share option expenses decreased. Amortisation expenses amounted to HK\$141,000 in 2023, representing a decrease of HK\$15,154,000 as compared to last year. Secondly, under the drive to streamline staff, salaries included in administrative expenses amounted to HK\$39,960,000, representing a decrease of HK\$3,995,000 as compared to last year. In addition, a remuneration reduction plan has been implemented for executive directors and senior management to tide over the difficult times, which saved about HK\$2,366,000 as compared to last year. Moreover, maintenance costs reduced by HK\$1,663,000 as compared to the same period last year.

Affected by the interest hike in the United State, the interest rate of bank loans increased significantly. The total amount of bank loans increased, resulting in an increase in finance costs of HK\$4,407,000 to HK\$11,239,000 in 2023 as compared to HK\$6,832,000 for the same period last year.

Finally, the profit attributable to holders of the Group for the year ended 31 December 2023 amounted to HK\$15,645,000, representing a decrease of HK\$12,096,000 or 43.6% as compared to HK\$27,741,000 last year.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2023, the Group had total borrowings of HK\$185,546,000, representing a decrease of HK\$10,303,000 as compared to HK\$195,849,000 for the same period last year, which were secured by personal guaranteed given by a former director and a director of a subsidiary of the Company and a beneficial owner of non-controlling interests and deposits of its subsidiary of HK\$20,000,000 (2022: HK\$20,000,000). Among them, the Group pledged deposits of HK\$2,099,000 to issue letters of guarantee (2022: HK\$2,239,000).

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

As at 31 December 2023, cash per share of the Group amounted to HK\$0.66 as compared to HK\$0.71 last year, based on the 1,052,254,135 ordinary shares in issue (31 December 2022: 1,052,254,135 ordinary shares). The net asset value per share for 2023 amounted to HK\$1.87, representing an increase of HK\$0.05 or 2.7% as compared to HK\$1.82 last year.

In the statement of cash flows, net cash inflow from operating activities amounted to HK\$147,606,000 in 2023, representing an increase of HK\$143,196,000 as compared to net cash inflow from operating activities of HK\$4,410,000 last year.

In terms of capital expenditures, in order to maintain its production capacity and upgrade its technology level, the Company purchased high-end and automation equipment. During the year, the Company invested HK\$102,929,000 in various types of property, plant and equipment, which was close to the amount invested in property, plant and equipment last year. The net cash outflow from the acquisition of Yutai and its subsidiaries in 2023 was HK\$54,735,000 (2022: nil); as a result, net cash outflow from investing activities amounted to HK\$134,980,000 in 2023, representing an increase of HK\$47,977,000 as compared to net cash outflow from investing activities of HK\$87,003,000 last year.

In terms of financing activities, the annual interest expense amounted to HK\$9,985,000 in 2023, as compared to the interest expense of HK\$4,688,000 last year. The increase was due to the increase in the annual interest rate of bank loans during the year. In addition, repayment of bank loans amounted to HK\$40,000,000 in 2023, as compared to HK\$180,795,000 last year, mainly due to the repayment of matured bank borrowings by new bank borrowings; net cash outflow from financing activities amounted to HK\$51,077,000 in 2023, as compared to net cash inflow of HK\$42,590,000 last year due to the arrangement of new bank loans.

The Group's net cash (cash and bank balances less total bank borrowings) was HK\$488,854,000 as at 31 December 2023, representing a decrease of HK\$44,355,000 as compared to HK\$533,209,000 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, whereas most of the Group's expenses, such as major raw materials and machinery costs and production expenses, are denominated in Japanese yen, Renminbi, Thai Baht and Hong Kong dollars, fluctuations in exchange rates can materially affect the Group, in particular, the appreciation of Renminbi will adversely affect the Group's profitability. The management of the Group continuously evaluates the foreign exchange risks of the Group and takes measures when necessary to reduce the risks.

HUMAN RESOURCES

In compliance with the Lean Talent Certification Management Measures (《精益人才認證管理辦法》), the Company strengthened the incentive of key technical talents and reduced the loss of them. Meanwhile, the Company also improved employees' welfare to guarantee their daily needs and enhance their sense of belongings. During the year, lean talent certification was conducted to train lean talents and build up a lean talent echelon. In 2023, 24 employees were certified as lean talents, and relevant lean talents were encouraged and requested to proactively identify and propose improvement opportunities and to take the lead in setting up topics for improvement projects. In addition, we have recruited talents in different fields through different channels, and there are 23 employees with master's or doctoral degree in the Company.

Moreover, the Company adopted safety policies, and regularly carried out safety trainings to improve the safe production awareness of employees, avoiding production safety accidents and injuries to employees on the production line.

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.

The Company continued to improve its automated production model and adopted advanced multi-functional production equipment to reduce the need for basic personnel. As at 31 December 2023, the Company had a total of 2,065 employees, representing a decrease of 139 employees as compared to 2,204 employees as at 31 December 2022.

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 in respect of the year ended 31 December 2023 (2022: Nil).

Closure of Register of Members

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

From 7 May 2024 to 10 May 2024 (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 2024 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 6 May 2024 for registration of transfer.

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 adopted and met the code provisions set out in the Corporate Governance Code contained in Appendix C1 to the Listing Rules (the “CG Code”) during the period under review except that there was no separation of the roles of Chairman and Chief Executive Officer as specified in the code provision 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. Zhu Jianbiao, 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 annual results for the year ended 31 December 2023 with senior management of the Group and external auditor.

Events after the Reporting Period

The Group had no material events for disclosure subsequent to 31 December 2023 and up to the date of this announcement.

Scope of Work of Mazars CPA Limited

The 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 2023 as set out in this announcement have agreed the Group’s auditor, Mazars CPA Limited (“**Mazars**”), to the amounts set out in the Group’s draft consolidated financial statements for the year ended 31 December 2023. The work performed by Mazars in this respect did not constitute an 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 Mazars on this announcement.

General

A circular of the Company containing, inter alia, full details of the proposed Amendments to the Memorandum and Articles of the Company, together with a notice of the AGM of the Company and the related proxy form, will be despatched to the shareholders of the Company in due course.

Proposed Amendments to the Memorandum and Articles of Association of the Company

The Board proposes to amend and restate the Memorandum and Articles of Association to comply with Rule 2.07A of the Listing Rules, in relation to the dissemination of corporate communications to shareholders by way of electronic means. Other amendments to the Articles are also proposed for the purpose of providing greater flexibility to the Company relating to the conduct of general meetings by allowing general meetings to be held by any one or a combination of the following means: (1) physical attendance; and (2) electronic participation (the “**Proposed Amendments**”). Details of the Proposed Amendments will be set out in the circular to be dispatched to the Shareholders in due course.

The Proposed Amendments are subjected to the approval of the shareholders by way of a special resolution (“**Special Resolution**”) at the AGM, with the amendments to take effect when the Proposed Amendments become effective at the AGM. Prior to the passing of the Special Resolution, the existing Memorandum and Articles shall remain valid. After the Proposed amendments to the Memorandum and Articles come into effect, the full text of the new set of Memorandum and Articles will be published on the websites of the Company and the Stock Exchange (www.hkexnews.hk).

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
Zeng Guangsheng
Chairman

Hong Kong, 22 March 2024