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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 2022

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 2022, 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	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Revenue	4&5	502,857	518,272
Cost of sales		(367,101)	(388,597)
Gross profit		135,756	129,675
Other income	5	24,580	21,748
Distribution costs		(12,014)	(10,925)
Administrative expense and other expense		(94,804)	(80,499)
Research and development costs		(20,967)	(12,939)
Profit from operations		32,551	47,060
Finance costs	6	(1,913)	(2,938)
Share of losses of an associate		(600)	(896)
Profit before taxation	7	30,038	43,226
Income tax	8	(10,394)	(11,188)
Profit for the period		19,644	32,038
Attributable to:			
Equity shareholders of the Company		11,482	30,201
Non-controlling interests		8,162	1,837
Profit for the period		19,644	32,038
Earnings per share	9		
Basic		HK1.1 cents	HK2.9 cents
Diluted		HK1.1 cents	HK2.9 cents
Interim dividend per share	10	–	–

* For identification purposes only

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2022 (Unaudited) <i>HK\$'000</i>	2021 (Unaudited) <i>HK\$'000</i>
Profit for the period	<u>19,644</u>	<u>32,038</u>
Other comprehensive income:		
Exchange difference on translation of foreign operation	<u>(86,163)</u>	<u>8,495</u>
Total comprehensive income for the period	<u>(66,519)</u>	<u>40,533</u>
Attributable to:		
Equity shareholders of the Company	(73,997)	38,996
Non-controlling interests	<u>7,478</u>	<u>1,537</u>
Total comprehensive income for the period	<u>(66,519)</u>	<u>40,533</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment property and other property, plant and equipment	<i>11</i>	843,499	872,675
Intangible assets		5,832	6,456
Goodwill		11,758	11,618
Interest in an associate		3,124	3,725
Deposits for purchase of non-current assets		2,869	11,362
Deferred tax assets		23,678	24,316
		<hr/> 890,760 <hr/>	<hr/> 930,152 <hr/>
CURRENT ASSETS			
Financial assets		9,534	10,194
Inventories	<i>12</i>	343,949	316,004
Trade receivables	<i>13</i>	270,569	304,403
Prepayments, deposit and other receivables		97,559	52,409
Pledged and restricted cash	<i>14</i>	2,426	2,427
Cash and bank balances	<i>14</i>	854,301	840,383
		<hr/> 1,578,338 <hr/>	<hr/> 1,525,820 <hr/>
Total current assets			
CURRENT LIABILITIES			
Trade payables	<i>15</i>	108,122	108,291
Other payables and accruals		73,429	74,818
Contract liabilities		6,625	4,296
Bank loans		50,000	150,795
Lease liabilities		–	250
Deferred income		755	2,367
Tax payables		29,338	21,691
		<hr/> 268,269 <hr/>	<hr/> 362,508 <hr/>
Total current liabilities			

	At 30 June 2022 (Unaudited) <i>Notes</i> HK\$'000	At 31 December 2021 (Audited) <i>HK\$'000</i>
NET CURRENT ASSETS	<u>1,310,069</u>	<u>1,163,312</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>2,200,829</u>	<u>2,093,464</u>
NON-CURRENT LIABILITIES		
Bank loans	170,000	–
Other payables	7,116	2,238
Deferred income	1,732	2,039
Deferred tax liabilities	<u>20,272</u>	<u>27,887</u>
Total non-current liabilities	<u>199,120</u>	<u>32,164</u>
Net assets	<u>2,001,709</u>	<u>2,061,300</u>
CAPITAL AND RESERVES		
Equity attributable to owners of the Company		
Share capital	105,225	105,225
Reserves	<u>1,832,725</u>	<u>1,901,121</u>
	1,937,950	2,006,346
Non-controlling interests	<u>63,759</u>	<u>54,954</u>
Total equity	<u>2,001,709</u>	<u>2,061,300</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from operating activities	<u>32,356</u>	<u>72,168</u>
INVESTING ACTIVITIES		
Net cash paid for acquisition of a subsidiary	–	(80,989)
Purchases of items of property, plant and equipment	(70,535)	(51,822)
Proceeds from disposal of items of property, plant and equipment	25,854	482
Purchases of financial assets	–	(46,416)
Proceeds from disposal of financial assets	–	45,329
Dividend income received	<u>1,539</u>	<u>1,176</u>
Net cash used in investing activities	<u>(43,142)</u>	<u>(132,240)</u>
FINANCING ACTIVITIES		
Proceeds from new bank loans	220,000	–
Repayment of bank loans	(150,795)	(27,018)
Principal payments of lease liabilities	(304)	(55)
Capital injection from non-controlling interests	1,327	13,183
Dividend paid to non-controlling interests	<u>–</u>	<u>(741)</u>
Net cash generated from/(used in) financing activities	<u>70,228</u>	<u>(14,631)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	59,442	(74,703)
Cash and cash equivalents at beginning of period	840,383	924,246
Effect of foreign exchange rate changes	<u>(45,524)</u>	<u>(15,762)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>854,301</u>	<u>833,781</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

(Unaudited)	Attributable to owners of the Company												Non-controlling interest	Total equity
	Statutory											Total		
	Issued capital	Share premium	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	
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 income 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>
At 1 January 2021	105,225	472,201	15,880	52,268	287	7,905	34,026	34,527	177,885	-	980,741	1,880,945	(651)	1,880,294
Profit for the period	-	-	-	-	-	-	-	-	-	-	30,201	30,201	1,837	32,038
Other comprehensive income for the period:														
exchange difference on translation of foreign operations	-	-	-	-	-	-	-	-	8,795	-	-	8,795	(300)	8,495
Total comprehensive income for the period	-	-	-	-	-	-	-	-	8,795	-	30,201	38,996	1,537	40,533
Capital injection	-	-	-	-	-	-	-	-	-	-	-	-	13,183	13,183
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	-	(741)	(741)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	3,883	3,883
Equity-settled share options arrangements	-	-	-	-	-	-	2,166	-	-	-	-	2,166	-	2,166
At 30 June 2021	<u>105,225</u>	<u>472,201</u>	<u>15,880</u>	<u>52,268</u>	<u>287</u>	<u>7,905</u>	<u>36,192</u>	<u>34,527</u>	<u>186,680</u>	<u>-</u>	<u>1,010,942</u>	<u>1,922,107</u>	<u>17,211</u>	<u>1,939,318</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 2021.

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 2022 for the preparation of the Group’s condensed consolidated financial statements:

Annual Improvements to HKFRSs 2018-2020	Annual Improvement projects
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract

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 2022 and 2021 is set out below.

	Six months ended 30 June 2022 (Unaudited)						
			Mainland China	North	Europe	Other	Total
	Thailand	Malaysia	Macau and Hong Kong	America		Countries	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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>
	Six months ended 30 June 2021 (Unaudited)						
			Mainland China	North	Europe	Other	Total
	Thailand	Malaysia	Macau and Hong Kong	America		Countries	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers recognised by point in time and reportable segment revenue	<u>6,035</u>	<u>45,260</u>	<u>250,916</u>	<u>74,264</u>	<u>125,324</u>	<u>16,473</u>	<u>518,272</u>
Reportable segment profit							
Gross profit	<u>1,510</u>	<u>11,324</u>	<u>62,781</u>	<u>18,581</u>	<u>31,357</u>	<u>4,122</u>	<u>129,675</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	
	2022	2021
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Revenue recognised at a point in time		
Sale of automotive components	221,888	279,552
Sale of hydraulic equipment components	206,286	164,142
Sale of electronic equipment components	60,683	52,151
Others	14,000	22,427
	<u>502,857</u>	<u>518,272</u>
Other income		
Bank interest income	7,105	7,017
Government grants	3,744	9,219
Dividend income	1,539	1,176
Others	2,356	2,635
	<u>14,744</u>	<u>20,047</u>
Gains		
Gain on disposal of items of property, plant and equipment	–	131
Gain on disposal of financial assets	–	1,570
Foreign exchange difference, net	9,836	–
	<u>24,580</u>	<u>21,748</u>

6. FINANCE COST

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans	836	2,054
Financial arrangement fees	1,023	853
Interest on lease liabilities	54	31
	<u>1,913</u>	<u>2,938</u>

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventory sold	367,101	388,597
Depreciation on property, plant and equipment	46,049	40,418
Depreciation on right-of-use asset	226	2,831
Equity-settled share option expenses	5,601	2,166
Amortization	1,634	1,144
Auditors' remuneration	1,444	1,292
Foreign exchange differences, net	(9,836)	2,637
Gain on disposal of items of property, plant and equipment	–	(131)
	<u>–</u>	<u>(131)</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 2021) 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	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current	17,221	11,188
Deferred	(6,827)	–
	<u>10,394</u>	<u>11,188</u>
Total tax charge for the period	<u>10,394</u>	<u>11,188</u>

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 2022 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	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit attributable to equity shareholders of the Company used in the basic earnings per share calculation	<u>11,482</u>	<u>30,201</u>
	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	<u>1,052,254</u>	<u>1,052,254</u>

10. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2022 (2021: Nil).

11. 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 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 property HK\$'000	Total HK\$'000
Cost										
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
Additions	-	-	33,844	-	28,018	7,374	722	577	-	70,535
Disposals	-	-	-	(1,478)	(28,475)	(3,064)	-	-	-	(33,017)
Exchange realignment	(5,402)	(121)	(28,685)	(612)	(75,560)	(5,027)	(527)	(390)	(6,011)	(122,335)
At 30 June 2022	74,656	4,078	782,583	18,266	1,601,913	111,430	14,549	7,645	136,620	2,751,740
Accumulated depreciation										
At 1 January 2022	6,762	3,959	393,543	19,016	1,442,741	87,854	10,007	-	-	1,963,882
Depreciation provided during the period	1,036	226	12,187	349	28,543	4,266	704	-	-	47,311
Disposals	-	-	-	(1,478)	(2,737)	(3,052)	-	-	-	(7,267)
Exchange realignment	(4,554)	(107)	(16,398)	(377)	(70,809)	(3,087)	(353)	-	-	(95,685)
At 30 June 2022	3,244	4,078	389,332	17,510	1,397,738	85,981	10,358	-	-	1,908,241
Net carrying amount										
Cost	74,656	4,078	782,583	18,266	1,601,913	111,430	14,549	7,645	136,620	2,751,740
Accumulated depreciation	(3,244)	(4,078)	(389,332)	(17,510)	(1,397,738)	(85,981)	(10,358)	-	-	(1,908,241)
At 30 June 2022	71,412	-	393,251	756	204,175	25,449	4,191	7,645	136,620	843,499
Net carrying amount										
Cost	80,058	4,199	777,424	20,356	1,677,930	112,147	14,354	7,458	142,631	2,836,557
Accumulated depreciation	(6,762)	(3,959)	(393,543)	(19,016)	(1,442,741)	(87,854)	(10,007)	-	-	(1,963,882)
At 31 December 2021	73,296	240	383,881	1,340	235,189	24,293	4,347	7,458	142,631	872,675

12. INVENTORIES

	At 30 June 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
Raw materials	93,168	80,200
Consumables	56,992	58,749
Work in progress	120,563	132,189
Finished goods	<u>163,163</u>	<u>144,173</u>
	433,886	415,311
Less: Provision against inventory obsolescence	<u>89,937</u>	<u>99,307</u>
	<u>343,949</u>	<u>316,004</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 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
Within 1 month	97,790	126,989
1 to 2 months	70,413	79,760
2 to 3 months	57,253	57,883
3 to 4 months	31,595	26,948
4 to 12 months	<u>17,227</u>	<u>16,014</u>
	274,278	307,594
Less: impairment	<u>3,709</u>	<u>3,191</u>
	<u>270,569</u>	<u>304,403</u>

14. CASH AND BANK BALANCES

	At 30 June 2022 (Unaudited) <i>HK\$'000</i>	At 31 December 2021 (Audited) <i>HK\$'000</i>
Bank deposit and cash	856,727	842,810
Less: Pledged and restricted deposits	<u>(2,426)</u>	<u>(2,427)</u>
Cash and cash equivalents	<u>854,301</u>	<u>840,383</u>

15. TRADE PAYABLES

	At 30 June 2022 (Unaudited) <i>HK\$'000</i>	At 31 December 2021 (Audited) <i>HK\$'000</i>
Within 1 month	41,640	45,445
1 to 2 months	29,865	36,418
2 to 3 months	24,147	16,871
Over 3 months	<u>12,470</u>	<u>9,557</u>
	<u>108,122</u>	<u>108,291</u>

16. CAPITAL COMMITMENTS

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

	At 30 June 2022 (Unaudited) <i>HK\$'000</i>	At 31 December 2021 (Audited) <i>HK\$'000</i>
Contracted but not provided for:		
Buildings	6,460	2,796
Plant and machinery	<u>1,242</u>	<u>14,348</u>
	<u>7,702</u>	<u>17,144</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 2022.

BUSINESS REVIEW

China remains highly vigilant against the COVID-19 pandemic to prevent the extensive outbreak of the pandemic in communities and avoid large-scale human infection. Earlier in the year, the pandemic hit many cities in China, including Shanghai, Tianjin and Changchun. Particularly in Shanghai, as the pandemic surged, the local government implemented a prolonged prohibition on business activities, which had a wide range of impact. In compliance with various local pandemic prevention measures, some of the Group’s customers located in the above areas could not operate as normal and had to suspend production, postpone the delivery date and wait for the resumption of work. Besides, the production and operations of the Group’s production bases located in Changshu, Jiangsu Province were also affected by the implementation of relevant pandemic prevention policies in the above regions.

In addition to the above, the global chip supply was tight in the third quarter last year, which affected the supply chain of automobile manufacturers. The global chip shortage has not been fully resolved and continues up to date. As a result, the sales orders of automotive components in the first half of 2022 failed to recover to the level of the corresponding period last year.

For the first half of 2022, sales of automotive components amounted to HK\$221,888,000, representing a decrease of HK\$57,664,000 or 20.6% as compared to the corresponding period last year.

With its strategic adjustment and greater investment in hydraulic business, the Group acquired Jiangsu Kemai Hydraulic Control System Company Limited (“**Kemai Hydraulic**”) last year, the effect of which was reflected on the results of the hydraulic business of the Group for the first half of the year. Coupled with the development of domestic hydraulic customers, the hydraulic business recorded a satisfactory increase in sales. For the first half of 2022, revenue of hydraulic components business amounted to HK\$206,286,000, representing an increase of HK\$42,144,000 or 25.7% as compared to the corresponding period last year.

The following table shows the sales and comparative data of the Company's each business for the first half of 2022:

	1H 2022		1H 2021		Change
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	%
Automotive components	221,888	44.1	279,552	54.0	-20.6
Hydraulic equipment components	206,286	41.0	164,142	31.7	+25.7
Electronic equipment components	60,683	12.1	52,151	10.0	+16.4
Others	14,000	2.8	22,427	4.3	-37.5
Total	<u>502,857</u>	100	<u>518,272</u>	100	-3.0

Despite the deteriorated economic environment in China in the first half of year, the Group continued to invest resources in research and development and related talents to improve technological level and maintain competitiveness for its long-term development. During the period, the Group established a research institute to develop more advanced technologies for the Group and open up new prospects for the future with its years of implementation capabilities and new research perspectives.

In response to the declining automotive component orders, the Group has implemented lean production with unremitting efforts in order to reduce waste and give effect to cost reduction. The expansion of the application scope of its independently developed manipulator not only reduces labor costs for the Group, but also improves the quality of the Group's products. In particular, with its diverse research achievements, the Group has become a forerunner in the application of automation in the detection of precision components in China.

FINANCIAL REVIEW

For the six months ended 30 June 2022, the Group recorded sales of HK\$502,857,000, representing a decrease of HK\$15,415,000 or 3.0% as compared to HK\$518,272,000 for the corresponding period last year, mainly due to the decline in the revenue from automotive components as a result of the production suspension and order delay of some domestic customers as affected by the outbreak of the COVID-19 pandemic in China at the beginning of the year. Even though the total revenue declined, the gross profit margin improved as the acquisition of hydraulic business resulted in a change in sales mix. Gross profit for the first half of 2022 was HK\$135,756,000, representing an increase of HK\$6,081,000 as compared to the corresponding period last year, and the gross profit margin for the first half of the year was 27.0%, representing an increase of 2.0% as compared to 25.0% for the corresponding period last year.

Other income amounted to HK\$24,580,000 for the first half of the year, representing an increase of HK\$2,832,000 or 13% as compared to the corresponding period last year, mainly attributable to the appreciation of US dollars. The Group held US dollar assets due to its foreign trade business, resulting in an exchange gain of HK\$9,836,000 for the first half of the year, while the government subsidies received by the Group from local governments decreased by HK\$5,475,000 as compared to the corresponding period last year as the pandemic eased in China.

Selling and distribution expenses for the first half of the year amounted to HK\$12,014,000, representing an increase of HK\$1,089,000 compared to the corresponding period last year, mainly due to the increase in the related selling expenses upon the acquisition of Kemai Hydraulic, and the increase in transportation fees and export customs clearance fees of HK\$482,000 as a result of rising global logistics costs.

Administrative expenses and other expenses amounted to HK\$94,804,000 in the first half of the year, representing an increase of HK\$14,305,000 as compared to the corresponding period last year due to the combined effect of the following: the increase in salaries and allowances of HK\$5,070,000 for the grant of bonus to employees for motivation purpose, the increase in depreciation charge of HK\$3,395,000 in respect of new fixed asset investment, the increase in amortisation cost of share options granted at the beginning of the year of HK\$3,435,000, the increase in maintenance expenses of HK\$1,987,000 for the maintenance of air-conditioners, electric cabinets, pure water systems, air compressors, etc. and replacement of consumables, and the decrease in environmental cost of HK\$2,063,000 as compared to the corresponding period last year to HK\$6,233,000 for the first half of the year as a result of higher processing efficiency.

For finance costs, finance costs amounted to HK\$1,913,000 for the first half of the year, representing a decrease of HK\$1,025,000 as compared to HK\$2,938,000 for the corresponding period last year, mainly due to the decrease in interest expenses of loans after the repayment of old loans in the first half of the year and new bank loans in place in the first half of the year.

For the six months ended 30 June 2022, the Group recorded an unaudited net profit of HK\$19,644,000, representing a decrease of HK\$12,394,000 as compared to HK\$32,038,000 in the corresponding period last year.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2022, the Group had total borrowings of HK\$220,000,000 (31 December 2021: HK\$150,795,000), secured by corporate guarantee given by the Company and its subsidiaries. Besides, as at 30 June 2022, the Group pledged deposits of HK\$2,426,000 to issue letters of guarantee (31 December 2021: 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 2022.

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 2022, based on the 1,052,254,135 ordinary shares in issue (31 December 2021: 1,052,254,135 ordinary shares), cash attributable to each share amounted to HK\$0.81 (31 December 2021: HK\$0.80), being broadly stable as there was no significant investment in the first half of the year. The net asset value per share amounted to HK\$1.90, representing a slight decrease of HK\$0.06 as compared to HK\$1.96 last year.

For the six months ended 30 June 2022, net cash inflow from the Company's operating activities was HK\$32,356,000, representing a decrease of HK\$39,812,000 as compared to HK\$72,168,000 for the corresponding period last year.

Net cash outflow from investment activities was HK\$43,142,000, mainly due to the investment in machinery and equipment in the first half of the year to enhance the Group's production capacity. Besides, net cash outflow from investment activities for the first half of the year decreased by HK\$89,098,000 from HK\$132,240,000 for the corresponding period last year, which was due to the acquisition of Jiangsu Kemai, in addition to the purchase of machinery and equipment in the corresponding period last year.

In terms of financing activities, the Group received a new three-year bank loan in the first half of the year to repay original bank loans due and payable. As a result, net cash inflow from financing activities amounted to HK\$70,228,000. Net increase in cash and cash equivalents for the first half of 2022 was HK\$59,442,000, compared with net decrease in cash and cash equivalents of HK\$74,703,000 for the corresponding period last year.

Overall, the Group's net cash (cash and bank balances less total bank borrowings) as at 30 June 2022 was HK\$634,301,000, representing a decrease of HK\$55,287,000 as compared to HK\$689,588,000 as at 31 December 2021.

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

As China's economy slows down recently this year, college graduates are facing difficulties in finding jobs. Recognising that talent is an important factor for development and the success of an enterprise often depends on whether it can recruit suitable talents, the Company, against the backdrop of global economic slowdown, delegates the human resources department to identify suitable talents at multiple levels and in various places, taking into consideration the geographic distribution of talents. The Group focuses on the training and development of such talents upon recruitment, and has established a research institute for the recruitment of graduates with a master or doctor degree.

In addition, 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 2022, the Company had a total of 2,405 employees, representing an increase of 211 employees as compared to 2,194 employees as at 30 June 2021.

PROSPECT

Due to the shortage of chip supply, the automotive business is expected to remain at a low level for a period of time and may not recover in a short term. Meanwhile, taking advantage of its years of experience in precision machining, the Group will continuously expand the lines of business to reduce the impact of chip shortage, diversify its operations and reduce its dependence on a single business.

The acquisition completed last year has significantly improved the profit and revenue, and accelerated the performance growth of the Group. In the future, the Company will continue to look for cooperation opportunities and mergers and acquisitions projects to speed up profit growth and realise synergies through mergers and acquisitions.

In China, the recent decline in the real estate industry has also shrunk the demand for heavy hydraulic equipment. Globally, affected by the Russia-Ukraine war, the overall economy has experienced fluctuations and even retreated. Therefore, the Group must diversify its current hydraulic business and expand application scenarios in order to avoid excessive concentration on a single application. Recently, the establishment of research institute helps the Group absorb many professionals, and is beneficial to the acceleration of research and development of production technology and product of the Group in the same way as the prior cooperation with domestic colleges. More importantly, with its decades of high-precision production process and advanced process technology as improved by the research institute, the Group is believed to have many advantages in product technology and applications in the future.

Moreover, the Group will improve supply chain management, minimize inventory, speed up production cycle, and implement appropriate management measures. Besides, it will continue to optimize procurement cycle and performance forecast to improve its ability to respond to market changes.

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 2022, 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 2022 (2021: 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 2022.

The Company has also established written guidelines on no less exacting than the Model Code (the "**Employees Written Guidelines**") for governing the securities transactions by employees who are likely to possess inside information of the Company or its securities. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

In case when the Company is aware of any restricted period for the dealings in the Company's securities, the Company will notify its directors and relevant employee in advance.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the “**CG Code**”) 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 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. Mei Weiyi, 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 2022.

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 2022 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. Mei Weiyi

By order of the Board
IPE Group Limited
Mr. Zeng Guangsheng
Chairman

Hong Kong, 19 August 2022