國際精密集團
IPE Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 929)

CONTENTS

CORPORATE INFORMATION

BOARD OF 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 (resigned on 30 October 2022)
Mr. Zhu Jianbiao
(appointed on 14 November 2022)

AUTHORISED REPRESENTATIVES

Mr. Zeng Guangsheng
Mr. Tam Yiu Chung

COMPANY SECRETARY

Mr. Tam Yiu Chung

AUDIT COMMITTEE

Mr. Yang Rusheng *(Chairman)*
Mr. Cheung Chun Yue, Anthony
Mr. Mei Weiyi (resigned on 30 October 2022)
Mr. Zhu Jianbiao
(appointed on 14 November 2022)

REMUNERATION COMMITTEE

Mr. Cheung Chun Yue, Anthony *(Chairman)*
Mr. Zeng Guangsheng
Mr. Yang Rusheng
Mr. Mei Weiyi (resigned on 30 October 2022)
Mr. Zhu Jianbiao (appointed on 14 November 2022)

NOMINATION COMMITTEE

Mr. Zeng Guangsheng *(Chairman)*
Mr. Yang Rusheng
Mr. Cheung Chun Yue, Anthony
Mr. Mei Weiyi (resigned on 30 October 2022)
Mr. Zhu Jianbiao (appointed on 14 November 2022)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Mr. Cheung Chun Yue, Anthony *(Chairman)*
Mr. Zeng Guangsheng
Mr. Yang Rusheng
Mr. Mei Weiyi (resigned on 30 October 2022)
Mr. Zhu Jianbiao (appointed on 14 Novemebr 2022)

LEGAL ADVISERS TO THE COMPANY

King & Wood Mallesons

WEBSITE

http://www.ipegroup.com

CORPORATE INFORMATION

REGISTERED OFFICE

89 Nexus Way
Camana Bay
Grand Cayman, KY1-9009
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 5–6, 23/F, Enterprise Square Three
39 Wang Chiu Road, Kowloon Bay
Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No.8 Zhuzian Road, Yue Hu Cun
Zengcheng, Guangzhou
Guangdong Province, The PRC
Post code: 511335

PRINCIPAL PLACE OF BUSINESS IN THAILAND

99/1 Mu Phaholyothin Road, Sanubtueb
Wangnoi, Ayutthaya 13170, Thailand

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Nanyang Commercial Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

KPMG (resigned on 23 August 2022)
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

Mazars CPA Limited (appointed on 24 August 2022)
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

STOCK CODE

929

LISTING VENUE

Main Board of The Stock Exchange of Hong Kong Limited

CORPORATE PROFILE

IPE Group Limited (the "Company" or "IPE Group") was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002. The Company is an investment holding company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of high precision metal components.

The Group started its high precision components business in 1990 in Singapore and now produces high precision metal components and assembled parts used in automotive parts, hydraulic equipment, electronic equipment component and other devices.

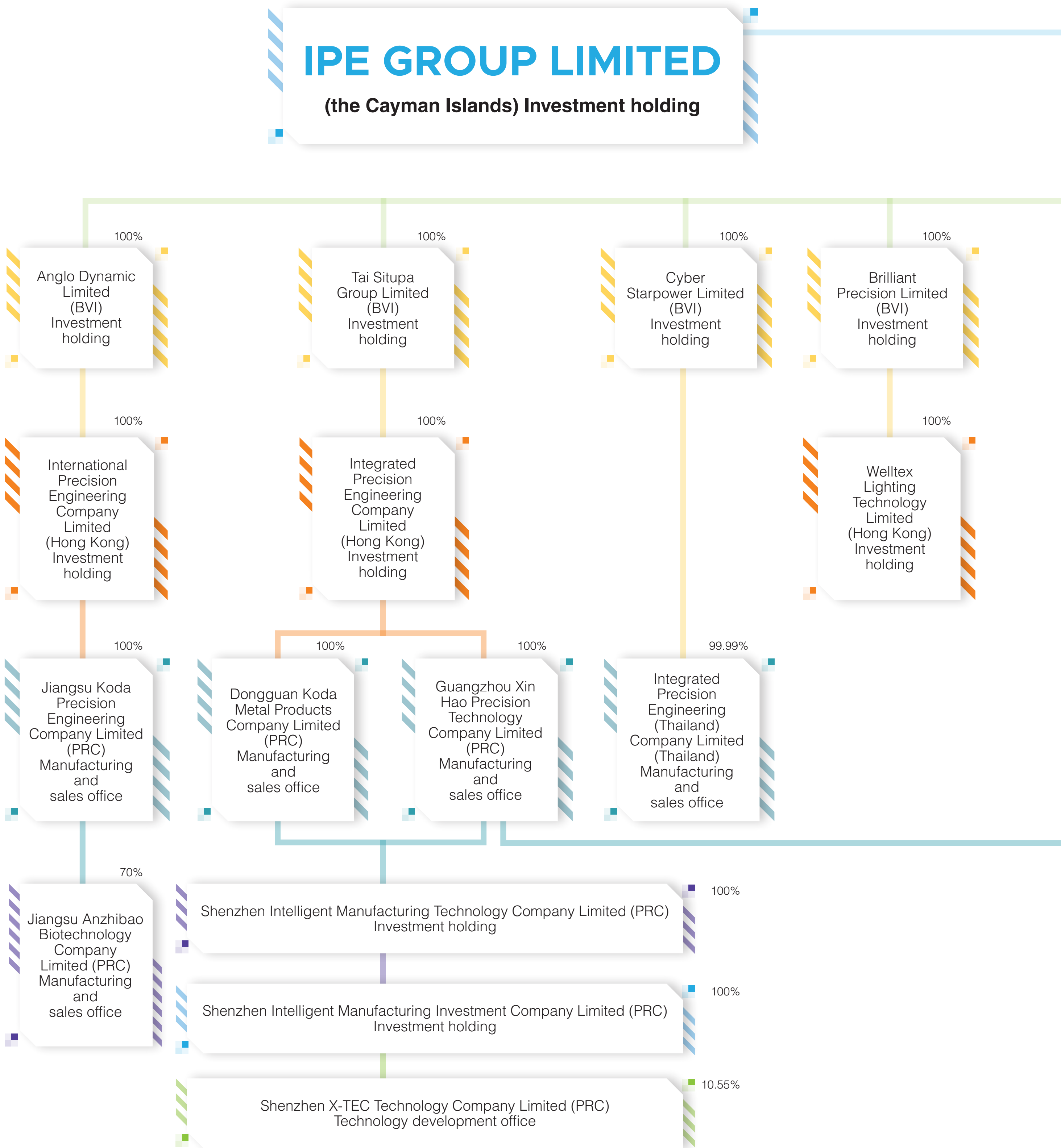
The Group's highly valued customers are top-tier multinational corporations in the information technology, fluid power, automotive and electronic sectors where optimal precision is vital. Apart from supplying high volume precision components according to customer specifications, we are providing solutions to our global partners and working very closely with them in implementing new projects. Such projects typically take longer time to come to fruition as they involve development of many metal and plastic parts, and electronic circuits and the necessary know-how in final assembly and testing of the assembled device before shipment to the end customers can take place. The Group has developed a team of high caliber engineers which are able to provide solutions to our global partners.

CORPORATE MILESTONE

2022	Jiangsu Kemai was one of the Top 100 in the seventh Maker in China and Jiangsu SME Innovation and Entrepreneurship Competition Jiangsu Kemai was a provincial engineering center for "Multi-mode Intelligent Load-sensitive Valve Technology" in Jiangsu Province Guangzhou Xin Hao obtained the certification for integrated management system of two-oriented society Guangzhou Xin Hao and Guangzhou Huitong were accredited with the ISO 9001 certification Changshu Keyu Greystone Machining Company Limited passed the 2022 Changshu Industry and Innovation Integration Platform Carrier Certification
2021	Guangzhou Xin Hao established the Guangdong Precision Manufacturing (Xin Hao) Engineering Technology Research Center Guangzhou Xin Hao was awarded the Supplier Quality Excellence Award by GM Group Guangzhou Xin Hao became the Graduate School-Enterprise Education Partnership Base of Yanshan University
2020	Guangzhou Xin Hao was one of the Top 500 Enterprises in Guangdong Manufacturing Industry Dongguan Koda received the Supplier Best Progress Award from Dongguan Lingyi Precision Manufacturing Technology Co., Ltd Guangzhou Xin Hao received the Long Service Award from Bosch Rexroth (China) Limited in recognition of providing consistent quality of products and services
2019	IPE Group Limited was appointed an executive member of the China Robot Industry Alliance Guangzhou Xin Hao was appointed a founding executive member of Guangzhou Robot Association IPE Group Limited was nominated as premium supplier by Schaeffler and Continental
2018	Signed a strategic framework cooperation agreement with Huanan Industrial Technology Research Institute of Zhejiang University Guangzhou Xinhao was accredited with High and New-Technology Enterprise Changshu Keyu Greystone and Dongguan Koda were accredited IATF 16949 certification — automotive certification
2017	Successfully setup a Graduate School-Enterprise Education Partnership Base with Graduate School at Shenzhen, Tsinghua University Guangzhou Xinhao was accredited IATF16949 certification — automotive certification
Before 2015	Success developed own brandname robots in 2015 Jiangsu Koda completed construction of Phase 1 of the development of our Changshu site which provided 40,000 m^2 of production area in 2014 Established Jiangsu Koda in Jiangsu Province, The PRC, purchased 166,631 m2 of land in Changshu in 2011 Listed on the Main Board of The Stock Exchange of Hong Kong Limited on 1 November 2004 Established Guangzhou Xin Hao in Guangdong Province, The PRC in 2002 Established IPE (Thailand) in Thailand in 1997 Established IPE (Hong Kong) in Hong Kong and Dongguan Koda in Guangdong Province, The PRC in 1994 Established IPE (Singapore) in Singapore in 1990

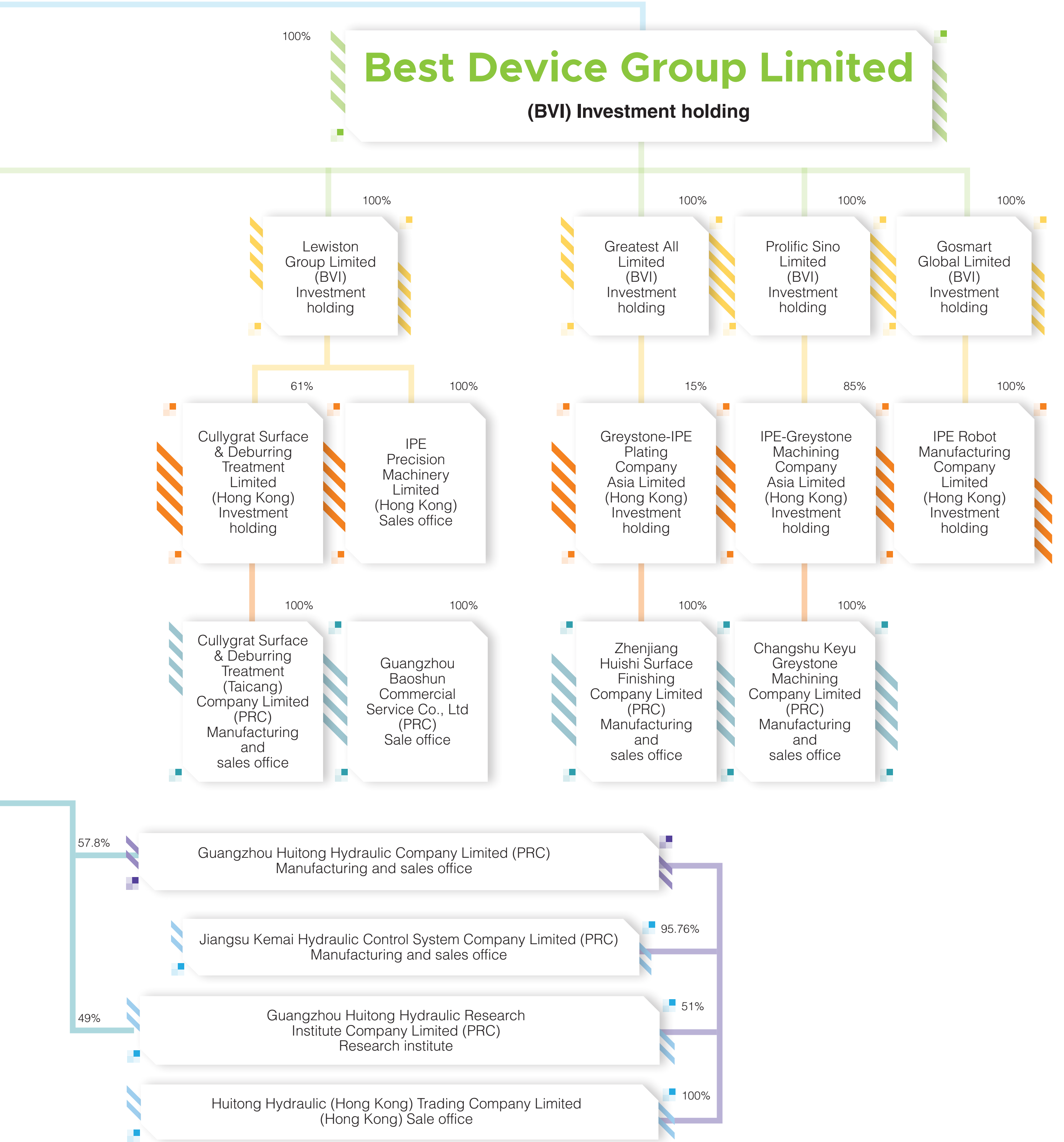
CORPORATE STRUCTURE

Principal subsidiaries and associate of the Company as at 31 December 2022



CORPORATE STRUCTURE

Principal subsidiaries and associate of the Company as at 31 December 2022



FINANCIAL HIGHLIGHTS

RESULTS

	Year ended 31 December									
	2022		2021		2020		2019		2018	
	HK$'000	**%**	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
REVENUE	**962,566**	**100%**	1,030,808	100%	793,731	100%	812,177	100%	943,476	100%
Cost of sales	**(688,379)**	**72%**	(763,995)	74%	(611,264)	77%	(631,249)	77%	(652,687)	69%
Gross profit	**274,187**	**28%**	266,813	26%	182,467	23%	180,928	23%	290,789	31%
Other income	**45,606**	**5%**	63,290	6%	34,008	4%	19,913	2%	8,557	1%
Changes in fair value of investment properties	**4,775**	**0%**	10,847	1%	1,428	0%	–	0%	–	0%
(Provision for) Reversal of impairment losses related to receivables	**(538)**	**0%**	1,870	0%	170	0%	515	0%	(556)	0%
Distribution costs	**(26,178)**	**2%**	(25,618)	2%	(19,384)	2%	(15,959)	2%	(26,535)	3%
Administrative expenses and other expenses	**(183,874)**	**19%**	(146,974)	14%	(116,701)	15%	(107,939)	13%	(129,384)	14%
Research and development costs	**(68,966)**	**7%**	(47,153)	5%	(30,140)	4%	(16,100)	2%	(22,947)	2%
Finance costs	**(6,832)**	**1%**	(4,677)	0%	(7,499)	1%	(14,430)	2%	(18,471)	2%
Share of loss of an associate	**(822)**	**0%**	(815)	0%	(2,146)	0%	1,650	0%	(1,271)	0%
PROFIT BEFORE TAXATION	**37,358**	**4%**	117,583	12%	42,203	5%	48,578	6%	100,182	11%
Income tax	**(9,617)**	**1%**	(26,837)	3%	(13,164)	1%	(7,467)	1%	(15,720)	2%
PROFIT FOR THE YEAR	**27,741**	**3%**	90,746	9%	29,039	4%	41,111	5%	84,462	9%
Attributable to:										
Equity shareholders of the Company	**8,693**	**1%**	81,432	8%	27,410	4%	40,345	5%	85,328	9%
Non-controlling interests	**19,048**	**2%**	9,314	1%	1,629	0%	766	0%	(866)	0%
	27,741	**3%**	90,746	9%	29,039	4%	41,111	5%	84,462	9%

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2022	2021	2020	2019	2018
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	**874,540**	930,542	818,507	742,356	828,700
Total current assets	**1,461,945**	1,525,820	1,460,450	1,364,196	1,426,636
Total current liabilities	**249,084**	362,508	227,565	171,935	550,870
Net current assets	**1,212,861**	1,163,312	1,232,885	1,192,261	875,766
Total non-current liabilities	**175,315**	32,554	171,098	218,620	11,601
Total equity	**1,912,086**	2,061,300	1,880,294	1,715,997	1,692,865

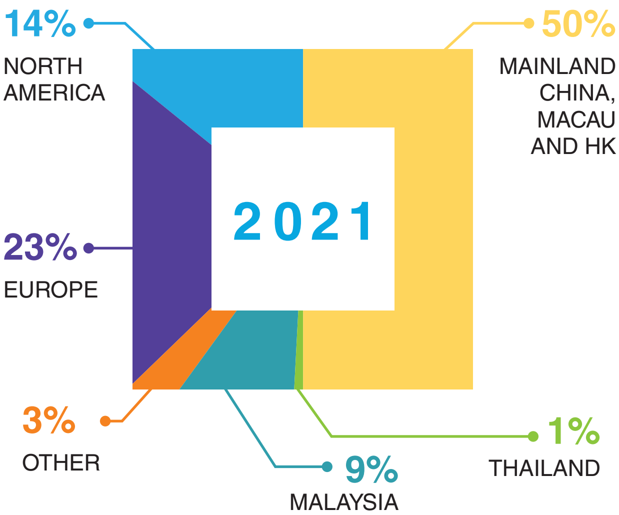
RATIO ANALYSIS

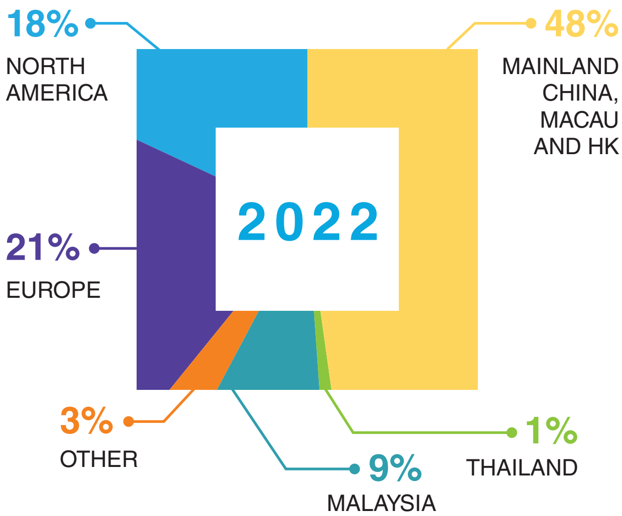
	Year ended 31 December				
	2022	2021	2020	2019	2018
KEY STATISTICS:					
Current ratio	**5.87**	4.21	6.42	7.93	2.59
Net cash to equity ratio	**0.28**	0.34	0.38	0.34	0.24
Gearing ratio#	**10.2%**	7.3%	10.9%	15.1%	25.8%
Dividend payout ratio	**N/A**	N/A	N/A	13.1%	11.2%
Gross profit margin	**28.5%**	25.9%	23.0%	22.3%	30.8%
EBITDA margin	**14.4%**	20.8%	16.9%	19.7%	27.5%
Net profit margin	**2.9%**	8.8%	4.0%	5.1%	9.0%
Average days of debtor turnover	**115 days**	97 days	115 days	110 days	103 days
Average days of inventory turnover	**170 days**	128 days	138 days	153 days	143 days
PER SHARE DATA:					
Net asset value per share (HK$)	**1.82**	1.96	1.79	1.63	1.61
Dividend per share	**Nil**	Nil	Nil	HK0.50 cents	HK0.90 cents
Earnings per share – basic	**HK0.83 cents**	HK7.7 cents	HK2.6 cents	HK3.83 cents	HK8.11 cents
Earnings per share – diluted	**HK0.83 cents**	HK7.7 cents	HK2.6 cents	HK3.83 cents	HK8.11 cents

The gearing ratio is calculated as interest bearing loan divided by equity.

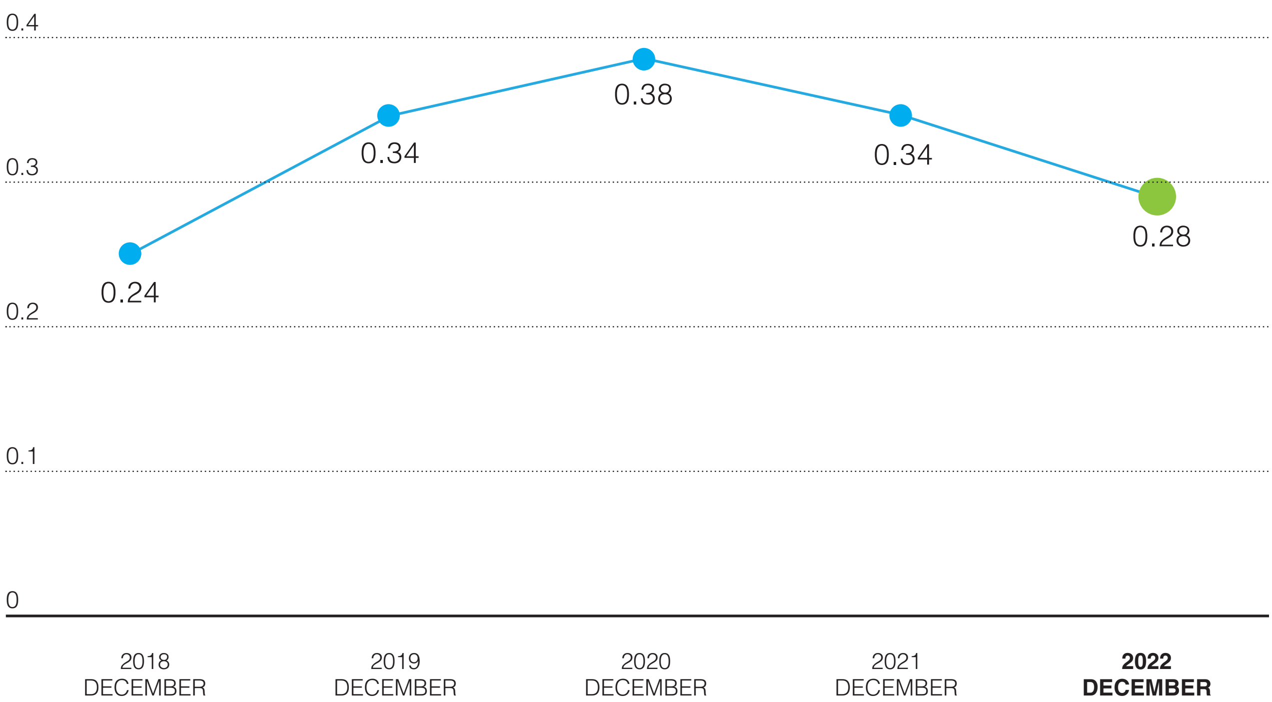
FINANCIAL HIGHLIGHTS

GEOGRAPHICAL COMBINATION



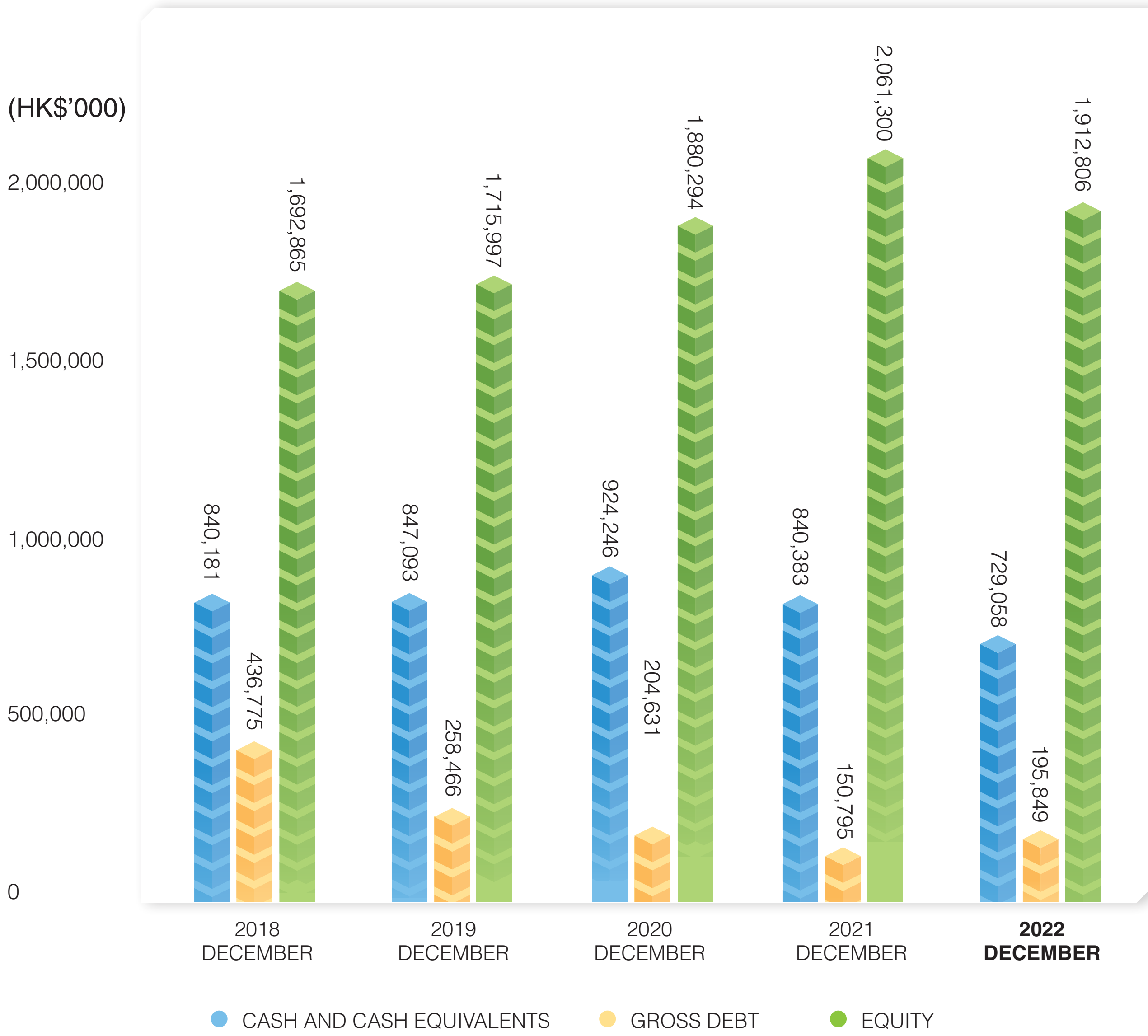


NET CASH TO EQUITY RATIO



FINANCIAL HIGHLIGHTS

CASH AND CASH EQUIVALENTS, GROSS DEBT AND EQUITY



CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I present to shareholders the annual results of IPE Group Limited ("IPE" or the "Company") and its subsidiaries (collectively referred to as the "Group" or "IPE Group") for the year ended 31 December 2022.

BUSINESS REVIEW

With the gradual lifting of quarantine restrictions, the economy of Europe and the United States have started to show signs of recovery. However, the energy crisis caused by the outbreak of Russia-Ukraine war had accelerated inflation, and the economic recovery was also undermined by interest hike in the United States. The global economy was trapped in stagflation, while the domestic pandemic remained unstable with rebound since March 2022. The supply chain was disrupted due to the pandemic, resulting in containment measures, transportation delays, customer shutdowns, and plant closures of outsourcing suppliers, which in turn have impeded the recovery of multiple industries.

Under the complicated and challenging environment, the Group achieved a turnover of HK$962,566,000 for the year, representing a decrease of 6.6% or HK$68,242,000 as compared to the corresponding period of last year. Other than hydraulic equipment components business, other businesses recorded remarkable decline in revenue.

	2022		2021		Change	
	HK$'000	**%**	HK$'000	%	HK$'000	%
Major business categories						
Automotive components	**458,334**	**47.6**	510,900	49.5	-52,566	-10.3
Hydraulic equipment components	**394,296**	**41.0**	361,669	35.1	32,627	+9.0
Electronic equipment components	**91,151**	**9.5**	113,009	11.0	-21,858	-19.3
Others	**18,785**	**1.9**	45,230	4.4	-26,445	-58.5
	962,566	**100.0**	1,030,808	100.0	-68,242	-6.6

The Group's automotive components business segment recorded annual sales of HK$458,334,000, representing a decrease of 10.3% or HK$52,566,000 as compared to last year, which was due to the ongoing shortage of automotive chips and the impact of the domestic pandemic. The Group has maintained its profitability through diversified development. The sales of hydraulic equipment components increased significantly after the Group completed the acquisition of hydraulic business last year. The sales of hydraulic equipment components accounted for 41.0% of the Group's total sales. The annual sales of hydraulic equipment components amounted to HK$394,296,000, representing an increase of 9.0% or HK$32,627,000 as compared to last year. The electronic equipment components business segment recorded annual sales of HK$91,151,000, representing a decrease of HK$21,858,000 or 19.3% as compared to last year. Such decrease was mainly due to the significant decline in orders of the business segment arising from the weak market sentiment in consumer electronics since the second half of 2022. Other businesses declined, which was mainly affected by the decline in the price of recycled scrap in 2022.

During the year, the raw material market experienced significant fluctuations. The Group strived to seek domestic materials as substitutes, but the overall price of raw materials increased year-on-year. Raw material costs did not decrease in proportion to the decline in revenue, and as a result, the increase in the unit price of some raw materials eroded gross profit. In addition, revenue decreased year-on-year, and the reduction in production scale meant that economies of scale were not fully realized. The increase in transportation costs resulting from the pandemic also led to rise in average costs. Faced with multiple unfavorable factors, the Group has carried out a number of automation projects to improve production efficiency, promote cost reduction and efficiency improvement, and enhance automation levels. By implementing projects such as full inspection equipment and automated loading and unloading on production lines, the number of workers was streamlined. To cope with the challenging environment, the Group focused on improving efficiency and made greatest effort to implement lean production. Therefore, there has been no negative impact on the gross profit margin despite the decline in sales. The Group will continue to reduce costs by various measures to achieve higher gross profit margins.

CHAIRMAN'S STATEMENT

In addition, the Group proactively invested more resources in research and development. Our research institute was established in June 2022 to improve the technological level and product quality of the Group. As a long-term strategic investment, the research and development projects take time to realize the economic benefits brought by the research and development results, which had an impact on the profit for the year. Meanwhile, through the research institute platform, the Group continued to promote the industry-university-research cooperation projects with Tsinghua University, Zhejiang University, Yanshan University and Lanzhou University of Technology, so as to make a breakthrough in technical difficulties of research and development. The Group will increase the investment in research and development resources, and improve the scientific research capabilities to ensure the orderly development of research and development work.

Secondly, with recurring pandemic in Shenzhen, Dongguan and Guangzhou, which was particularly severe in Guangzhou in the second half of the year, the Group has made unremitting efforts in the prevention and control work of pandemic in 2022, formulated the pandemic emergency plan, established the emergency team and maintained sufficient stocks of pandemic prevention materials. The Group also carried out pandemic prevention and control work in accordance with the national pandemic prevention and control measures, organized personnel to participate in pandemic emergency drills, set up the Group's nucleic acid testing team, properly handled four pandemic emergencies throughout the year, and conducted hierarchical management on the infected personnel, so as to minimize the impact of the pandemic on the Group's operation.

The Group strictly complies with the relevant requirements on environmental protection. A "zero-carbon factory" was put into operation in May 2022 at the production base in Guangzhou, which will gradually realize the effect of energy saving and cost reduction. In order to promote the results of energy saving and cost reduction, the Group continued to carry out phase II photovoltaic projects, and continued to cooperate through energy management contract (EMC) model, which can reduce equipment, operation and maintenance and energy consumption during the project period, as well as stabilize the supply level of various facilities and strengthen the Group's production reliability.

PROSPECT

With gradual return to pre-pandemic normality after the pandemic, relaxation of global travel restrictions and social distancing measures, it is expected that the global economy will recover quickly. Despite these positive factors, all the uncertainties such as the ongoing Russia-Ukraine war, tensions between China and the United States, and several interest hikes in the United States will hamper the pace of global economic recovery.

Under the complicated and changing environment, the Group will continue to 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 the new year, the Group will strengthen quality control, further explore new drivers of business growth, continuously develop new markets, customers and products, expand business channels, standardize operation and management, promote automation transformation for lean production, build an integrated supply chain of production, supply and sales, and become a leader in the precision machining industry.

CHAIRMAN'S STATEMENT

Firstly, we provide customer services and strive to expand sales channels; improve order delivery rate through multiple channels and methods, ensure product quality, continue to explore new customers with technology and quality advantages, and continue to exploit customer potential, and focus on customers who still maintain business growth in difficult market times. We will also focus on the transformation of research results, improve the success rate of new project development to enable new research projects to become new sources of growth, continue to expand business for the Group to achieve sustainable growth, and maintain our leading position with technology and cost advantages. Meanwhile, we will develop e-commerce platform to pursue both online and offline development.

In addition, we will strengthen hiring of new employees externally and promote competent talents internally, so as to help the Group form a new development pattern. We will make plans for redundant and supplementary personnel, increase the introduction and training of talents, focus on recruitment of key talents, formulate and implement annual training programs, carry out internal trainer mechanism, and implement evaluation scheme to assess the effectiveness of training programs.

Moreover, we will focus on lean production and strengthen cost control; maintain close communication with suppliers for raw materials control and management, and cultivate strategic partnership; and vigorously promote lean production, reduce cost and enhance efficiency for all steps, and improve personnel and machine efficiency.

Secondly, we will improve the efficiency of organizational operation and prevent operation risks; optimize safety rules and regulations, implement the production safety responsibility system, carry out production safety education and training as scheduled, and increase the intensity, breadth and depth of safety troubleshooting; and pay attention to environmental risks, optimize environmental rules and regulations, and carry out environmental training, publicity and hidden risk investigation to ensure compliant emissions.

Mr. Zeng Guangsheng
Chairman

27 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Under difficult situation and tough operating environment arising from impact of domestic pandemic and global economic downturn, the Group recorded a turnover of HK$962,566,000, representing a decrease of HK$68,242,000 or 6.6% from HK$1,030,808,000 in last year.

With individual business orders recovering and the costs being under control, the Group recorded a gross profit of HK$274,187,000 in 2022 as compared to HK$266,813,000 in last year, representing an increase of approximately HK$7,374,000 over last year. Despite the decline in sales, gross profit margin increased to 28.5% from 25.9% in last year, representing an increase of 2.6%.

Other income was HK$45,606,000 for the year as compared to HK$63,290,000 in last year. The changes were mainly attributable to the gain on disposal of partial interests in an associate of HK$21,384,000 in last year and the gain on trading of securities of HK$1,905,000 in last year, while there were no such gains in 2022, resulting in a decline in other income. Secondly, the subsidies received from the Chinese authorities decreased from HK$16,414,000 in last year to HK$8,204,000 in this year, representing a decrease of HK$8,210,000 or 50.0%. Although the Group recorded an exchange gain of HK$11,597,000, the overall other income still decreased by HK$17,684,000 or 27.9% as compared to last year.

Distribution costs amounted to HK$26,178,000 in 2022, representing an increase of HK$560,000 from HK$25,618,000 last year. Although there was a decrease in revenue and related transportation costs, the expansion of domestic sales led to an increase in selling commissions by HK$2,352,000.

Administrative expenses and other expenses amounted to HK$183,874,000 in 2022, representing an increase of HK$36,900,000 as compared to HK$146,974,000 in last year. The increase was due to several factors: first, as the Group granted share options to its directors and employees in March 2022, the equity settled share-based payment expense increased by HK$12,753,000 as calculated according to the accounting standards; second, a net loss amounted to HK$7,160,000 arising from fire in a warehouse in the United States, the final compensation is subject to determination by the insurance company; moreover, the acquisition of Jiangsu Kemai Hydraulic Control System Company Limited in May 2021 (details of which are set out in the announcement of the Company dated 6 May 2021) resulted in an increase of HK$4,606,000 in administrative expenses and other expenses as compared to last year. Salaries and allowances increased by HK$5,070,000 as a result of the grant of bonus to employees for motivation purpose.

As bank loans were from banks in Hong Kong, the interest rate of which was affected by the interest hike in the United States. Coupled with the new bank loans in 2022, the total amount of bank loans increased, resulting in an increase in finance costs of HK$2,155,000 to HK$6,832,000 in 2022 as compared to HK$4,677,000 in last year.

As a result of the foregoing factors, the profit attributable to holders of the Group for the year ended 31 December 2022 amounted to HK$27,741,000, representing a decrease of HK$63,005,000 or 69.4% as compared to HK$90,746,000 in last year.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2022, the Group had bank and other loans of HK$195,849,000, representing an increase of HK$45,054,000 as compared to HK$150,795,000 as at 31 December 2021. The bank loans were secured by corporate guarantees given by the Company and deposits of its subsidiary of HK$20,000,000 (2021: Nil). Besides, the Group pledged deposits of HK$2,239,000 to issue letters of guarantee (2021: HK$2,427,000).

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

The Group has been adopting prudent policies in respect of financial resources management, including maintaining an appropriate level of cash and cash equivalents as well as sufficient credit limits, in order to cope with the needs of daily operation and business development and control the borrowing at a healthy level.

As at 31 December 2022, cash per share of the Group amounted to HK$0.71 as compared to HK$0.80 last year, based on the 1,052,254,135 ordinary shares in issue (31 December 2021: 1,052,254,135 ordinary shares). The net asset value per share for 2022 amounted to HK$1.82, representing a decrease of 7.1% as compared to HK$1.96 last year.

Net cash inflow from operating activities decreased from HK$82,438,000 in last year to HK$4,410,000 in 2022, due to the decrease in the Group's overall sales revenue.

In terms of capital expenditures, the Group strengthened its investment in automation equipment to improve production efficiency in the long run. Despite market fluctuations, the Group invested HK$98,968,000 in fixed assets, mainly in production equipment. In addition, the Group utilized idle funds for equity investment, which amounted to HK$9,971,000 in 2022. As a result, net cash outflow from investing activities in 2022 was HK$87,003,000, representing a decrease of HK$71,129,000 as compared to last year, mainly due to the absence of acquisition and gain on disposal of interests in an associate in 2022.

In terms of financing activities in 2022, bank borrowings amounted to HK$220,000,000 raised for the year, and the new bank borrowings were used to repay bank loans due and payable of HK$150,795,000. In addition, interest paid increased from HK$2,982,000 in last year to HK$4,688,000 due to the increase in new bank borrowings and higher interest rate. Net cash inflow from financing activities in 2022 amounted to HK$42,590,000 (net cash outflow from financing activities last year: HK$16,175,000).

As at 31 December 2022, the Group's total borrowings were HK$195,849,000 (among which loans denominated in Hong Kong dollars were HK$190,000,000 and loans denominated in RMB were HK$5,849,000). Among those borrowings, 76.6% of which were classified as non-current liabilities, and 23.4% of which were classified as current liabilities.

The Group's gearing ratio, measured by interest bearing loan divided by shareholders' equity at the end of the year and multiplied by 100%, amounted to 10.2% as at 31 December 2022 (2021: 7.3%).

As at 31 December 2022, the Group held cash and cash equivalents of HK$729,058,000 in total, of which 5.6% was denominated in Hong Kong dollars, 79.5% was denominated in RMB, 12.0% was denominated in US dollars and 2.9% was denominated in other currencies.

The Group's net cash (cash and bank balances less total bank borrowings) was HK$555,448,000 as at 31 December 2022, representing a decrease of HK$136,567,000 as compared to HK$692,015,000 as at 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

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 assets, liabilities and 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.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any significant investment, material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2022.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

The Group introduces top talents and talents in urgent need, builds a talent training program with multiple forms and channels, deeply exploits talent potential, implements measures to stabilize posts, and retains core talents. During the year, the Group promulgated and implemented the Lean Talent Certification Management Measures (《精益人才認證管理辦法》) to strengthen the incentive of key technical talents and reduce the loss of them. Meanwhile, the Group also improved employees' welfare to guarantee their daily needs and enhance their sense of belongings. In addition, the Group adopted safety policies, and regularly carried out safety trainings to improve the safe production awareness of employees, allowing them to work in a safe environment.

The trainings during the year covered various aspects, including new employee orientation, production management, general management, quality management, supply chain management, financial management, sales management and research and development management. In addition, the Group provided targeted trainings for reserved talents and cadres and adhered to the principle of giving specific trainings to key talents, giving preferential trainings to outstanding talents and giving comprehensive trainings to young talents.

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

During the year, on the one hand, the Group reduced the need for basic personnel and improved efficiency through automated production and addition of new equipment; on the other hand, the Group expanded its R&D team to invest in the future development of the Group. As such, as at 31 December 2022, the Group had a total of 2,204 employees, representing a decrease of 3 employees as compared to 2,207 employees as at 31 December 2021.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zeng Guangsheng, aged 56, is the Chairman of the Board, the Chief Executive Officer, an executive director, the chairman of both of the executive committee and nomination committee and a member of both of the remuneration committee and the environmental, social and governance committee of the Company. He joined the Group in 2016. Mr. Zeng obtained a doctorate degree in economics from Nankai University (南開大學) in 2004.

He is currently an employee representative director of the fourteenth session of the board of directors and the chief investment officer of China Baoan Group Co., Ltd. (中國寶安集團股份有限公司) ("China Baoan", together with its subsidiaries, the "Baoan Group") (a company listed on the Shenzhen Stock Exchange, stock code: 000009 and the controlling shareholder of the Company), the chairman of the board of directors of China Baoan Group Assets Management Co., Ltd. (中國寶安集團資產管理有限公司) and the director of Baoan Technology Company Limited (寶安科技有限公司). Mr. Zeng was an executive director of the thirteenth session of the board of directors of China Baoan during the period between June 2016 and June 2019. He had served various positions at the managerial level in various subsidiaries of the Baoan Group and was the vice chairman of the board of directors of Mayinglong Pharmaceutical Group Co., Ltd. (馬應龍藥業集團股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600993).

Mr. Ng Hoi Ping, (former name: Wu Kai Ping), aged 54, is an executive director and a member of the executive committee of the Company. He joined the Group in 2016 and is responsible for the overall financial management of the Group. Mr. Ng obtained a master's degree in economics from Nankai University (南開大學) in 1996 and a master's degree in business administration from McMaster University in 2003. He is currently the general manager of Baoan Technology Company Limited (寶安科技有限公司).

Non-executive Directors

Ms. Zeng Jing, aged 48, is a non-executive director of the Company. She joined the Group in June 2017. Ms. Zeng currently is the financial controller of China Baoan Group Assets Management Co., Ltd. (中國寶安集團資產管理有限公司). Ms. Zeng has served senior position in a subsidiary of China Baoan Group Co., Ltd. (中國寶安集團股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000009 and the controlling shareholder of the Company) and Mayinglong Pharmaceutical Group Co., Ltd. (馬應龍藥業集團股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600993). She has over 24 years of experience in accounting and financial management.

Mr. Chen Kuangguo, aged 38, is a non-executive director of the Company. He joined the Group in June 2019 and China Baoan Group Co., Ltd (中國寶安集團股份有限公司), the controlling shareholder of the Company and listed on the Shenzhen Stock Exchange (stock code: 000009) ("China Baoan", together with its subsidiaries, the "Baoan Group ") in July 2006. Mr. Chen has been a director of Mayinglong Pharmaceutical Group Co., Ltd. (馬應龍藥業集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600993), since May 2019, and an executive deputy general manager of the financial investment department of China Baoan. Mr. Chen served an executive director of the thirteenth session of the board of directors of China Baoan during the period between June 2016 and June 2019.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Yang Rusheng, aged 55, is an independent non-executive director and a member of each of the remuneration committee, nomination committee and environmental, social and governance committee of the Company and has been appointed as the chairman of the audit committee of the Company since October 2018. He joined the Group in June 2017. Mr. Yang holds a master's degree in economics from Jinan University (暨南大學). He has over 29 years of experience in finance, audit and tax. Mr. Yang is a Certified Public Accountant and Certified Tax Agent in the People's Republic of China and is currently a partner of Jonten Certified Public Accountants (中天運會計師事務所), legal representative of Shenzhen Ruihua Tax Agent Co., Ltd (深圳市瑞華税務師事務所有限公司). Mr. Yang is an independent director of Ping An Bank Co. Ltd. (平安銀行股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000001) since February 2017 and independent director of Lufax Holding Ltd (陸金所控股有限公司) since July 2020 (listed on the New York Stock Exchange, stock symbol: LU). Mr. Yang has been an executive director of Guangdong Institute of Certified Public Accountants (廣東省註冊會計師協會) since June 2015. From November 2016 to March 2021, he was a president of Institute of Shenzhen Certified Public Accountants (深圳註冊會計師協會). Prior to that, he was a partner of Rui Hua Certified Public Accountants (瑞華會計師事務所), Wanlong Asia CPA Co., Ltd. (萬隆亞洲會計師事務所) and Crowe Horwath China Certified Public Accountants Co., Ltd. (國富浩華會計師事務所). Mr. Yang had previously been a committee member of Shenzhen Certified Public Accountants Ethic Committee (深圳市註冊會計師協會道德委員會) and Shenzhen Finance Bureau Certified Public Accountants and Responsibility Judge Committee (深圳市財政局註冊會計師責任鑒定委員會), an executive director of the China Certified Tax Agents Association (深圳市註冊税務師協會), and a director of Shenzhen Certified Tax Agents Association (中國註冊税務師協會). During the period from October 2010 to January 2017, Mr. Yang was an independent non-executive director of China Tangshang Holdings Limited (formerly known as Culture Landmark Investment Limited) (a company listed on the Main Board of the Stock Exchange, stock code: 674) and an independent non-executive director of Kantone Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code 1059), from December 2014 to December 2020, Mr. Yang was an independent director of Shenzhen Qianhai Webank (深圳前海微眾銀行股份有限公司). Mr. Yang has been appointed as an independent director of Guo Fu Life Insurance Co., Ltd. (國富人壽保險股份有限公司) in 2018 and an executive director of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in July 2018.

Mr. Cheung Chun Yue, Anthony, aged 40, is an independent non-executive director and a member of both the audit committee and nomination committee of the Company. Mr. Cheung has been appointed as the chairman of the remuneration committee of the Company since October 2018 and the chairman of the environmental, social and governance ("ESG") committee since November 2019. He joined the Group in June 2017. Mr. Cheung has served as an independent non-executive director of China Shineway Pharmaceutical Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2877) from January 2019 to October 2021, and as an independent non-executive director of Forward Fashion (International) Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2528) from December 2019 to July 2022.

Mr. Cheung is currently Managing Director and Head of ESG of Polymer Capital Management (HK) Limited. He also serves as an Executive Council Member of The Hong Kong Independent Non-Executive Director Association and a Board Governor at Friends of the Earth (HK).

Mr. Cheung previously served in renowned institutions, including BNP Paribas, Pictet Asset Management and Gartmore Investment Management. Mr. Cheung holds a bachelor's degree in economics from London School of Economics and Political Science, University of London and is a Fellow of CPA Australia. He was awarded the Certified ESG Analyst designation.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhu Jianbiao, aged 49, has been appointed as an independent non-executive director of the Company and a member of each of the Board's Audit Committee, Remuneration Committee, Nomination Committee and ESG Committee with effect from 14 November 2022. Mr. Zhu was appointed as vice chairman of the board of directors and executive director, member and chairman of the Strategic Development Committee and member of the Executive Committee of China Shandong Hi-Speed Financial Group., Ltd. (Formerly known as "Shandong Hi-Speed Holdings Group Limited") (Stock Code: 412), a company listed on the Main Board of the The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); executive director of Shandong Hi-Speed New Energy Group Limited (Formerly known as "Beijing Enterprises Clean Energy Group Co., Ltd.") (Stock Code: 1250), a company listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Beijing Energy International Holdings Limited (Stock Code: 686), a company listed on the Main Board of the Stock Exchange.

Mr. Zhu graduated from Jiangxi University of Finance and Economics in planning statistics, with a bachelor's degree in economics, and holds a master's and doctorate degrees in finance from Jinan University. Mr. Zhu has more than 20 years of extensive experience in private equity investment, secondary market investment and financial management. He has served as the chief operating officer of CITIC Private Equity Funds Management Co., Ltd. and the executive deputy general manager of Changsheng Fund Management Co., Ltd.. Mr. Zhu also served as a lecturer in the Department of Investment Finance of Guangdong University of Finance and Economics.

SENIOR MANAGEMENT

Mr. Ho Yu Hoi, Mark, aged 59, is the Vice President of Marketing of the Group. He joined the Group in 1992 and was an executive director of the Company from 1 November 2004 to 1 June 2017. Mr. Ho has over 40 years of experience in the field of computer aided design and manufacturing and is currently responsible for overall marketing strategies of the Group and the daily operation of Integrated Precision Engineering (Thailand) Company Limited.

Mr. Lau Siu Chung, aged 58, is the Chief Operating Officer and Vice President of Marketing of the Group. Mr. Lau joined the Group in 1997 and was an executive director of the Company from June 2009 to November 2018. He is responsible for the planning and implementation of sales strategies and in charge of the sales and marketing activities of the Group. Mr. Lau has over 26 years of experience in marketing and sales of precision components and industrial equipment.

Mr. Jiang Fei, aged 50, is the Deputy General Manager of the Group and is responsible for the Group's heat treatment division. He joined the Group in 1995 after graduation from 華南理工大學 (South China University of Technology) with a graduate diploma in Mechanical Engineering. He has over 26 years of experience in the manufacturing industry.

COMPANY SECRETARY

Mr. Tam Yiu Chung, aged 52, is the Chief Financial Officer and Company Secretary of the Company. He joined the Group in 2007. He holds a master's degree in professional accounting and is a member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "Board") presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group recognizes the vital importance of good corporate governance to the Group's success and sustainability and wishes to highlight the indispensable role of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all its operations. The Company has applied the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Throughout the year under review, the Company has complied with the code provisions set out in the CG Code, save for the code provision C.2.1. Key corporate governance principles and practices of the Company as well as details of the said deviation are summarized in the section headed "The Board" below. The Company is committed to reviewing and enhancing its corporate governance practices from time to time to ensure that its corporate governance practices continue to meet the regulatory requirements and the growing expectations of shareholders and investors.

THE BOARD

Responsibilities and Delegation

The overall management and control of the Company's business are vested in the Board, whose main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. All directors take decisions objectively in the interests of the Company.

The Board reserves for its decision all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board. All directors carry out their duties in good faith and in compliance with the standards of applicable laws and regulations, and act in the interests of the Company and its shareholders at all times.

Independent non-executive Directors are also encouraged to give the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments.

Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions.

THE BOARD (Continued)

The Board has also delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the control systems. The Board will review these arrangements periodically to ensure that they remain appropriate to the Group's needs.

Board Composition

The following chart illustrated the structure and membership of the Board and the Board Committees up to the date of this report:

Board of Directors

Executive Directors
- Mr. Zeng Guangsheng *(Chairman of the Board 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 (resigned on 30 October 2022)
- Mr. Zhu Jianbiao (appointed on 14 November 2022)

Executive Committee
- Mr. Zeng Guangsheng *(Chairman)*
- Mr. Ng Hoi Ping

Audit Committee
- Mr. Yang Rusheng *(Chairman)*
- Mr. Cheung Chun Yue, Anthony
- Mr. Mei Weiyi (resigned on 30 October 2022)
- Mr. Zhu Jianbiao (appointed on 14 November 2022)

Remuneration Committee
- Mr. Cheung Chun Yue, Anthony *(Chairman)*
- Mr. Zeng Guangsheng
- Mr. Yang Rusheng
- Mr. Mei Weiyi (resigned on 30 October 2022)
- Mr. Zhu Jianbiao (appointed on 14 November 2022)

Nomination Committee
- Mr. Zeng Guangsheng *(Chairman)*
- Mr. Yang Rusheng
- Mr. Mei Weiyi (resigned on 30 October 2022)
- Mr. Cheung Chun Yue, Anthony
- Mr. Zhu Jianbiao (appointed on 14 November 2022)

Environmental, Social and Governance Committee
- Mr. Cheung Chun Yue, Anthony *(Chairman)*
- Mr. Zeng Guangsheng
- Mr. Yang Rusheng
- Mr. Mei Weiyi (resigned on 30 October 2022)
- Mr. Zhu Jianbiao (appointed on 14 November 2022)

None of the members of the Board is related to one another. The biographical details of the directors are disclosed under the section headed "Directors and Senior Management" in this annual report.

The composition of the Board reflects the necessary balance of skills and experience appropriate to the requirements of the business of the Group and to the exercising of independent judgement. All directors bring a wide range of valuable business and financial expertise, experiences and professionalism to the Board for its effective functioning. Independent non-executive directors are invited to serve on the Board Committees of the Company.

THE BOARD (Continued)

Board Composition (Continued)

The Company has appointed independent non-executive Directors representing more than one-third of the Board throughout the year and is in compliance with Rule 3.10A of the Listing Rules except for a very short period of time when Mr. Mei Weiyi ("Mr. Mei") resigned as an independent non-executive Director on 30 October 2022, and Mr. Zhu Jianbiao ("Mr. Zhu") was appointed subsequently as an independent non-executive director on 14 November 2022, which was no more than 15 days from the date of the resignation of Mr. Mei. Following the appointment of Mr. Zhu with effect from 14 November 2022, the Company has met the requirements of the Listing Rules of having at least three independent non-executive directors (representing at least one-third of the Board) with at least one independent non-executive director possessing appropriate professional qualifications and accounting and related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director in respect of his independence in accordance with the independence guidelines set out in rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors are independent.

There are no relationship (including financial, business, family or other material/relevant relationship(s)), if any, between Board members.

Chairman and Chief Executive Officer

Code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Zeng Guangsheng has assumed the roles of both Chairman of the Board and Chief Executive Officer of the Company since 29 October 2018. 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 Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company on the grounds that (i) Mr. Zeng and other directors are aware of and undertake to fulfill their fiduciary duties as directors, which require that they act in the best interests of the Company; (ii) there is a check-and-balance mechanism within the Board which comprises executive directors and three independent non-executive directors of high caliber and diverse experience. Major decisions shall be approved by the majority of the Board members after thorough discussions and deliberations at the Board and senior management levels. Therefore, the Board considers that the deviation from the code provision C.2.1 of the CG Code is appropriate in such circumstances and beneficial to the Group.

The code provision B.2.2 of the CG Code states that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

THE BOARD (Continued)

Executive Directors

Mr. Zeng Guangsheng and Mr. Ng Hoi Ping, being executive directors of the Company, have been appointed for a term of 3 years and should be subject to retirement by rotation and re-election provisions as set out in the Articles of Association of the Company.

Non-executive Directors

Ms. Zeng Jing and Mr. Chen Kuangguo, being non-executive directors of the Company, have been appointed for a term of 3 years and shall be subject to retirement by rotation and re-election provisions as set out in the Articles of Association of the Company (the "Articles of Association").

Mr. Yang Rusheng, Mr. Cheung Chun Yue, Anthony and Mr. Zhu Jianbiao, who are independent non-executive directors, were appointed for an initial term of 1 year and shall be subject to retirement by rotation and re-election provisions as set out in the Articles of Association.

Re-election of Directors

In accordance with articles 86 and 87 of the Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the next general meeting after appointment.

Pursuant to article 86 of the Articles of Association, Mr. Zhu Jianbiao was appointed by the Board as an independent non-executive Director on 14 November 2022, and shall hold office until the 2023 annual general meeting and shall be eligible for re-election at the 2023 annual general meeting.

In addition, pursuant to article 87 of the Articles of Association, Mr. Ng Hoi Ping, Mr. Yang Rusheng and Mr. Cheung, Chu Yue Anthony shall retire by rotation and, being eligible, offer themselves for re-election at the 2023 annual general meeting.

The Board and the Nomination Committee of the Company recommended the re-appointment of these retiring directors standing for re-election at the 2023 annual general meeting. The Company's circular contains detailed information of such retiring directors for re-election pursuant to the requirements of the Listing Rules.

Induction and Training and Continuing Professional Development of Directors

Each newly appointed director receives comprehensive induction on the first occasion of his/her appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

THE BOARD (Continued)

Induction and Training and Continuing Professional Development of Directors (Continued)

During the year ended 31 December 2022, all Directors attended the anti-corruption training. The Company also provides training sessions to the middle managers to help them to perform their role. Training programs were implemented for all employees to develop the required competencies, and more broadly, the elements supporting a sound culture. Proper training (including integrity training) were provided to the management and the employees who are likely to be exposed to risks of bribery and corruption, money laundering and financing of terrorism or non-compliance under the Prevention of Bribery Ordinance, and how they recognize and deal with them.

According to the information provided by the Directors, a summary of training received by the Directors throughout the year ended 31 December 2022 is as follows:

Name of Directors	Nature of continuous professional development programmes
Executive Directors	
Mr. Zeng Guangsheng	A and B
Mr. Ng Hoi Ping	A and B
Non-Executive Directors	
Ms. Zeng Jing	A and B
Mr. Chen Kuangguo	A and B
Independent Non-Executive Directors	
Mr. Cheung Chun Yue, Anthony	A and B
Mr. Yang Rusheng	A
Mr. Mei Weiyi	A and B
Mr. Zhu Jianbiao	A and B

Notes:

A. Attending training sessions organized by the Company or professional organizations

B. Perusing news updates and publications pertaining to the roles, functions and duties of a director

THE BOARD (Continued)

Corporate Culture and Strategy

The Board has acted a leading role in building the corporate culture of the Group and making the strategic direction, and enabled the Group to be committed to becoming a model of the high-precision industry, becoming a modern large-scale high-tech enterprise, with comprehensive strength among the forefront of precision manufacturing, and continuing to maintain leadership in the industry.

To fulfill our vision, the Group is committed to:

1. Working closely with customers to promote mature scientific and technological achievements into the market through the wide application of high-precision technology in various industrial fields, thereby improving quality of our life.

2. We will continue to introduce international advanced machinery and technology, continue to carry out technological innovation, process innovation, market innovation and management innovation, and adhere to keeping pace with the times to ensure sustained growth of competitive advantage.

3. Developing our business quickly and steadily, achieve economies of scale, and improve profitability.

4. Continuing to promote research and development projects and become a solution provider for the pain points and difficulties in the industry.

In addition to fulfilling our vision, the Company, with the mission of "Better Precision, Better Future", has established our policy of progressing together with the times, creating value together with customers and developing together with employees. With the assistance of human resources and administrative departments, the Board inculcates and promotes the following core values in our working force:

Core Values	
People	**Innovation**
People-oriented, sincere and united, dedicated, and forge ahead.	Innovation is the first driving force for development, and IPE's pace of innovation will never stop.
Environmental protection	**Market orientation**
Cherish resources, save energy and reduce consumption, and reduce waste.	The business is market-oriented and the operation is customer-centric.
Quality policies	**Strategic objectives and operation philosophies**
– Accumulate any improvement to achieve perfect quality. – Perseverance in service and excellence in quality. – Technology reflects our wisdom, and quality reflects our dignity.	Be committed to becoming a one-stop supplier of internationally advanced precision manufacturing services and process solutions with the operation philosophy of "technology leads intelligent manufacturing, technology changes life".

THE BOARD (Continued)

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 exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all directors and all of them have confirmed that they had complied with the Own Code and Model Code throughout the year ended 31 December 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 Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code. During the year ended 31 December 2022, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the Company's compliance of the Own Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

The Board confirmed that corporate governance should be the collective responsibility of the Board (or its committees), which includes at least:

(a) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) to develop, review and monitor the codes of conduct and compliance manuals applicable to employees and the Directors;

(d) to develop and review the Company's corporate governance policies and practices, make recommendations and report on related issues to the Board; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Attendance Records of Directors and Committee Members

The attendance records of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2022 are set out in the table below:

	Attendance/Number of Meetings							
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Environmental, Social and Governance Committee	Annual General Meeting	Extraordinary general meeting held on 14 January 2022	Extraordinary general meeting held on 29 April 2022
Mr. Zeng Guangsheng	4/4	–	1/1	1/1	2/2	1/1	1/1	0/1
Mr. Ng Hoi Ping	4/4	–	–	–	–	1/1	1/1	1/1
Ms. Zeng Jing	4/4	–	–	–	–	1/1	1/1	1/1
Mr. Chen Kuangguo	4/4	–	–	–	–	1/1	1/1	0/1
Mr. Yang Rusheng	4/4	2/2	1/1	1/1	2/2	1/1	1/1	1/1
Mr. Cheung Chun Yue, Anthony	4/4	2/2	1/1	1/1	2/2	1/1	1/1	1/1
Mr. Mei Weiyi (Note1)	3/4	2/2	1/1	1/1	2/2	1/1	1/1	0/1
Mr. Zhu Jianbiao (Note2)	1/4	0/0	0/0	0/0	0/0	0/0	0/0	0/0

Note:

1. Mr. Mei Weiyi resigned as an independent non-executive director on 30 October 2022. Before his resignation, 3 board meetings, 2 audit committee meetings, 1 remuneration committee meeting and 1 nomination committee meeting were held during the year ended 31 December 2022.

2. Mr. Zhu Jianbiao appointed on 14 November 2022.

In addition, the Chairman of the Board also held a meeting with the independent non-executive directors without the presence of other directors during the year.

BOARD COMMITTEES

The Board has established 5 Board committees, namely, the Executive Committee, Remuneration Committee, Audit Committee, Nomination Committee and Environmental, Social and Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website "www.ipegroup.com" and on the Stock Exchange's website "www.hkexnews.hk" (except for the written terms of reference of the Executive Committee which is available to shareholders upon request). All the Board committees should report to the Board on their decisions or recommendations made.

Executive Committee

The Executive Committee currently comprises a total of 2 members, namely, Mr. Zeng Guangsheng (Chairman) and Mr. Ng Hoi Ping who are both executive directors of the Board. The main duties of the Executive Committee include monitoring the execution of the Group's strategic plans and operations of all business units of the Group and discussing and making decisions on matters relating to the day-to-day management and operations of the Group.

BOARD COMMITTEES (Continued)

Remuneration Committee

The Remuneration Committee currently comprises a total of 4 members, being 1 executive director, namely, Mr. Zeng Guangsheng; and being 3 independent non-executive directors, namely, Mr. Yang Rusheng, Mr. Cheung Chun Yue, Anthony (Chairman) and Mr. Zhu Jianbiao. Accordingly, the majority of the members are independent non-executive directors.

The main duties of the Remuneration Committee are to (i) make recommendations to the Board on the remuneration packages of directors and senior management and the remuneration policy and structure for all directors and senior management (i.e. the model described in the code provision E.1.2(c)(ii) of the CG Code was adopted); and (ii) establish transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration.

During the year ended 31 December 2022, the Remuneration Committee performed the following major tasks:

– Review and discussion of the remuneration policy of the Group and the remuneration packages of directors and senior management of the Group;

– Review and approval of the management's remuneration proposals with reference to the Board's corporate goals and objectives;

– Review and/or Approval of matters relating to share schemes under Chapter 17 of the Listing Rules; and

– Performance of Remuneration Committee's other duties under the CG Code.

On 17 March 2022, 50,000,000 share options were granted to 3 Directors and 11 employees of the Group, of which the grant of 35,000,000 share options to Mr. Zeng Guangsheng is subject to the approval of the shareholders of the Company in general meeting.

According to the 2022 Share Option Scheme, it states that unless otherwise determined by the Board and specified in the offer letter at the time of the offer of the share option, there are neither any performance targets that need to be achieved by the grantee before a share option can be exercised nor any minimum period for which a share option must be held before the share option can be exercised. Under the proposed granted share options on 17 March 2022, no performance target has been set as condition to the exercise of the share options. The Remuneration Committee is of a view that, it has been the Company's intention to grant share options as an incentive to the management and employee, and the results of such incentive are generally measure by way of enhancement of the share value and returns to the shareholders. Therefore, similar to the practice for grant of options by the Company in the past, it has been the practice of the Company to grant share options to the management and employees without any performance targets required to be fulfilled or achieved. The improvement of the Group's financial performance subsequent to the grant of options demonstrated that granting options without setting performance target can still provide sufficient incentive to the management of the Group to strive for improvement of the Group's fundamentals and performance and conducive to enhancing the return to the shareholders in the long run.

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

Pursuant to the code provision E.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2022 is set out below:

Remuneration Band (HK$)	Number of individuals
Nil to HK$1,000,000	6
HK$1,000,001 to HK$2,000,000	5
HK$2,000,001 to HK$3,000,000	1

Details of the remuneration of each of the directors of the Company for the year ended 31 December 2022 are set out in note 7 to consolidated financial statements.

Audit Committee

The Audit Committee currently comprises a total of 3 members, namely, Mr. Yang Rusheng (Chairman), Mr. Cheung Chun Yue, Anthony and Mr. Zhu Jianbiao. All of the members are independent non-executive directors, with at least one independent non-executive director possessing the appropriate professional qualifications and accounting and related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee are to (i) review the consolidated financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; (ii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; (iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) review the adequacy and effectiveness of the Company's financial reporting system, internal control system, risk management system and internal audit function and associated procedures and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2022, the Audit Committee performed the following major tasks:

– Review and discussion of the annual financial results and report for the year ended 31 December 2021 and interim financial results and report for the six months ended 30 June 2022;

– Review of the scope of audit work, auditors' fees and terms of engagement for the year ended 31 December 2022;

– Discussion and recommendation of the re-appointment of the external auditors;

– Review of the risk management and internal control systems, and the effectiveness of the internal audit function;

– Review of the arrangements for employees to raise concerns about possible improprieties; and

– Performance of the Audit Committee's other duties under the CG Code.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

The external auditors were invited to attend the meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. Besides, there was no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditors.

Nomination Committee

The Nomination Committee currently comprises a total of 4 members, being 1 executive director, namely, Mr. Zeng Guangsheng (Chairman); and 3 independent non-executive directors, namely, Mr. Yang Rusheng, Mr. Cheung Chun Yue, Anthony and Mr. Zhu Jianbiao. Accordingly, the majority of the members are independent non-executive directors. The main duties of the Nomination Committee are to (i) review the Board composition, develop and formulate relevant procedures for the nomination and appointment of directors; (ii) review the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy; (iii) make recommendations to the Board on the rotation, appointment and succession planning of directors; and (iv) assess the independence of independent non-executive directors.

Diversity of the Board

The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in maintaining the Company's competitive advantage. Pursuant to the new Board Diversity Policy adopted by the Company, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience. The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered. Currently, among all seven members of the Board, one is female (i.e. Ms. Zeng Jing). Given the current composition of the Board, the Nomination Committee is of the view that the diversity level of the Board is appropriate in terms of gender, knowledge, experience and skills of the directors. The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

In this regard, we have added the following disclosures and please review and supplement as appropriate.

Gender diversity of senior management and employees

To achieve diversity at workforce level, the Group has put in place appropriate recruitment and selection practices such that a diverse range of candidates are considered and ensure that gender diversity is taken into account when recruiting staff members of mid to senior level. During the year under review, the Board was not aware of any mitigating factors or circumstances which make achieving gender diversity across the workforce (including senior management) more challenging or less relevant.

BOARD COMMITTEES (Continued)

Gender diversity of senior management and employees (Continued)

As at the end of 2022, among the 4 senior management members of the Group, none is female. As at the end of 2022, the Group had 1,057 female employees, accounting for 48% of total employees, and 1,143 male employees, accounting for 52% of total employees. The gender ratio of male to female in the workforce of the Group including senior management and other employees was approximately 1:0.92. The Company considers that it has met the objective in gender diversity to achieve gender balance in key roles.

During the year under review, the Nomination Committee had, in accordance with the Director Nomination Policy of the Company, considered criteria set out therein for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following: character and integrity; qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy; diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service; requirements of independent non-executive directors on the Board and independence of the proposed independent non-executive directors in accordance with the Listing Rules; and commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company. The Nomination Committee adopted the following procedures and process set out in the Director Nomination Policy to select and recommend candidates for directorship during the year:

(i) Appointment of new directors:

- Potential candidates were identified through various channels, such as internal promotion, redesignation, referral by other member of the management, and external recruitment agents;
- Evaluating the candidates based on the criteria aforementioned;
- Ranking the candidates by order of preference based on the needs of the Company and conducting reference check of each candidate; and
- Making recommendation to the Board for the appointment of the appropriate candidate for directorship.

(ii) Re-election of directors at general meeting:

- Reviewing the overall contribution and service of the retiring director to the Company and his/her level of participation and performance on the Board;
- Reviewing whether the retiring director continues to meet the criteria aforementioned or not; and
- Making recommendation to the Board for its subsequent recommendation to shareholders in respect of the proposed re-election of the director at the general meeting.

BOARD COMMITTEES (Continued)

Gender diversity of senior management and employees (Continued)

During the year ended 31 December 2022, the Nomination Committee performed the following major tasks:

– Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company with due regard for the benefits of diversity of the Board;

– Recommendation of the re-appointment of those directors standing for re-election at the 2022 annual general meeting of the Company;

– Assessment of the independence of all the independent non-executive directors of the Company; and

– Performance of the Nomination Committee's other duties under the CG Code.

Environmental, Social and Governance Committee ("ESG Committee")

The Company has a heritage of strong commitment to the long-term sustainability of the business. On 25 November 2019, the Company established the ESG Committee to further strengthen its environmental and social risk management and proactively fulfill its social responsibility. The ESG Committee comprises 4 members, being an executive director, namely Mr. Zeng Guangsheng, and being 3 independent non-executive directors, namely, Mr. Cheung Chun Yue, Anthony (the Chairman), Mr. Yang Rusheng and Mr. Zhu Jianbiao.

The primary duties of the ESG Committee are to (i) formulate and review the Group's responsibilities, visions, strategies, frameworks, principles and policies of environmental, social & governance matters and implement relevant policies approved by the Board; (ii) set relevant policy targets, key performance indicators and measures that align with the Group's business model and effectively monitor the progress; (iii) identify issues related to the area of environmental, social & governance arising from external factors; (iv) review and monitor environmental, social & governance policies to ensure their continued effectiveness; (v) monitor staff training related to issues of environmental, social & governance; (vi) approve the Environmental, Social and Governance Report and report to the Board; and (vii) report any new development of matters within its terms of reference to the Board when necessary.

During the year ended 31 December 2022, the ESG Committee performed the following major tasks:

– Review of the Company's and its subsidiaries' responsibilities, visions, strategies, frameworks, principles and policies of ESG;

– Performance of ESG Committee's other duties under the CG Code.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2022. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements. The senior management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company, which are put to the Board for approval. The statement of the external auditors of the Company about their reporting responsibilities for the Company's consolidated financial statements for the year ended 31 December 2022 is set out in the section headed "Independent Auditor's Report" in this annual report. The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for evaluating and determining the nature and extent of risk it is willing to take in achieving the Group's strategic objectives, as well as ensuring the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board should oversee management in the design, implementation, and monitoring of the risk management and internal control systems. The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness, and ensures that a review of the effectiveness of the risk management and internal control systems of the Company and its subsidiaries for each financial year will be conducted at least annually. However, such risk management and internal control systems are designed to manage rather than eliminate the risks of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements or losses.

The Board and the Audit Committee also confirmed that they have reviewed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2022, which covered all material controls, including financial, operational and compliance controls. The Company's procedures and process involved in the risk management and internal control mainly included:

(1) Risk identification: A list of risks was created after the scope of risks was determined and risks were identified.

(2) Risk assessment: Based on the impacts and the possible occurrence of various potential risks with reference to the risk rating methods determined by the management of the Group, the priority of the risks was determined.

(3) Risk control: The efficiency of internal controls over the risks identified were assessed, in order to keep the risks within the risk tolerance of each aspect.

(4) Risk reporting: The reports of assessment results with respect to risk management and internal control were submitted to the management and the Board on a regular basis.

RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

The Group established the internal audit function, and appointed relevant personnel to be responsible for identifying and assessing the risks and internal controls with respect to daily operation of the group and its subsidiaries, reporting the assessment results and subsequent action to the Board. Besides, the management of the Group appointed a professional consulting firm to assist the Group in reviewing the efficiency of risk management and internal controls over material business processes from time to time, and implemented measures to address the weakness identified by the consulting firm.

The Company adopted a disclosure policy which provides a general guide to its directors, senior management and employees on the handling and dissemination of inside information and responding to enquiries in accordance with the inside information provisions under Part XIVA of the Securities and Futures Ordinance and the Listing Rules. The Group has strictly prohibited unauthorized use of confidential or inside information and has a system of internal procedures for processing and publication of information in order to ensure the timely, accurate and appropriate disclosure of relevant information to the public and regulatory authorities.

The Board believes the risk management and internal control systems are effective and adequate upon reviewing their effectiveness. The Board has received confirmation from management on the effectiveness of the issuer's risk management and internal control systems. The Board will continue to improve and monitor the effectiveness of the risk management and internal control systems.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The fees paid/payable to the Group's external auditors in respect of audit services and non-audit services for the year ended 31 December 2022 are analyzed below:

Type of services provided by the external auditors	Fees paid/payable (HK$'000)
Audit services:	
Audit fees for the year ended 31 December 2022	1,200
Non-audit services:	
Tax services	484

COMPANY SECRETARY

During the year ended 31 December 2022, Mr. Tam Yiu Chung, the Company Secretary, took no less than 15 hours of relevant professional training. Biographical details of Mr. Tam are set out in the section headed "Directors and Senior Management" in this annual report.

SHAREHOLDERS' RIGHT

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings pursuant to the Articles of Association as follows:

(i) Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

(ii) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected together with the required information under Rule 13.51(2) of the Listing Rules. These notices should be lodged at the Company's head office in Hong Kong or the Company's registration office (i.e. Computershare Hong Kong Investor Services Limited) at least 7 days prior to the date of the general meeting. If the notices are submitted after the dispatch of the notice of the general meeting appointed for such election, the period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end no later than 7 days prior to the date of such general meeting.

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement (as the case may be) to the Company's head office in Hong Kong and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

All resolutions proposed at shareholder meetings (save for those related purely to a procedural or administrative matter which may be voted by a show of hands) will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ipegroup.com) respectively immediately after the relevant general meetings.

Communications with shareholders and investors

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

SHAREHOLDERS' RIGHT (Continued)

Communications with shareholders and investors (Continued)

To promote effective communication, the Company's website at "www.ipegroup.com" serves as a communication platform for shareholders and investors, where information and updates on the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may send written enquiries or requests to the Company as follows:

Address:	Unit 5–6, 23/F, Enterprise Square Three 39 Wang Chiu Road, Kowloon Bay, Kowloon Hong Kong (For the attention of the Chairman of the Board)
Fax:	(852) 2688 6155
Email:	ipehk@ipehk.com.hk

The Company continues to enhance communications and relationships with its shareholders and investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them posted of the Company's developments. Enquiries from shareholders and investors are dealt with in an informative and timely manner.

In addition, the general meetings of the Company provide a good opportunity for communication between the Board and the shareholders. Board members and appropriate senior staff of the Group are available to answer questions at the annual general meeting and other shareholders' meetings.

INVESTOR RELATIONS

During the year under review, the Company has not made any changes to its Articles of Association. An up-to date version of the Articles of Association is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles of Association for further details of the rights of shareholders.

Shareholders' Communication Policy

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The Company keeps the shareholders updated on the recent development of the Group by maintaining and updating, from time to time, its website at www.ipegroup.com, where the up-to-date information on the Group's business operations and developments, financial information, corporate governance practices, and other information are available for public access.

The Board considers that the shareholders communication policy is effective since the listing of the Company and up to 31 December 2022 since all corporate communications and regulatory announcements were published by the Company on its website and the website of the Stock Exchange in a timely manner since its listing.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION, SUCCESSION AND EVALUATION

We have conducted board evaluation annually. A broad range of areas have been assessed including board composition, succession planning, sufficiency and effectiveness of the board committees, board effectiveness to ensure independent views and input are available to the Board.

The Board is committed to review its own performance and effectiveness at regular intervals. The last evaluation was conducted in 27 March 2023.

DIVIDEND POLICY

The Company has adopted a dividend policy on payment of dividends. Depending on the financial conditions of the Group and subject to the Articles of Association of the Company, all applicable laws and regulations, and the conditions and factors as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval. No dividend shall be declared in excess of the amount recommended by the Board. The Company does not have any pre-determined dividend payout ratio. There will be no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

A decision to declare or to pay any dividend in the future, and the amount of any dividends, depends on a number of factors, including our results of operations, financial condition, the payment by our subsidiaries of cash dividends to us, and other factors which the Board may deem relevant. We do not have a fixed dividend payout ratio.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The second amended and restated memorandum and articles of association of the Company was proposed to be adopted in the forthcoming annual general meeting held on Monday, 15 May 2023. The latest version of the constitutional documents shall be available for inspection on the websites of the Company and the Stock Exchange.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SCOPE AND REPORTING PERIOD

This is the Environmental, Social, and Governance ("ESG") report prepared by IPE Group Limited (the "Group" or "our"), highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 of the Listing Rules and Guidance set out by The Stock Exchange of Hong Kong Limited. This year, the Group has also taken its first step to disclosing its climate-related information aligning with the four core elements, namely, Governance, Strategy, Risk Management and Metrics and Targets of Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations on climate-related financial disclosure.

This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the following business operations from 1 January 2022 to 31 December 2022 (the "Reporting Period"), unless otherwise stated:

(i) the manufacturing site of automotive parts, hydraulic and electronic equipment and sales office at Guangzhou Xinhao Precision Technology Company Limited (hereafter "GZXH"), Guangzhou, the People's Republic of China (the "PRC");

(ii) the manufacturing site of automotive parts and electronic products and sales office at Dongguan Koda Metal Products Company Limited (hereafter "DGKD"), Dongguan, the PRC;

(iii) the manufacturing site of automotive parts and hydraulic and sales office at Changshu Keyu Greystone Machining Company Limited (hereafter "CSKY"), Suzhou, the PRC; and

(iv) the manufacturing site of hydraulic equipment components and sales office at Jiangsu Kemai Hydraulic Control System Company Limited (hereafter "JSKM"),

The principal activities of the above-mentioned operations are the manufacturing and sale of precision components products, which collectively accounted for 92% of the Group's total revenue during the Reporting Period.

With the Group's strategic adjustment and greater investment in the hydraulic business, the Group has acquired JSKM in the last reporting period. During the Reporting Period, JSKM has contributed to a significant portion to the Group's overall revenue. While CSKY has also contributed to a significant portion to the Group's overall revenue, CSKY and JSKM are new entities that have been included in the reporting scope. The manufacturing site and sales office at Integrated Precision Engineering (Thailand) Company Limited (hereafter "IPET"), Bangkok, Thailand has been excluded from the reporting scope for the Reporting Period due to its insignificant contribution to the Group's total revenue and impacts.

Reporting Principles

The preparation of the ESG Report has applied the following principles:

Materiality – materiality assessments have been carried out to identify material environmental and social issues that have major impacts on investors and other stakeholders, the significant stakeholders, procedures, and results of the engagement of which are presented in the section "Stakeholder Engagement and Materiality" in the Report.

Quantitative – key performance indicators ("KPI"s) have been established, and are measurable and applicable to make valid comparisons under appropriate conditions; information on the standards, methodologies, assumptions, and/or calculation tools used, and sources of conversion factors used, have been disclosed when applicable.

Balance – performance of the Group was presented in an unbiased and impartial manner. Reasons for omission have been disclosed if the omission is inevitable.

Consistency – consistent statistical methodologies and presentation of KPIs have been used to allow meaningful comparisons of related data over time.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

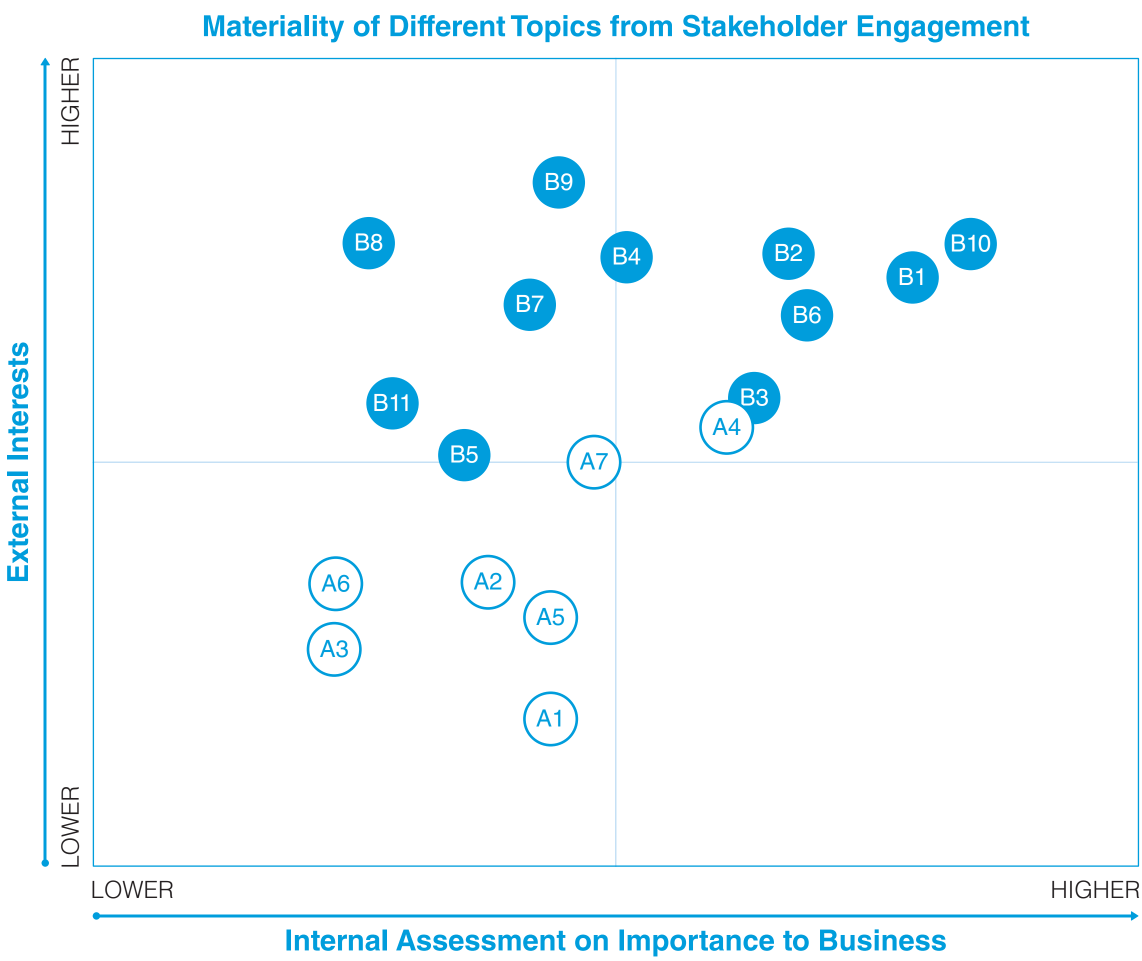
The Group communicates with key stakeholders through daily interaction to understand their concerns and expectations on ESG issues. The Group engages stakeholders via various communication channels such as regular meetings, performance appraisals, company website and e-mails. Through regular engagement sessions, the Group obtains valuable feedback and reviews areas of attention which will help the business to meet its potential growth and be prepared for future ESG challenges.

Materiality Assessment

To identify material ESG issues, the Group has specifically engaged a wide range of stakeholders, including the the Board, shareholders, senior management, frontline workers, customers and suppliers, to gain insights into ESG material topics. In the materiality assessment, stakeholders were asked to rate a list of 18 ESG topics in terms of their relevance and importance to the Group's business continual and sustainability performance, as well as to the wider community.

Results of the materiality assessment and the consolidated list of material aspects with respective management are presented in the following matrix, table and section respectively.

Figure 1 Materiality Matrix



STAKEHOLDER ENGAGEMENT AND MATERIALITY (CONTINUED)

Materiality Assessment (Continued)

Table 1 Environmental and Social Issues for Materiality Assessment

A.	**Environmental**	
	Energy	A1
	Water	A2
	Air Emission	A3
	Waste and Effluent	A4
	Other Raw Materials Consumption	A5
	Environmental Protection Policies	A6
	Climate Change	A7
B.	**Social**	
	Employment	B1
	Occupational Health and Safety	B2
	Development and Training	B3
	Labor Standards	B4
	Supply Chain Management	B5
	Intellectual Property Rights	B6
	Data Protection	B7
	Customer Service	B8
	Product/Service Quality	B9
	Anti-corruption	B10
	Community Investment	B11

Through ongoing dialogues and materiality assessment during the Reporting Period, the Group has identified 5 material issues that were deemed as the most important by the stakeholders:

- Employment
- Occupational Health and Safety
- Development and Training
- Intellectual Property
- Anti-corruption

During the Reporting Period, stakeholders' interests shifted from a mix of environmental and social topics to only social topics. All topics deemed as material by stakeholders were social topics. While occupational health and safety, intellectual property were also material topics in the previous reporting period, employment, development and training and anti-corruption are new topics deemed to be material by internal and external stakeholders during this Reporting Period. Management approaches of the identified key material issues are discussed in relevant sections below. The Group will continue to manage these key material aspects by establishing more policies and guidelines to further enhance the Group's ESG performance.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our ESG approach and performance. Please give your suggestions or share your views with us by post: Unit 5-6, 23/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong or email: ipehk@ipehk.com.hk.

THE GROUP'S SUSTAINABILITY MISSION AND VISION

The Group strives to achieve a better balance of profit maximization, corporate sustainability, and stakeholder satisfaction so as to maintain business continuity and develop business resilience.

THE GROUP'S SUSTAINABILITY GOVERNANCE

The Board has overall responsibility for the Group's ESG strategy and reporting and for evaluating and determining the Group's ESG-related risks. The Group has developed a suite of sustainability policies to communicate with the stakeholders its commitment and approach towards enhancing sustainability performance.

To fulfil the vision towards corporate sustainability, the Group has established an Environmental, Social and Governance Committee (the "ESG Committee") which is chaired and managed by the Board. The ESG Committee supervises all ESG related matters and reports to the Board. The ESG committee is responsible for developing ESG related strategies and programs, which could include drafting policies, assigning responsibilities for ESG operations, and setting up systems to manage ESG activities. The ESG committee also sets relevant policy targets, key performance indicators ("KPIs") and measures that align with the Group's business model and effectively monitors the progress of measures implemented. When necessary, the ESG Committee will report any new development of matters with its terms of reference to the Board. The Group has also sought advice and insights of external ESG consultants to support its sustainable development endeavors.

Material issues were identified and prioritized through the annual materiality assessment. The Board reviews issues that are material to business development and to stakeholders annually during the Board's meeting. The ESG Committee reviews ESG performance of the Group and the related targets twice a year.

AWARDS AND RECOGNITION

The Group actively strives for operational excellence and has obtained various international certifications, such as IATF16949:2016, AS9100:2016, ISO9001:2015, ISO14001:2004 and ISO45001:2018 for its operations. The recognition received by the Group include:

- Certificate of Guangzhou Province High-Tech Products – Automotive Brake Precision Parts (Case) awarded by Guangdong High-tech Enterprise Association (GZXH);
- Passed the 2022 Changshu Industry and Innovation Integration Platform Carrier Certification (CSKY);
- Top 100 in the seventh Maker in China and Jiangsu SME Innovation and Entrepreneurship Competition (JSKM); and
- Jiangsu Multi-mode Intelligent Load Sensitive Valve Engineering Technology Research Centre received the title of "Provincial Engineering Centre" (JSKM).

ENVIRONMENTAL PROTECTION

As a manufacturer, the Group is aware of its obligation to reduce operational impacts on the environment. The Group is committed to continuously improving the environmental sustainability and ensuring environmental consideration remains one of the top priorities in the operation.

The Group stringently complies with national and local laws and regulations concerning environmental protection and pollution control. GZXH and DGKD strictly observe national, provincial and local laws and regulations governing environmental protection, including the Environmental Protection Law of the PRC, Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste, Law of the PRC on the Prevention and Control of Atmospheric Pollution, Water Pollution Prevention and Control Law of the PRC, Soil Pollution Prevention and Control Law of the PRC and Regulations of Guangdong and Jiangsu Province on Prevention and Control of Solid Waste Environmental Pollution.

No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste had been identified during the Reporting Period.

The Group's Impacts on the Environment

The Group's operation does not cause significant adverse impacts on the environment. However, substantial amount of energy is consumed for production activities. The Group has implemented various management measures to enhance energy efficiency and regulate electricity consumption. The Group has also established a management policy for paper saving in the hope of promoting environmental conservation among employees.

The Group will continue to manage its air emissions, waste generation, wastewater discharge, and noise levels to ensure minimal impacts on the surrounding environment. With the establishment of the ESG Committee, it is believed that continuous improvement on environmental protection can be achieved in the forthcoming years. The Group will implement more measures to reduce the impact on the environment and natural resources arising from business operations.

Targets and Performance Review

The Group has a clear roadmap and measurable targets for environmental protection. In the financial year 2021, the Group has set four key targets to reduce greenhouse gas emissions, electricity consumption, water consumption and sludge generation[1]:

Environmental Targets to be Achieved by the End of 2024	
Clean Production	• Source 3% of its total energy consumption from self-generated solar energy
Energy Use Reduction	• Reduce 4% of electricity consumption intensity from air-conditioning units
Water Use Reduction	• Reduce 2% of water consumption intensity
Sludge Reduction	• Reduce 5% of sludge generation intensity

1 The targets share the same base year of 2021, the performance will be tracked against the consumption or generation data reported in the ESG Report with the reporting period 1 January 2021 to 31 December 2021.

ENVIRONMENTAL PROTECTION (CONTINUED)

Targets and Performance Review (Continued)

Performance Review

Indicator	2021 baseline	2024 Target	Reporting Period Performance	Progress
Solar energy generation	N/A, based on energy consumption in the corresponding reporting periods	Source 3% of its total energy consumption from self-generated solar power	4% of its total energy consumption was sourced from self-generated solar power	In progress
Electricity consumption intensity	29.56 MWh/ employee	28.38 MWh/ employee	27.42 MWh/ employee	In progress
Water consumption intensity	210.14 m^3/ employee	205.94 m^3/ employee	187.10 m^3/ employee	In progress
Sludge generation intensity	0.56 tonnes/ employee[2]	0.53 tonnes/ employee	0.34 tonnes/ employee[3]	In progress

The above targets and progress performance have been reviewed by the Board and the management during the Reporting Period. The Group is pleased to have sourced more than 3% of its total energy consumption from self-generated solar power this financial year. The Group will continue to explore feasibility for expanding its solar energy generation capacity to maintain achievement of target by 2024. Regarding the target on electricity consumption intensity, water consumption intensity and sludge generation intensity, the Group has surpassed the targets during the Reporting Period. The significant decrease in electricity and water consumption intensity were mainly due to the inclusion of new entities within the reporting scope during the Reporting Period. The sludge generation intensity decreased because the Group has adopted biodegradable methods for sewage treatment. The Group will review the necessity to adjust the target if this situation continues in the next reporting period.

Emissions

Air Emissions

Production Activities

Exhaust gas, especially particulate matter, was emitted from the production activities in the Group's operations. All exhaust gas emissions in GZXH, DGKD and JSKM are closely monitored and meet the emission levels set by the Emission Limit of Air Pollutants (DB44/27-2001) in Guangdong Province and the Emission Limit of Air Pollutants (DB32/4041-2021) in Jiangsu Province. Cooking fume discharged from the staff canteen is also within the permissible level set by GB 18483-2001 Emission Standard of Cooking Fume.

2 Sludge generation intensity = sludge generated by GZXH, DGKD and IPET during FY2021/total employees of GZXH, DGKD and IPET as of 31 December 2021.

3 Sludge generation intensity = sludge generated by GZXH and DGKD during the Reporting Period/total employees of GZXH and DGKD as of 31 December during the Reporting Period.

ENVIRONMENTAL PROTECTION (CONTINUED)

Emissions (Continued)

Air Emissions (Continued)

Production Activities (Continued)

The Group attaches great importance to environmental protection, in particular, reduction of air emissions from production activities. To go above and beyond, the Group ensures its emissions exceed the statutory standards and cause minimal adverse impact to the environment. In 2022, DGKD invested more than RMB0.9 million to upgrade the emission treatment system. CSKY has invested more than RMB0.5 million to build a centralized oil mist treatment facility, an activated carbon adsorption emission treatment facility and a linkage monitoring system with the government for pollution control.

Vehicle Operation

During the Reporting Period, the Group's self-owned vehicles operated on gasoline and diesel were used for daily business operations, which contributed to the emission of nitrogen oxides ("NO_x"), sulfur oxides ("SO_x") and particulate matter ("PM").

Table 2 Air Emissions from Mobile Fuel Combustion

Mobile fuel emissions	Air emissions (non-GHG) from vehicle operations[1] NO_x (kg)	SO_x (kg)	PM (kg)
Gasoline and diesel[2]	481.75	0.46	44.56

Note 1: Emission factors for calculations on environmental parameters throughout the report were made reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

Note 2: Due to the expanded reporting scope during the Reporting Period, the air emissions have generally increased significantly when compared to the last reporting period. Comparison details will be provided in the next reporting period if the reporting scope remains unchanged.

Gaseous Fuel Consumption

During the Reporting Period, the Group consumed various types of fuels for machinery operation. The consumption of LPG in GZXH generated SOx and NOx as presented in the following table. In addition, the consumption of LPG has also generated GHG emissions, relevant data is presented in the next section. Since the canteen operation in GZXH had been outsourced to a third-party company, the canteen's fuel consumption was therefore not included in the calculation.

Table 3 Air Emissions from Gaseous Fuel Combustion

Gaseous fuel emissions	Air emissions (non-GHG) from gaseous fuel consumption NO_x (kg)	SO_x (kg)
LPG	2.61	0.01

Note: Emission factors for calculations on environmental parameters throughout the report were made reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

ENVIRONMENTAL PROTECTION (CONTINUED)

Emissions (Continued)

Greenhouse Gas (GHG) Emissions

During the Reporting Period, the Group's business activities contributed to the GHG emission of 33,658 tonnes of carbon dioxide equivalent ("tCO_2e"), mainly carbon dioxide, methane and nitrous oxide. The Group's overall intensity of GHG emissions during the Reporting Period has reduced by 10% when compared to the overall intensity during the last reporting period.

The GHG emissions reported included the following activities and scopes:

- Direct (scope 1) GHG emissions from the consumption of stationary and mobile sources, including diesel, LPG, natural gas and diesel;
- Energy indirect (scope 2) GHG emissions from purchased electricity; and
- Other indirect (scope 3) GHG emissions from waste paper landfilling, municipal freshwater and sewage processing, and business air travel.

Table 4 Greenhouse Gas Emissions by Scope

Scope of GHG emissions	Emission sources		GHG Emission in 2022 (in tCO_2e) [1]	Sub-total (in tCO_2e)	GHG Emission in 2021 (in tCO_2e)
Scope 1 Direct emissions	Combustion of fuels in stationary sources	Diesel	166.63	295	460
		LPG	42.72		
		Natural gas[2]	2.91		
	Combustion of fuels in mobile sources	Diesel	11.91		
		Gasoline	71.27		
Scope 2 Energy indirect emissions[4]	Purchased electricity[3]		33,110.23	33,110	40,128
Scope 3 Other indirect emissions	Paper waste disposal at landfills		44.60	253	311
	Electricity used for freshwater processing		166.41		
	Electricity used for sewage processing		26.51		
	Business air travel by employees[5]		15.68		
Group total (in tCO_2e)				**33,658**	**40,899**
Emission Intensity (in tCO_2e/employee)				**16.20**	**18.10**

Note 1: Emission factors were referred to Appendix 27 to the Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise. Scope 3 emissions were only calculated based on the available emission factors from the referred documentation.

Note 2: Emissions from combustion of natural gas in stationary sources were calculated per GHG Protocol tool: GHG Emissions from Stationary Combustion.

Note 3: Emission factors of 0.58 kg CO_2e/kWh and 0.61 kg CO_2e/kWh were used for purchased electricity in Guangdong and Jiangsu Province of the PRC in financial year 2022 and 2021 respectively.

Note 4: Emission factors of LPG and natural gas suppliers were not available, hence indirect emissions from LPG and natural gas were not included.

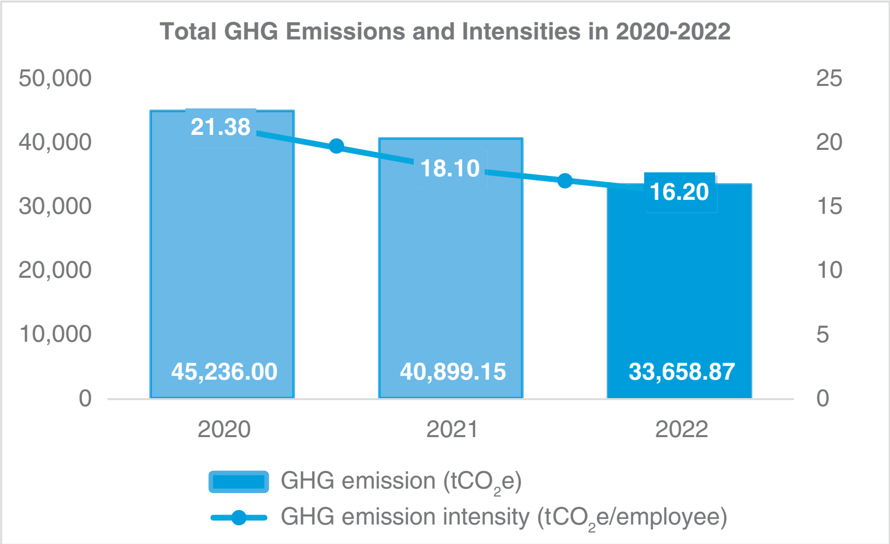
Note 5: Emissions were calculated using the online tool provided by the International Civil Aviation Organization.

ENVIRONMENTAL PROTECTION (CONTINUED)

Emissions (Continued)

Greenhouse Gas (GHG) Emissions (Continued)

Figure 2 Greenhouse Gas Emissions and Intensity in 2020-2022



Hazardous Waste

The Group generated a total of 1,479 tonnes of hazardous waste during the Reporting Period, with an overall intensity of 0.71 tonnes/employee (overall intensity in 2021: 0.60 tonnes/employee). Oil-and chemical-contaminated materials were the major constituent which made up about 58% of the total amount of hazardous waste. All hazardous waste is managed in accordance with the applicable national regulations and international standards, including the Prevention and Control of Environmental Pollution by Solid Waste of the PRC, as well as the ISO 14001 standard for the safe handling and storage of hazardous waste.

The Group is committed to minimizing hazardous waste which poses risks to our health and the environment. Acknowledging that the major source of the Group's hazardous waste comes from sludge, the Group has set a target to reduce 5% of sludge generation intensity by 2024.

ENVIRONMENTAL PROTECTION (CONTINUED)

Emissions (Continued)

Hazardous Waste (Continued)

Table 5 Hazardous Waste Generated and Treatment Methods

Types of hazardous waste	Hazardous waste amount (in kg)	Treatment method
Waste mineral oil	7,120	Collected and treated by government certified handler
Computer hardware and lighting waste (e.g., fluorescent lamps)	10	Collected by government certified handler
Oil- and chemical-contaminated materials (e.g., waste oil tanks and bottles, cleaning products and waste packaging)	854,462	Recycled or sold or landfilled by government certified handler
Sludge	595,890	Treated or landfilled by government certified handler
Waste chemical liquids	21,012	Incinerated or treated by government certified handler
Waste activated carbon	160	Treated by government certified handler
Total hazardous waste (in kg)	1,478,654	
Intensity (in tonnes/employee)	0.71	

Non-hazardous Waste

Apart from the 9,292 kg of office paper waste produced, the Group generated a total of 177,105 kg of non-hazardous waste, mainly industrial and domestic waste, during the Reporting Period. The overall intensity was 0.09 tonnes/employee (overall intensity in 2021: 0.11 tonnes/employee). Industrial waste mainly included metal scraps, which were generated from production processes. All the industrial waste was collected by designated handlers for downstream recycling. Other types of non-hazardous waste composed of non-office paper waste, food waste, and waste packaging materials. Food waste from the canteen was collected by local authorities for upcycling into animal feeds.

ENVIRONMENTAL PROTECTION (CONTINUED)

Emissions (Continued)

Non-hazardous Waste (Continued)

Table 6 Non-Hazardous Waste Generated and Treatment Methods

Types of non-hazardous waste	Non-hazardous waste amount (in kg)	Treatment method
Waste office paper	9,292	Landfilled
Non-office paper waste (e.g., wrapping paper)	19,750	Recycled by downstream industry
Metal, glass, and plastic waste	53,935	Recycled by downstream industry
Waste packaging materials (e.g., wooden pallets)	44,376	Recycled by downstream industry
Food waste	49,752	Collected by third-party for composting
Total non-hazardous waste (in kg)	177,105	
Intensity (in tonnes/employee)	0.09	

Note 1: Under the assumption that all paper, whether is stored or purchased within the organization boundary, will eventually be disposed of in landfills unless collected and recycled.

ENVIRONMENTAL PROTECTION (CONTINUED)

Emissions (Continued)

Emission Mitigation

Direct emissions generated on-site are mitigated via various controlling schemes. Additionally, the Group has enhanced vehicle management to reduce number of vehicles, fuel consumption and associated air emissions. Transportation plans are required for advanced scheduling of vehicle dispatch. Staff members are highly encouraged to plan their trips ahead and travel via carpooling to reduce the use of vehicles. Fuel-efficient and low-emission vehicles are prioritized in future purchase of replacement. The Group also highly encourages employees to use public transport whenever possible. As a result of the Group's continuous efforts, both fuel consumption and vehicle exhaust emissions reduced significantly compared to the last reporting period.

The Group is determined in reducing carbon footprint of its operation. To reduce greenhouse gas emissions, photovoltaic panels were installed on site and has started generating electricity during the Reporting Period. The Group has set a target of sourcing 3% of its total energy consumption from self-generated solar power by 2024. As a manufacturing enterprise, the Group spares no effort in emission reduction. In alignment with the Chinese government, the Group pursues the goal of "Peak Carbon Emissions, Reach Carbon Neutrality".

Waste Reduction and Initiatives

The Group strictly observes national laws and follows the requirements of the ISO 14001 standard in handling both hazardous and non-hazardous waste. Internally, the Group has established various waste management procedures to regulate the sorting, storage, transfer, disposal, and recycling of waste.

The Group has provided recycling bins with clear instructions on separating recyclable and non-recyclable waste. Sorted wastes are placed in specific containers which are clearly labeled, and then transferred to on-site storage areas for temporary storage before collection. Firefighting equipment is also provided at easily accessible places near the hazardous waste storage areas. The Group has appointed personnel to maintain the cleanliness and tidiness of on-site waste reception facilities. During the pick-up of hazardous waste, the Group provides necessary documents and material safety data sheets to authorized handlers registered under local government authorities.

Throughout the years, the Group has devoted considerable efforts to strengthening the waste management across the operations. For instance, the Group has developed a waste record keeping system for managing and tracking of the amount and types of waste generated during the daily operations of the sites. To reduce waste as well as utilize resources more efficiently, the Group reuses cutting oils as far as possible, and then transfers the waste oils to licensed handlers for disposal.

The Group continues to adopt paper-saving measures to reduce paper waste at source. Paper waste is collected by licensed handlers for downstream recycling. When there is a sudden rise in the paper consumption, the administration department will follow up with the responsible department and take corresponding control measures where necessary.

ENVIRONMENTAL PROTECTION (CONTINUED)

Use of Resources

Energy Consumption

The total energy consumption of the Group was 58,116 Megawatt-hour ("MWh"), with an overall energy intensity of 27.96 MWh/employee during the Reporting Period (overall energy intensity in 2021: 30.32 MWh/employee). Types of energy consumed included electricity, natural gas, LPG, gasoline and diesel. The table below presents the energy consumption by energy types and the associated energy intensity. Overall, there was an 8% decrease in the energy intensity compared with the last reporting period, which was mainly due to the inclusion of new entities in the reporting scope during the Reporting Period.

Table 7 Energy Consumption and Intensity

Energy Consumption in 2022 Direct/indirect energy sources	Consumption (unit)	Consumption (MWh)	Energy Intensity (MWh/employee)
Electricity	56,988 MWh	56,988	27.42
Natural gas – for machinery in JSKM	1,330 m^3	13.15	0.01
LPG – for machinery in GZXH	14,160 kg	197.37	0.09
Gasoline – for vehicles in three sites	26,795 L	237.46	0.11
Diesel – for machinery and vehicles in GZXH, and vehicles in JSKM	68,021 L	680.08	0.33
Group total		58,116	27.96

Note 1: Conversion factors were made reference to IEA Energy Statistics Manual and 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

Note 2: The energy consumption in the above table excluded the solar energy generated and used by the Group.

Electricity consumption of 56,988 MWh accounted for 98% of the total energy consumption during the Reporting Period, contributing to an overall intensity of 27.42 MWh/employee. Compared to the last Reporting Period, the rise in the amount of electricity consumed was mainly attributable to the increased production in DGKD.

ENVIRONMENTAL PROTECTION (CONTINUED)

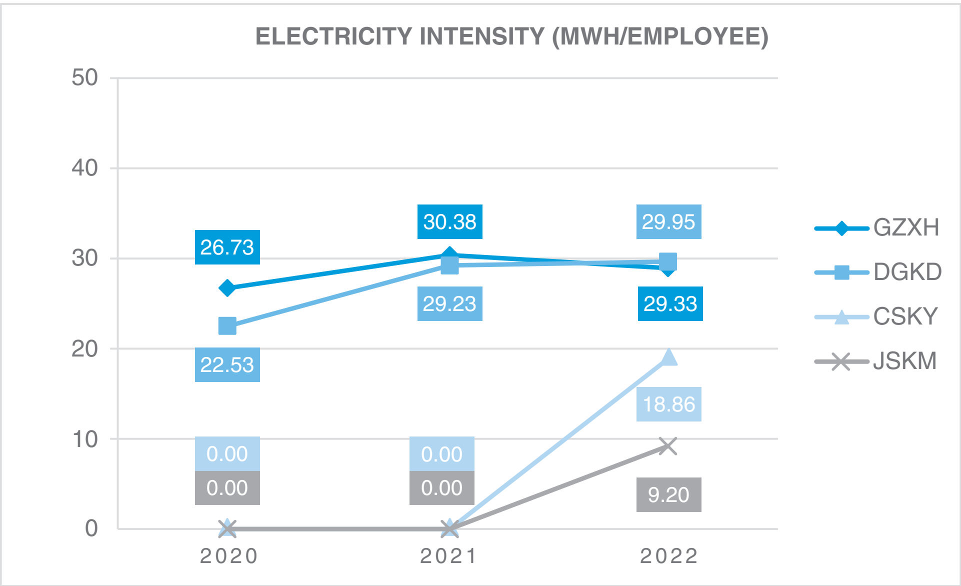
Use of Resources (Continued)

Energy Consumption (Continued)

Table 8 Electricity Consumption and Intensity

Operational sites	Consumption (MWh)	Intensity (MWh/employee)
GZXH	43,908	29.33
DGKD	7,845	29.95
CSKY	4,490	18.86
JSKM	745	9.20
Group total	56,988	27.42

Figure 3 Electricity Intensity in 2020-2022



Note: CSKY and JSKM were not within the reporting scope of ESG Reports in financial years 2020 and 2021. Therefore, data was not recorded and the electricity intensities for CSKY and JSKM were zero in financial years 2020 and 2021.

Water Consumption

The total water consumption for the Group was 388,801 m^3 (water consumption in 2021: 474,917 m^3), with an overall water intensity of 187.10 m^3/employee (overall water intensity in 2021: 210.14 m^3/employee) during the Reporting Period. Water used by all the Group's operating sites was sourced from municipal tap water for manufacturing and domestic purposes. No issues on sourcing water that is fit for purpose were reported during the Reporting Period. Overall, there was a drop of 11% in water intensity compared with the last reporting period, which was mainly due to the inclusion of new entities in the reporting scope during the Reporting Period.

ENVIRONMENTAL PROTECTION (CONTINUED)

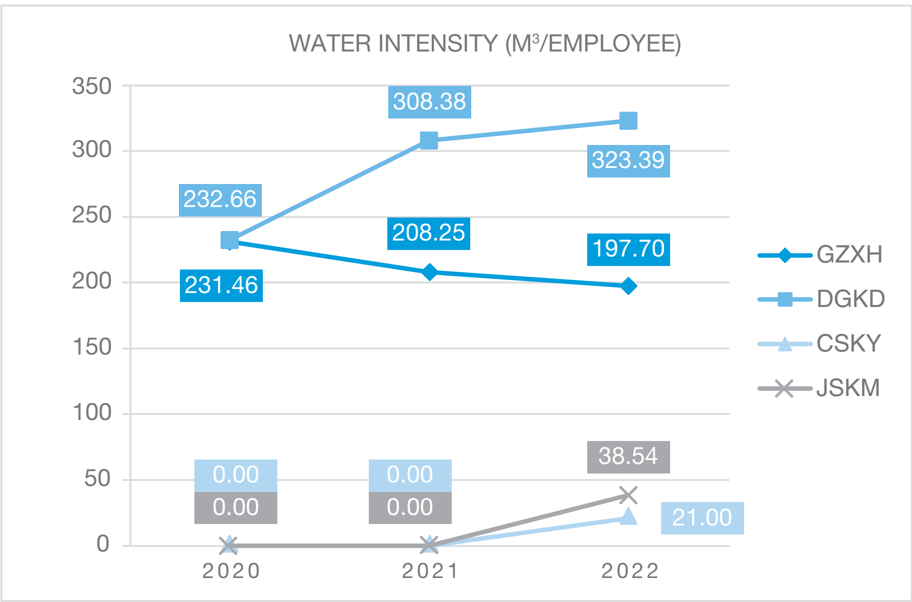
Use of Resources (Continued)

Water Consumption (Continued)

Table 9 Water Consumption and Intensity

Site	Water consumption (m³)	Water intensity (m³/employee)
GZXH	295,953	197.70
DGKD	84,728	323.39
CSKY	4,998	21
JSKM	3,122	38.54
Group total	388,801	187.10

Figure 4 Water Intensity in 2020-2022



Wastewater is mainly generated at various stages of production activities, including the use of ultrasonic cleaning machine, the cleaning of grinding machine, and the regular cleaning of workplaces. GZXH had upgraded its wastewater treatment facility with increased treatment capacity. Wastewater from the Group's operations in China is closely monitored to ensure compliance with the permissible level set by Emission Limit of Water Pollutants (DB44/26-2001) in Guangdong Province.

ENVIRONMENTAL PROTECTION (CONTINUED)

Use of Resources (Continued)

Energy Use Efficiency

The Group has performed a comprehensive upgrade with regard to energy use and energy efficiency in 2021. First of all, the Group introduced the photovoltaic clean energy project at GZXH which is expected to generate 2,000,000 kWh of energy annually. During the Reporting Period, a total of 2,284,000 kWh of solar energy was generated on-site and consumed by the Group. The solar energy consumed contributed to 4% of the total energy consumed by the Group. Concurrently, GZXH has started replacing the split type equipment with a centralized energy station. The centralized energy station enables centralized cooling and distribution of gas with a higher efficiency and lower energy consumption. This further improves the energy efficiency of the Group's equipment as a whole. With its effort in energy use optimization, GZXH aims to respond to the call from the Chinese government to achieve the goal of "Peak Carbon Emissions, Reach Carbon Neutrality".

Photovoltaic clean energy project at GZXH

With the full adoption of LED lighting across the production lines and office areas, less energy is consumed compared to traditional lighting and thus the overall energy efficiency is improved. On top of lighting retrofit, the Group has also adopted the following management measures to ensure the rational use of energy resources:

1. Saving electricity usage from air conditioning:

    - make use of natural ventilation whenever possible;
    - set temperature of air conditioner at no less than 26°C;
    - switch off air conditioner at least 30 minutes before leaving;
    - keep the windows and doors closed when the air conditioner is turned on;
    - clean the air conditioner regularly and improve energy efficiency;

ENVIRONMENTAL PROTECTION (CONTINUED)

Use of Resources (Continued)

Energy Use Efficiency (Continued)

Photovoltaic clean energy project at GZXH (Continued)

2. Saving electricity usage from lighting:

   - maximize daylight usage whenever possible;
   - turn off unnecessary lighting in public areas (e.g., toilets);
   - adopt energy efficient LED lighting across the offices for higher energy efficiency;
   - put up reminders and stickers near power switches to remind staff of energy conservation;

3. Saving electricity usage from office equipment:

   - switch off unnecessary office equipment (e.g., computers, printers, photocopiers and fax machines) when not in use to reduce standby power consumption;
   - choose office equipment with energy efficiency labels to improve energy efficiency;

4. Saving electricity usage from manufacturing processes:

   - carry out daily inspection of equipment by designated engineers;
   - switch off machinery/equipment that are not in use for a long period of time to reduce load;
   - ensure the power sockets are maintained in safe condition, ensure the switch box is equipped with leakage circuit breaker and reinforce inspection by qualified electricians; and
   - keep all the electrical distribution cabinets clean and clear, and perform regular inspection for equipment and wiring are to identify any hidden hazards.

To bring down electricity consumption throughout its operation, the Group targets to reduce 4% of electricity consumption intensity from air-conditioning units by 2024.

Water Use Efficiency

The Group continuously conserves water and promotes the reuse of treated wastewater. The administration department is responsible for tracking the daily water usage. If employees are found to use water improperly, the Group will take disciplinary action accordingly.

The Group also puts up water-saving signs and raises employees' awareness of water-saving through water conservation training and posters. At GZXH, wastewater being treated on-site is reused as cooling water or for irrigation. At DGKD, 65% of wastewater was reused for production after on-site treatment, with the remaining discharged to the municipal wastewater pipelines.

ENVIRONMENTAL PROTECTION (CONTINUED)

Use of Resources (Continued)

Water Use Efficiency (Continued)

The Group has implemented the following management measures to reduce water consumption and ensure rational use of water resources:

1. Saving water from production lines:
    - optimize water reuse;
    - prohibit the use of potable water for non-potable purposes, e.g., cleaning work;
    - reinforce daily inspection of all water systems and equipment; and repair leaking pipes promptly;
2. Saving water from domestic use:
    - ensure proper use of water resources in all departments;
    - require employees who lived in staff dormitories to abide by the Dormitory Management Regulations on water saving;
    - educate cleaning workers of the economic use of water in daily cleaning work and reuse water when appropriate; and
    - enhance maintenance and repairs of pipelines, valves, joints, and fixtures to ensure any leakage and damage are repaired and/or replaced in time.

To further cut down on water consumption, the Group has set a target to reduce 2% of water consumption intensity by 2024.

ENVIRONMENTAL PROTECTION (CONTINUED)

Use of Resources (Continued)

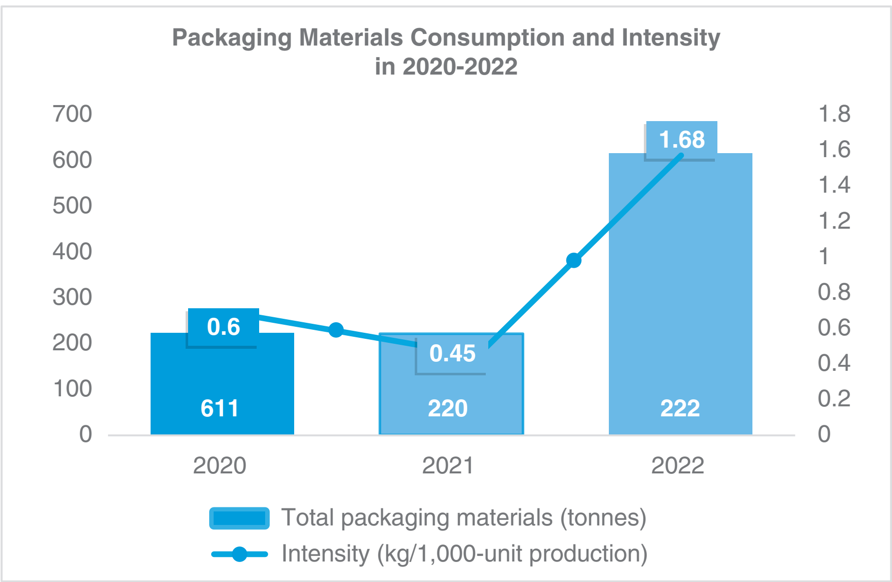
Packaging Material

Packaging materials used by the Group were made from renewable resources (e.g., wood-based, paper, and pulp products) and non-renewable resources (e.g., plastic). The Group has not established formal policies on specifying recycled content of packaging materials. Nevertheless, the Group has been reusing paperboards for packaging and will explore opportunities for optimizing the use of packaging materials. As new entities were included in the reporting scope, the Group consumed more packaging materials compared to the last Reporting Period. During the reporting period, the Group consumed approximately 610.60 tonnes of packaging materials for finished products (consumption in 2021: 220 tonnes), contributing to an intensity of 1.68 kg/1,000-unit production (consumption intensity in 2021: 0.45 kg/1,000-unit production).

Table 10 Packaging Materials Consumed

Types of packaging materials	Total amount (in kg)
Corrugated paperboards	126,425
Plastics (e.g. plastic trays, bags and pallets)	475,697
Wood (e.g. wooden trays and pallets)	8,476
Total packaging materials	610,598
Intensity (kg/1,000-unit production)	1.68

Figure 5 Packaging Materials and Intensity in 2020-2022



ENVIRONMENTAL PROTECTION (CONTINUED)

Climate Change

Climate change not only affects our environment but also brings financial implications to our business. Climate risks include disruption of production as well as damage to production base, raw materials and products caused by extreme weather, flooding and typhoons, etc. Identifying and managing the associated opportunities and risks is vital to our business operation.

This year, the Group has taken its first step to disclosing its climate-related information aligning with the four core elements, namely, Governance, Strategy, Risk Management and Metrics and Targets of TCFD recommendations on climate-related financial disclosure.

Governance

The Board has now recognized the impact of climate change on their businesses and have been incorporating climate-related risks and opportunities into strategic planning and business decisions. An increasing number of investors are paying attention to the Group's climate-risks and opportunities. These investors may, among other things, expect the Group to disclose its climate-related risk management policies and plans. As such, the Board requires the companies of the Group to develop climate-related risk management policies and plans, as well as indicators and targets to monitor and evaluate the Group's climate-related risks and opportunities. In addition, the Board has planned to engage relevant stakeholders to better understand the climate-related risks and opportunities and develop appropriate responses. The stakeholders include non-governmental organizations ("NGOs"), academic institutions, industrial associations, etc.

The Board has allocated responsibilities to the ESG Committee and the management to assess and manage climate-related risks and opportunities. The process involved include:

1. Understanding the significance of climate-related issues – The management must understand the impact of climate change on business, as well as the challenges and opportunities that climate change brings.

2. Analyze and evaluate climate-related risks and opportunities – Through risk assessment and other methods, the management must identify climate-related risks and opportunities the Group may encounter, and analyze and evaluate these risks and opportunities to provide a basis for the Group's decision-making.

3. Develop climate-related strategies and policies – The management must develop climate-related strategies and policies, which include target setting, implementing action plans and optimizing business models.

4. Allocate responsibilities and implementation – To ensure effective implementation and supervision of the climate-related strategies and policies, the management must identify relevant departments and responsible individuals.

5. Monitoring and reporting – The management must establish a monitoring and reporting mechanism to regularly monitor and report on the Group's climate-related performance and management effectiveness, as well as to disclose relevant information to stakeholders.

As climate change intensifies with the opportunities became more apparent, the Board and the Group will continue to manage climate-related risks and opportunities and address them with appropriate measures.

ENVIRONMENTAL PROTECTION (CONTINUED)

Climate Change (Continued)

Strategy

The Group has identified relevant climate-related risks and assessed their potential financial impacts. The climate risks identified, their time horizon, trend, and the potential financial impacts affecting the Group are shown below.

Climate Risks

Table 11 Climate Risks Relevant to the Group

Climate Risks		Time horizon	Trend	Potential financial impact
Physical Risks	Acute	Short term	Increase	Extreme weather events with increased severity during cyclones, hurricanes, storm surges and floods can cause supply chain interruption by bringing damage to local infrastructure, potential damage to production plants and its machinery, and human resources disruption.
	Chronic	Medium to long term	Increase	Longer-term shifts in climate patterns can increase capital costs, operating costs, costs of human resources and increased insurance premiums and potential for reduced availability of insurance on assets in locations with high exposure to natural disasters.

ENVIRONMENTAL PROTECTION (CONTINUED)

Climate Change (Continued)

Strategy (Continued)

Climate Risks (Continued)

Climate Risks		Time horizon	Trend	Potential financial impact
Transition Risks	Policy and Legal	Long term	Increase	Upon implementation of tightened environmental laws and the carbon pricing system, the Group will expect increased operating costs, increased costs resulting from fines and legal proceedings if non-compliance with newly implemented regulations occurs.
	Technology	Long term	Increase	During the transitional period, the Group expects increased research and development ("R&D") and/or procurement expenditures to introduce new and alternative technologies in minimizing environmental externalities of its products, and additional cost of adopting/deploying new practices and processes.
	Market	Long term	Increase	The Group's industry relies on numerous critical materials as key inputs for finished products. If materials shortages, supply disruptions, price volatility are not well managed, the supply risk increases and will lead to inability to access necessary materials, reduced margins, constrained revenue growth, and/or high costs or capital.
	Reputation	Long term	Increase	As principal bankers of the Group might include climate risks in their due diligence process, lending criteria are expected to be tightened. The Group will face additional barriers to securing loans in the future, affecting the Group's cash flow and liquidity if no strategy has been set accordingly. If materials are sourced from supply chains lacking transparency, stakeholders' concerns and negative news on the supply chain might dampen the investment sentiment of investors, impacting the stock price and market capitalization of the Group, and hence increasing the liquidity risk.

ENVIRONMENTAL PROTECTION (CONTINUED)

Climate Change (Continued)

Strategy (Continued)

Opportunities

Apart from the risks identified above, the Group also focuses on exploring opportunities amid climate change. The following opportunities have been identified:

1. Financial assistance – An increasing number of investors and financial institutions are beginning to focus on environmental protection and sustainable development. The Group can obtain more financial assistance through environmental excellence to promote the long-term development of its business.

2. Technological opportunities – Climate change encourages new energy technological innovation and low-carbon technologies. The Group could develop and adopt these technologies by investing in the R&D to optimize its competitiveness and innovation capabilities.

3. Market opportunities – Climate change has resulted in the emergence of new markets such as renewable energy and carbon markets. By developing new products or services, businesses could gain shares in these new markets and expand into new business areas.

4. Reputation opportunities – Proactively responding to climate change and promoting sustainable development can boost the Group's brand image and reputation, attracting more support from investors and stakeholders.

To seize the opportunities, the Group will improve its technological innovation capabilities by increasing its R&D investment in technologies related to environmental protection and sustainable development. In addition, the Group will increase its collaboration with the government and social organizations. The collaboration will help the Group to obtain resources support to promote the formulation and implementation of sustainable development measures. For example, the Group has cooperated with Guangzhou Ganghua Energy Development Co., Ltd. to set up the photovoltaic panels at GZXH.

ENVIRONMENTAL PROTECTION (CONTINUED)

Climate Change (Continued)

Risk Management

The Group has the following procedures in assessing and managing climate-related risks:

1. Identify relevant climate-related risks – The relevant and potential climate risks were determined by analyzing historical climate data, climate model projections and industrial trends.

2. Assess likelihood and impact of risks – Likelihood and impact of the identified climate risks were anticipated based on the climate change trend and industrial characteristics.

3. Develop risk management strategies – Appropriate strategies were developed to mitigate identified risks such as adjusting business plans, changing supply chain and procurement decisions and implementing risk transfer and insurance strategies.

4. Monitor and evaluate risks – Risks were regularly reviewed and assessed to ensure effectiveness of the risk management strategies.

5. Evaluate risk management strategies – If the assessment shows that the risk management strategies have to be adjusted, the Group would take timely action to address the risks.

An ESG risk assessment was conducted based on assessing the possibility and impact of each identified risk into three levels: high, medium and low. The overall risk levels are then prioritized and classified into the risk levels, high, medium and low based on the possibility and impact ratings.

Risk levels	Definition of the overall risk levels
High	Risks at this level may have serious consequences. It is highly likely that there will be some impacts to the Group and hindrance for the Group to achieve strategic goals.
Medium	Risks at this level may have serious consequences, but they are less likely to occur. Conversely, the consequences could be minor in nature, but the probability of occurrence is higher.
Low	Risks at this level have limited harm and consequences for the Group to achieve its strategic goals, and the probability of occurrence is low.

The overall risk levels of the Group's identified risks and their management approaches are shown below. The risks levels are expected to increase in trend.

ENVIRONMENTAL PROTECTION (CONTINUED)

Climate Change (Continued)

Risk Management (Continued)

Table 12 Risk Levels of Physical and Transition Risks

Physical Risks		Transition risks	
Climate risks	**Overall risk level**	**Climate risks**	**Overall risk level**
Acute	Low	**Policy and Legal**	High
Chronic	Low	**Technology**	Low
		Market	High
		Reputation	Medium

Storms, floods, droughts, high temperatures, hail, snowstorms, hurricanes, and other extreme weather events are examples of extreme weather events. The Group has engaged in production and sales activities. There have been no significant extreme weather events in its operating areas in the last ten year. In terms of supply chain and product sales, the Group has diverse raw material supplies and sales in various geographical regions. Therefore, the physical risks were relatively low.

As the Chinese government has set a goal of achieving a peak in carbon neutrality by 2030 and achieving carbon neutrality by 2060, environmental protection regulations have been strengthened. At the same time, China has made significant progress in promoting renewable energy development. As a domestic production-oriented enterprise, the national policies had great impact on the Group's development. Based on the identified transition risks, the Group has adopted the following measures:

1. Strengthen compliance with environmental protection laws and regulations by avoiding pollution at source in order to reduce risks of legal proceedings and fines;

2. Formulate detailed environmental and social strategies on reduction in carbon emissions, promotion of renewable energy use, pollution control, etc.;

3. Adopt and enhance low-carbon production technologies;

4. Improve energy utilization efficiency to reduce unnecessary energy wastage; and

5. Enhance R&D of environmentally friendly products to meet demand from customers and stakeholders, which also promote a positive brand image of the Group.

ENVIRONMENTAL PROTECTION (CONTINUED)

Climate Change (Continued)

Metrics and Targets

To measure the level and impact of the Group's climate-related risks, the Group monitors metrics and indicators to ensure an effective and quantitative assessment. The Group regularly monitors and reviews the following aspects and their corresponding indicators.

Table 13 Climate Metrics and Indicators Monitored by the Group

Aspects	Indicators
Climate change	Temperature, rainfall, sea level rise and extreme weather events
Carbon emissions	Scope 1, Scope 2, Scope 3 GHG emissions (in tCO_2e.), total GHG emissions (in tCO_2e) and the GHG emission intensity (in (in tCO_2e/employee) as shown in the section "Greenhouse Gas Emissions" of this report
Energy and resources utilization	Energy consumption (in MWh) and its intensities (in MWh/employee) as shown in the section "Energy Consumption" of this report
Renewable energy use	Renewable energy use as shown in the section "Energy Consumption" of this report and renewable energy target set and its performance review as shown in "Targets and Performance Review" of this report

SOCIAL RESPONSIBILITIES

Employment and Labor Practices

The Group strictly complies with national and local laws and regulations concerning employment and labor practices, including,

- Labor Law of the PRC
- Labor Contract Law of the PRC
- Law on the Protection of Minors
- Law on the Protection of Disabled Persons
- Law on Labor Unions of the PRC

No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare had been identified during the Reporting Period.

Employment

The Group's Staff Management Manual clearly outlines detailed employment and labor-related policies, procedures and rules regarding recruitment, compensation and dismissal, promotion, holiday/paid/sick/compassionate leave, working attendance, remuneration and data protection.

Employee Profile and Turnover

As of 31 December 2022, the Group had a total number of 2,078 employees (2021: 2,260 employees). There was no major change in the employment structure compared with the last reporting period. The Group continued to hire part-time employees, as part of the employment strategies, to counterbalance the unstable workforce while maintaining a certain production capacity at the same time.

SOCIAL RESPONSIBILITIES (CONTINUED)

Employment and Labor Practices (Continued)

Employment (Continued)

Employee Profile and Turnover (Continued)

Table 14 Employment Data by Employment Type, Category, Contract Type, Age Group, Gender and Region

	Total no. of employees	Distribution of employees (in %)
Total number of employees	2,078	100%
Employment type		
Full-time	1,977	95%
Part-time	101	5%
Employee category		
Senior management	10	1%
Middle management	50	2%
Frontline and other staff	2,018	97%
Age group		
18-25	377	18%
26-35	632	30%
36-45	564	27%
46-55	433	21%
56 or above	72	4%
Gender		
Male	1,202	58%
Female	876	42%
Region		
Mainland China	2,077	100%
Hong Kong	1	0%

During the Reporting Period, a total of 1,179 employees left the Group[4], with an annual staff turnover rate[5] of 57%. Similar to the last reporting period, employees who left the Group were mainly frontline and part-time staff, which is a common phenomenon in the manufacturing industry, especially for Mainland China. Also, during the period when COVID-19 was effectively controlled, the number of orders from clients have surged. The Group has employed a high number of part-time or temporary workers for fulfilling the high demand for human resources.

[4] The data has not included employees who left the Group within 3 months since the work period for part time or temporary staff hired for short-term work purposes was usually within 3 months.

[5] The turnover rate was calculated by (no. of employees leaving the company during the reporting period/ no. of employees as of 31 December of the Reporting Period)*100%.

SOCIAL RESPONSIBILITIES (CONTINUED)

Employment and Labor Practices (Continued)

Employment (Continued)

Employee Profile and Turnover (Continued)

Table 15 Total Turnover Rate by Employment Category, Age Group, Gender and Region

Turnover rate by employee category	
Senior management	10%
Middle management	12%
Frontline and other staff	58%
Turnover rate by age group	
18-25	138%
26-35	47%
36-45	35%
46-55	35%
56 or above	17%
Turnover rate by gender	
Male	68%
Female	42%
Turnover rate by region	
Mainland China	57%
Hong Kong, Macau and Taiwan	0%

Employee Recruitment and Retention Strategy

The Group attaches great importance to the recruitment and retention of high-caliber employees as well as attraction of the human resources that are valuable to the Group. The Group's recruitment procedure is guided by relevant laws and regulations including the Labor Law of the PRC. Employees are selected and recruited in an impartial, just and open manner, which is based upon objective criteria such as the professional qualifications and skill sets needed for the positions. Recruitment plan targeted at recruiting recent graduates is strategically developed to attract highly-motivated candidates.

To nurture and retain talents, the Group provides supportive promotion channels for employees. The Group recognizes outstanding employee performance by means of formal appraisal reviews. In addition, the Group has built close partnerships with local colleges and universities in the cultivation of high-caliber talents.

SOCIAL RESPONSIBILITIES (CONTINUED)

Employment and Labor Practices (Continued)

Employment (Continued)

Competitive Compensation and Benefits Package

The Group provides competitive remuneration and benefits to employees. The Group follows the principle of pay equity and reviews the market information regularly to set up the competitive pay levels. In addition to basic wages, employees are provided with attractive benefit package, including training subsidies, discretionary performance bonuses and an extensive range of leave entitlements. The Group provides social insurance and provident funds according to local government regulations for the PRC employees who have signed formal employment contracts with the Group. At GZXH and DGKD, high-temperature subsidies are given to workers exposed to outdoor temperatures. JSKM provides annual body checkups for eligible employees.

The Group communicates any major operational and business changes to its employees through written and verbal channels. The employees and their representatives will be informed at least three weeks before the change come into effect.

Employee Relations

The Group utilizes multimedia channels, e.g., WeChat public account and Douyin, to publish useful information and company events. Recreational and cultural activities are organized at different operations to strengthen employees' sense of belonging at the workplace. The Group provides birthday gifts to employees during their birthday months. At GZXH, Chinese Chess games, badminton games, basketball games and gala dinner were held during the Reporting Period, which received positive feedbacks from the employees. With the official launch of the IPE College of Engineering in GZXH, various cultural and sports clubs have been formed, and different classes (e.g., yoga class) have been held to enrich employees' lives outside of the work.

Equal Opportunity and Anti-discrimination

The Group strives to creating an inclusive working environment where its employees are treated equally and justly. The Code of Conduct, equal opportunity policy and anti-discrimination practices as stipulated in the Staff Management Manual, safeguards employees' legitimate rights and protects them from discrimination against gender, nationality, ethnic background, religion, political affiliation, age, etc. Equal opportunity is provided to all employees in respect of promotion, appraisal, training, development and other aspects.

Table 16 Incidents of Discrimination Reported

	GZXH	DGKD	CSKY	JSKM
Total number of incidents of discrimination reported by employees in 2022	0	0	0	0

SOCIAL RESPONSIBILITIES (CONTINUED)

Employment and Labor Practices (Continued)

Employee Health and Safety

Due to the business nature, the Group puts great emphasis on providing a safe and accident-free working environment to employees. The Group strictly follows relevant laws and regulations including the Prevention and Control of Occupational Diseases Law of the PRC and the Law on Safety Production of the PRC. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to occupational health and safety had been identified during the Reporting Period.

The levels of workplace noise and indoor air pollutants (dust and chemical) at designated sensitive receivers are monitored regularly to ensure that they are controlled within the acceptable levels of relevant national and local laws and regulations. To protect frontline workers from exposure to these occupational hazards, the Group provides adequate personal protective equipment to all frontline workers working at assembly lines.

In terms of traffic management, the Group keeps pedestrians and vehicles apart by providing separate entry and exit gateways for pedestrians and vehicles. To ensure pedestrian safety, the Group regulates the use of forklifts within the plants during rush hours.

The Emergency Evacuation Management Procedure provides contingency plans and emergency procedures for foreseeable workplace emergencies. The Fire Control Equipment Management Procedure describes the arrangements for effectively managing fire safety throughout the manufacturing processes. The administration department organizes fire drills every year to ensure that all employees are familiar with the evacuation routes in emergency situations. Additionally, the Group inspects fire protection systems regularly to ensure their compliance with the latest industry requirements. Both GZXH and DGKD are awarded the Safety Production Standardization certifications since 2019. No fatalities of the Group's employees have been recorded in the last three reporting years.

Table 17 Number of Work-Related Fatality, Injury Cases, Lost Days, Occupational Disease and Absentee Rate

Occupational safety and health data	2022	2021	2020
Total working hours (hrs) by all workforce	4,775,196	5,253,510	5,527,512
No. of work-related fatality	0	0	0
Total lost days	284	349	448
Lost day rate (LDR)	11.89	13.29	16.21
Number of work-related injuries	40	32	48
Injury rate (IR)	1.86	1.22	1.74
Number of occupational diseases	1	0	0
Occupational diseases rate (ODR)	0.04	–	–
Absentee rate (AR)	0.05%	0.24%	0.06%

SOCIAL RESPONSIBILITIES (CONTINUED)

Employment and Labor Practices (Continued)

Employee Health and Safety (Continued)

Our Responses to COVID-19

During the outbreak of COVID-19 pandemic, the Group is highly conscious of the potential health and safety impacts brought to its employees. The Group has put in place a suite of anti-epidemic measures to prevent the spread of the virus. Apart from strengthening the sanitation across the operations, precautionary measures including temperature screening before entering the workplace, and provisions of disinfection supplies such as face masks and hand sanitizers are also implemented.

During the time when business travel is restricted, employees meet with clients via teleconferencing and videoconferencing tools so as to maintain social distancing. Moreover, the Group has enforced restrictions on dine-in services and other hygiene measures at staff canteens to avoid close contact between employees.

Development and Training

The Group's overall training and development strategy focuses on nurturing talents through well-structured internal and external training programs. Training needs analysis is conducted to understand the overall organization goals and priorities and to determine development needs of various levels and departments across the Group. The Group arranges training according to monthly training plans, learning outcomes of which are assessed for continuous program improvement.

Internal training courses ranging from core competency, management skills to professional competency development are conducted for employees to enhance their capabilities and increase production efficiency. External training is arranged for employees with special duties to enhance the overall competitiveness of the Group in the industrial electronics sector. For employees who are in management roles, the Group also provides general, research and development, production and quality assurance trainings according to their functions.

GZXH continues to encourage employees to pursue further studies and fully support their applications for local government funding, including the continuing education grant available for workers offered by Guangdong Provincial Federation of Trade Unions.

SOCIAL RESPONSIBILITIES (CONTINUED)

Employment and Labor Practices (Continued)

Development and Training (Continued)

Establishment of IPE Engineering Institute

The Group continuously invests resources in internal talent development. Since 2020, the Group has set up the IPE College of Engineering (the "IPE College") in GZXH to develop industry talents to cope with the business development planning. The Institute serves as an incubator for talent cultivation, which provides diversified training opportunities for key employees to enhance core and professional competencies. More than 1,497 of the Group's employees completed the training during the Reporting Period.

Employees from various positions and departments, such as managers, engineers, and senior technicians, are empowered through instructor-led training and practical training sessions hosted by the Institute. A credit-based approach is adopted where learners are required to complete a minimum of 20 course credits each year. Though the establishment of the Institute, the Group nurtures high-quality future talents in order to support the development of the organization to achieve business transformation.

As of 31 December 2022, the Group provided 15,862 training hours for a total of 1,686 employees (inclusive of employees who have left the Group during the Reporting Period). The average training hours per employee was 7.63 hours (2021: 7.51 hours), which increased by 2% comparing to the last reporting period.

SOCIAL RESPONSIBILITIES (CONTINUED)

Employment and Labor Practices (Continued)

Development and Training (Continued)

Establishment of IPE Engineering Institute (Continued)

Table 18 Number of Employees who Received Training and Average Training Hours Completed

Training data	Total
Total number of trained employees	1,686
Total training hours for all employees	15,862
Average training hours per employee	7.63[1]
By employee category	
Senior Management	
Average training hours per employee	5.60
Middle Management	
Average training hours per employee	11.92
Frontline and other Staff	
Average training hours per employee	7.54
By gender	
Male	
Average training hours per employee	7.69
Female	
Average training hours per employee	7.64

Note 1: Average training hours per employee = Total number of training hours provided to employees/Total number of employees as of 31 December of the Reporting Period. Average training hours per employee in specific category = Total number of training hours provided to employees in specific category/Total number of employees in the specific category as of 31 December of the Reporting Period.

Table 19 Percentage of Employee Who Received Training

Percentage of Employee Who Received Training	Total
Total percentage of trained employee	81%[1]
By employee category	
Senior Management	90%
Middle Management	96%
Frontline and Other Staff	81%
By gender	
Male	83%
Female	79%

Note 1: Percentage of employees who received training = Total number of employees who received training during the Reporting Period/Total number of employees as of 31 December of the Reporting Period. Percentage of employees who received training in specific category = Total number of employees in specific category who received training during the Reporting Period/Total number of employees in the specific category as of 31 December of the Reporting Period.

SOCIAL RESPONSIBILITIES (CONTINUED)

Employment and Labor Practices (Continued)

Labor Standards

Child and forced labor are strictly prohibited within the Group. The Group strictly observes applicable laws and regulations regarding employment and labor standards, such as the Labor Law of the PRC and the Labor Contract Law of the PRC.

The Group has set the minimum age requirements and developed an identification system and control measures to avoid employment of child labors at all operating sites. The administration department stringently verifies candidates' identities such as identity cards during the recruitment process. Concepts relating to labor standards are covered in new employee orientation. For candidates employed for key functions, i.e., management and executive positions, the Group specifically conducts background screenings to confirm the validity of their personal credentials such as criminal record, education, employment history and other past activities.

At IPE, employees only work overtime voluntarily and when needed. The Group prohibits any punishments, management methods and behaviors involving verbal abuse, physical punishment, physical abuse, oppression, sexual harassment, etc. against its employees for any reasons. If a violation is found, the Group will terminate the employment of the concerned persons immediately and take necessary disciplinary action against anyone who is in breach of any applicable laws and regulations. Root cause analysis will be conducted with corrective measures taken to prevent recurrence.

No non-compliance with relevant laws and regulations relating to preventing child and forced labor had been identified during the Reporting Period. There were no major risks associated with incidents of child and forced labor within the Group's operation sites.

Operating Practices

Supply Chain Management

The Group aims to grow together with its supply chain partners to strengthen and implement sustainable supplier management. To achieve this goal, the Group has established the Suppliers and Purchasing Management Procedure for monitoring and evaluating the business operations of suppliers. The Group conducts regular inspections and assessments to ensure that suppliers comply with the Supplier Code of Conduct and that they have implemented safety management rules as required by the Agreement on Trade Security ("Agreement"). The Agreement also sets out ethical and legal obligations which prohibits suppliers from engaging in smuggling, selling counterfeit products, commit, or intend to commit tax evasion, and bribery activities.

DGKD has a stringent supplier evaluation procedure to assess supply chain risks and select suppliers. On top of operational performance (price, quality, manufacturing capability, customer service, etc.), the Group also considers suppliers' sustainability performance, specifically in areas relating to regulatory compliance, environmental management system, ethical practice and conduct, as well as health and safety. Any supplier with an overall score of no more than 14 points in the following two categories is considered to have passed the risk assessment.

SOCIAL RESPONSIBILITIES (CONTINUED)

Operating Practices (Continued)

Supply Chain Management (Continued)

Table 20 Environmental Risk Assessment in Supplier Selection

Raw materials risk management	Holding excess inventory of high-risk materials	Yes: 1; No: 0
	Developing control procedures for high-risk materials	Yes: 0; No: 1
	Complying with applicable standards for environmental assessment for high-risk materials	Yes: 0; No: 1
	Accident(s) associated with raw materials occurred in the past five years	Yes: 1; No: 0
Environmental management system	Holding valid pollutants discharge permits	Yes: 0; No: 1
	Certified to the ISO 14001 standard	Yes: 0; No: 1
	Holding materials of high toxicity	Yes: 1; No: 0
	Following disposal limits for solid waste set forth in applicable laws/regulations	Yes: 0; No: 1

The Group reviews suppliers' environmental practices regularly to ensure they perform in accordance with relevant environmental laws and other regulations. The Group conducts audits for suppliers to verify their environmental permits on an annual basis. The Group continued to source raw materials from key suppliers located in the Organization for Economic Co-Operation and Development ("OECD") regions. During the Reporting Period, the Group had engaged a total of 1,261 suppliers, with 94% of semi-finished products and auxiliary materials were procured from Mainland China suppliers.

Table 21 Number of Major Suppliers by Geographical Region/Country

Country/region	Total	Supply
Mainland China	1,191	Semi-finished products and auxiliary materials, and metal materials and equipment
Europe	28	Raw materials
Hong Kong, Macau and Taiwan	18	Raw materials
United States	12	Semi-finished products
Other countries in Asia	12	Equipment and auxiliary materials
Total	1,261	

SOCIAL RESPONSIBILITIES (CONTINUED)

Operating Practices (Continued)

Product Responsibility

Product Labelling, Health and Safety, and Advertising

To ensure product health and safety, GZXH carries out strict inspections from the stage of raw materials procurement to ensure that incoming electronic components meet the environmental regulation/requirements of the Restriction of Hazardous Substances (RoHS) of the European Union. GZXH also submits an International Material Data System (IMDS) report to their customers to demonstrate product compliance.

Due to the nature of our products, the Group does not adopt specific programs related to marketing communications, including advertising, promotion, and sponsors. Neither the Group nor its products were banned from entry into any market during the Reporting Period. There was no product recalled due to safety and health reasons and no non-compliance with relevant laws and regulations that have a significant impact on the Group relating health and safety, advertising, labelling and privacy matters relating to products and services provided had been identified during the Reporting Period.

Quality Assurance

As one of the top component suppliers in the high-end automotive industry, the Group pursues the highest quality standards and some of our production base has obtained the ISO 9001:2015 Quality Management System certification since 2008.

The Group adopts a systematic quality management approach to ensure strict quality control at the earliest stage, from raw material acquisition, first article production, mass production, quality assessment, to sales and after-sale service. Striving to maintain the highest standard of product quality, the Group performs continuous supervision of manufacturing processes and stringent quality assessment on the incoming raw materials, the first article, semi-products and finished products.

If a product was subject to recall, sales and manufacturing of such product will be immediately suspended and related stock products will not be circulated. The Group will conduct investigation to determine the cause and extent of the problem. Customers' feedback will be collected through surveys and test data of the product to be recalled will be analyzed. A comprehensive solution will be developed according to the problem of the product, which may include product recall, repairs, replacements or refunds. The Group will then communicate the solution to customers through email, website or television commercials. The quality management system will also be reviewed and improved to avoid recurrence. During the Reporting Period, the Group had no product recall due to non-health and safety reasons.

Table 22 Product Recalls due to Non-Health and Safety Reasons

Product Responsibility	2022
Total monetary value of significant fines	RMB 0
Total number of product recalls	0 PCS
Percentage of product recalls	0%
Total monetary value lost due to product recalls	0

SOCIAL RESPONSIBILITIES (CONTINUED)

Operating Practices (Continued)

Product Responsibility (Continued)

Customer Service

The Group has established clear protocols and operational procedures for dealing with customer issues. Especially in DGKD, a handling procedure involving combination of the 8D method and the 5 Whys method, is adopted in the handling of customer complaints. Overall, the Group received 18 complaints during the reporting period; all complaints were closed and resolved through the robust complaints handling procedures. The quality assurance department also implemented corrective and preventive actions to prevent recurrence.

Data Protection and Information Security

The Group regards data privacy and cybersecurity as one of the important issues of the business. The Information Technology ("IT") Department is responsible for the privacy and security of the information system of the Group. IT personnel carries out regular assessment and maintenance of equipment and support tasks to identify and address potential threats effectively. The Group strictly follows relevant laws and regulations and has well-established technical schemes, policies, procedures, and control measures governing customer data privacy, document control, asset management, storage control, security incident management, and regulatory compliance.

The Information Security Accountability Management Policy aims to ensure the privacy and security of data owned by the Group and business partners. Under the Information Security Management Policy, employees are required to follow procedures and rules governing the use of computer network and assets as well as the handling of confidential information for the stable and reliable operation of the information system. The Policy also provides standard procedures for dealing with departing employees to prevent information leaks.

To prevent the damage of important information due to vandalism, natural disasters, or accidental damage, the Group performs data backup every day and stores all the backup files securely on external servers. To reduce cybersecurity risks, the IT Department has established internet firewalls, anti-virus systems and internet authorization systems, and performed software and system updates as necessary.

Confidentiality clauses have been set out in the Staff Management Manual, which stipulates that any misuse or wrongful disclosure of confidential information to third parties is strictly prohibited. In the event of data tampering, change of business data, or data leakage, the employee will be subject to disciplinary actions and the acts might be reported to relevant authority. No non-compliance with laws and regulations in relation to confidentiality and data protection that have a significant impact on the Group was recorded during the Reporting Period.

SOCIAL RESPONSIBILITIES (CONTINUED)

Operating Practices (Continued)

Product Responsibility (Continued)

Research and Development

Innovation continues to play a key role in achieving business success. The Group utilizes its advantages and resources in R&D to continuously develop advanced automotive and hydraulic products that can boost sales to strengthen the leading position of the Group in the industry.

The investment in the R&D on industrial robots has begun to pay off and the robotic products are expected to be launched to the market soon. Specifically, the Group is now at the initial stage of launching harmonic gear/drive to the market. Through the expansion of automotive products into the emerging domestic market as well as the integration of automation and robotic technologies in manufacturing, the Group's technological competence has been highly recognized in the industry and has now become the designated supplier of BYD, which is one of the top automakers in China.

Intellectual Property

The protection of intellectual property rights (the "IPR") is core to the operation of a healthy marketplace. To this end, the Group has implemented a series of internal measures to protect the IPR owned by the Group and third-party organizations. The IPR Policy regulates the implementation, maintenance and continuous improvement of the Group's management on IPR and was in compliance with the Trademark Law of the PRC, the Patent Law of the PRC and the Copyright Law of the PRC. Besides, the Work Instruction on Confidentiality established by the Group governs the purpose of collection, management and deletion of confidential information and specifies the relevant responsibilities of the top management and all relevant departments.

The Group signs a confidentiality agreement with clients when appropriate to protect their IP rights. The right handling of confidential information is clearly regulated in the employment contract, which guides all employees to better verify any possible violation act of its IP rights and take immediate steps to safeguard the Group's legitimate rights and interests. To raise the awareness of IP protection among employees, the Group provided IPR training to employees in key functions to avoid potential IP infringement.

The Group has consistently invested in patent applications for new designs and technologies at the State Intellectual Property Office of the PRC since the early stages of its establishment. As of 31 December 2022, the Group had obtained an officially registered trademark and a total of 42 issued patents. During the Reporting Period, the Group has successfully granted an officially registered trademark and a total of 42 new patents, including 39 new utility model patents, 2 invention patent and 1 copyright.

SOCIAL RESPONSIBILITIES (CONTINUED)

Operating Practices (Continued)

Anti-corruption

The Group regards honesty, integrity, and fairness as its core values. The Group's ethical standards are clearly set out in the Code of Conduct and Ethics, which requires all business activities to be operated with high level of integrity. The Anti-corruption Policy stipulates that all employees of the company or subsidiaries, and all affiliated companies including contractors and subcontractors are forbidden to support, engage in or tolerate bribery or any other form of corruption. The Group reviews policies and procedures regularly to detect irregularities and identify risks in a timely manner.

At GZXH, the Important Notice on the Prohibition of Corruption and Bribery strictly prohibits any corrupt acts, practices and activities, including,

- Directly and/or indirectly accepting any monetary benefits such as cash, checks, gifts, commissions, gratitude fees, securities from business partners;
- Embezzling fund for personal benefits; and
- Taking advantage of price variation in the name of the company for personal benefits.

Employees involved in import and export activities are monitored through the internal accountability system. The Group maintains business ethics by signing the Agreement on Trade Security with business partners. Any employee found engaging in unethical behaviors, or in violation of the Code of Conduct, laws and regulations will be subject to disciplinary actions; and will be reported to law enforcement authorities depending on the nature of the case.

During the Reporting Period, the Group had not violated any laws or regulations relating to bribery and corruption; the Group had not involved in or seek to engage in money laundering. The Group had not aided, abetted, assisted or colluded with an individual who has committed, or conspired to commit any unlawful activities. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to corruption, bribery, fraud, and money laundering had been identified during the Reporting Period.

SOCIAL RESPONSIBILITIES (CONTINUED)

Operating Practices (Continued)

Anti-corruption (Continued)

Whistleblowing Policy

The Group is dedicated to maintaining high standards of transparency, integrity, and responsibility. To effectively manage risks and maintain internal controls, the Group has established a whistleblowing policy, which serves as a valuable tool for uncovering fraud, misconduct, malpractice, or significant risk within the Group. The policy encourages employees and third parties, such as customers and suppliers, to confidentially report any concerns or related information using a whistleblowing report form provided by the Group's internal audit department through email or mail. Those who report concerns in good faith will receive fair treatment, and the whistleblowing policy includes terms of protection for whistleblowers.

The internal audit department maintains a register of all whistleblowing cases, and any reported cases with valid contacts will be followed up. Cases will be referred to executive directors or the Audit Committee, who is not involved in the concern raised, for evaluation. The internal audit department will report the findings for the executive directors or members from the Audit Committee to determine the appropriate course of action. If the circumstances of the case are serious, relevant government regulators may be notified.

The whistleblowing policy falls under the purview of the Group's Audit Committee, which has the primary responsibility for ensuring that the policy is effective. This includes monitoring and reviewing the policy's efficacy and evaluating the actions taken in response to the investigations related to the reported cases.

Anti-corruption Training

Anti-corruption training is essential to protect employees from risks and to cultivate an ethical business culture. The relevant laws and regulations, the Group's policies, and notable past cases were explained and discussed during the training. During the Reporting Period, a total of 79 directors and management staff participated in the training.

Community Investment

The Group is devoted to creating sustainable values for the communities through volunteering opportunities and donations. The Group also encourages employees to give back to the community by reaching out to the community and participating in voluntary activities. The Group focused on helping the elderly in the community during the Reporting Period.

Table 23 Donations and Community Activities

Date	Activities	Collaborator(s)
January 2022	During the Chinese New Year, DGKD made a donation of RMB15,700 to the Dongguan Shijie Huangsiwei Village Committee to support community activities for the elderly.	Local government

APPENDIX – HKEX ESG REPORTING GUIDE INDEX

General Disclosures and KPIs	Description	Section
Environmental		
Aspect A1: Emissions		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1	The types of emissions and respective emissions data.	Air Emissions
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and, where appropriate, intensity.	Greenhouse Gas Emissions
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity.	Hazardous Waste
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Non-hazardous Waste
KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	Targets and Performance Review Emission Mitigation
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Targets and Performance Review Waste Reduction and Initiatives
Aspect A2: Use of Resources		
General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Energy Consumption
KPI A2.2	Water consumption in total and intensity.	Water Consumption
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Targets and Performance Review Energy Use Efficiency
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Targets and Performance Review Water Use Efficiency
KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Packaging Material

General Disclosures and KPIs	Description	Section
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	The Group's Impacts on the Environment
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Group's Impacts on the Environment Emissions Use of Resources
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change
KPI A4.1	Description of the significant impacts of climate-related issues which have impacted, and those which may impact, the issuer, and actions taken to manage them.	Climate Change
Social		
Employment and Labor Practices		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labor Practices
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment

General Disclosures and KPIs	Description	Section
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employee Health and Safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Employee Health and Safety
KPI B2.2	Lost days due to work injury.	Employee Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Employee Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category.	Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training
Aspect B4: Labor Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour.	Labor Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labor Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labor Standards

General Disclosures and KPIs	Description	Section
Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management
KPI B5.2	Description of practices relating to engaging supplies, number of supplies where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility – Quality Assurance
KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	Product Responsibility – Customer Service
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility – Intellectual Property
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility – Quality Assurance
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Product Responsibility – Data Protection and Information Security

General Disclosures and KPIs	Description	Section
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-corruption – Anti-corruption Training
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment
KPI B8.1	Focus areas of contribution.	Community Investment
KPI B8.2	Resources contributed to the focus area.	Community Investment

REPORT OF THE DIRECTORS

The board of directors (the "Board") of the Company is pleased to present this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacturing and sale of precision components products. Further details of the Group's principal activities and particulars of the Company's principal subsidiaries as at 31 December 2022 are set out in Note 13 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties facing the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business can be found in the Chairman's Statement and Management Discussion and Analysis contained in this annual report.

CORPORATE CULTURE AND STRATEGY

The Corporate Culture of the Group are set out in the corporate governance report on page 27.

MAJOR RISKS AND UNCERTAINTIES

The Directors are aware that the Group's financial position, operating results and business outlook may be subject to many risks and uncertainties directly or indirectly relating to the business of the Group, and have put in place the relevant policies to ensure continuous identification and management of the adverse impacts such risks might have on the Group. The major risks and uncertainties currently facing by the Group are set out below:

1. Metal costs fluctuation

Metal is the major raw material the Group used in its production. Substantial part of the product costs come from metal cost. Fluctuation of metal price may affect the Company's competitiveness and profitability level.

2. Shortage of skilled labor

The production of high precision metal components needs skilled & trained engineers. This shortage can be attributed to several factors, such as an aging population, working environment & recent trend of labour market. Besides that, the cost of skilled labor is influenced by various factors, such as the demand and supply of labor, relevant labour laws and regulations and economic factors like inflation and standard of living. In particular, a shortage of skilled labor or growing industry demands for skilled labour may lead to an increase in this costs. It's uncertain whether the supply of skilled workers will remain stable, and labor costs may continue to rise. Consequently, the Group is exposed to risks related to skilled labor supply and associated costs.

MAJOR RISKS AND UNCERTAINTIES (Continued)

3. Outbreak of COVID-19

An outbreak of a COVID-19 could materially and adversely affect the Group's business. The COVID-19 pandemic has disrupted the global economy and caused production facilities to close in mainland China and other parts of the world. Although the pandemic in mainland China has improved, there is still a risk of further lockdowns, geopolitical instability, and disruptions in international trade and logistics, which could create uncertainty for the Group's operations.

4. Uncertainties in financial market

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk), credit risk and liquidity risk. Details of financial risk are set out in Note 26 to consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to environmental and social sustainable development in the long term. For the year ended 31 December 2022, the Group strictly complied with all applicable environmental and social laws, regulations, and standards. Technological advancement, especially the newly deployed industrial robots and operation automation, continues to assist the Group to build long-term business resilience. Specifically, the Group continues to improve operational efficiency with the aims to further reduce resource consumption and prevent workplace injuries. Engagement with stakeholders has resulted in raised concerns on various material issues, which include occupational health and safety, product/service quality, data protection, labor standards and development and training. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing management on environmental, social and governance.

More details of the Company's environmental policy and performance are available in the Environmental, Social and Governance Report contained in this annual report.

REPORT OF THE DIRECTORS

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group, including but not limited to the Companies Act of the Cayman Islands, the Company Law of the People's Republic of China, Hong Kong Companies Ordinance, Securities and Futures Ordinance ("SFO"), the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and other laws and regulations as stated in the Environmental, Social and Governance Report in the annual report.

KEY RELATIONSHIP WITH STAKEHOLDERS

The Group strives to maintain a good relationship with its employees, customers, suppliers and other key stakeholders in the course of achieving its long-term business development goals. Equal opportunity is provided to all employees in respect of promotion, appraisal, training, development and other aspects. The Group has formally established a labour union, to which all qualified staff are encouraged to join for collective bargaining.

Employees are encouraged to participate in various volunteering activities for the community. The Group adopts strict quality management and control process in every aspect of its business operation in order to ensure that products delivered to its customers are of the highest possible quality. The Group has management procedure to evaluate, manage, control and monitor the business operations of suppliers. When evaluating suppliers, the Group specifically considers their environmental and social performance. It also conducts regular inspections on suppliers to ensure that they have implemented safety management required. The Group engages with the above and other key stakeholders through daily interactions and works closely with them to understand their needs, concerns, motivations, and objectives, accommodating them where reasonable and justifiable. Key stakeholders continue to be involved in regular engagement sessions to discuss and to review areas of attention via various communication channels such as reviewing employees' performance, holding shareholder meetings, sending company letters, disclosing on company websites, and conducting regular electronic and business meetings with suppliers and customers. More details about the Company's relationships with its employees, customers and suppliers and others that have significant impact on the Company and on which the Company's success depends are available in the Environmental, Social and Governance Report in this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2022 and the Group's financial position as at 31 December 2022 are set out in the consolidated financial statements on pages 113 to 116.

The Board does not recommend the payment of a final dividend (2021: nil) in respect of the year ended 31 December 2022.

CHARITABLE CONTRIBUTIONS

For the year ended 31 December 2022, the Group made charitable contributions totaling HK$258,632 (2021: HK$632,643).

BANK AND OTHER BORROWINGS

Details of bank and other borrowings of the Group are set out in Note 20 to the consolidated financial statements.

PRINCIPAL PROPERTIES

Details of principal properties held for own use and investment purposes are set out in Note 10 to the consolidated financial statements.

SHARES ISSUED IN THE YEAR

As at 31 December 2021 and 2022, the total number of issued shares of the Company was 1,052,254,135. No share was issued for the year ended 31 December 2022.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of the Companies Acts of the Cayman Islands, amounted to HK$1,321,330,000 (2021: HK$1,327,736,000).

The Company's share premium account and contributed surplus, amounting to HK$488,081,000 at 31 December 2022 (2021: HK$488,081,000), may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company is in a position to pay off its debts as and when they fall due in the ordinary course of business.

DEBENTURES ISSUED IN THE YEAR

The Group did not issue any debentures for the year ended 31 December 2022.

EQUITY LINKED AGREEMENT

Saved for the information disclosed under the section headed "Share Option Schemes" in this directors' report and in Note 23 to the consolidated financial statements, the Company did not enter into any equity-linked agreement for the year, nor was there any equity-link agreement entered into by the Company subsisting as at 31 December 2022.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Acts of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 8 to 9 of this annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2022.

SHARE OPTION SCHEMES

The share option scheme adopted pursuant to a resolution passed by the shareholders of the Company on 17 May 2011 (the "2011 Share Option Scheme") had expired on 17 May 2021. In light of the expiry of the 2011 Share Option Scheme and in order to enable the Board to continue providing incentives and rewards to the eligible persons, a new share option scheme was adopted by the shareholders at the extraordinary general meeting of the Company held on 14 January 2022 (the "2022 Share Option Scheme"). All terms of the 2011 Share Option Scheme and 2022 Share Option Scheme must comply with the requirements under Chapter 17 of the Listing Rules which took effect on 1 January 2023. Both share options schemes are governed by Chapter 17 of the Listing Rules effective from 1 January 2023.

The 2011 Share Option Scheme

Purpose of the 2011 Share Option Scheme

The purpose of the 2011 Share Option Scheme is to provide incentives or rewards to the participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest (the "Invested Entity").

Participants of the 2011 Share Option Scheme

Eligible participants of the 2011 Share Option Scheme included:

(a) any eligible employee;

(b) any non-executive director (including independent non-executive directors) of the Company, any of its Subsidiaries or the Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and

(f) any shareholder of any member of the Group or any Invested Entity

The basis of eligibility of any of the above classes of Participants to the grant of any options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group and the Invested Entity.

With effect from 1 January 2023, the eligible participants should be subject to the requirement under Chapter 17 of the Listing Rules.

SHARE OPTION SCHEMES (Continued)

The 2011 Share Option Scheme (Continued)

Total number of shares available for issue under the 2011 Share Option Scheme and percentage of issued shares as at the date of this annual report

The 2011 Share Option Scheme expired on 17 May 2021. As at the date of this annual report, the total number of shares available for issue under the 2011 Share Option Scheme is nil.

Maximum entitlement of each participant under the 2011 Share Option Scheme

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the 2011 Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding Options) to each Participant in any 12-month period must not exceed 1% of the issued share capital of the Company for the time being (the ''Individual Limit'').

Any further grant of options to a participant in excess of the Individual Limit (including exercised, cancelled and outstanding Options) in any 12-month period up to and including the date of such further grant must be subject to the Shareholders' approval in general meeting of the Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of the options to be granted to such participant must be fixed before Shareholders' approval and the date of the meeting of the Board for proposing such further grant of option should be taken as the date of offer for the purpose of calculating the exercise price.

No further options have been issued under 2011 Share Option Scheme since its expiry on 17 May 2021.

The period within which the option may be exercised by the grantee under the 2011 Share Option Scheme

An option may be exercised in accordance with the terms of the 2011 Share Option Scheme at any time during a period to be determined and notified by the Board to each grantee, which period may commence on the day on which the offer is made but shall end in any event not later than 10 years from the offer date subject to the provisions for early termination thereof (the ''Option Period'').

Unless the Board otherwise determined and stated in the offer to a participant, there is no minimum period for which an option granted under the 2011 Option Scheme must be held before it can be exercised.

SHARE OPTION SCHEMES (Continued)

The 2011 Share Option Scheme (Continued)

The vesting period of options under the 2011 Share Option Scheme

The vesting period of options granted are set out in the below table on page 93.

The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid.

An offer may be accepted by a Participant within 28 days from the Offer Date. A consideration of HK$1 is payable on acceptance of the offer.

The basis of determining the exercise price of options granted

The exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion at the time of the making of the Offer (which shall be stated in the letter containing the offer) but in any case the exercise price shall not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the offer date; and (iii) the nominal value of a share.

Without prejudice to the generality of the foregoing, the Board may grant options in respect of which the exercise price is fixed at different prices for different periods during the Option Period provided that the exercise price for each of the different periods shall not be less than the exercise price determined in the manner set out herein.

The remaining life of the 2011 Share Option Scheme

The 2011 Share Option Scheme was valid and effective for a period of ten years, commencing from 17 May 2011 and expired on 17 May 2021. As at the date of this report, the 2011 Share Option Scheme has expired.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES (Continued)

The 2011 Share Option Scheme (Continued)

The remaining life of the 2011 Share Option Scheme (Continued)

Details of options granted to the participants under the 2011 Share Option Scheme:

Name or category of participants	Date of grant	Number of share options movement during the year: As at 01/01/2022	Granted	Exercised	Cancellation	Lapsed	As at 31/12/2022	Vesting period	Exercise period	Exercise Price/ Purchase Price HK$	Price of share: Prior to the grant date of the share options[1]	Prior to the exercise date of the share options[2]
Directors, chief executive and a substantial shareholder and their associates												
Mr. Ng Hoi Ping												
Tranche 1	05/06/2017	10,000,000	–	–	–	(10,000,000)	–	05/06/2017 to 31/08/2018	01/09/2018 to 31/08/2022	2.020	2.050	–
Tranche 2	03/04/2020	10,000,000	–	–	–	–	10,000,000	03/04/2020 to 28/02/2021	01/03/2021 to 28/02/2026	0.900	0.730	–
Ms. Zeng Jing												
Tranche 1	05/06/2017	8,000,000	–	–	–	(8,000,000)	–	05/06/2017 to 31/08/2018	01/09/2018 to 31/08/2022	2.020	2.050	–
Tranche 2	03/04/2020	5,000,000	–	–	–	–	5,000,000	03/04/2020 to 28/02/2021	01/03/2021 to 28/02/2026	0.900	0.730	–
Mr. Chen Kuangguo	03/04/2020	5,000,000	–	–	–	–	5,000,000	03/04/2020 to 28/02/2021	01/03/2021 to 28/02/2026	0.900	0.730	–
Directors with options granted and to be granted in excess of the 1% individual limit)												
Mr. Zeng Guangsheng												
Tranche 1	05/06/2017	22,000,000	–	–	–	(22,000,000)	–	05/06/2017 to 31/08/2018	01/09/2018 to 31/08/2022	2.020	2.050	–
Tranche 2	03/04/2020	20,000,000	–	–	–	–	20,000,000	03/04/2020 to 28/02/2021	01/03/2021 to 28/02/2026	0.900	0.730	–
Other employee participants												
Tranche 1	03/04/2020	11,000,000	–	–	–	–	11,000,000	03/04/2020 to 28/02/2021	01/03/2021 to 28/02/2026	0.900	0.730	–
Tranche 2	10/05/2021	2,700,000	–	–	–	–	2,700,000	10/05/2021 to 31/03/2022	01/04/2022 to 28/02/2026	0.900	0.700	–
Other service providers[3]												
Tranche 1	03/04/2020	2,000,000	–	–	–	–	2,000,000	03/04/2020 to 28/02/2021	01/03/2021 to 28/02/2026	0.900	0.730	–
		95,700,000	–	–	–	(40,000,000)	55,700,000					

Notes:

1) The closing price of the shares immediately before the date on which the options were granted.

2) The stated price was the weighted average closing price of the ordinary shares immediately before the date on which the share options were exercised. No options were exercised for the year ended 31 December 2022.

3) No sublimit was provided for service providers under the 2011 Share option Scheme which was expired before 1 January 2023.

SHARE OPTION SCHEMES (Continued)

The 2022 Share Option Scheme

Purpose of the 2022 Share Option Scheme

The purpose of the 2022 Share Option Scheme is to provide incentives or rewards to the participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

Participants of the 2022 Share Option Scheme

Eligible participants of the 2022 Share Option Scheme included:

- an eligible employee; and

- a non-executive director (including independent non-executive directors) of the Company or any of its subsidiaries

The eligibility of the participants to grant of any option shall be determined by the Board from time to time and on a case-by-case basis subject to the Board's opinion as to, among others, the participant's contribution or potential contribution to the development and growth of the Group.

Total number of shares available for issue under the 2022 Share Option Scheme and percentage of issued shares as at the date of this annual report

As at the date of this annual report, the total number of shares available for issue under the 2022 Share Option Scheme is 55,225,413, representing 5.25% of the Company's issued ordinary shares.

Maximum entitlement of each participant under the 2022 Share Option Scheme

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the 2022 Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding Options) to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options to a participant in excess of the Individual Limit (including exercised, cancelled and outstanding Options) in any 12-month period up to and including the date of such further grant must be subject to the separate shareholders' approval in general meeting of the Company with such participant and his close associates abstaining from voting. If the grantee is a connected person of the Company, his associates shall abstain from voting.

The Company shall send a circular to the Shareholders containing a generic description of the specified participants who may be granted such options, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information as required under the Listing Rules. The number and terms (including the exercise price) of the options to be granted to such participant must be fixed before shareholders' approval and the date of the meeting of the Board for proposing such further grant of option should be taken as the date of offer for the purpose of calculating the exercise price.

Granting of share options to each participant under the 2022 Share Option Scheme is governed by Chapter 17 of the Listing Rules effective from 1 January 2023.

SHARE OPTION SCHEMES (Continued)

The 2022 Share Option Scheme (Continued)

The period within which the option may be exercised by the grantee under the 2022 Share Option Scheme

An Option may be exercised in accordance with the terms of the 2022 Share Option Scheme at any time during a period to be determined and notified by the Directors to each Grantee, which period may commence on the day on which the Offer is made but shall end in any event not later than 10 years from the Offer Date subject to the provisions for early termination thereof.

Unless the Directors otherwise determined and stated in the offer to a participant, there is no minimum period for which an option granted under the 2022 Share Option Scheme must be held before it can be exercised.

The vesting period of options under the 2022 Share Option Scheme

The vesting period of options granted are set out in the below table on page 96.

The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid

An offer may be accepted by a participant within 28 days from the offer date. A consideration of HK$1 is payable on acceptance of the offer.

The basis of determining the exercise price of options granted

The exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion at the time of the making of the offer (which shall be stated in the letter containing the offer) but in any case the exercise price shall not be lower than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five Trading Days immediately preceding the offer date; and (iii) the nominal value of a Share. Without prejudice to the generality of the foregoing, the Board may grant options in respect of which the exercise price is fixed at different prices for different periods during the option period provided that the exercise price for each of the different periods shall not be less than the Subscription Price determined in the manner set out herein.

SHARE OPTION SCHEMES (Continued)

The 2022 Share Option Scheme (Continued)

The remaining life of the 2022 Share Option Scheme

The 2022 Share Option Scheme was valid and effective for a period of ten years, commencing from 14 January 2022. The remaining life of the 2022 Share Option Scheme as at the date of this report is approximately eight years and nine months.

Details of options granted to participants under the 2022 Share Option Schemes:

		Number of share options movement during the year									Price of share	
Name or category of participants	Date of grant	As at 01/01/2022	Granted	Exercised	Cancellation	Lapsed	As at 31/12/2022	Vesting period	Exercise period	Exercise Price/ Purchase Price HK$	Prior to the grant date of the share options(1)	Prior to the exercise date of the share options(2)
Directors, chief executive and a substantial shareholder and their associates												
Mr. Zeng Guangsheng												
Tranche 1	17/03/2022	–	35,000,000(4)(5)	–	–	–	35,000,000	17/03/2022 to 16/09/2022	17/09/2022 to 17/09/2026	0.900	0.840	–
Mr. Ng Hoi Ping												
Tranche 1	17/03/2022	–	5,000,000(4)(5)	–	–	–	5,000,000	17/03/2022 to 16/09/2022	17/09/2022 to 17/09/2026	0.900	0.840	–
Directors with options granted and to be granted in excess of the 1% individual limit												
Ms. Zeng Jing												
Tranche 1	17/03/2022	–	5,000,000(4)(5)	–	–	–	5,000,000	17/03/2022 to 16/09/2022	17/09/2022 to 17/09/2026	0.900	0.840	–
Other employee participants												
Tranche 1	17/03/2022	–	5,000,000(4)(5)	–	–	–	5,000,000	17/03/2022 to 16/09/2022	17/09/2022 to 17/09/2026	0.900	0.840	–
		–	50,000,000(4)(5)	–	–	–	50,000,000					

Notes:

(4) No performance target is required to be achieved.

(5) The fair value of the options granted on 17 March 2022 was determined at the date of grant using the binomial option pricing model and was approximately HK$15,295,000. Details of fair value of the options at the date of grant and accounting standard and policy adopted are set out in Note 23 of the consolidated financial statements.

SHARE OPTION SCHEMES (Continued)

Number of options available for grant

Under the 2011 Share Option Scheme, number of options available for grant as at 1 January 2022 and 31 December 2022 are as follows:

	1 January 2022	31 December 2022
Share options		
Under the mandate limit(*)	0	0
Under the sublimit for service providers(*)	0	0

Note: (*) The 2011 Share Option Scheme expired on 17 May 2021. No further options available to be granted since its expiry.

Under the 2022 Share Option Scheme, number of options available for grant as at 1 January 2022 and 31 December 2022 are as follows:

	1 January 2022	31 December 2022
Share options		
Under the mandate limit	105,225,413	55,225,413
Under the sublimit for service providers	0	0

For the year ended 31 December 2022, options to subscribe for a total of 50,000,000 shares were granted under all share option schemes of the Company, representing approximately 4.7% of the weighted average number of the issued ordinary shares of the Company.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company for the year ended 31 December 2022 and up to the date of this report, were:

Executive directors:

Mr. Zeng Guangsheng
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 (resigned on 30 October 2022)
Mr. Zhu Jianbiao (appointed on 14 November 2022)

According to Article 87 of the Articles of Association, Mr. Ng Hoi Ping, Mr. Yang Rusheng and Mr. Cheung, Chu Yue Anthony shall retired by rotation and, being eligible, offer themselves for re-election at 2023 AGM.

According to Article 86(3) of the Articles of Association, Mr. Zhu Jianbiao, who was appointed by the Board as an independent non-executive director on 14 November 2022, shall hold office until the 2023 AGM.

All of the above retiring directors, being eligible, will offer themselves for re-election at the 2023 AGM.

Mr. Mei Weiyi resigned as an independent non-executive director on 30 October 2022. Mr. Mei Weiyi has confirmed that he has no disagreement with the Board and nothing relating to the affairs of the company needed to be brought to the attention of the shareholders of the Company.

Ms. Zeng Jing and Mr. Chen Kuangguo are non-executive directors and were appointed for three-year terms.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

No director proposed for re-election at the 2023 AGM has a service contract or a letter of appointment with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business to the Group to which the holding company of the Company, or any of the Company's subsidiaries were a party for the year ended 31 December 2022.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group had 2,211 employees (2021: 2,214), including the Directors. The Directors and senior management received compensation in the form of fees, salaries, allowances, benefits in kind and/ or discretionary bonuses relating to the performance of the Group. When reviewing and determining the specific remuneration package for the Directors and senior management, the Company took into consideration factors such as, among other things, the economic situation, the market level of salaries paid by comparable companies, the respective responsibilities and duties of the individual and the performance of the individual and the Group. The remuneration committee of the Board has been set up for reviewing the Group's emolument policy and structure for the remuneration of the Directors.

The Group's remuneration to employees included salaries and allowances.

CONNECTED TRANSACTIONS

Parties and their connected relationships

On 2 August 2021, Guangzhou Huitong agreed with Zhuhai Yutai Investment Enterprise (Limited Partnership) ("Zhuhai Yutai")* (珠海裕泰投資企業(有限合夥)), in the capacity of the subsidiary's minority shareholder, to obtain a capital injection of RMB15,000,000 by instalments over a three-year period. The Zhuhai Yutai is owned by Mr. Zeng Guangsheng, a director of the Company, and Zhang Shilin (張世林), a director and general manager of certain subsidiaries of the Group. In 15 January 2022, Guangzhou Huitong received first batch of injection amounted to RMB1,500,000 from Zhuhai Yutai. The remaining capital injection of RMB13,500,000 is committed by the Zhuhai Yutai to inject on or before 31 December 2024.

Principal terms

In accordance with the shareholders' resolution of Guangzhou Huitong, the registered capital of Guangzhou Huitong shall increase from RMB36,000,000 to RMB100,000,000. Xin Hao (an indirect wholly owned subsidiary of the Company), Huifu Baotong and Zhuhai Yutai shall contribute RMB24,800,000 (contributions in kind), RMB24,200,000 and RMB15,000,000 to the increased registered capital of Guangzhou Huitong, respectively. Upon completion of the Capital Increase, Guangzhou Huitong is owned as to 50%, 35% and 15% by Xin Hao, Huifu Baotong and Zhuhai Yutai, respectively. Guangzhou Huitong remains as a subsidiary of the Company and its financial results will be consolidated in the consolidated financial statements of the Group.

Basis of determination of capital contributions

The amount of capital contributions under the Capital Increase was determined by the parties after arm's length negotiations taking into account (i) the demands for working capital and future development of Guangzhou Huitong, and (ii) the proportion of capital contribution borne by each of Xin Hao, Huifu Baotong and Zhuhai Yutai based on their respective shareholding in Guangzhou Huitong.

CONNECTED TRANSACTIONS (Continued)

Reason of the Capital Increase.

In view of the increasing competitive environment in the market of high precision components, the Company expects that, in the absence of breakthrough in the development of new products, it may be difficult to achieve further growth in profits by solely focusing on manufacture and sale of the components of products. As such, the Directors consider that it is important for the Group to continuously develop its own brand name of products and expand its products portfolio so as to achieve sustainable growth in the future. As part of the development strategies, the Group established Guangzhou Huitong for the purpose of strengthening its efforts, including cooperation with universities and research institutes in the PRC, on the research and development of new forms of products. As such, the Capital Increase can serve to satisfy the capital needs of Guangzhou Huitong of its research and development activities of new products, which will be conducive to improving the Group's core competitiveness and sustainable development in the long term. In addition, the provision of production machineries by Xin Hao to Guangzhou Huitong will also equip Guangzhou Huitong with the capability to produce the new products of its own brand name after the research for the self-designed products is completed. As the highest applicable percentage ratio in respect of the Capital Increase by Zhuhai Yutai exceeds 0.1% but is less than 5%, the Capital Increase by Zhuhai Yutai is subject to the announcement requirement but is exempted from the independent Shareholders' approval requirement under the Listing Rules. A summary of all related party transactions entered into by the Group during the year is contained in Note 28 to the consolidated financial statements. Other than the Capital Increase, all the related party transactions described in the said note do not fall under the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transaction entered into by the Group during the year.

CONTRACT OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDER

No contract of significance was entered into between the Company or any of its subsidiaries and the controlling Shareholder or any of its subsidiaries during the year ended 31 December 2022.

No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling Shareholder of the Company or any of its subsidiaries was entered into during the year and as at the date of this report.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Each of the Directors or the controlling Shareholders and their respective close associates (as defined in the Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the year and up to the date of this report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2022, the interests and short positions of the directors and chief executive of the Company, in the shares, underlying shares and debentures of the Company and its associates (within the meaning of Part XV of the Securities of Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(A) (i) Long positions in ordinary shares of the Company:

Name of director	Capacity and nature of interests	Number of ordinary shares in the Company	Percentage of the Company's issued share capital (*)
Mr. Zeng Guangsheng	Directly beneficially owned	50,000,000	4.75%

(*) The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2022.

(ii) Long positions in the underlying shares of Company – physically settled unlisted equity derivatives:

Name of director	Capacity and nature of business	Number of underlying shares in respect of the share options granted	Percentage of underlying shares over the Company's issued share capital as at 31 December 2022(*)
Mr. Zeng Guangsheng	Directly beneficially owned	55,000,000	5.23%
Mr. Ng Hoi Ping	Directly beneficially owned	15,000,000	1.43%
Ms. Zeng Jing	Directly beneficially owned	10,000,000	0.95%
Mr. Chen Kuangguo	Directly beneficially owned	5,000,000	0.48%

(*) The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2022.

Note: Details of the above share options granted by the Company are set out in the section headed "Share option scheme" above and note 23 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS (Continued)

(B) Long positions in the ordinary shares of the associated corporation – China Baoan Group Co., Ltd. 中國寶安集團股份有限公司 ("China Baoan Group"), the Company's holding company

Name of director	Capacity and nature of interest	Number of ordinary shares in China Baoan Group	Percentage of China Baoan Group's issued share capital
Mr. ZENG Guangsheng	Directly beneficially owned	672,906	0.03%
Ms. ZENG Jing	Directly beneficially owned	10,222,583	0.40%

Saved as disclosed above, as at 31 December 2022, none of the directors or chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 23 to the consolidated financial statements respectively.

Save as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement whose objects were, or one of whose objects was, to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

As at 31 December 2022, as far as the directors of the Company are aware, the following parties (not being directors or chief executive of the Company) with interests of more than 5% in shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the ordinary shares of the Company:

Name of substantial shareholder	Notes	Capacity and nature of interests	Number of ordinary shares in the Company	Percentage of the Company's issued share capital at 31 December 2022(*)
Banon Technology Company 寶安科技有限公司 ("Banon Technology")		Directly beneficially owned	565,936,250	53.77%
China Banon Group Co., Ltd. 中國寶安集團股份有限公司 ("China Baoan Group")	(a)	Through controlled corporation	565,936,250	53.77%
Tottenhill Limited		Directly beneficially owned	109,206,975	10.38%
Mr. Chui Siu On	(b)	Through controlled corporation	109,206,975	10.38%
		Directly beneficially owned	13,963,750	1.33%
	(c)	Through spouse	125,000	0.01%
		Total:	123,295,725	11.72%
Ms. Leung Wing Yi	(d)	Directly beneficially owned	125,000	0.01%
	(e)	Through spouse	123,170,725	11.71%
		Total:	123,295,725	11.72%
Mr. Zeng Guangsheng		Directly beneficially owned	50,000,000	4.75%
			55,000,000	5.23%
		Total:	127,000,000	12.07%

(*) The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2022.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

Notes:

(a) These shares were held by Baoan Technology Company Limited. Baoan Technology Company Limited is a wholly owned entity of China Baoan Group. Accordingly, China Baoan Group was deemed to be interested in the 565,936,250 shares of the Company owned by Baoan Technology Company Limited pursuant to Part XV of the SFO.

(b) These shares were held by Tottenhill Limited. Tottenhill Limited is wholly owned by Mr. Chui Siu On. Accordingly, Mr. Chui Siu On was deemed to be interested in the 109,206,975 shares of the Company owned by Tottenhill Limited pursuant to Part XV of the SFO.

(c) These shares were held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On. Accordingly, Mr. Chui Siu On was deemed to be interested in these 125,000 shares of the Company held by his wife pursuant to Part XV of the SFO.

(d) These shares were held by Mr. Chui Siu On, the husband of Ms. Leung Wing Yi. Accordingly, Ms. Leung Wing Yi was deemed to be interested in these shares owned by her husband pursuant to Part XV of the SFO.

(e) These Shares are in the form of share options of the Company granted pursuant to the 2011 Share Option Scheme.

Saved as disclosed above, as at 31 December 2022, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed for the year ended 31 December 2022.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 24.7% of the total sales for the year and the sales to the largest customer included therein accounted for 6.0%. Purchases from the Group's five largest suppliers accounted for 22.9% of the total purchases for the year and purchases from the largest supplier included therein accounted for 5.5%. None of the directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the number of issued shares of the Company) had any beneficial interests in the Group's five largest customers and suppliers.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this report.

REPORT OF THE DIRECTORS

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout the year ended 31 December 2022.

CORPORATE GOVERNANCE

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" in this annual report.

EVENTS AFTER THE REPORTING PERIOD

The Group had no material events for disclosure subsequent to 31 December 2022 and up to the date of this report.

AUDITORS

Mazars CPA Limited were first appointed as auditors of the Company on 24 August 2022 upon the retirement of KPMG on 23 August 2022, and acted as the auditors of the Company for the year ended 31 December 2022. Mazars CPA Limited shall retire at the 2023 AGM and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of Mazars CPA Limited as auditors of the Company will be proposed at the 2023 AGM.

CLOSURE OF REGISTER OF MEMBER

The register of members of the Company will be closed from 10 May 2023, Wednesday to 15 May 2023, Monday (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 2023 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 9 May 2023, Tuesday for registration of transfer.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of IPE Group Limited
(Incorporated in the Cayman Islands with limited liability)

Mazars CPA Limited
中審眾環(香港)會計師事務所有限公司
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Website 網址: www.mazars.hk

OPINION

We have audited the consolidated financial statements of IPE Group Limited ("the Company") and its subsidiaries (together the "Group") set out on pages 113 to 196, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2022, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (Continued)

Revenue recognition

Refer to notes 1(v) and 3 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
Revenue of the Group mainly comprises sale of precision components products to customers. The Group enters into sales orders with customers and sells its products in accordance with the terms agreed in the sales orders. For direct sales, once the products are delivered to the location designated by the customers, the control of the goods are considered to have been transferred to the customers and revenue is recognised accordingly. For consignment sales, once the products are withdrawn from consignees' warehouse, the control of the goods is considered to have been transferred and revenue is recognised at that point. 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. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the revenue recognition by management to meet specific targets or expectations.	Our key audit procedures to assess the revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting sales contracts/orders with customers, on a sample basis, to understand the terms of the sales transactions including the terms of delivery and acceptance and any sales return arrangements to assess the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • inspecting goods delivery notes, shipping documentation and consignment products withdrawn statements on a sample basis, to assess whether revenue transactions recorded before and after the financial year end date had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the sales orders; and • inspecting underlying documentation for manual journal entries and adjustments relating to revenue raised during the year which were considered to be material or met other specific risk-based criteria.

KEY AUDIT MATTERS (Continued)

Expected credit loss allowance for trade receivables

Refer to notes 1(l), 17 and 26(a) to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2022, the Group's gross trade receivables totalled HK$271 million and an allowance of HK$3 million for expected credit losses ("ECLs") were recorded. Management measured loss allowance at an amount equal to lifetime ECL of the trade receivables based on the estimated loss rate. The estimated loss rate takes into account the ageing of trade receivable balances, the repayment history of the Group's customers of different risk characteristics, current market conditions, and forward-looking information. According to the experience of the Group, the loss patterns for different customers are not significantly different. Therefore, the receivables are not segmented when calculating the loss allowance based on ageing information. We identified ECL allowance for trade receivables as a key audit matter because trade receivables is material to the Group and the recognition of ECLs is inherently subjective which requires the exercise of significant management judgement.	Our key audit procedures to assess the ECL allowance for trade receivables included the following: • obtaining an understanding of and assessing the design and implementation of management's key internal controls relating to credit control, estimate of expected credit losses and making related allowances; • evaluating the Group's policy for estimating the loss allowance with reference to the requirements of the prevailing accounting standard; • assessing the appropriateness of management's estimates of loss allowance by examining the information used by management to derive such estimates, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • assessing whether items in the trade receivables ageing report were categorised in the appropriate ageing bracket by comparing a sample of individual items with the underlying goods delivery notes, sales invoices and other relevant underlying documentation; and • re-performing the calculation of the loss allowance as at 31 December 2022 based on the Group's credit loss allowance policies.

KEY AUDIT MATTERS (Continued)

Valuation of inventories

Refer to notes 1(m) and 16 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
Inventories are carried at the lower of cost and net realisable value in the consolidated financial statements. At 31 December 2022, the net carrying value of inventories was HK$326 million. Management determines the lower of cost and net realisable value of inventories by considering the ageing profile, inventory obsolescence and the subsequent selling price of individual inventory item. We identified the valuation of inventories as a key audit matter because the Group held significant inventories at the reporting date and because of the significant degree of management judgement involved in evaluating the net realisable value for inventories.	Our key audit procedures to assess the valuation of inventories included the following: • obtaining an understanding of and assessing the design and implementation of management's internal controls relating to valuation of inventories; • assessing the assumptions and estimates made by management in making provisions for inventories by performing a retrospective review of the historical accuracy of these estimates, discussing any significant variances with management and considering the impact of these variances on the current year's assumptions and estimates; • assessing, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking the goods receipt notes; • inspecting the inventory ageing report to identify any slow-moving and obsolete inventory items and assessing whether appropriate provisions have been made for slow-moving and obsolete items, for which there has been a lack of latest sales transactions; and • comparing, on a sample basis, the subsequent selling price of the finished goods to their carrying values of these inventories as at the financial year end.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information include in the 2022 annual report of the Company but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 27 March 2023

The engagement director on the audit resulting in this independent auditor's report is:
Fung Shiu Hang
Practising Certificate number: P04793

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Revenue	3	**962,566**	1,030,808
Cost of sales		**(688,379)**	(763,995)
Gross profit		**274,187**	266,813
Other income	4	**45,606**	63,290
Changes in fair value of investment properties	10	**4,775**	10,847
(Provision for) Reversal of impairment losses related to receivables	26(a)	**(538)**	1,870
Distribution costs		**(26,178)**	(25,618)
Administrative expenses and other expenses		**(183,874)**	(146,974)
Research and development costs		**(68,966)**	(47,153)
Profit from operations		**45,012**	123,075
Finance costs	5(a)	**(6,832)**	(4,677)
Share of loss of an associate	14	**(822)**	(815)
Profit before taxation	5	**37,358**	117,583
Income tax	6(a)	**(9,617)**	(26,837)
Profit for the year		**27,741**	90,746
Attributable to:			
Equity shareholders of the Company		**8,693**	81,432
Non-controlling interests		**19,048**	9,314
Profit for the year		**27,741**	90,746
Earnings per share			
Basic and diluted	9	**HK0.83 cents**	HK7.74 cents

The notes on pages 119 to 196 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
Profit for the year	**27,741**	90,746
Other comprehensive (loss) income for the year (after tax adjustment)		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of foreign operations	**(195,145)**	37,875
Total comprehensive (loss) income for the year	**(167,404)**	128,621
Attributable to:		
Equity shareholders of the Company	**(181,227)**	118,620
Non-controlling interests	**13,823**	10,001
Total comprehensive (loss) income for the year	**(167,404)**	128,621

The notes on pages 119 to 196 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Investment properties	10	**135,132**	142,631
Property, plant and equipment	10	**698,031**	730,044
Intangible assets	11	**4,288**	6,456
Goodwill	12	**10,196**	11,618
Interest in an associate	14	**2,903**	3,725
Deposits for purchase of property, plant and equipment		**1,267**	11,362
Deferred tax assets	24(b)	**22,723**	24,706
		874,540	930,542
Current assets			
Financial assets measured at fair value through profit or loss ("FVPL")	15	**17,511**	10,194
Inventories	16	**325,574**	316,004
Trade and other receivables	17	**367,563**	356,812
Pledged and restricted deposits	18(a)	**22,239**	2,427
Cash and cash equivalents	18(a)	**729,058**	840,383
		1,461,945	1,525,820
Current liabilities			
Trade and other payables	19	**185,911**	183,109
Contract liabilities		**–**	4,296
Bank and other loans	20	**45,849**	150,795
Lease liabilities	21	**1,031**	250
Deferred income	22	**702**	2,367
Tax payable	24(a)	**15,591**	21,691
		249,084	362,508
Net current assets		**1,212,861**	1,163,312
Total assets less current liabilities		**2,087,401**	2,093,854

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current liabilities			
Bank and other loans	20	**150,000**	–
Lease liabilities	21	**1,899**	–
Other payables	19	**2,751**	2,238
Deferred income	22	**1,285**	2,039
Deferred tax liabilities	24(b)	**19,380**	28,277
		175,315	32,554
NET ASSETS		**1,912,086**	2,061,300
CAPITAL AND RESERVES			
Share capital	25(c)	**105,225**	105,225
Reserves	25(d)	**1,735,189**	1,901,121
Total equity attributable to equity shareholders of the Company		**1,840,414**	2,006,346
Non-controlling interests	13(a)	**71,672**	54,954
TOTAL EQUITY		**1,912,086**	2,061,300

These consolidated financial statements on pages 113 to 196 were approved and authorised for issue by the Board of Directors on 27 March 2023 and are signed on its behalf by:

Zeng Guangsheng
Director

Ng Hoi Ping
Director

The notes on pages 119 to 196 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Notes	Issued capital HK$'000 (note 25(c))	Share premium HK$'000	Contributed surplus HK$'000 (note 25(d)(iii))	Statutory reserve HK$'000 (note 25(d)(i))	Statutory public welfare fund HK$'000 (note 25(d)(iv))	Capital redemption reserve HK$'000 (note 25(d)(vi))	Share option reserve HK$'000 (note 25(d)(vii))	Properties revaluation reserves HK$'000 (note 25(d)(v))	Exchange reserve HK$'000 (note 25(d)(ii))	Other reserves HK$'000 (note 25(d)(viii))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to equity shareholders of the Company													
Balance 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
Changes in equity for 2021:															
Profit for the year		–	–	–	–	–	–	–	–	–	–	81,432	81,432	9,314	90,746
Other comprehensive income		–	–	–	–	–	–	–	–	37,188	–	–	37,188	687	37,875
Total comprehensive income for the year		–	–	–	–	–	–	–	–	37,188	–	81,432	118,620	10,001	128,621
Transactions with owners:															
Contributions and distributions															
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	(975)	(975)
Appropriation for surplus reserve		–	–	–	17,716	–	–	–	–	–	–	(17,716)	–	–	–
Equity settled share-based transactions	5(b)	–	–	–	–	–	–	2,542	–	–	–	–	2,542	–	2,542
Share option lapsed during the year		–	–	–	–	–	–	(269)	–	–	–	269	–	–	–
Share of other changes in equity of an associate		–	–	–	–	–	–	–	–	–	4,239	–	4,239	–	4,239
Changes in ownership interests															
Investment from non-controlling interests	13(ii) and (iii)	–	–	–	–	–	–	–	–	–	–	–	–	42,888	42,888
Acquisition of a subsidiary with non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	3,691	3,691
Balance at 31 December 2021 and 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
Changes in equity for 2022:															
Profit for the year		–	–	–	–	–	–	–	–	–	–	8,693	8,693	19,048	27,741
Other comprehensive loss		–	–	–	–	–	–	–	–	(189,920)	–	–	(189,920)	(5,225)	(195,145)
Total comprehensive loss for the year		–	–	–	–	–	–	–	–	(189,920)	–	8,693	(181,227)	13,823	(167,404)
Transactions with owners:															
Contributions and distributions															
Appropriation for surplus reserve		–	–	–	2,299	–	–	–	–	–	–	(2,299)	–	–	–
Equity settled share-based transactions	5(b)	–	–	–	–	–	–	15,295	–	–	–	–	15,295	–	15,295
Changes in ownership interests															
Investment from non-controlling interests	13(ii) and (iii)	–	–	–	–	–	–	–	–	–	–	–	–	2,895	2,895
Balance at 31 December 2022		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

The notes on pages 119 to 196 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Operating activities			
Cash generated from operations	18(b)	**27,861**	110,189
Income tax paid	24(a)	**(23,451)**	(27,751)
Net cash generated from operating activities		**4,410**	82,438
Investing activities			
Interest received		**13,881**	14,697
Dividends received		**1,540**	1,176
Repayment from an associate		**–**	2,211
Payment for purchase of other property, plant and equipment		**(98,968)**	(112,740)
Proceeds from disposal of other property, plant and equipment		**6,436**	7,340
Acquisition of a subsidiary, net of cash acquired		**–**	(84,451)
Payment for purchase of securities		**(9,971)**	(17,562)
Proceeds from disposal of securities		**79**	13,176
Proceeds from disposal of interest in an associate		**–**	18,021
Net cash used in investing activities		**(87,003)**	(158,132)
Financing activities			
Capital element of lease rentals paid	18(c)	**(563)**	(1,239)
Interest element of lease rentals paid	18(c)	**(108)**	(31)
Interests paid	18(c)	**(4,688)**	(2,982)
New bank loans borrowing raised	18(c)	**220,000**	–
New other loan raised	18(c)	**5,849**	–
Repayment of bank loans	18(c)	**(180,795)**	(53,836)
Capital contribution from non-controlling interests	13(ii) and (iii)	**2,895**	42,888
Dividends paid to non-controlling interests in subsidiaries		**–**	(975)
Net cash generated from (used in) financing activities		**42,590**	(16,175)
Net decrease in cash and cash equivalents		**(40,003)**	(91,869)
Cash and cash equivalents at beginning of the year	18(a)	**840,383**	924,246
Effect of foreign exchange rate changes		**(71,322)**	8,006
Cash and cash equivalents at the end of the year, represented by cash and bank balances	18(a)	**729,058**	840,383

The notes on pages 119 to 196 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

IPE Group Limited (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 the manufacturing and sale of high precision metal components products. Further details of the Group's principal activities are set out in note 13 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

At 31 December 2022, 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.

1 SIGNIFICANT 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"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) to the consolidated financial statements 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 2022 comprise the Company and its subsidiaries (together referred to as the "Group") 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the consolidated financial statements (Continued)

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 (see note 1(h)); and

– other investments in equity securities (see note 1(g)).

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:

Amendments to HKFRS 16 *Covid-19-Related Rent Concessions Beyond 30 June 2021*

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before 30 June 2022. The amendments do not affect lessors.

None of the amendments have had a material effect on how the Group's results and financial position for the current or prior years have been prepared or presented in these consolidated financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies. Intra-group balances, transactions and income and expenses and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests (Continued)

In the Company's statement of financial position which is presented within these notes, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)(ii) to the consolidated financial statements). The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) Associate

An associate is an entity over which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions of the investee.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is reclassified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost and adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(l)(ii) to the consolidated financial statements). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see note 1(l)(ii) to the consolidated financial statements).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries and an associate, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 26 to the consolidated financial statements. These investments are subsequently accounted for as follows, depending on their classification.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(k) to the consolidated financial statements) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss in the year in which they arise, retire or dispose. Rental income from investment properties is accounted for as described in note 1(v)(ii) to the consolidated financial statements.

When an own-occupied property becomes an investment property that will be carried at fair value, any surplus at the date of such transfer between the carrying amount of the property and its fair value is recorded in other comprehensive income and accumulated separately in equity in properties revaluation reserve. When a deficit arises, it will be charged to profit or loss.

(i) Other property, plant and equipment

The following items of other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(l)(ii) to the consolidated financial statements):

— freehold land and buildings;

— right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and

— items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 1(k) to the consolidated financial statements)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Other property, plant and equipment (Continued)

The cost of an item of other property, plant and equipment includes its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The cost of self-constructed items of other property, plant and equipment includes the cost of materials, direct labour, the initial estimate and an appropriate proportion of production overheads and borrowing costs (see note 1(x) to the consolidated financial statements). Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the properties revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation of items of other property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Freehold land is not depreciated.

— Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.

— Leasehold land is depreciated over the unexpired term of lease.

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and the buildings' estimated useful lives, being no more than 50 years after the date of completion.

— Leasehold improvements are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being 5 to 10 years after the date of completion.

—	Plant and machinery	10 years
—	Furniture and fixtures	5 years
—	Motor vehicles	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(l)(ii) to the consolidated financial statements).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Patents	5 years

Both the period and method of amortisation are reviewed annually.

(k) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Leased assets (Continued)

(i) As a lessee (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(i) and 1(l)(ii) to the consolidated financial statements).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(v) to the consolidated financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Leased assets (Continued)

(ii) As a lessor (Continued)

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 1(k)(i) to the consolidated financial statements, then the Group classifies the sub-lease as an operating lease.

(l) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

The Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

— financial assets measured at amortised cost (including pledged and restricted deposits, cash and cash equivalents, trade receivables and other receivables, including loans to associates, which are held for the collection of contractual cash flows which represent solely payments of principal and interest); and

Other financial assets measured at fair value, including preferred shares of a non-listed entity and equity securities measured at FVPL, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and lease receivables (Continued)

Measurement of ECLs (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and lease receivables (Continued)

Significant increases in credit risk (Continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

As detailed in note 26 to the consolidated financial statements, other receivables and restricted deposits and bank balances are determined to have low credit risk.

Basis of calculation of interest income

Interest income recognised in accordance with note 1(v)(iv) to the consolidated financial statements is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and lease receivables (Continued)

Write-off policy

The gross carrying amount of a financial asset or lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— other property, plant and equipment, including right-of-use assets;

— intangible assets;

— goodwill;

— investments in subsidiaries and an associate in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-financial assets (Continued)

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 1(l)(i) to the consolidated financial statements).

(m) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Trade and other receivables

A receivable is recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A receivable is derecognised when and only when (i) the Group's contractual rights to future cash flows from the receivable expires or (ii) the Group transfers the receivable and either (a) it transfers substantially all the risks and rewards of ownership of the receivable, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the receivable but it does not retain control of the receivable.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(l)(i) to the consolidated financial statements). A trade receivable without a significant financing component is initially measured at its transaction price.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 1(l)(i) to the consolidated financial statements.

(p) Trade and other payables

Trade and other payables are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and derecognised when and only when the payable is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost, using the effective interest method, unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(v) to the consolidated financial statements). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(n) to the consolidated financial statements).

(r) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(x) to the consolidated financial statements).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits

(i) Short-term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution plans

Pursuant to the relevant laws and regulations of the PRC the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of assets or charged to profit or loss as the related services are rendered by the employees.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance (the "MPF Scheme") for all employees in Hong Kong, which is a defined contribution retirement scheme. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Income tax (Continued)

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(h) to the consolidated financial statements, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

At contract inception, the Group assesses the goods promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

(a) a good (or a bundle of goods) that is distinct; or

(b) a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer.

A good that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good either on its own or together with other resources that are readily available to the customer (i.e. the good is capable of being distinct); and

(b) the Group's promise to transfer the good to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good is distinct within the context of the contract).

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Revenue and other income (Continued)

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

For direct sales, revenue from sales of precision component products was recognised when the products were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods, irrespective of whether the products had been made-to-order or were standardised.

For sales through consignees, once the products are withdrawn from consignees' warehouse, the control of the goods is considered to have been transferred in accordance with the terms of consignment agreements and revenue is recognised at that point.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(iii) Dividends

Dividend income from unlisted investments is recognised when the Group's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the average exchange rate. Statement of financial position items, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

Key sources of estimation uncertainty are as follows:

Impairments

(i) In considering the impairment losses that may be required for certain other property, plant and equipment, non-financial assets and prepayment for machinery, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs.

(ii) The Group estimates the loss allowances for trade and other receivables by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of trade and other receivables during their expected lives.

(iii) Impairment losses for inventories are assessed and provided based on the directors' regular review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions. A considerable level of judgment is exercised by the directors when assessing the market price.

An increase or decrease in the above impairment losses would affect the net profit or loss in future years.

2 ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Fair value determination of investment properties

As described in note 1(h) to the consolidated financial statements, investment properties are stated at fair value based on the valuation performed by an independent firm of professional surveyors after taking into consideration of the key assumption used for fair value measurement stated in note 26(e) to the consolidated financial statements.

In determining the fair value, the valuers have based on a method of valuation which involves, inter-alia, certain estimates including current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and certain factors generated by market transactions involving comparable assets such as quality of and location of a building, tenant credit quality and lease terms. In relying on the valuation report, management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market condition.

Deferred tax assets

Deferred tax assets are recognised for certain temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2022 was HK$5,894,000 (2021: HK$6,048,000). The amount of unrecognised tax losses at 31 December 2022 was HK$146,698,000 (2021: HK$68,081,000). Further details are contained in note 24 to the consolidated financial statements.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the manufacturing and sale of precision components products. Further details regarding the Group's principal activities are disclosed in note 3(b) to the consolidated financial statements.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

	2022 HK$'000	2021 HK$'000
Sales of automotive components	458,334	510,900
Sales of hydraulic equipment components	394,296	361,669
Sales of electronic equipment components	91,151	113,009
Others	18,785	45,230
Total	962,566	1,030,808

The Group's customer base is diversified and does not have any individual customer (2021: Nil) with whom transactions have exceeded 10% of the Group's revenue.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting

(i) Segment results

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

(a) Thailand;

(b) Malaysia;

(c) Mainland China, Macau and Hong Kong;

(d) North America;

(e) Europe; and

(f) Other countries.

Segment results, assets and liabilities

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

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.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results (Continued)

Segment results, assets and liabilities (Continued)

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 2022 and 2021 is set out below.

	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	2,290	23,915	131,372	48,860	58,799	8,951	274,187

	2021						
	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	12,263	96,384	512,131	147,211	235,386	27,433	1,030,808
Inter-segment revenue	19,789	–	–	–	–	–	19,789
Reportable segment revenue	32,052	96,384	512,131	147,211	235,386	27,433	1,050,597
Reportable segment profit							
Gross profit	3,233	25,413	130,058	38,814	62,062	7,233	266,813

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(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) to the consolidated financial statements.

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.

	2022 **HK$'000**	2021 HK$'000
Mainland China	**761,773**	812,731
Hong Kong and Macau	**61,796**	63,285
Thailand	**25,345**	29,820
	848,914	905,836

4 OTHER INCOME

	2022 HK$'000	2021 HK$'000
Gain on disposal of interest in an associate	–	21,384
Government grants *(Note)*	8,204	16,414
Interest income	13,881	14,709
Net gain on disposal of other property, plant and equipment	2,195	2,337
Net realised gain on trading of securities	–	1,905
Dividend income	1,540	1,176
Changes in fair value of securities	–	499
Net exchange gain	11,597	–
Rental income from investment properties	2,213	790
Sales of scrap materials	1,677	1,209
Others	4,299	2,867
	45,606	63,290

Note: During the year ended 31 December 2022, the Group received conditional government subsidies of HK$8,039,000 (2021: HK$16,414,000) as subsidies for technological improvement, employment subsidy, research and development projects and acquisition of machinery of the Group's PRC subsidiaries.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2022 HK$'000	2021 HK$'000
(a) Finance costs		
Interest on bank loans	5,379	2,941
Financial arrangement fees	1,345	1,705
Interest on lease liabilities	108	31
	6,832	4,677
(b) Staff costs		
Salaries, wages and other benefits	287,645	296,044
Contributions to defined contribution retirement plan (Note)	13,307	13,876
Equity settled share-based payment expenses (note 23)	15,295	2,542
	316,247	312,462

Note: The PRC Operating Entities participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities, whereby the PRC Operating Entities are required to make contribution at the rates required by different local government authorities. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Schemes.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

5 PROFIT BEFORE TAXATION (CONTINUED)

	2022 HK$'000	2021 HK$'000
(c) Other items		
Cost of inventories *(note i)*	**688,379**	763,995
Depreciation		
– owned property, plant and equipment	**90,170**	89,012
– right-of-use assets	**608**	1,287
Amortisation of intangible assets (included in administrative expenses)	**1,418**	979
Amortisation of leasehold land	**2,136**	2,211
Lease payments not included in the measurement of lease liabilities	**128**	128
Net foreign exchange loss	**–**	2,450
Research and development costs *(note ii)*	**68,966**	47,153
Auditor's remuneration		
– audit services	**1,200**	2,231
– other services	**484**	453
Gain on disposal of items of other property, plant and equipment	**(2,195)**	(2,337)
Direct operating expenses arising from investment properties that generated rental income	**64**	66

Notes:

(i) Cost of inventories includes HK$255,773,000 (2021: HK$305,453,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) to the consolidated financial statements for each of these types of expenses.

(ii) Research and development costs includes HK$37,180,000 (2021: HK$32,005,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) to the consolidated financial statements for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2022 HK$'000	2021 HK$'000
Current tax		
Hong Kong Profits Tax		
Provision for current income tax	**1,000**	8,087
PRC corporate income tax		
Provision for current income tax	**14,052**	19,423
Under-provision in prior years	**376**	853
	14,428	20,276
Thailand's income tax		
Provision for current income tax	**1,713**	330
Under-provision in prior years	**1,049**	–
	2,762	330
	18,190	28,693
Deferred tax		
Origination and reversal of temporary differences	**(8,573)**	(1,856)
	9,617	26,837

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

(a) Taxation in the consolidated statement of profit or loss represents: (Continued)

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) The provision for Hong Kong Profits Tax is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year ended 31 December 2022 except that the first HK$2 million estimated assessable profits of one of the subsidiaries of the Company in Hong Kong is calculated at 8.25% (2021: 8.25%).

(iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Company in the PRC are liable to PRC corporate income tax at a rate of 25% for 2022 (2021: 25%) except for:

- Guangzhou Xin Hao Precision Technology Company Limited ("Guangzhou Xin Hao") which was certified as "High & New Technological Enterprise", and entitled to the preferential income tax rate of 15% from 2021 to 2022.

- Guangzhou Keyi Precision Engineering Company Limited, Cullygrat Surface Treatment (Taicang) Company Limited and Guangzhou Huitong Hydraulic Research Institute Company Limited were recognised as "Small and Low-profit Enterprises" and entitled to the preferential income tax rate of 20% for the first Renminbi ("RMB")1 million assessable profits after reduction of 12.5% of assessable profits and for assessable profits exceeding RMB1 million but not exceeding RMB3 million after reduction of 25% of assessable profits in 2022 (2021: entitled to the preferential income tax rate of 20% for the first RMB1 million assessable profits and 10% for assessable profits exceeding RMB1 million but not exceeding RMB3 million).

(iv) Integrated Precision Engineering (Thailand) Company Limited ("IPE Thailand"), a subsidiary incorporated in Thailand, is subject to income tax in Thailand at a rate of 20% (2021: 20%).

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2022 HK$'000	2021 HK$'000
Profit before taxation	**37,358**	117,583
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**10,609**	29,958
Effect of tax concessions for subsidiaries	**(299)**	(5,663)
Super deduction on research and development expenses	**(14,484)**	(7,404)
Tax effect of non-deductible expenses	**13,254**	6,314
Tax effect of non-taxable income	**(8,306)**	(514)
Tax effect of unused tax losses not recognised	**16,225**	3,334
Unrecognised temporary difference	**135**	–
Utilisation of previously unrecognised tax losses	**(1,953)**	(2,541)
Tax effect of 5% of withholding tax on the distributable earnings of a PRC subsidiary of the Company	**(7,387)**	2,500
Under-provision in prior years	**1,425**	853
Others	**398**	–
Actual tax expense	**9,617**	26,837

7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000 (iv)	Pension scheme contributions HK$'000	Total remuneration HK$'000
2022						
Executive directors:						
Mr. Zeng Guangsheng	250	2,210	2,505	10,706	18	15,689
Mr. Ng Hoi Ping	250	1,380	1,316	1,529	123	4,598
Non-executive directors:						
Ms. Zeng Jing	250	–	–	1,529	–	1,779
Mr. Chen Kuangguo	250	–	–	–	–	250
Independent non-executive directors:						
Mr. Yang Rusheng	150	–	–	–	–	150
Mr. Cheung Chun Yue, Anthony	150	–	–	–	–	150
Mr. Mei Weiyi (note i)	125	–	–	–	–	125
Mr. Zhu Jianbiao (note ii)	25	–	–	–	–	25
	1,450	3,590	3,821	13,764	141	22,766

7 DIRECTORS' EMOLUMENTS (CONTINUED)

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000 (iv)	Pension scheme contributions HK$'000	Total remuneration HK$'000
2021						
Executive directors:						
Mr. Zeng Guangsheng	250	2,210	681	619	125	3,885
Mr. Ng Hoi Ping	250	1,380	136	309	110	2,185
Non-executive directors:						
Ms. Zeng Jing	250	–	–	155	107	512
Mr. Chen Kuangguo	250	–	–	155	–	405
Independent non-executive directors:						
Mr. Yang Rusheng	150	–	–	–	–	150
Mr. Cheung Chun Yue, Anthony	150	–	–	–	–	150
Mr. Mei Weiyi	150	–	–	–	–	150
Mr. Xu Bing (note iii)	38	–	–	–	–	38
	1,488	3,590	817	1,238	342	7,475

Note:

(i) Mr. Mei Weiyi resigned as independent non-executive director on 30 October 2022.

(ii) Mr. Zhu Jianbiao appointed as independent non-executive director on 14 November 2022.

(iii) Mr. Xu Bing resigned as independent non-executive director on 9 April 2021.

(iv) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(s)(iii) to the consolidated financial statements.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 23 to the consolidated financial statements.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2021: two) are directors whose emoluments are disclosed in note 7 to the consolidated financial statements. The aggregate of the emoluments in respect of the other two (2021: three) individuals are as follows:

	2022 HK$'000	2021 HK$'000
Salaries, allowances and other benefits in kind	**2,129**	3,250
Discretionary bonuses	**1,826**	981
Equity settled share option expense	**520**	124
Pension scheme contributions	**36**	36
	4,511	4,391

The emoluments of the two (2021: three) individuals with the highest emoluments are within the following bands:

	2022 Number of individuals	2021 Number of individuals
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**–**	2
HK$2,500,001 to HK$3,000,000	**1**	–
	2	3

9 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$8,693,000 (2021: HK$81,432,000) and the weighted average of 1,052,254,000 ordinary shares (2021: 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 2022 and 2021 were the same as the basic earnings per share.

At 31 December 2022, 105,700,000 (2021: 95,700,000) share options (see note 23 to the consolidated financial statements) 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.

10 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	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 2021	69,025	4,082	719,204	19,935	1,610,108	98,817	15,275	13,535	128,082	2,678,063
Representing										
Cost	69,025	4,082	719,204	19,935	1,610,108	98,817	15,275	13,535	–	2,549,981
Valuation-2021	–	–	–	–	–	–	–	–	128,082	128,082
	69,025	4,082	719,204	19,935	1,610,108	98,817	15,275	13,535	128,082	2,678,063
Additions	–	–	20,548	–	77,990	10,693	1,298	583	–	111,112
Transfer from construction in progress	–	–	7,265	–	–	–	–	(7,265)	–	–
Addition through acquisition of a subsidiary	9,127	–	20,182	–	23,455	621	401	172	–	53,958
Disposals	–	–	(70)	–	(52,235)	(864)	(2,845)	–	–	(56,014)
Fair value adjustment	–	–	–	–	–	–	–	–	10,847	10,847
Exchange adjustment	1,906	117	10,295	421	18,612	2,880	225	433	3,702	38,591
At 31 December 2021	80,058	4,199	777,424	20,356	1,677,930	112,147	14,354	7,458	142,631	2,836,557
Representing										
Cost	80,058	4,199	777,424	20,356	1,677,930	112,147	14,354	7,458	–	2,693,926
Valuation-2021	–	–	–	–	–	–	–	–	142,631	142,631
	80,058	4,199	777,424	20,356	1,677,930	112,147	14,354	7,458	142,631	2,836,557
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**

10 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Reconciliation of carrying amount (Continued)

	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
Accumulated depreciation:										
At 1 January 2021	(3,958)	(2,599)	(358,710)	(17,267)	(1,413,530)	(78,400)	(10,870)	–	–	(1,885,334)
Charge for the year (note 5)	(2,211)	(1,287)	(25,019)	(1,341)	(52,945)	(8,059)	(1,648)	–	–	(92,510)
Addition through acquisition of a subsidiary	(484)	–	(5,381)	–	(9,528)	(468)	–	–	–	(15,861)
Written back on disposals	–	–	55	–	47,603	695	2,658	–	–	51,011
Exchange adjustment	(109)	(73)	(4,488)	(408)	(14,341)	(1,622)	(147)	–	–	(21,188)
At 31 December 2021	(6,762)	(3,959)	(393,543)	(19,016)	(1,442,741)	(87,854)	(10,007)	–	–	(1,963,882)
Charge for the year (note 5)	(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)
Net book value:										
At 31 December 2022	64,217	2,785	360,785	286	222,856	32,930	3,528	10,644	135,132	833,163
At 31 December 2021	73,296	240	383,881	1,340	235,189	24,293	4,347	7,458	142,631	872,675

Notes:

(i) The freehold land amounting to THB19,201,000 (equivalent to HK$4,337,000) included in freehold land and buildings is situated in Thailand (2021: THB19,201,000 (equivalent to HK$4,496,000)).

(ii) As at 31 December 2022, the Group is in the process of applying for the title certificates of a land use right and certain properties with carrying value of approximately HK$1,765,000 (2021: HK$1,992,000) and HK$28,088,000 (2021: HK$33,114,000), respectively. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

(iii) All of the Group's investment properties were revalued as at 31 December 2022. The valuations were carried out by an independent firm of surveyors, Ascent Partners Advisory Service Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date. For more quantitative information on the valuation of investment properties, please refer to note 26(e) to the consolidated financial statements.

10 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Right-of-use asset

(i) The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2022 HK$'000	2021 HK$'000
Included in other property, plant and equipment:		
– Ownership interests in leasehold land held for own use	**64,217**	73,296
– Other properties leased for own use	**2,785**	240
	67,002	73,536
Ownership interests in leasehold investment property, carried at fair value, with remaining lease term of:		
– between 10 and 50 years	**135,132**	142,631

(ii) The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2022 HK$'000	2021 HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
– Ownership interests in leasehold land held for own use	**2,136**	2,211
– Other properties leased for own use	**608**	1,287
Interest on lease liabilities	**108**	31
Expense relating to short-term leases and other leases	**128**	128

10 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) Investment properties

The Group leases out investment properties under operating leases. The leases run for an initial period of 2 and 6 years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased every year or every three years to reflect market rentals.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2022 HK$'000	2021 HK$'000
Within 1 year	7,304	830
After 1 year but within 2 years	4,671	838
After 2 years but within 3 years	943	884
After 3 years but within 4 years	799	908
After 4 years but within 5 years	–	770
	13,717	4,230

11 INTANGIBLE ASSETS

	Patents HK$'000
At 31 December 2020	–
Addition through acquisition of a subsidiary	7,310
Exchange adjustment	139
At 31 December 2021 and 1 January 2022	7,449
Exchange adjustment	(629)
At 31 December 2022	**6,820**
Accumulated amortisation:	
At 31 December 2020	–
Charge for the year	(979)
Exchange adjustment	(14)
At 31 December 2021 and 1 January 2022	(993)
Charge for the year	(1,418)
Exchange adjustment	(121)
At 31 December 2022	**(2,532)**
Net book value:	
At 31 December 2022	**4,288**
At 31 December 2021	6,456

12 GOODWILL

	2022 HK$'000	2021 HK$'000
Cost and carrying amount		
At 1 January	**11,618**	–
At date of acquisition	**–**	11,402
Exchange adjustment	**(1,422)**	216
At 31 December	**10,196**	11,618

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:

	2022 HK$'000	2021 HK$'000
Jiangsu Kemai Hydraulic Control System Company Limited ("Jiangsu Kemai")	**10,196**	11,618

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% (2021: 3%). Cash flows beyond the aforementioned financial forecasts period are extrapolated using estimated sales growth rate of 2% (2021: 3%), which was estimated on the basis of the long-term inflation rate in the PRC. It is a commonly used valuation assumption that the long-term growth rate of a company will converge with the long-term inflation rate of the PRC. The cash flows are discounted using a discount rate of 13.3% (2021: 13.3%). The discount rates used are pre-tax and reflect specific risks relating to the Jiangsu Kemai.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
IPE Thailand	Thailand	THB150,000,000	99.99%	–	99.99%	Trading and manufacture of precision metal components
Integrated Precision Engineering Company Limited	Hong Kong	HK$3,000,000	100%	–	100%	Trading of precision metal components and investment holding
Dongguan Koda Metal Products Company Limited (notes i and iv)	The PRC	HK$213,000,000	100%	–	100%	Manufacture of precision metal components
Guangzhou Xin Hao (notes i and iv)	The PRC	HK$800,000,000	100%	–	100%	Manufacture of precision metal components
Cullygrat Surface Treatment (Taicang) Company Limited (note iv)	The PRC	HK$5,000,000	61%	–	61%	Surface and deburring treatment services
International Precision Engineering Company Limited	Hong Kong	HK$1,000	100%	–	100%	Investment holding
Jiangsu Koda Precision Engineering Company Limited ("Jiangsu Koda") (notes i and iv)	The PRC	US$40,000,000	100%	–	100%	Manufacture of precision metal components
Changshu Keyu Greystone Machining Company Limited ("Changshu Keyu") (note iv)	The PRC	US$1,300,000	85%	–	85%	Manufacture of precision metal components
Jiangsu De Shang Intelligent Equipment Company Limited ("Jiangsu De Shang") (notes ii and iv)	The PRC	RMB17,455,000 (2021: RMB16,370,000)	90% (2021: 96%)	–	90% (2021: 96%)	Trading and manufacture of intelligent equipment
IPE Precision Machinery Limited	Hong Kong	HK$100,000	100%	–	100%	Trading of precision metal components
Guangzhou Hui Tong Precision Hydraulic Co., Ltd. ("Guangzhou Hui Tong") (notes i and iv)	The PRC	RMB86,500,000 (2021: RMB85,000,000)	57.80% (2021: 58.82%)	–	57.80% (2021: 58.82%)	Manufacture of precision metal components
Jiangsu Kemai (notes iii and iv)	The PRC	RMB45,000,000	55.35% (2021: 56.32%)	–	95.76%	Manufacture of precision metal components

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(i) The subsidiaries are registered under PRC law as a wholly foreign owned enterprises.

(ii) Investment from a non-controlling shareholder amounted to RMB1,085,000 (equivalent to HK$1,215,000) was made during the year (2021: RMB575,000 (equivalent to HK$704,000)), therefore, the effective interest in Jiangsu De Shang was diluted to 90%. The dilution of the Group's effective interest does not result in loss of control.

(iii) Investment from a non-controlling shareholder amounted to RMB1,500,000 (equivalent to HK$1,680,000) was made during the year (2021: RMB35,000,000 (equivalent to HK$42,184,000)), therefore, the effective interest in Guangzhou Hui Tong and Jiangsu Kemai was diluted to 57.80% and 55.35% respectively. The dilution of the Group's effective interest does not result in loss of control.

(iv) The subsidiaries are registered under PRC law as limited liability companies.

(v) The Company's indirect wholly-owned subsidiary, IPE Macao Commercial Offshore Limited was deregistered on 15 December 2022.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(a) Non-controlling interests

The following table lists out the information relating to Guangzhou Hui Tong and its subsidiary, the only subsidiary group of the Group which has a material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2022 **HK$'000**	2021 HK$'000
NCI percentage	**42.20%**	41.18%
Current assets	**176,814**	150,616
Non-current assets	**135,447**	143,086
Current liabilities	**(138,017)**	(160,738)
Non-current liabilities	**(12,637)**	(4,630)
Net assets	**161,608**	128,334
Carrying amount of NCI	**68,732**	55,299
Revenue	**253,573**	92,499
Profit and total comprehensive income for the year	**33,274**	19,636
Profit allocated to NCI	**11,616**	8,603
Cashflows from operating activities	**(11,825)**	27,741
Cashflows from investing activities	**(56,849)**	(18,553)
Cashflows from financing activities	**29,508**	30,581

14 INTEREST IN AN ASSOCIATE

The following is the Group's only associate which is an unlisted corporate entity:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued capital		Proportion of ownership interest: Group's effective interest		Proportion of ownership interest: Held by a subsidiary		Principal activity
			2022	2021	**2022**	2021	**2022**	2021	
Shenzhen X-TEC Technology Company Limited ("Shenzhen X-TEC")	Incorporated	The PRC	RMB 16,280,362	RMB 14,560,174	10.53%	11.77%	10.53%	11.77%	Development and trading of software and equipments

The above associate is accounted for using the equity method in the consolidated financial statements.

Significant judgements and assumptions

The Group has representative in the board of directors of the associate and is participating in the financial and operating policy decisions of the associate. In the opinion of the directors of the Company, the Group has significant influence over the associate even though it holds less than 20 per cent of the voting rights of the associate.

Relationship with the associate

To strive for strategic development, the Group invested in Shenzhen X-TEC in 2017, which is a high-tech enterprise devoting itself to the design, research and development and production of automation and informatisation technologies. Leveraging on its understanding of both production processes and software systems, Shenzhen X-TEC could satisfy its customers' needs by offering them with automatic production equipment. It also offers integrated solutions in relation to smart production to reduce customers' production cost and the losses from operation mistakes made by workers, and in turn further maximise the production capacity and benefit the Group in the end.

14 INTEREST IN AN ASSOCIATE (CONTINUED)

Relationship with the associate (Continued)

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

	2022 HK$'000	2021 HK$'000
Gross amounts of the associate		
Current assets	**32,165**	34,540
Non-current assets	**4,699**	4,942
Current liabilities	**(14,578)**	(7,837)
Equity	**22,286**	31,645
Revenue	**25,399**	17,469
Loss from continuing operations	**(6,943)**	(2,652)
Total comprehensive loss	**(6,943)**	(2,652)
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**22,286**	31,645
Group's effective interest	**10.53%**	11.77%
Group's share of net assets of the associate	**2,903**	3,725
Carrying amount in the consolidated financial statements	**2,903**	3,725

Unrecognised share of loss of the associate

No unrecognised share of loss of the associate for the current year and cumulatively up to the end of the reporting period (2021: Nil).

15 FINANCIAL ASSETS AT FVPL

	2022 HK$'000	2021 HK$'000
Equity securities		
– equity securities listed in Hong Kong	**8,006**	1,889
– Preferred Shares of a non-listed entity (note)	**9,505**	8,305
	17,511	10,194

Note: The Group subscribed for 87,413 (2021: 87,413) Series C Preferred Shares ("Preferred Shares") at a subscription consideration of RMB6,500,000 (2021: RMB6,500,000 (equivalent to HK$7,806,000)), which was approximately 0.78% of all shares outstanding of Better Medical Investment Holdings Limited ("Better Medical") at an as-converted basis.

The subscribers of the Preferred Shares were granted certain preferential rights including conversion rights, repurchase rights and drag-along rights. The investment in the Preferred Shares with preferential rights are recorded as financial assets measured at FVPL.

	2022 HK$'000	2021 HK$'000
At fair value		
At 1 January	**8,305**	–
Purchase of investment in Preferred Shares of a non-listed entity	**–**	7,806
Changes in fair value of the Preferred Shares	**1,200**	499
At 31 December	**9,505**	8,305

Details of the fair value of the Group's investment in equity securities are set out in note 26 to the consolidated financial statements.

16 INVENTORIES

	2022 HK$'000	2021 HK$'000
Raw materials	**95,256**	76,945
Consumables	**20,694**	16,598
Work in progress	**81,231**	107,014
Finished goods	**128,393**	115,447
	325,574	316,004

16 INVENTORIES (CONTINUED)

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

	2022 HK$'000	2021 HK$'000
Carrying amount of inventories sold	**684,068**	754,598
Write-down of inventories	**4,311**	9,397
Cost of inventories	**688,379**	763,995

17 TRADE AND OTHER RECEIVABLES

	2022 HK$'000	2021 HK$'000
Trade debtors, net of loss allowance	**268,226**	275,049
Bills receivables (note i)	**33,131**	29,354
Other debtors, net of loss allowance (note ii)	**18,706**	21,114
Financial assets measured at amortised cost	**320,063**	325,517
Deposits and prepayments	**37,940**	21,169
Deductible input value added taxes	**9,560**	10,126
	367,563	356,812

Notes:

(i) The Group accepts bank acceptance bills from major banks in the PRC for settlement of trade debts. The management considered that the risk of these bills relates substantially to credit risk. Accordingly, when these bills were transferred by either discounting or endorsement, they were derecognised as a financial asset. The bills are non-interest bearing and expected to be recovered within 12 months.

(ii) Other debtors are unsecured, interest-free and repayable on demand. The amount is expected to be recovered within 12 months.

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 2022 (2021: Nil).

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

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:

	2022 HK$'000	2021 HK$'000
Within 1 month	**89,393**	126,989
1 to 2 months	**72,041**	79,760
2 to 3 months	**63,950**	57,883
3 to 4 months	**39,120**	26,948
4 to 12 months	**36,853**	12,823
	301,357	304,403

Trade debtors are due within 60 to 120 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 26(a) to the consolidated financial statements.

18 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

(a) Cash and bank balances comprise:

	2022 HK$'000	2021 HK$'000
Deposits with banks	**96,906**	62,116
Cash at bank and on hand	**654,391**	780,694
Less: pledged and restricted deposits	**(22,239)**	(2,427)
Cash and cash equivalents in the consolidated statement of financial position	**729,058**	840,383

At the end of the reporting period, the bank balances of the Group denominated in RMB placed with banks in the PRC amounted to HK$603,138,000 (2021: HK$655,444,000). RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business. All cash at bank earns interest at floating daily bank deposit rates.

18 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Notes	2022 HK$'000	2021 HK$'000
Profit before taxation		**37,358**	117,583
Adjustments for:			
Depreciation	5(c)	**90,778**	90,299
Amortisation of leasehold land	5(c)	**2,136**	2,211
Amortisation of intangible assets	5(c)	**1,418**	979
Provision for (Reversal of) impairment losses of receivables		**538**	(1,870)
Finance costs	5(a)	**6,832**	4,677
Net realised loss (gains) on trading of securities		**139**	(1,905)
Interest income	4	**(13,881)**	(14,709)
Dividend income		**(1,540)**	(1,176)
Share of losses of an associate	14	**822**	815
Gains on disposal of other property, plant and equipment	5(c)	**(2,195)**	(2,337)
Equity-settled share-based payment expenses	5(b)	**15,295**	2,542
Foreign exchange (gain) loss		**(21,573)**	2,450
Change in fair value of investment properties	10	**(4,775)**	(10,847)
Change in fair value of securities		**2,438**	(499)
Gains on disposal of interest in an associate	4	**–**	(21,384)
Changes in working capital:			
Increase in inventories		**(51,602)**	(75,791)
(Increase) Decrease in pledged and restricted deposits		**(20,017)**	1,245
Increase in trade and other receivables		**(22,745)**	(2,351)
Increase in trade and other payables		**8,435**	20,257
Cash generated from operations		**27,861**	110,189

18 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities

	Bank and other loans HK$'000 (note 20)	Interest payable HK$'000	Lease liabilities HK$'000 (note 21)	Total HK$'000
At 1 January 2022	150,795	120	250	151,165
Changes from financing cash flows:				
Capital element of lease rentals paid	–	–	(563)	(563)
Interest element of lease rentals paid	–	–	(108)	(108)
Interest paid	–	(4,688)	–	(4,688)
New bank loans raised	220,000	–	–	220,000
New other loan raised	5,849	–	–	5,849
Repayments of bank loans	(180,795)	–	–	(180,795)
Total changes from financing cash flows	45,054	(4,688)	(671)	39,695
Other changes:				
Lease modification	–	–	3,243	3,243
Interest expense	–	5,379	108	5,487
Total other changes	–	5,379	3,351	8,730
At 31 December 2022	195,849	811	2,930	199,590
At 1 January 2021	204,631	161	1,489	206,281
Changes from financing cash flows:				
Capital element of lease rentals paid	–	–	(1,239)	(1,239)
Interest element of lease rentals paid	–	–	(31)	(31)
Interest paid	–	(2,982)	–	(2,982)
Repayments of bank loans	(53,836)	–	–	(53,836)
Total changes from financing cash flows	(53,836)	(2,982)	(1,270)	(58,088)
Other change:				
Interest expense	–	2,941	31	2,972
Total other change	–	2,941	31	2,972
At 31 December 2021	150,795	120	250	151,165

18 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION (CONTINUED)

(d) Total cash outflow for leases

Amounts included in the consolidated cash flow statement for leases comprise the following:

	2022 HK$'000	2021 HK$'000
Within operating cash flows	**128**	128
Within financing cash flows	**671**	1,270
	799	1,398

	2022 HK$'000	2021 HK$'000
Lease rental paid	**799**	1,398

19 TRADE AND OTHER PAYABLES

	2022 HK$'000	2021 HK$'000
Bills payable	**–**	3,785
Trade payables	**101,110**	104,506
Interest payables	**811**	120
Other payables (note i)	**54,836**	47,172
Accruals (note ii)	**31,905**	29,764
	188,662	185,347
Portion classified as non-current:		
Other payables	**(2,751)**	(2,238)
Current portion	**185,911**	183,109

Notes:

(i) Other payables are non-interest-bearing and have an average payment terms of three to six months. The amounts mainly represented payables for purchasing other property, plant and equipment and value-added tax and other tax payables.

(ii) Accruals are interest-free and have an average payment terms of three months. As at 31 December 2022, HK$8,712,000 (2021: HK$8,042,000) for the provision for surcharge on one of the subsidiaries' land use right was included in the balance of accruals.

19 TRADE AND OTHER PAYABLES (CONTINUED)

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:

	2022 HK$'000	2021 HK$'000
Within 1 month	**33,556**	45,445
1 to 2 months	**31,333**	36,418
2 to 3 months	**18,396**	16,871
Over 3 months	**17,825**	9,557
	101,110	108,291

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

20 BANK AND OTHER LOANS

At 31 December 2022, the bank and other loans were repayable as follows:

	2022 HK$'000	2021 HK$'000
Bank loans		
– Secured (note i)	**190,000**	–
– Unsecured	**–**	150,795
	190,000	150,795
Other loan – Non-controlling shareholder		
– Unsecured (note ii)	**5,849**	–
	195,849	150,795

20 BANK AND OTHER LOANS (CONTINUED)

The maturity of the bank loans and analysis of the amount due based on scheduled payment dates set out in the loan agreements are as follows:

	2022 HK$'000	2021 HK$'000
Within one year	**40,000**	150,795
In the second year	**40,000**	–
In the third to fifth years, inclusive	**110,000**	–
	190,000	150,795
Portion classified as current liabilities	**(40,000)**	(150,795)
	150,000	–

The maturity of the other loan is as follows:

	2022 HK$'000	2021 HK$'000
Within one year – current liabilities	**5,849**	–

Notes:

(i) The bank loan of the Group was secured by a deposit of HK$20,000,000 (2021: Nil) and guaranteed by the Company and certain of its subsidiaries, interest bearing at Hong Kong Interbank Offered Rate ("HIBOR") plus 1.5% over 1-month HIBOR and repayable between 2023 to 2025 (2021: guaranteed by the Company and certain of its subsidiaries, interest bearing at HIBOR plus 1.5% over 1-month HIBOR and repayable in 2022).

The Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 26(b) to the consolidated financial statements. As at 31 December 2022, none of the covenants relating to drawn down facilities had been breached.

(ii) The amount was unsecured, interest bearing at 4.35% per annum and repayable in 2023.

21 LEASE LIABILITIES

At 31 December 2022, the lease liabilities were repayable as follows:

	2022 HK$'000	2021 HK$'000
Within 1 year	**1,031**	250
After 1 year but within 2 years	**819**	–
After 2 years but within 3 years	**859**	–
After 3 years but within 5 years	**221**	–
	2,930	250

22 DEFERRED INCOME

	2022 HK$'000	2021 HK$'000
At 1 January	**4,406**	–
Additions through acquisition of a subsidiary	**–**	2,323
Additions	**372**	2,941
Credited to profit or loss	**(2,502)**	(931)
Exchange adjustment	**(289)**	73
At 31 December	**1,987**	4,406
Net carrying amounts representing:		
Current portion	**702**	2,367
Non-current portion	**1,285**	2,039
	1,987	4,406

As at 31 December 2022 and 31 December 2021, deferred income of the Group mainly included various conditional government grants for technological improvement and Research and Development projects.

23 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

Since 2011, the Company had adopted a Share Option Scheme (the "2011 Scheme"). The purpose of the 2011 Scheme was to provide incentives and rewards to eligible participants for their contribution to the Group, and/or to enable the Group to recruit and retain high-calibre employees and attract the human resources that are valuable to the Group and any entity in which the Group holds any equity interest. The options of the 2011 Scheme vest from 1 September 2018, 3 April 2020 and 10 May 2021 respectively, and are exercisable before 31 August 2022, 28 February 2026 and 28 February 2026 respectively.

As at 14 January 2022, 2022 Share Option Scheme (the "2022 Scheme") was approved and adopted by the Extraordinary General Meeting. The Company can grant options to participants to subscribe for up to approximately 105,225,413 shares, representing 10% of the issued share capital of the Company. The share option scheme intends to cover any eligible employees and any non-executive directors (including independent non-executive directors) of the Group. The options of the 2022 Scheme vest from 17 September 2022 and are exercisable before 17 September 2026.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) The terms and conditions of the grants are as follows:

2011 Scheme

	Number of instruments	Exercise period	Contractual life of options
Options granted to directors:			
– on 3 April 2020	40,000,000	1 March 2021 – 28 February 2026	6 years
Options granted to employees:			
– on 3 April 2020	11,000,000	1 March 2021 – 28 February 2026	6 years
– on 10 May 2021	2,700,000	1 April 2022 – 28 February 2026	5 years
	13,700,000		
Options granted to a supplier:			
– on 3 April 2020	2,000,000	1 March 2021 – 28 February 2026	6 years
Total share options granted at the end of the year	55,700,000		

23 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) The terms and conditions of the grants are as follows: (Continued)

2022 Scheme

	Number of instruments	Exercise period	Contractual life of options
Options granted to directors:			
– on 17 March 2022	45,000,000	17 September 2022 – 17 September 2026	4 years
Options granted to employees:			
– on 17 March 2022	5,000,000	17 September 2022 – 17 September 2026	4 years
Total share options granted at the end of the year	50,000,000		

(b) The number and weighted average exercise prices of share options are as follows:

2011 Scheme

	2022		2021	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.38**	**95,700**	1.38	94,300
Granted during the year	**–**	**–**	0.90	2,700
Lapsed during the year	**2.02**	**(40,000)**	0.90	(1,300)
At 31 December	**0.90**	**55,700**	1.38	95,700
Exercisable at the end of the year	**0.90**	**55,700**	1.38	95,700

The option outstanding at 31 December 2022 had an exercise price of HK$0.90 (2021: either HK$2.02 or HK$0.90) and a weighted average remaining contractual life of 3.16 years (2021: 2.6 years).

23 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(b) The number and weighted average exercise prices of share options are as follows: (Continued)

2022 Scheme

	2022	
	Weighted average exercise price HK$per share	Number of options '000
At 1 January	–	–
Granted during the year	0.90	50,000
At 31 December	0.90	50,000
Exercisable at the end of the year	0.90	50,000

The option outstanding at 31 December 2022 had an exercise price of HK$0.90 and a weighted average remaining contractual life of 3.72 years.

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model by an independent professional valuer, BMI Appraisals Limited. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	2022
Fair value on grant date (HK$)	0.31
Share price (HK$)	0.87
Exercise price (HK$)	0.90
Expected volatility (%)	48.70%
Dividend yield (%)	1.24%
Expected life of options (year)	4.50
Risk-free interest rate (%)	1.68%

The expected volatility is based on the historic volatility (calculated based on the remaining life of the share options). Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the service received. There were no market conditions associated with the share option grants.

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2022 HK$'000	2021 HK$'000
At 1 January	**21,691**	19,325
Addition through acquisition of a subsidiary	**–**	1,424
Provision for current income tax	**18,190**	28,693
Income tax paid	**(23,451)**	(27,751)
Exchange adjustment	**(839)**	–
At 31 December	**15,591**	21,691

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets (liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred tax assets			Deferred tax liabilities			
	Provision for impairment of assets HK$'000	Deductible tax loss HK$'000	Deferred income HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Investment properties revaluation HK$'000	Fair value adjustments arising from acquisition of a subsidiary HK$'000	Withholding tax for distributable profit of the PRC subsidiaries HK$'000
At 1 January 2021	8,977	5,344	–	(1,046)	(12,162)	–	(4,887)
Additions through acquisition of a subsidiary	1,430	–	348	–	–	(3,394)	–
Deferred tax credited (charged) to the statement of profit or loss during the year	7,181	626	503	–	(2,955)	(999)	(2,500)
Exchange adjustment	205	78	14	99	(354)	(79)	–
At 31 December 2021 and 1 January 2022	**17,793**	**6,048**	**865**	**(947)**	**(15,471)**	**(4,472)**	**(7,387)**
Effect on change in tax rate	**(663)**	**–**	**(205)**	**–**	**–**	**1,789**	**–**
Deferred tax credited (charged) to the statement of profit or loss during the year	**1,052**	**–**	**(319)**	**288**	**(1,159)**	**403**	**7,387**
Exchange adjustment	**(1,651)**	**(154)**	**(43)**	**36**	**(58)**	**211**	**–**
At 31 December 2022	**16,531**	**5,894**	**298**	**(623)**	**(16,688)**	**(2,069)**	**–**

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised: (Continued)

(ii) Reconciliation to the consolidated statement of financial position

	2022 HK$'000	2021 HK$'000
Net deferred tax asset recognised in the consolidated statement of financial position	**22,723**	24,706
Net deferred tax liability recognised in the consolidated statement of financial position	**(19,380)**	(28,277)
	3,343	(3,571)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(t) to the consolidated financial statements, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$146,698,000 (2021: HK$68,081,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

The unrecognised tax losses will expire in the following years:

	2022 HK$'000	2021 HK$'000
Tax losses without expiration	**5,197**	–
Tax losses expiring in:		
2022	**–**	16,555
2023	**19,276**	22,509
2024	**9**	10
2025	**12,947**	14,716
2026	**33,521**	14,291
2027	**75,748**	–
	146,698	68,081

The tax losses for the subsidiaries in Hong Kong do not expire under current Hong Kong tax legislation.

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(d) Deferred tax liabilities not recognised

At 31 December 2022, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$508,732,000 (2021: HK$ 346,438,000). Deferred tax liabilities of HK$25,437,000 (2021: HK$17,322,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2021	105,225	472,201	7,905	(9,958)	34,026	839,888	1,449,287
Changes in equity for 2021							
Total comprehensive loss for the year	–	–	–	–	–	(18,868)	(18,868)
Equity settled share-based transaction	–	–	–	–	2,542	–	2,542
Share option lapsed during the year	–	–	–	–	(269)	269	–
Balance at 31 December 2021	**105,225**	**472,201**	**7,905**	**(9,958)**	**36,299**	**821,289**	**1,432,961**
Changes in equity for 2022							
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(21,701)**	**(21,701)**
Equity settled share-based transaction	**–**	**–**	**–**	**–**	**15,295**	**–**	**15,295**
Balance at 31 December 2022	**105,225**	**472,201**	**7,905**	**(9,958)**	**51,594**	**799,588**	**1,426,555**

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

The board of directors does not recommend the distribution of a final dividend for the year ended 31 December 2022 (2021: Nil).

(c) Issued share capital

	2022 No. of shares ('000)	2022 HK$'000	2021 No. of shares ('000)	2021 HK$'000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**1,052,254**	**105,225**	1,052,254	105,225

The ordinary shares of the Company have a par value of HK$0.1 per share.

(d) Nature and purpose of reserves

(i) Statutory reserve

In accordance with the law of the PRC on wholly foreign-owned investment enterprises, each of the Company's subsidiaries which are registered in the mainland China is required to transfer at least 10% of its net profit as determined in accordance with the Company Law of the PRC to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owner. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(w) to the consolidated financial statements.

(iii) Contributed surplus

The Group's contributed surplus represented the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, and the nominal value of the Company's shares issued in exchange therefor.

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves (Continued)

(iv) Statutory public welfare fund reserve

The statutory public welfare fund is made at the discretion of the directors at 5% of the net profit of the Company's subsidiaries which are registered in the Mainland China in prior years. The statutory public welfare fund can be used for employee's welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the year ended 31 December 2022 (2021: Nil).

(v) Properties revaluation reserve

The properties revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for investment properties transferred from property and equipment in note 1(h) to the consolidated financial statements.

(vi) Capital redemption reserve

Capital redemption reserve arises from the reduction of the nominal value of the issued capital of the Company upon the cancellation of the repurchased shares.

(vii) Share option reserve

Share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 1(s)(iii) to the consolidated financial statements.

(viii) Other reserve

The amount represents share of change in equity of an associate arising from capital contribution on an associate by other shareholders.

(e) Distributability of reserves

As at 31 December 2022, the aggregate amount of distributable reserves of the Company, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$1,321,330,000 (2021: HK$1,327,736,000).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net cash-to-capital ratio. For this purpose, adjusted net cash is defined as total cash less interest-bearing loans and borrowings. Adjusted capital comprises all components of equity.

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management (Continued)

During 2022, the Group's strategy, which was unchanged from 2021, was to maintain the cash-to-equity ratio at a level considered reasonable by the Group's management from time to time with reference to the prevailing market conditions. In order to maintain the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt. The Group's adjusted net cash-to-capital ratio at 31 December 2022 and 2021 was as follows:

	Notes	**2022** **HK$'000**	2021 HK$'000
Cash and cash equivalents	18	**729,058**	840,383
Pledged and restricted deposits	18	**22,239**	2,427
Less: Bank and other loans	20	**(195,849)**	(150,795)
Adjusted net cash		**555,448**	692,015
Total equity		**1,912,086**	2,061,300
Adjusted net cash-to-capital ratio		**29%**	34%

Except for the banking facilities which require the fulfilment of covenants relating to certain of the Group's financial ratios as disclosed in note 20 to the consolidated financial statements, the Group is not subject to externally imposed capital requirements.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables.

In respect of trade and other receivables, the Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 60 – 120 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Trade receivables

The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 8.03% (2021: 11.17%) and 29.43% (2021: 28.36%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2022 Expected loss rate %	 Gross carrying amount HK$'000	 Loss allowance HK$'000
Current (not past due)	**0.10%**	**201,521**	**(202)**
1 – 90 days past due	**0.20%**	**54,356**	**(109)**
91 – 180 days past due	**0.50%**	**8,369**	**(41)**
181 – 365 days past due	**5.00%**	**4,560**	**(228)**
Over 1 years past due	**100.00%**	**2,382**	**(2,382)**
		271,188	**(2,962)**

	2021 Expected loss rate %	 Gross carrying amount HK$'000	 Loss allowance HK$'000
Current (not past due)	0.10%	208,302	(208)
1 – 90 days past due	0.20%	54,581	(109)
91 – 180 days past due	0.50%	9,385	(47)
181 – 365 days past due	5.00%	3,310	(165)
Over 1 years past due	100.00%	2,662	(2,662)
		278,240	(3,191)

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Trade receivables (Continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2022 HK$'000	2021 HK$'000
Balance at 1 January	3,191	568
Impairment losses recognised from acquisition of a subsidiary	–	3,004
Increase (Decrease) in allowance	41	(328)
Exchange adjustment	(270)	(53)
Balance at 31 December	2,962	3,191

Other receivables

The management determines that certain other receivables are credit-impaired after taken into account the age of these balances and the past settlement history of these parties.

The Company considers that the other receivables from third parties as at 31 December 2022 have low credit risk based on these parties' strong capacity to meet its contractual cash flow obligations in the near term and low risk of default. In estimating the ECL and whether these balances are credit-impaired, the Company has taken into account the historical actual credit loss experience over the past 3 years and the financial position of respective parties by reference to, among others, their management accounts, adjusted for forward-looking factors, in estimating the probability of default, as well as the loss upon default. The management of the Company considers the ECL of these balances to be insignificant so no loss allowance was recognised in this respect.

Movement in the loss allowance account in respect of other receivables during the year is as follows:

	2022 HK$'000	2021 HK$'000
Balance at 1 January	2,622	–
Impairment losses recognised from acquisition of a subsidiary	–	4,164
Increase (Decrease) in allowance	497	(1,542)
Exchange adjustment	(240)	–
Balance at 31 December	2,879	2,622

Pledged and restricted cash and bank balances

Substantially all of the Group's pledged and restricted cash and banks balances were deposited in creditworthy global banks and licensed financial institutions in the PRC, which management considers they are without significant credit risks.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2022 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 year but less than 5 years HK$'000	Total HK$'000	Carrying amount at 31December HK$'000
Bank and other loans	**46,122**	**41,860**	**115,115**	**203,097**	**195,849**
Trade and other payables	**185,911**	**2,751**	**–**	**188,662**	**188,662**
Lease liabilities	**1,080**	**857**	**1,131**	**3,068**	**2,930**
	233,113	**45,468**	**116,246**	**394,827**	**387,441**

	2021 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 year but less than 5 years HK$'000	Total HK$'000	Carrying amount at 31 December HK$'000
Bank loans	153,093	–	–	153,093	150,795
Trade and other payables	183,109	2,238	–	185,347	185,347
Lease liabilities	256	–	–	256	250
	336,458	2,238	–	338,696	336,392

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank and other loans. Bank and other loans issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

	2022 Effective interest rate %	2022 HK$'000	2021 Effective interest rate %	2021 HK$'000
Variable rate borrowings:				
Bank loans	4.65%	190,000	1.70%	150,795
Other loan	4.35%	5,849	–	–
		195,849		150,795

(ii) Sensitivity analysis

At 31 December 2022, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK$1,630,000 (2021: HK$1,259,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2021.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros and United States dollars.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency is excluded.

Exposure to foreign currencies

	2022	
	United States Dollars HK\$'000	**Euros HK\$'000**
Trade and other receivables	**98,111**	**29,789**
Cash and cash equivalents	**87,771**	**14,593**
Trade and other payables	**(23,686)**	**(3,964)**
Gross and net exposure arising from recognised assets and liabilities	**162,196**	**40,418**

Exposure to foreign currencies

	2021	
	United States Dollars HK\$'000	Euros HK\$'000
Trade and other receivables	101,640	30,014
Cash and cash equivalents	122,340	22,919
Trade and other payables	(20,516)	(4,780)
Gross and net exposure arising from recognised assets and liabilities	203,464	48,153

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2022		2021	
	Increase in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	Increase in foreign exchange rates	Effect on profit after tax and retained profits HK$'000
United States Dollars	**5%**	**2,608**	5%	8,658
Euros	**5%**	**1,020**	5%	2,032

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2021.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement

(i) Financial instruments and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

		Fair value measurements as at 31 December 2022 categorised into		
	Fair value at 31 December 2022 HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurements				
Investment properties	135,132	–	–	135,132
Equity securities				
– equity securities listed in Hong Kong	8,006	8,006	–	–
– Preferred Shares of a non-listed entity	9,505	–	–	9,505
Total	152,643	8,006	–	144,637

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (Continued)

(i) Financial instruments and liabilities measured at fair value (Continued)

Fair value hierarchy (Continued)

	Fair value at 31 December 2021 HK$'000	Fair value measurements as at 31 December 2021 categorised into Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurements				
Investment properties	142,631	–	–	142,631
Equity securities				
– equity securities listed in Hong Kong	1,889	1,889	–	–
– Preferred Shares of a non-listed entity	8,305	–	–	8,305
Total	152,825	1,889	–	150,936

During the years ended 31 December 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (Continued)

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
Investment properties (note 1)	Discounted cash flow	Risk-adjusted discount rate	4.8% to 8.2% (2021: 2.4% to 7.3%)
		Occupancy rate	88.4% and 89.9% (2021: 94.7% and 95.1%)
		Market rent	20.27RMB/m^2 to 21.31RMB/m^2 (2021: 15.9RMB/m^2 to 23.2RMB/m^2)
		Growth rate of market rent	2.2% (2021: 1.1%)
Equity securities - Preferred Shares of a non-listed entity (note 2)	Expected cash flow	Internal rate of return	15%

Note 1: The fair value of investment properties located in the Mainland China is determined by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates. The valuation takes into account market rent, expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the size and age of the buildings and asking. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates.

Note 2: The fair value of the Preferred Shares of a non-listed entity is evaluated by the directors with reference to expected cash flow of the Preferred Shares.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (Continued)

(ii) Information about Level 3 fair value measurements (Continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	Investment properties HK$'000	Preferred shares of a non-listed entity HK$'000	Total HK$'000
At 1 January 2022	**142,631**	**8,305**	**150,936**
Fair value adjustment	**4,775**	**1,200**	**5,975**
Exchange adjustment	**(12,274)**	**–**	**(12,274)**
At 31 December 2022	**135,132**	**9,505**	**144,637**

	Investment properties HK$'000	Preferred shares of a non-listed entity HK$'000	Total HK$'000
At 1 January 2021	128,082	–	128,082
Addition during the year	–	7,806	7,806
Fair value adjustment	10,847	499	11,346
Exchange adjustment	3,702	–	3,702
At 31 December 2021	142,631	8,305	150,936

27 COMMITMENTS

Capital commitments outstanding at 31 December 2022 not provided for in the consolidated financial statements were as follows:

	2022 HK$'000	2021 HK$'000
Contracted for:		
– Plant and machinery	**3,085**	14,348
– Buildings	**7,955**	2,796
	11,040	17,144

28 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 to the consolidated financial statements and certain of the highest paid employees as disclosed in note 8 to the consolidated financial statements, is as follows:

	2022 HK$'000	2021 HK$'000
Salaries, allowances and other benefits in kind	**8,492**	8,328
Discretionary bonuses	**5,740**	1,798
Equity-settled share option expense	**14,284**	1,362
Pension scheme contributions	**177**	378
	28,693	11,866

Total remuneration is included in "staff costs" (see note 5(b) to the consolidated financial statements).

Investment from a related party

In 2021, a subsidiary of the Group agreed with a related party, in the capacity of the subsidiary's minority shareholder, to obtain a capital injection of RMB15,000,000 (equivalent to HK$16,800,000) (2021: RMB15,000,000 (equivalent to HK$18,346,000)) by instalments over a three-year period. The above-mentioned related party is owned by a director of the Company, and a director and general manager of certain subsidiaries of the Group. In January 2022, the subsidiary received first batch of injection amounted to RMB1,500,000 (equivalent to HK$1,680,000)) from this related party. The remaining capital injection of RMB13,500,000 (equivalent to HK$15,120,000) is committed by the related party to inject on or before 31 December 2024.

Other than the above investment from a related party, none of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

29 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2022 HK$'000	2021 HK$'000
Non-current assets		
Investments in subsidiaries	43	43
Amounts due from subsidiaries	1,448,986	1,410,014
Total non-current assets	1,449,029	1,410,057
Current assets		
Financial assets at FVPL	9,505	8,305
Prepayments, deposits and other receivables	324	401
Cash and cash equivalents	3,937	14,493
Total current assets	13,766	23,199
Current liabilities		
Other payables and accruals	172	295
Net current assets	13,594	22,904
Total assets less current liabilities	1,462,623	1,432,961
Non-current liabilities		
Amounts due to subsidiaries	36,068	–
Net assets	1,426,555	1,432,961
Equity		
Issued capital	105,225	105,225
Reserves (Note 25(a))	1,321,330	1,327,736
Total equity	1,426,555	1,432,961

This statement of financial position was approved and authorised for issue by the Board of the Directors on 27 March 2023 and is signed on its behalf by:

Zeng Guangsheng
Director

Ng Hoi Ping
Director

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, and a new standard, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these consolidated financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Disclosure of Accounting Policies*	1 January 2023
Amendments to HKAS 8, *Definition of Accounting Estimates*	1 January 2023
Amendments to HKAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
HKFRS 17, *Insurance Contracts*	1 January 2023
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2024
Amendments to HKAS 1, *Non-current Liabilities with Covenants*	1 January 2024
Amendments to HKFRS 16, *Lease Liability in a Sale and Leaseback*	1 January 2024
Amendments to HKFRS 10 and HKAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	To be determined

The directors of the Company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

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